CBI MARKET SURVEY

THE SOFTWARE, IT SERVICES AND OUTSOURCING MARKET IN THE NETHERLANDS

Publication date: August 2006

Report summary
This CBI market survey discusses, among other things, the following highlights for the software, IT services and outsourcing market in The Netherlands:

- The Dutch software and IT market amounts to € 11.5 billion. This means a fourth place in the EU market behind the UK, Germany and France.
- The software market is the fastest growing segment in the Dutch IT market.
- Exports of Dutch software are minimal.
- The Netherlands counts a large number of IT services firms, ranging from very small to very large.
- Services firms in The Netherlands primarily cater to the Dutch market.
- The Dutch government announced a special programme to promote the use of Open Standards and Open Source Software within the government.
- Dutch ICT employees are relatively expensive, which is a major reason for offshoring.
- Companies that currently offshore ICT services spend around 13% of their ICT budget on offshoring. This is expected to rise to 25% in the next five years.
- Activities in the field of software development and maintenance are most likely to be outsourced by Dutch companies.
- At least 35 nations have conducted IT work for Dutch organizations, including Surinam, North Korea and Iran. India is the preferred offshore location.

This survey provides exporters of software and IT services with sector-specific market information related to gaining access to The Netherlands. By focusing on a specific country, this survey provides additional information, complementary to the more general information and data provided in the CBI market survey 'The software, IT services and outsourcing market in the EU', which covers the EU in general. That survey also contains an overview and explanation of the selected products dealt with, some general remarks on the statistics used as well as information on other available documents for this sector. It can be downloaded from http://www.cbi.nl/marketinfo.

There is a clear relationship between chapter 1 and 2. Chapter 1 discusses information on the end market for software and IT services in the country. The structure and growth of this end market determine the opportunities for offshore outsourcing, which is the topic of chapter 2.

1. Market description: demand and supply

Demand

According to Nederland-ICT, the Dutch ICT sector employed around 248,000 people in 2005. Of these, 125,800 (51%) are IT-professionals, the other 48% work in supporting positions and management positions. The Dutch software & IT services market is a medium sized one in Europe. It holds the 4th position, behind the UK, Germany and France but before Sweden, Belgium and Spain.

Software

The software market, estimated at € 5 billion in 2005 (see table 1.1) continued to be the fastest growing sector within the Information Technology sector. The Dutch software market primarily depends on imports. Local software development mostly concentrates on business applications and custom products. Exports of Dutch products are limited.

Table 1.1 Dutch software market in € million, 2003-2007

	2003	2004	2005	2006*	2007*
Systems software	2,371	2,494	2,675	2,874	3,070
Application software	2,185	2,232	2,321	2,421	2,524

* Forecast
Source: EITO (2006)

Most exports consist of re-exports by local subsidiaries of non-Dutch producers. U.S. companies are the largest suppliers (e.g. Microsoft and other multinational software producers) followed by European software producers in The Netherlands, the United Kingdom and France. The total market is almost equally divided into application software and systems software. Windows is the standard in the consumer and business market, although government and business are starting to use Linux as well. While UNIX, closely followed by Windows, is still the most commonly used operating system for servers, Linux' market share is estimated at about 15 percent and is growing.

Drivers
The Dutch government promotes the use of Open Standards and Open Source Software within the government. The government and financial sectors traditionally have been major end users of all types of software products. The business market, with an increasing need to streamline business processes, has also been a significant user. More recently the SME market has begun to emerge as an attractive new market for ICT suppliers. The consumer market has also grown rapidly in recent years due to increasing use of the Internet, games and online gaming.

Segmentation
The best prospects for the ICT market in The Netherlands are all types of standard software applications, networking software and network security products, e.g. intrusion detection and prevention products, development tools, storage management software, Customer Relationship Management (CRM), Enterprise Resource Planning (ERP) and Supply Chain Management (SCM) products, application management and content management products, and game software for the consumer market.

IT services

Market
The Netherlands counts a large number of IT services firms ranging from very small to very large, and from hardware vendors to management consultants. Local production/services sales are considerable and estimated at approximately € 6.5 billion (see table 1.2). These 2005 sales include services provided by domestic firms and local subsidiaries of companies headquartered outside of The Netherlands. Imports and exports of IT services amounted to an estimated €1.7 billion and €1.6 billion respectively.

The IT services market is expected to continue to grow and benefit from the implementation of new technologies and increasingly complex systems that require the expert knowledge of specialists.

Table 1.2 Dutch IT services market in € million, 2003-2007

	2003	2004	2005	2006*	2007*
Professional services	4,938	5,137	5,330	5,647	5,898
Support services	1,216	1,224	1,276	1,347	1,404

* Forecast
Source: EITO (2006)

Growth drivers
Driving factors for a growth in demand for IT services include lack of in-house capacity, focus on core business, security concerns, as well as quality, cost and efficiency considerations. The introduction of new technologies, particularly those related to the Internet and E-Commerce, and growing complexity of Information and Communication Technology (ICT) systems also

contribute to the growth expectations. The growth in the use of the Internet and Internet applications is also expected to increase demand for external services, e.g. in the areas of CRM and procurement implementations. There is an ongoing tendency for larger Dutch services firms to merge or acquire other service companies and become more international. IT offshoring is growing and slowly gaining in importance.

Segmentation
Best prospects include outsourcing, desktop and network management, network consulting and integration, software maintenance and training. Competition in the market is increasing while mergers and take-overs continue to take place in this sector. As in the nineties, employers are again beginning to experience difficulty in finding qualified staff members. IT services are provided almost exclusively to the business market. The consumer market for these services is small. Important end-users include financial institutions, government, healthcare and utilities.

Supply
In the software/services segment, The Netherlands has a large number of software and services firms. more than 30 percent of the services market is in the hands of the top ten providers. These include: Atos-Origin, LogicaCMG, Getronics PinkRoccade and CapGemini.

The considerable local production includes services provided by local subsidiaries of companies headquartered outside of The Netherlands. A number of U.S. firms have successfully established themselves in this market, primarily with subsidiaries and through acquisitions. They play a prominent role and are expected to continue to do well, as others successfully enter the open Dutch market for the first time. In addition to these large corporations, there are numerous small and medium-sized Dutch services providers that offer a unique service or a service targeted to a niche market.

While services firms in The Netherlands primarily used to cater to the Dutch market, they are now looking more and more to expand their business outside of The Netherlands, particularly in other parts of Europe. For DC exporters, suppliers of software and IT services can be potential clients, for example by means of outsourcing.

Major users
The government and financial sectors have traditionally been major end-users of all types of software products. The business market, with an increasing need to streamline business processes, has also been a significant user. More recently the SME market has begun to emerge as an attractive new market for ICT suppliers, while the consumer market has also grown rapidly in recent years, due to the increasing use of the Internet, games and online gaming.

As stated in paragraph 1.1, there is an ongoing tendency for larger Dutch services firms to merge or acquire other service companies and become more international. ICT companies focus on their core competencies. The top five companies, as displayed in table 1.3, are primarily service providers, based in The Netherlands, holding about 30 percent of the market.

Table 1.3 Major Dutch computer service companies

Company	Internet
Atos-Origin	http://www.nl.atosorigin.com/
CapGemini	http://www.nl.capgemini.com/
Getronics PinkRoccade	http://www.getronics.com/nl/
LogicaCMG	http://www.logicacmg.com/nl

Source: Facts Figures Future (2006)

Trends

- Mergers and acquisitions take place on a regular basis.

Opportunities and threats

- The offshoring market is opening up, also for SME companies. This could be an interesting opportunity for DC exporters.
- Use of open source software is growing.
- Software is still the fastest growing segment in the IT sector.
- The view on ICT is internationalising in The Netherlands.

Useful sources

- Computable 100 - http://www.computable.nl/computable100
- Computable Consultancy Guide - http://www.computable.nl/adviseursgids
- Federation Dutch IT (FENIT) - http://www.fenit.nl
- Software company guide http://www.bizholland.com/mkb/software.htm

2. Offshore outsourcing

One of the best prospects in the ICT market is outsourcing. Demand for external services is strongest from financial organizations, central government, Dutch multinationals, and the public utility and health care sectors. In recent years, demand began to grow in the SME segment of the market.

Offshoring

Offshoring by The Netherlands to low-wage countries, especially in Asia, has drawn a lot of attention in the last year. However, offshoring is not a new phenomena. Especially ICT companies and companies with many ICT activities such as banks and insurance companies have been offshoring part of their activities. In the nineties these were mostly tasks like programming, development of applications, testing software and supporting networks. Later on also service activities like call-centres, data-entry and complete administrations were offshored. Companies that currently offshore ICT services spend around 13% of their ICT budget on offshoring according to the Ernst & Young ICT barometer. In 5 years this is expected to rise to 25%. Industry experts confirm this growth in 2006.

Looking at the number of jobs that is outsourced, The Netherlands comes in fourth place in the EU. Experts do indicate that the market is opening up to outsourcing. The Netherlands has always been an "international" country and once the market has opened up things can go fast, but not so fast that the slower, but larger, developing France will be overtaken.

According to Mr. Israels of NS Bpi, Dutch companies still hesitate to offshore tasks. Trust is a big issue here. It is a big step, and people are afraid of losing control over the process. Often companies are not even aware of offshoring possibilities. Dutch companies tend to look at the short term here in stead of looking at the long term. As a result, the gap between what is offshored and what could be offshored is enormous. Mr. Israels states that this gap could be tens of percents of the total IT sector in companies, not to speak of BPO.

SMEs in offshoring

According to Paul Tija of GPI consultants (2005) "SMEs often have problems finding qualified and reliable personnel. Therefore offshoring becomes a good option for more and more companies. However, it remains difficult to convince them of the advantages". He also states that "Dutch SMEs lag behind."

Reasons to offshore

An important reason to offshore is decreasing production costs. Other reasons for offshoring by Dutch companies can be the better climate for investment in the offshore country. The access to skilled labour is also an important reason for Dutch companies to offshore. Other important reasons to offshore are:

- Improved quality of processes and products / services.
- Knowledge potential and innovative power in certain offshore countries.
- Work attitude.
- Possibility to specialise further.
- Speeding up company processes, shortening time to market.
- Following customers or setting up a business in a country where a large market is expected in the future.
- Classifying tasks as non-core (although this does not have to lead to offshoring immediately).

What is offshored

Activities in the field of software development and maintenance are most likely to be outsourced by Dutch companies. Also large scale programming is already outsourced. This trend will continue in the coming years. On the other side consulting (business consulting or IT consulting), design and specification of software and/or automation processes are not outsourced that much. This is because these tasks need much contact with the end consumer and are hardly ever highly standardised.

From the ICT barometer of Ernst and Young (2006), which is held every two months among 600 professionals from companies from all sectors in The Netherlands, it also shows that Dutch professionals see the best possibilities for Software development and IT services and help desks and call centres. Web design, maintenance, ICT support show a good future too. ICT consultancy will not have a future in outsourcing, according to them.

Offshoring sectors

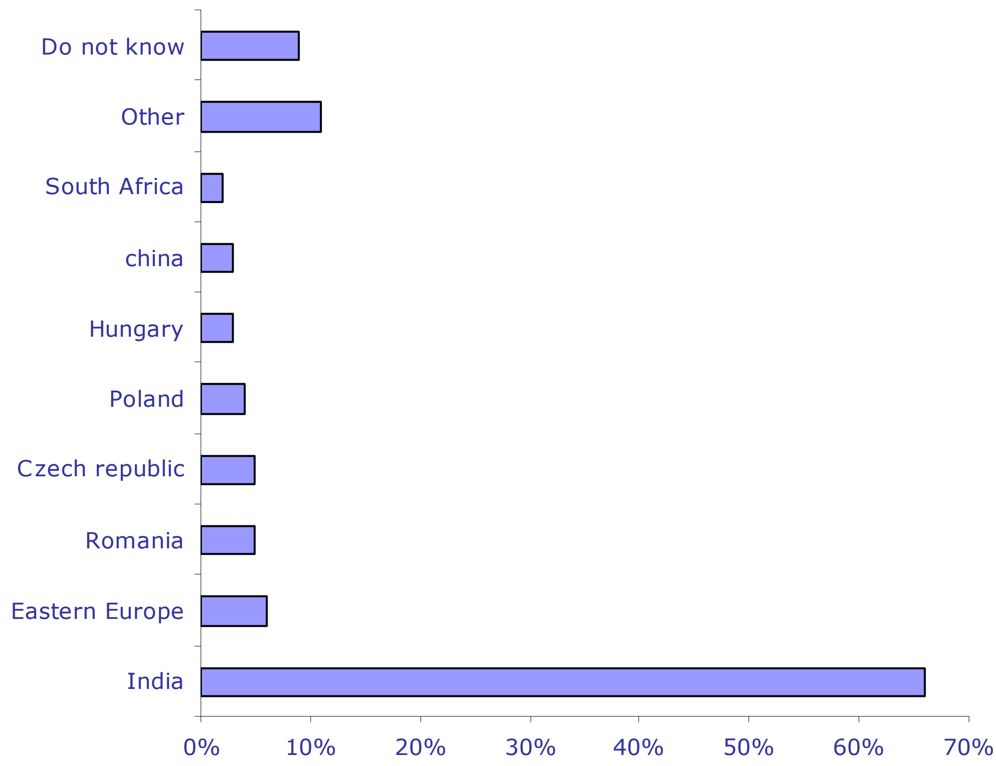
ICT is offshored most in The Netherlands in the services sector and trade and distribution, according to the ICT barometer by Ernst & Young. The government and the not-for-profit sector are hardly engaged in these activities. In total, 13% of the companies in all sectors practices ICT outsourcing according to Ernst & Young.

The companies that practice ICT offshoring at the moment are mostly larger companies with over 500 employees (24%). Of companies with 1-19 employees, only 3% practise ICT offshoring at the moment, of companies with 20-99 employees only 6% do so, and of companies with 100-499 employees 8% practise ICT outsourcing. For the future, especially the companies with over 20 employees expect to increase or start offshoring ICT in the nearby future (within now and 5 years).

Offshore destinations

The Dutch have been egalitarian in choosing their offshore suppliers. At least 35 nations have conducted IT work for Dutch organizations, including its former colony of Surinam, and some unlikely spots such as North Korea and Iran. Not surprisingly, India is the preferred source, and the volume of Indian software exports to Holland is more than $130 million. In 2005, it was estimated that approximately 5000 offshore staff were working for various Dutch projects. It was also estimated that this number could grow ten-fold in the coming decade to 50,000, which will represent a significant volume for such a small country. Research by Ernst & Young for their ICT barometer indicated the countries in figure 2.1 as being the most popular with Dutch companies wanting to outsource ICT.

Figure 2.1 Offshore destinations for The Netherlands, 2006



Source: ICT monitor May 2006 Ernst & Young (2006)

Opportunities and threats

- Quality is gaining in importance over cost cutting
- Companies that offshore are mostly larger companies (>500 employees).
- For the future smaller companies are also expected to join in offshoring.

Useful sources

- CEBIT Trade Fair - http://www.cebit.de
- EUROITX - http://www.euroitx.com/content/focus_2004.php
- Ernst & Young http://www.trends-in-ict.nl/
  Have a look at the ICT barometers and trends in ICT (unfortunately only in Dutch)
  An English summary can be downloaded

3. Trade structure

In this paragraph, the general distribution channel for software and IT-services will be discussed. These channels apply to each EU-market and, therefore, also to the Dutch market.

The most important channels for software related services are:
1. Establishing your own sales office.
2. Consultant/broker.
3. Direct contact with Dutch software manufacturer.
4. Dutch software manufacturer setting up his own factory in a developing country.

The most important channels for IT services are:
1. Establishing your own sales office.
2. Consultant/broker.
3. Partnerships with large service providers (system integrators) in The Netherlands.
4. Contacting end-user organisations directly.

5. Contacting local offices of multinationals in the home country of the services provider.

Specific trade structure facts for The Netherlands

- The Dutch are traders by nature.
- Because of the size, accessibility, and competitive nature of the Dutch market, importers usually insist on an exclusive distributorship.
- If the importer is well qualified and experienced, an exclusive distributorship often yields the best results.
- Success in the Dutch market requires a long-term commitment to market development.
- Setting up your own business in The Netherlands can be advantageous. To Dutch customers this ensures a way of doing business under Dutch law. It is important, however, to have a person who speaks Dutch. This inspires trust even more.
- An intermediary can also be a good way to do business; however, according to Mr. Israels, this intermediary needs to be more than just a middleman, he is to function as a contact person for the Dutch customer.

Useful sources

- Chamber of Commerce - http://www.kvk.nl
- Eastern Enterprise - http://www.easternenterprise.com/nl/
- EUROITX - Internet: http://www.EuroITX.com

4. Prices and margins

It is quite difficult for suppliers of software related services and IT services to give exact prices, and it is also hard to obtain information about current price levels. Licence prices for software can often be found on the websites of the software suppliers. Information on implementation costs can be found in reports concerning business software, also giving ranges of costs for software and implementations.

What is known is that Dutch ICT employees are relatively expensive, also in a European perspective. A Dutch employee on average costs €23.20 per hour according to a report of the Raad voor Werk en Inkomen (2005). This could be a good reason for a company to start offshoring. Industry experts say prices in the Netherlands are going up as the market intensifies. This means that the gap between offshoring to developing countries and keeping the work in the Netherlands becomes bigger and bigger. Therefore it becomes more and more interesting for Dutch companies to start offshoring. Prices in those offshoring destinations are beginning to increase as soon as development increases, but not in the same pace as the rise in the Netherlands.

According to Salary Expert (http://www.salaryexpert.com), a software engineer working in the Netherlands earns an average annual salary of € 65,017. When benefits and bonuses are added to this salary, the average total compensation for this position would be € 67,523.

Useful sources

Price information can be obtained through trade organisations, trade press or trade fairs. Other possibilities include checking for prices on the Internet, asking for prices at distributors, agents and other distribution channels. Also take a look at websites of competitors.

Some names of some main players and their websites can be found in chapter 1. For more information about the trade structure for outsourcing software related services, please refer to the CBI market survey "The software, IT services and outsourcing market in the EU".

5. Market access requirements

Since software and IT services outsourcing are in the field of services, they are not submitted to import duties and/or quota. However, there are non-tariff barriers that DC service providers are facing when they wish to enter the EU market.

Requirements for market access
As an exporter from a developing country preparing to access The Netherlands, you should be aware of the market access requirements of your trading partners and the Dutch government. Requirements are demanded through legislation, codes and management systems. These requirements are based on environmental, consumer health and safety and social concerns.

Legislative requirements
National legislation in EU countries is compulsory for all products traded within the country concerned. Therefore, as an exporter from a developing country you have to comply with the legislative requirements that are applicable to your products. For information on legislation for software and IT services go to 'Search CBI database' at http://www.cbi.nl/marketinfo, select your market sector, and the EU country of your interest in the category search, click on the search button and click on legislative requirements for an overview of all documents on legislation in your country of interest.

Non-legislative requirements
Social, environmental and quality related market requirements are of growing importance in international trade and are often requested by European buyers through labels, codes of conduct and management systems. For information on non-legislative requirements applicable to software and IT services, go to 'Search CBI database' at http://www.cbi.nl/marketinfo select your market sector and the EU country of your interest in the category search, click on the search button and click on your subject of interest under non-legislative requirements for an overview of all documents on the subject concerned in your country of interest.
For more information on access requirements also refer to the EU market survey "The software, IT services and outsourcing market in the EU".

Specific Dutch facts
In The Netherlands there are no specific barriers for IT offshoring. Important issues are the intellectual property right security and the feeling that offshoring is going to cost a lot of jobs.

Useful sources
CBI – http://www.cbi.nl/marketinfo search for market access requirements

6. Business practices

Selecting a suitable trading partner
There are many ways to find potential business partners in The Netherlands. We focus here on the internet and sources in your own country.

Internet
Some examples of available sources, beside the ones mentioned in chapter 1:
- Eastern Michigan University's ICT website - http://www.emich.edu/ict_usa

All kinds of trade partners available for several sectors.
- Europages – http://www.europages.com
- Hollande tradenet - http://www.hollandtradenet.nl
- Kellysearch - http://www.kellysearch.com/
- Kompass – http://www.kompass.com (mostly fee based, but the free part is very useful too)
- Thomas Global Register Europe - http://www.trem.biz/

For more details about how to search some of these databases, please refer to the CBI Export Manual "Digging for Gold".

Your own (DC) country
- Public and private trade promotion bodies
- Diplomatic and consular representatives

- The Dutch chamber of commerce in your country. Find it at http://www.worldchambers.com.
- The Dutch Embassy in your country. Find it at http://www.embassyworld.com.
- Trade associations for individual product groups.

Also refer to CBI's "Export Planner" at http://www.cbi.nl, an export manual that provides information on the different steps to be taken during the export process to the EU market.

Reaching an agreement with your trade partner
Problems that Dutch companies encounter when offshoring are:
- Lack of knowledge and experience.
- Unstable communication facilities.
- Problems in securing (international) information distribution.
- Cultural- and language problems.
- Resistance within their own company.

In general, the Dutch are less satisfied with the quality of the offshored ICT activities than with the quality of the Dutch ICT-providers. Three out of ten managers are simply dissatisfied with the results of offshoring so far. Playing to these difficulties when coming to terms with a trade partner is therefore very important.

Cultural tips
When dealing with a Dutch company it is also very important to take the Dutch culture on business and social occasions into account. Important cultural tips are the following:
- The Dutch are familiar with doing business with foreigners because of their long history of international trade.
- The Dutch will want to know your academic credentials and the amount of time your company has been in business.
- It is very important to demonstrate how your relationship would be beneficial for both sides.
- Making an appointment is necessary when you want to speak to someone.
- Punctuality is very important.
- Meetings are rather formal and little time is spent on pleasantries.
- Business is conducted slowly because the Dutch are really detail-oriented and want to understand everything before coming to an agreement.
- Courtesy is the "golden key" to doing business in The Netherlands.
- Replying promptly to requests for price quotations and orders is very important.
- First names should not be used until a firm relationship has been formed.
- Most Dutch speak their minds and will not waste your time or their own if they are not interested in your product.
- Care must be taken to assure that delivery dates will be met and that after-sales service will be promptly honoured.

For more information on the Dutch business culture and culture in general please also refer to http://www.kwintessential.co.uk. Hit "country profiles" and choose a country. For information on negotiating and coming to terms with your trade partner please refer to CBI 's "Export Planner".

Sales promotion
Software and IT services can be promoted through several sources. In this paragraph, trade press and trade fairs will be discussed.

Trade press
The following list consists of trade press specifically for this sector:
- Automatisering Gids - http://www.automatiseringgids.nl
- Computable - http://www.computable.nl
- Software release magazine - http://www.release.nl/

Trade fairs

Participation in a trade fair could be a way to promote a product or service. In The Netherlands the following sites could be used to find IT trade fairs:

- Jaarbeurs - http://www.jaarbeursutrecht.nl
- RAI - http://www.rai.nl

For more information also refer to the CBI 's "Export planner" and CBI's "your image builder".

This survey was compiled for CBI by Facts Figures Future