

CBI MARKET SURVEY

**THE SOFTWARE, IT SERVICES AND OUTSOURCING MARKET
IN THE UNITED KINGDOM**

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Report summary

This CBI market survey discusses, among other things, the following highlights for the software, IT services and outsourcing market in the United Kingdom (UK):

- The UK is the largest European market for software and IT services.
- The software market will keep on growing between 2005 and 2009.
- Outsourcing continues to represent the main growth engine of the service market.
- The UK market for software and IT services consists of about 25,000 companies.
- The UK is known as one of the most innovative and advanced locations within this sector.
- Beside the existing IT-valleys, others are developing quickly.
- India is by far the largest outsourcing destination for the UK.

This survey provides exporters of software and IT services with sector-specific market information related to gaining access to the United Kingdom. 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**

The UK is the largest European market for software and IT services (€43.3 billion in 2005). This sector represents 3% of the UK Gross Domestic Product (GDP) and employs over 1 million people. Within the last ten years, the UK has become one of the most important markets for world leading companies.

Software

The market for software products in the UK valued €14.5 billion in 2005 (table 1.1). This was a 5.8% increase compared to 2004. According to the experts, the market will keep on growing between 2005 and 2009.

Market segmentation

The UK market for software is divided in software applications (72%) and systems software (28%). The 20 largest suppliers hold 54% of the market. The major UK software companies are Sage, Logica CMG, Misys and Research Machines.

Table 1.1 The UK software market in € million, 2003-2007

| Software | 2003 | 2004 | 2005 | 2006* | 2007* |
|----------------------|-------|-------|-------|-------|-------|
| Systems software | 6,930 | 7,367 | 7,907 | 8,496 | 9,118 |
| Application software | 6,114 | 6,334 | 6,604 | 6,899 | 7,199 |

* forecast

Source: EITO (2006)

IT services

The UK is one of the most important European markets for IT services (€28.8 billion in 2005, refer to table 1.2). The 20 most important companies in this market hold 48% of the market. The largest UK companies in IT services are BT, Syntegra, Capita group, ComputaCenter, Xansa, Logica CMG, Hays and Misys.

The three most important segments in the market for IT services are systems integration (40%), consultancy (5%) and outsourcing (55%). Other segments that offer opportunities in 2006 and beyond include the following:

- Business intelligence
- CRM
- Business continuity and disaster recovery
- SOA (service-oriented architecture)
- Next-generation networks
- Shared services
- Legacy infrastructure renewal.

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

| IT services | 2003 | 2004 | 2005 | 2006* | 2007* |
|-----------------------|--------|--------|--------|--------|--------|
| Professional services | 18,944 | 19,878 | 20,814 | 21,899 | 23,137 |
| Support services | 7,403 | 7,638 | 7,953 | 8,333 | 8,768 |

* forecast

Source: EITO (2006)

Outsourcing continues to represent the main growth engine of the service market in the UK.

Supply

The UK market for software and IT services comprises about 25,000 companies. The largest 500 of these hold 85% of the UK market. 41% of the total market is held by the 10 largest companies. In the market, many European and US companies are active too and well represented, both software companies and second-tier providers. There are many software engineers employed in the UK market, trained by the British Universities. Universities work closely together with the companies supported by the British government. The UK is known as one of the most innovative and advanced regions within this sector. Major clusters for software and computing services companies can be found in, for example, Silicon Glen (Central Belt of Scotland), Silicon Fen (Cambridgeshire), Thames Valley/M4 Corridor, Greater Manchester and the Midlands. Other UK areas are rapidly developing clusters of software companies. For DC exporters, suppliers of software and IT services can be potential clients, for example by means of outsourcing.

Microsoft, the world’s largest software company, has one of its most important research centres in Cambridge, an area known as Silicon Fen for its thriving technology industry. IBM, another of the world’s largest software companies, also undertakes wide-ranging research and development at several UK sites. Software giant Hewlett-Packard has a large laboratory in the UK, sited in Bristol. Table 1.3 gives the major players in the UK.

Table 1.3 Major UK software and IT services companies

| Company | Main services | Internet |
|---------------------|-------------------------------------|---|
| Accenture | Project services | http://www.accenture.com/ |
| Capita | Outsourcing | http://www.capita.co.uk/home/ |
| Computacenter | Support services | http://www.computacenter.com/ |
| Computer Associates | Packaged software | http://www.ca.com/uk/ |
| CSC | Support services | http://www.csc.com/ |
| EDS | Outsourcing | http://www.eds.co.uk/ |
| Fujitsu Services | Project services, support services | http://uk.fujitsu.com/ |
| HP | Support services | http://www.hp.co.uk |
| IBM | Packaged software, project services | http://www.ibm.com/uk/ |
| LogicaCMG | Project services | http://www.logicacmg.com select |

| | | |
|------------------|-------------------|--|
| Microsoft | Packaged software | <u>UK</u> http://www.microsoft.com/uk/ |
| Oracle | Packaged software | http://www.oracle.co.uk |
| SAP | Packaged software | http://www.sap.co.uk |
| Sun | Support services | http://www.sun.co.uk |
| Synstar (now HP) | Support services | http://www.synstar.co.uk |

Source: internet sources (2006)

Trends

- The market for software is still growing.
- The market for IT services is stagnating.

Opportunities and threats

- The UK is the largest country within the software and IT services world.
- All the world’s large software and IT services are present in the market.

Useful sources

- Association of Independent Computer Specialists - <http://www.aics.org.uk>
- British Computer Society - <http://www.bcs.org.uk>
- Business link - <http://www.businesslink.gov.uk>
- European Information Technology Observatory (EITO) - <http://www.eito.com>
- Information Technology Telecommunications and Electronics Association - <http://www.intellectuk.org/>
- Missions Economique - <http://www.missioneco.org>

For information on software and IT sectors EU-wide, click the country, then ‘sector industrielle’ and finally “electronique et NTIC”. Information is in French.

- UK trade & invest <https://www.uktradeinvest.gov.uk/>

2. Offshore outsourcing

The market

Outsourcing continues to represent the main growth engine of the service market, showing an increase of 40% in 2003. Growth is expected to continue in 2006. Although UK business remains heavily dominated by issues such as cost control and short-term Return On Investment (ROI) justification, the dynamism of the outsourcing services in the UK is expected to slow down gradually from 2006 onwards as the market is rapidly reaching maturity.

Offshoring

While the UK is offshoring the most of all countries in the EU, it is rare to see an SME in the UK using outsourcing rigorously, according to Martyn Hart of the National Outsourcing Association (NAO). For companies in developing countries, these SME companies in the UK are the major target group. Martyn Hart also says it is ever rarer to find an SME in the UK that is willing to offshore to the other side of the world. Still SMEs are set to offshore more operations in an attempt to remain competitive, predicts NOA’s Nigel Roxburgh. There are even plans from the industry and the government to help SMEs with education on offshoring and outsourcing. One of the sectors that is focused on is software.

The SME director of NOA, mr. Prabhakar, says it is ironic that it is the larger companies that have been offshoring in the recent past, when SMEs have the most to gain from offshoring. For them more efficiency also leads to higher profits and growth in general. It is likely that offshore companies will want to break the UK SME market. They will have to develop spearhead SME marketing campaigns to educate small businesses or utilise agencies that can facilitate the business for them.

However, the SME market will remain a tough and expensive nut to crack for many suppliers. According to Nigel Roxburgh, the UK market consists of around 3 to 4 million SMEs. Therefore, targeting is very hard. Where products are concerned, it is often easier to develop off the shelf

DIY packages. The services market is different and with time, it is a space that will change. But SMEs need to have the correct information at their fingertips in order to make informed outsourcing choices - until that time, they will sit back and wait until they see a definite trend. When that happens, the SME outsourcing and offshoring market is set to explode.

While the UK is the largest country in IT outsourcing and offshoring in general in Europe, it is expected that the largest growth is over. More growth is possible in mainland Europe. The UK will specialise more on the more complex outsourcing work. Furthermore, a lot of work can be done in the development of the SME market for outsourcing.

Needs SME buyers

The Federation of Small Businesses reveals that 97 per cent of companies in the UK employ 20 people or fewer. For many of these companies, the responsibility for buying IT will be distributed among non-technical staff because employing a dedicated IT specialist is not feasible. Buyers want to feel that the vendors they deal with genuinely understand their real, everyday problems and have ways to make their lives easier, their companies more competitive and their IT costs lower. A research of silicon.com shows that vendors have not gained the trust of the SMEs yet. The same counts for offshoring destinations for software and IT services.

What is outsourced / offshored

SMEs will want to outsource/offshore IT. They often neither have the knowledge, nor the money and time to do this themselves. However, outsourcing is not always beneficial to them. With a small company, the overhead is often too large. According to Nigel Roxburgh, ASPs might become more important. This means these providers offer an application that is accessible via the internet. The overhead here will be much smaller, self control is still possible and for the company valuable time and costs are saved. SMEs that outsource are often start-up companies with employees with knowledge about outsourcing from their former employer, according to Nigel Roxburgh of NOA.

According to Synstar (2004), British companies consider offshore outsourcing the following IT functions:

- User support
- Business continuity
- Network data management.

Reasons for outsourcing

British companies that choose outsourcing do so because of access to specialized skills that were not available in their own company, the opportunity to focus on jobs within the company and the guaranteed service levels.

Offshore destinations

India is by far the largest outsourcing destination for the UK. This is mainly because of historic bonds they have and the Indians' fluency in English. The Philippines come second after India. According to Nigel Roxburgh, offshoring for foreign languages like German and France often goes to nearshore destinations like Eastern and central Europe and Russia. He also states that South Africa is gaining popularity in the UK.

Opportunities and threats

- The UK is offshoring the most of all EU countries.
- SMEs are starting to outsource, but are not largely involved yet.
- SME buyers do not trust suppliers of offshoring yet.
- Plans from the industry and the government to help SMEs with education on offshoring and outsourcing.
- Outsourcing is reaching maturity in the UK market.

Useful sources

- EUROITX - <http://www.euroitx.com>

- National Outsourcing Association (NOA) - <http://www.noa.co.uk/>
For an extensive overview of IT outsourcing companies, consultants and legal firms.

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 UK market. The most important channels for software related services are:

1. Establishing your own sales office.
2. Consultant/broker.
3. Direct contact with UK software manufacturer.
4. UK 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 UK.
4. Contacting end-user organisations directly.
5. Contacting local offices of multinationals in the home country of the services provider.

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".

Specific trade structure facts for the UK

- The size, maturity and openness of the UK market are also its greatest challenges. Companies seeking to enter this market, or expand their market share, face tough and well established competition from both domestic and third country competitors.
- According to Nigel Roxburgh of NOA, presence in the UK is very important. Therefore, setting up your own business, buying another company or creating a joint venture will be the best options for SMEs from developing countries. Most Indian companies work according to one of those recipes. They have 40% of their workforce onshore in the UK and 60% offshore in India.

Useful sources

- Association of Independent Computer Specialists - <http://www.aics.org.uk>
- British Computer Society - <http://www.bcs.org.uk>
- Business link - <http://www.businesslink.gov.uk>
- EUROITX - <http://www.EuroITX.com>
- Information Technology Telecommunications and Electronics Association - <http://www.intellectuk.org/>
- National Outsourcing Association (NOA) - <http://www.noa.co.uk/>

For an extensive overview of IT outsourcing companies, consultants and legal firms.

4. Prices and margins

This chapter discusses prices and margins for software and IT services. In the first paragraph prices and indicators for prices are discussed and in the second paragraph some useful sources for price information can be found.

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

According to Nigel Roxburgh of NOA, the general trend in prices is going down. This is because of pressure on the margins and increasing competition. Most companies are actively looking for

potential offshore sources. According to him 70% of the companies that outsource still indicate that cost cutting and prices are the most important reasons to outsource.

According to Salary Expert (<http://www.salaryexpert.com>), a software engineer working in the United Kingdom earns an average annual salary of € 49,617. When benefits and bonuses are added to this salary, the average total compensation for this position would be €51,976.

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. For more information also 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. As an exporter from a developing country preparing to access the UK, you should be aware of the market access requirements of your trading partners and the UK 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 CBI market survey "The software, IT services and outsourcing market in the EU".

6. Business practices

Selecting a suitable trading partner

There are many ways to find potential business partners in the UK. 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:

- Europages – <http://www.europages.com>
- European Centre for Offshore Development - <http://www.ecode.org.uk/>
Choose "find a supplier".
- IT Match - <http://www.itmatchonline.com/index.php>

- Kellysearch - <http://www.kellysearch.com/>
- Kompass – <http://www.kompass.com> (mostly fee based, but the free part is very useful too)
- National Outsourcing Association (NOA) - <http://www.noa.co.uk/>
Extensive overview of IT outsourcing companies, consultants and legal firms.
- Thomas Global Register Europe - <http://www.trem.biz/>
- UK Trade Invest - <https://www.uktradeinvest.gov.uk/>

For more details about how to search some of the 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 British chamber of commerce in your country. Find it at <http://www.worldchambers.com>.
- The UK Embassy in your country. Find it at <http://www.embassyworld.com>.
- Trade associations for individual product groups, refer to chapter 1.

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. For more general information on selecting a suitable trade partner, please refer to the CBI market survey "The software, IT services and outsourcing market in the EU".

Reaching an agreement with your trade partner

Satisfying quality requirements, meeting deadlines and adhering to budgets is the most important challenge the providers of offshore services have to face in implementing their projects for UK clients. However, data protection, security aspects and the demands made on project management also play a major role.

From the customer's point of view the differences in mentality and culture make it particularly difficult to implement offshoring projects. These are the most important difficulties that companies meet when wanting to offshore. Playing to these difficulties when coming to terms with a trade partner is therefore very important.

Cultural tips

When dealing with a UK company, it is also very important to take the UK culture on business and social occasions into account. Important cultural tips are the following:

- Always be punctual in England. Arriving a few minutes early for safety is acceptable.
- Decision-making is slow in England; therefore it is unwise to rush the English into making a decision.
- A simple handshake is the standard greeting (for both men and women) for business occasions and for visiting a home.
- Privacy is very important to the English. Therefore asking personal questions or staring intensely at another person should be avoided.
- Eye contact is seldom kept during British conversations.
- To signal that something is to be kept confidential or secret, tap your nose.
- Personal space is important in England, and one should maintain a wide physical space when conversing. Furthermore, it is considered inappropriate to touch others in public.
- Gifts are generally not part of doing business in England.
- A business lunch will often be conducted in a pub and will consist of a light meal and perhaps a pint of ale.
- When socializing after work hours, do not bring up the subject of work.

For more information on UK 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:

- Computing - <http://www.computing.co.uk>
- Computer weekly - <http://www.computerweekly.com>
- Infomatics - <http://www.infomaticsonline.co.uk>
- ITWeek - <http://www.itweek.co.uk>
- Silicon - <http://www.silicon.com>
- ZDNET - <http://www.zdnet.co.uk>

Trade fair

Participation in a trade fair is also a good way to promote a product or service. In the UK, there are several large trade fairs in the field of software and IT services.

- Softworld - <http://www.softworld.co.uk>
NEC Birmingham 18 - 19 October 2006
- Online Information - <http://www.online-information.co.uk>
The largest information industry event in the world.
- Outsourceworld - <http://www.outsource-world.com/london/>

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

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