

CBI MARKET SURVEY

The software and IT services for offshore and nearshore outsourcing in Denmark

Publication date: December 2007

This survey provides exporters of software and IT services with sector-specific market information related to gaining access to Denmark. 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 and IT services market for offshore and nearshore outsourcing in the EU" which covers the EU market in general. That survey also contains an overview and explanation of the selected services 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.eu/marketinfo>.

1 Market description: demand and supply

There is a clear relationship between Section 1 and 2 of this survey. Section one, below, will provide information on the end market for software and IT services in Denmark. The structure and growth of this end market determine the opportunities for offshore / nearshore outsourcing, which will be the topic of Section 2.

Demand

Estimated at €4.8 billion in 2006, the Danish market for software and IT services was ranked tenth in the EU, ahead of Bulgaria, the Czech Republic and Ireland but behind Spain, Belgium and Austria.

Software

The total Danish software market is expected to grow from €1.7 billion in 2006 to an expected €2 billion in 2008 (see Table 1.1).

Table 1.1 Danish software market in € million, 2004 – 2008

	2004	2005	2006	2007*	2008*
Systems software	718	773	842	914	985
Application software	754	788	834	883	930

* forecast

Source: EITO (2007)

IT services

The total Danish IT services market is forecast to grow from €3.1 billion in 2006 to an expected €3.3 billion in 2008 (see Table 1.2).

Table 1.2 Danish IT services market in € million, 2004- 2008

	2004	2005	2006	2007*	2008*
Professional services	2,072	2,228	2,306	2,400	2,493
Support services	738	792	819	852	888

* forecast

Source: EITO (2007)

Supply

Denmark is a highly computerised society with a large and steady demand for state-of-the art software and IT products. Local software producers are quite successful, but often lack

the necessary resources for continued growth on their own. They are, therefore, increasingly entering into strategic alliances with foreign system vendors, most often from the United States. Historically, more products have been imported than exported. A market analysis of the IT sector by the Danish IT Trade Association states that, although the number of jobs and companies is on the rise, the market is merely leveling out, rather than continuing its growth. Please refer to Table 1.3 to find information about Denmark's largest software providers and to Table 1.4 for Denmark's largest IT services providers.

Table 1.3 Leading 10 software providers on the Danish market

Company	Place	Internet
CSC Scandihealth	Århus	http://www.scandihealth.com
Microsoft Danmark	Hellerup	http://www.microsoft.com/da/dk
Microsoft Development Center	Copenhagen	http://www.microsoft.com/denmark/om/mdcc/default.mspix
SAP Danmark	Copenhagen	http://www.sap.com/denmark
SAS Institute A/S	Copenhagen	http://www.sas.com/offices/europe/denmark
SimCorp	Copenhagen	http://www.simcorp.com
Stibo	Højbjerg	http://www.stibo.dk
TAC A/S	Herlev	http://www.tac.com/dk
Terma	Lystrup	http://www.terma.dk
Texas Instruments	Aalborg	http://www.ti.com/europe/docs/sites/denmark

Source: Computerworld Denmark (2007)

Table 1.4 Leading 10 IT service providers on the Danish market

Company	Place	Internet
CSC Danmark	Copenhagen	http://dk.country.csc.com/da
IBM Danmark	Lyngby	http://www.ibm.com/dk
KMD	Ballerup	http://www.kmd.dk
Sonofon	Aalborg	http://www.sonofon.dk
TDC	Copenhagen	http://tdc.com
TDC Kabel	Copenhagen	http://tdc.com
TDC Mobil	Copenhagen	http://tdc.com
TDC Services A/S	Copenhagen	http://tdc.com
TDC Totalløsninger	Copenhagen	http://tdc.com
Telia Danmark	Copenhagen	http://telia.dk

Source: Computerworld Denmark (2007)

For more information about Danish ICT companies please refer to the website of 'The Danish IT Industry Association' – <http://www.itb.dk>. Click on 'Netværk' and then on 'Medlemmer' to see the list of companies. Also you can look at the website of Computerworld Denmark – <http://www.computerworld.dk>, click on 'Mere' and then on 'Brancheguiden' to see the list of companies categorised per field of activity.

Clusters

The Danish ICT industry is mainly situated in four clusters: Copenhagen, Aarhus, Odense and Aalborg. In these clusters, some specific areas of the IT sector are highly developed, like pervasive computing (mechatronix, robotix, healthcare, farming and food) or complex application software (healthcare, e-Government and business software).

Trends

- The Danish ICT sector is structured towards a service market rather than a production market.
- Government supported IT projects are on the rise.

Opportunities and threats

- + Lack of highly specialised IT skills in Denmark could open up a market for offshoring and nearshoring.

Useful sources

- Danish IT Industry Association - <http://www.itb.dk>
- Danish IT Society - <http://dansk-it.dk>
- Danish trade association for IT, telecommunications, electronics and communication enterprises - <http://itek.di.dk>
- European Information Technology Observatory (EITO) - <http://www.eito.com>

2 Offshore outsourcing

Where section one of this survey focused on the market for software and IT services in Denmark in general, this section will zoom in specifically on the market software and IT services offshoring and nearshoring in Denmark as this is the market with the best potential for SMEs from DCs.

The market

Outsourcing of IT functions and software development in the public and private sector is a growth area. The Danish market for IT outsourcing valued more than €1 billion in 2006. According to a recent survey, more than 50% of the existing IT outsourcing agreements in the public and private sector are due for renegotiation in the coming years. The contracts are expected to be worth around €0.4 billion. The majority of the contracts is expected to stay with the existing suppliers.

Chances and reasons for offshoring/nearshoring

According to the experts, chances for both offshoring and nearshoring are high and will increase in the future. Besides cost reduction, one of the main reasons for offshoring/nearshoring is the shortage of IT professionals in Denmark.

Critical success factors

One of the most significant success factors in the Danish market is cultural understanding. Clear offers are appreciated by Danish companies and when SMEs from DCs offer specific services and specialise in niche segments of the market, the chances for success are higher.

Sectors

The most interesting sectors for offshoring/nearshoring are the airline industry, the banking sector and the manufacturing sector. Also the governmental sector is investing a lot in IT. In commercial sectors, accounting software applications and services are offshored.

Offshore destinations

Research performed by Denmark Statistics shows that 40% of offshoring by Danish companies goes to Eastern Europe and the Baltic States, 50% goes to Asia and the Far East, and another 10% goes to other LCCs. India is the most important offshore destination. The Danish and the Indian science ministries concluded an agreement about mutual biotechnological research in order to improve bioinformatics in 2004. Against this background, the first joint Danish-Indian research projects were established in the beginning of 2006. Moreover, the Danish Ministry of Science, Technology and Innovation is working on a Memorandum of Understanding with India in the IT area. Other important offshoring destinations are Bangladesh, Vietnam, Indonesia, Malaysia and China. The most important nearshore destinations for Denmark are Russia, Ukraine, Belarus, Romania, Hungary, the Czech Republic, Poland and Slovenia.

Trends

- Offshoring and nearshoring activities are growing in importance in the Danish IT market
- Loss of jobs because of offshoring is a current public debate.
- Development of back office IT services for Danish companies is increasingly offshored and nearshored.

Opportunities and threats

- + There is an increasing opportunity for SMEs from DCs in airlines, banking and manufacturing sectors in segments like billing and accounting software development and services.
- + There is an opportunity for offshoring of software and IT services in complex scientific research in cooperation with Danish universities and institutes.
- Danish companies still perceive onshore outsourcing as safe compared to offshoring/nearshoring, which could be threat for SMEs from DCs as this means the companies will not offshore/nearshore work to DCs.

Useful sources

- EUROITX - <http://www.euroitx.com>
- IT portalen – <http://www.itportalen.dk> - Danish articles on outsourcing
- Moosproject - <http://www.moosproject.be/reports.htm> - Reports about offshore outsourcing including an overview of Danish companies that outsource and their offshore destination country.

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 Danish market.

The most important channels for software related services are:

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

Some names of main players and their websites can be found in Section 1. For more information about the trade structure for outsourcing software related services, please refer to the CBI market survey "The software and IT services market for offshore and nearshore outsourcing in the EU". For more information on establishing an office in Denmark, contact the Danish Ministry of Foreign Affairs' Investment Agency, Invest in Denmark <http://www.investindk.com>.

Useful sources

- EUROITX – <http://www.euroitx.com>

4 Prices and margins

Price information can be obtained through trade organisations, trade press or trade fairs. Other possibilities include checking prices on the Internet, asking for prices from distributors, agents and other distribution channels. Also take a look at competitors' websites. According to the Salary Expert (<http://www.salaryexpert.com>), a software engineer working in Denmark earns an average annual salary of between €28,000 and €29,000. When benefits and bonuses are added to this salary, the average total compensation for this position would be between €29,000 and €30.000.

It is not easy to forecast price development for software and IT services in Denmark, but according to experts it is possible that the prices of software and IT services go up in 2008.

Useful sources

Price information can be obtained through different sources like:

- Trade organisations
- Trade press or trade fairs
- Internet
- Distributors, agents and other distribution channels.
- Websites of competitors.

For more useful sources, also refer to Section 6 or refer to the CBI market survey "The software and IT services market for offshore and nearshore outsourcing in the EU".

5 Market access requirements

As a service provider in a developing country preparing to access Denmark, you should be aware of the market access requirements of your trading partners and the Danish government. Requirements are demanded through legislation and through labels, codes and management systems. These requirements are based on working conditions, health and safety and social concerns. You need to comply with EU legislation and have to be aware of the additional non-legislative requirements that your trading partners in the EU might request. For information on legislative and non-legislative requirements, go to 'Search CBI database' at <http://www.cbi.eu/marketinfo>, select ITO and Denmark in the category search, click on the search button and click on market access requirements.

6 Doing business

Information on doing business like approaching potential business partners, building up a relationship, drawing up an offer, handling the contract (methods of payment, and terms of delivery) can be found in CBI's export manuals 'Export Planner', 'Your image builder' and 'Exporting to the EU'. The CBI manuals can be downloaded from <http://www.cbi.eu/marketinfo> - go to search publications.

Sales promotion

Software and IT services can be promoted through several sources. Below some of the most important trade press and trade fairs in Denmark can be found.

Trade press

- Alt om data - <http://www.altomdata.dk>
- ComON - <http://www.comon.dk>
- Computer Reseller News (CRN) – <http://www.crn.dk>
- Computerworld Denmark – <http://www.computerworld.dk>

Trade fairs

- ICT Denmark – <http://www.easyfairs.com> - Annually, January/February, Copenhagen
- Teknik & Data - <http://www.fagmessenger.dk> - Annually, March, Copenhagen - Trade fair for technical data processing.

Others

These days, it is an absolute must to have a professional website, which is aimed at your main target groups. Make it interactive and promote it in the proper way. More information can be found in the CBI Export Manual 'Website Promotion', available at <http://www.cbi.eu/marketinfo>. Furthermore, participating in conventions or congresses may also be a good promotional tool.

This survey was compiled for CBI by Facts Figures Future.
Disclaimer CBI market information tools: <http://www.cbi.eu/disclaimer>