CBI MARKET SURVEY

The software and IT services market for offshore and nearshore outsourcing in Germany

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Report summary

This CBI market survey discusses, among other things, the following highlights for the software and IT services market for offshore and nearshore outsourcing in Germany:

- The market for software, IT services and outsourcing in Germany has been growing and will keep on growing in 2008.
- The German software sector is expected to reach a value of nearly €18 billion in 2007. IT services are expected to reach a value of more than €29 billion in 2007.
- Together with the UK, Germany is the largest market for software and IT services in the EU.
- German subsidiaries of US companies hold over 60% of the German market for IT services.
- Application development is the service that is offshored the most in Germany.
- While most offshoring projects are not so large, German SMEs are much engaged and interested in offshoring (part of) their work.
- The most important offshoring locations are India and the more nearshore Eastern European countries like Poland, the Czech Republic, Hungary and Russia.
- The most important reasons to offshore for German companies are cost reduction and, specifically for large companies, increasing flexibility.
- Many German companies still perceive offshoring as a potentially risky activity because of cultural differences.
- Germany imports most of its software (mainly from the US).

This survey provides exporters of software and IT services with sector-specific market information related to gaining access to Germany. 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 Germany. 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 almost €45 billion in 2006, the German software and IT services market ranked second in the EU ahead of France, Italy and the Netherlands but behind the UK. The market is expected to grow to €46 billion in 2007, and for 2008 growth is also expected.

Software

The systems software market in Germany grows from €8.2 billion in 2005 to an expected €9.7 billion in 2008. The market for application software grows from €7.8 billion in 2005 to an expected €9.3 billion in 2008. The total German software market is expected to increase by almost 6% in 2008 compared to expected market size in 2007 of €17.9 billion (see Table 1.1). According to TechConsult (German marketing and consulting company for the ICT industry)

SMEs spent 53% of the total German software spendings, the other 47% was spent by large companies.

All software segments will see a general increase, in particular system infrastructure software, driven by a strong demand for security software as well as storage replication and resource management software. High demand for messaging applications, content applications, and business performance management/financial analytics tools will also ensure a considerable increase in the software application market in Germany. German trade association BITKOM also expects a growth for 2007.

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

	2004	2005	2006	2007*	2008*
Systems software	7,934	8,251	8,664	9,140	9,689
Application software	7,463	7,836	8,306	8,804	9,289

* forecast
Source: EITO (2007)

IT services

The market for professional IT services is expected to rise from €19.5 billion in 2005 to €23.5 billion in 2008. The market for support services has remained relatively stable since 2004 and is expected to slightly grow to €7.5 billion in 2008 (see Table 1.2). According to TechConsult, 31% of the total spendings on IT services in 2006 was done by SMEs. The other 69% was spent by larger companies. BITKOM also forecasts almost 5% growth in the area of IT services in 2007. In the German services sector, outsourcing will be the main growth engine of the market, driven by an increasing search for cost reduction and flexibility. German companies will keep relying on outsourcing services in 2008. Outsourcing projects are fuelled by the necessity to reduce market risks and catch up, or even surpass the aggressive international competition through leaner and more efficient cost models.

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

	2004	2005	2006	2007*	2008*
Professional services	18,438	19,503	20,680	22,035	23,471
Support services	7,205	7,313	7,387	7,423	7,461

* forecast
Source: EITO (2007)

Supply

It is hard to provide detailed production data on software and IT services. Only some rough indications about the employment in the sector can be given. In total, the software and IT services sector employed 453,000 people in 2006. Compared to 2005 this was an increase of 2.2%. Within the whole German IT and telecommunications sector, the software and IT services sector shows the highest growth in the past year. For DC exporters, suppliers of software and IT services can be potential clients, for example by means of outsourcing.

Software

The software market in Germany is very competitive and is mostly dominated by large, multiservice suppliers. At the same time, it offers potential for smaller companies with highly specialised products. The top 25 suppliers hold almost half of the German market, mainly with sales of standard software. Medium-sized vendors account for more than 60% of total sales. Experts estimate that approximately 80% of software products in Germany are imported, mainly from the US (primarily through their subsidiaries in Germany.) As in other IT sectors, the German software industry is characterised by mergers and acquisitions. The large software companies try to get medium-sized companies as their customers through the acquisition of medium-sized software companies such as SAP acquiring DCW, and Microsoft acquiring Navision and Great Plains. Please refer to the useful sources for the URLs. In the sector barometer carried out by BITKOM, over 80% of the software suppliers surveyed were optimistic of achieving increased revenues in 2007 as a whole.

The German federal state Baden-Württemberg is the largest producer of company software after Silicon Valley. Global players like IBM and Hewlett Packard and about 5,000 multimedia and software companies are located in this region. The Ministry of Economic Affairs developed six software centres in Böblingen, Friedrichshafen, Heilbronn, Lörrach, Mannheim and Pforzheim. The government also supports small and medium-sized companies. The software market in Baden-Württemberg is also still growing strongly. A special cluster in Baden-Württemberg is company software. Table 1.3 gives the top 10 of German software companies.

Table 1.3 Leading software providers on the German market

Company	Place	Internet
Adobe Systems GmbH	Munich	http://www.adobe.com/de
BMC Software GmbH	Frankfurt am Main	http://www.bmc.com/de_DE
CA Deutschland GmbH	Darmstadt	http://ca.com/de
CompuGroup Holding AG	Koblenz	http://www.compugroup.com
Infor Global Solutions	Munich	http://www.infor.de
Microsoft Deutschland GmbH	Unterschleißheim	http://www.microsoft.com/de/de
Novell GmbH	Düsseldorf	http://www.novell.de
Oracle Deutschland GmbH	Munich	http://www.oracle.com/global/de
PSI AG	Berlin	http://www.psi.de
SAP Deutschland AG & Co. KG	Walldorf	http://www.sap.com/germany

Source: Lünendonk (2007)

For more companies in the German software (also SMEs) market you can look on the website of 'EDV-Berater' or on 'Software-marktplatz' (also refer to useful sources below).

IT services

Approximately 60% of the IT services market in Germany is attributed to German subsidiaries of U.S. firms. U.S. firms are often perceived as having more experience in the IT environment and as such have a head start in the business. In the sector barometer carried out by BITKOM, 84% of the IT service providers expected an increase if revenues in 2007 compared to the previous year. Table 1.4 gives a top 10 of German IT service companies.

Table 1.4 Leading IT service providers on the German market

Company	Place	Internet
Bayer Business Services GmbH	Leverkusen	http://www.bayerbbs.com
Computacenter AG & Co. oHG,	Kerpen	http://www.compunet.de
Datev eG	Nürnberg	http://www.datev.de
Fiducia IT AG	Karlsruhe	http://www.fiducia.de
FinanzIT GmbH	Hanover	http://www.finanzit.com
Hewlett-Packard Deutschland Services	Böblingen	http://www.hp.com/country/de/de
IBM Global Services Deutschland	Stuttgart	http://www.ibm.com/de
Siemens IT Solutions and Services GmbH & Co. OHG	Munich	http://www.siemens.com
Sparkassen Informatik GmbH & Co. KG	Frankfurt am Main	http://www.sparkassen-informatik.de
T-Systems	Frankfurt am Main	http://www.t-systems.com

Source: Lünendonk (2007)

For more information on German companies in IT services please have a look at the member list on the website of the 'EDV-Berater' (also refer to useful sources).

Trends

- Supply Chain Management (SCM)-software is a growing market in Germany.
- Outsourcing is the main engine of the German IT services market.
- The market for document management software (DMS) as well for customer relationships software (CRS) is increasing.
- The public sector (banking, insurance, medical) invests highly in software.

Opportunities and threats

± There are good opportunities for companies from DCs that are specialised in banking, insurance and medical software. However, these areas are difficult to penetrate by 'new to the market' companies like small and medium-sized DC exporters.

± DC suppliers of SCM, DMS and CRS software have a good chance in the German market. However, US software suppliers still have a large market share in the German market.

Useful sources

- BITKOM - http://www.bitkom.org - German association for information science, telecommunication and new media, Berlin
- Country Commercial Guide Germany (CCG) - http://www.buyusa.gov/germany/en/ccg.html
- EDV-Berater e.V. (IT services Association) - http://www.vdeb.de - You can click on ‘Mitglieder’ under the ‘VDEB’ button to see a list of the members of VDEB which are small and medium-sized enterprises.
- European Information Technology Observatory (EITO) - http://www.eito.com
- Software-Marktplatz (website of software and IT industry in Germany) - http://www.software-marktplatz.de.You can search the companies in different sectors of IT industry. Also you can click on ‘ISIS Medien’ button and than on ‘GermanTop 500’ to find information on the top 500 companies in Germany for the whole sector.
- Spitzenverband der Deutschen softwareindustrie - http://www.svds.de - largest European alliance of software organisations

2 Offshore / nearshore outsourcing

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

As in the other major European countries, outsourcing represents an optimal method to produce and offer better services and products with fewer resources in Germany. In their current attempt to reshape themselves in order to meet cost standards and international competition, German companies will keep relying on outsourcing services in 2007. According to BITKOM IT, the outsourcing market in Germany will grow by almost 12% in 2007. With this growth, this market will become increasingly important. A study involving four SMEs in Europe (among which 1 company from Germany) conducted by the Value Leadership Group shows that companies have gained significant competitive advantage by offshoring. This shows that SMEs could also benefit from offshoring and not only the large companies. More than 50% of the companies in the IT and software sector indicate that nearshore/offshore outsourcing is important for them and the majority of the companies expects revenues from outsourcing.

Chances for offshoring / nearshoring

Applications software
According to BITKOM research, application software is the sector which is already offshored the most. Experts indicate that it will continue to be offshored in the future. Nearshore destinations have some advantages in the area of application software because some German companies perceive offshoring locations as more risky especially due to cultural differences.

System software
Compared to the applications market, the market for software systems is more difficult to penetrate for DC companies from developing countries.

Professional services
There is a difference in the chances for success in nearshoring / offshoring. The potential for nearshore outsourcing is higher as cultural difference plays a more important role in this

sector, especially in consultancy and operations management services. Similar to application software, German companies consider some offshoring countries like India to be more risky than nearshoring destinations. Mr. Krick (software and IT outsourcing expert of the University of Hamburg) stated that this potential risk is just a perception of German companies and that this does not reflect reality.

Support services
Among all software and IT services, support services are the field of the market with the lowest chance to be entered by DCs. Again, there is a difference between nearshoring and offshoring destinations where the language barrier can play a crucial role. This is especially important for help desk services. Also in the case of hardware maintenance it is not profitable to hire a person in an outsourcing destination because for hardware maintenance it is necessary to have a man on the spot in Germany.

Reasons for offshoring/nearshoring
The most important reason to offshore activities is cost reduction. Other important motives are "increasing flexibility" and "concentrating on core business". Companies looking for offshoring possibilities also look for skilled labour. Beside cost reduction, increasing flexibility is a specifically important reason for large companies, while SMEs see cost reduction as the crucial reason for outsourcing. According to Mr Krick, one of the reasons to offshore for German companies which are interested in outsourcing to China is also entering new markets.

Critical success factors
The suppliers of offshoring possibilities agree that beside cost reduction and flexibility, skilled labour is indeed what most of their German customers are looking for. It is important for DC suppliers that want to enter the German market to have a contact person for their company in Germany who can be contacted by German customers. Both the suppliers of outsourcing possibilities and their customers agree that establishing a sound partnership is very important. Cultural understanding and language knowledge is also very important. The knowledge of Enterprise Resource Planning (ERP) systems could be a major advantage for DC. These systems can be enhanced by many modules, for example CRM (Customer Relationship Management) or APO (Advanced Planner and Optimizer). It is mainly used by medium-sizrd and large companies all over the world. In this way ERP systems are also one of the main drivers of IT-Near and offshore outsourcing (esp. Application Management but also Customizing). The programming Language that can be used within the system is ABAP and the Database Language SQL.

Sectors
One of the sectors that is most interesting for offshoring / nearshoring is the industrial (production) sector, and this could be especially interesting for SMEs. The potential in this sector is not fully used and according to experts it should not be difficult to penetrate this sector. Also the competition within this sector is not so high. The banking sector also has potential which is not fully used but this sector is more suitable for medium-sized companies from developing countries than for small ones because the usual scope of the activities in software and IT services is larger than in industrial sector.

Offshore / nearshore destinations
The most important offshore country for Germany is India. Indian firms are buying smaller companies in Germany in order to create a "language interface" as well as to use them for support, marketing and contracting platforms. Companies in Germany have experienced serious cultural issues in India and South East Asia (SEA).

Recently, Eastern Europe has been trying to close the gap. Countries like Poland, the Czech Republic, Slovakia and Hungary are interesting for Germany because these are their neighbouring countries. Cultural differences are small and wages are still low. Most of the employees in these countries also speak German. For example, statistics show that nearly 40% of schoolchildren in the new member states learn German. The most important nearshore destinations among the new EU member states are Hungary and Poland. The most important nearshore destination outside the EU is Russia but experts also see a high outsourcing potential for the German market in countries like Ukraine and Belarus.

Savings through offshoring / nearshoring

Table 2.1 presents the results of research done by BITKOM and Deutsche Bank on savings quantified in percentages. The table shows that the largest number of the interviewed companies had savings in the range from 10 to 30%. 23% could not make an estimate.

Table 2.1 Savings realised by German companies through offshoring, 2005

Savings realised	**% of respondents**
Added expense	6%
Neither saving nor expense	11%
Savings op up to 10%	15%
Savings of over 10 to 20%	16%
Savings of over 20 to 30%	18%
Savings of over 30 to 40%	7%
Savings of over 40%	4%
No estimate possible	23%

Source: Derived from BITKOM/ Deutsche Bank (2005)

Trends

- Intensification of nearshoring towards Central and Eastern European countries.
- Labour unions put pressure on the German government to take protective action.
- Many German companies still see outsourcing as a potentially risky activity.
- There is a shortage of IT professionals in Germany.
- Customer relationship management (CRM) software is the part of the sector with the highest potential for growth and offshoring and nearshoring.
- Offshoring and nearshoring in banking software and IT services is expected to increase in the next few years.

Opportunities and threats

+ Shortage of IT professionals in Germany offers better possibilities for offshoring and nearshoring in Germany, which is good for DC companies.
± Nearshoring offers chances for the German market, especially for DC exporters from Eastern European countries.
– Exporters from developing countries could be hit hard if protective measures were to be taken by the German government and public sector.
– The chances for DC companies largely depend on the feeling German companies have on offshoring.
– Problems can occur due to culture or mentality, which is very different in Germany than in most DCs.

Useful sources

- BITKOM (German association for information science, telecommunication and new media) - http://www.bitkom.org
- CeBIT Trade Fair - http://www.cebit.de
- EUROITX - http://www.euroitx.com

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 German market.

The most important channels for software related services are:
1. Establishing your own sales office.
2. Consultant/broker.
3. Direct contact with German software manufacturer.
4. German 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 Germany.
4. Contacting end-user organisations directly.
5. Contacting local offices of multinationals in the home country of the services provider.

Names of some 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”.

Entry strategy

The most likely way to enter the German outsourcing market is via intermediaries. For that purpose, many consultancy companies could be used. Large companies from Germany have business relationships with companies from DCs of any size, while medium-sized German companies usually work with SMEs from DCs. Some examples of companies that can be used as intermediaries for offshoring for SMEs from DCs are listed below:
- Avanion - http://www.avanion.de
- Goaleurope - http://www.goaleurope.com
- KLV - http://www.klv.com
- Locatech - http://www.locatech.de
- Seres - http://www.seres.de
- Software project - http://www.software-project.de

Specific trade structure facts for Germany

- The German market is decentralised and diverse with interests and preferences that differ dramatically from German state to German state.
- Success in the German market, as elsewhere around the world, requires long-term commitment to market development and sales back up.

The majority of companies that provide offshoring offer only one model. According to the suppliers of IT outsourcing services, captive offshoring (establishing a subsidiary abroad) is currently the most important one in Germany, after which multisourcing (the practice of using many outsourcers at once, being able to build specialisation leverage and ongoing competition), and finally preferred supplier (one specific supplier that is always contacted when projects arise). For the future, however, the suppliers predict a change. They believe multisourcing will become the most important model. Captive offshoring and preferred supplier will be of equal importance then. Section 3 of the CBI market survey “The software and IT services market for offshore and nearshore outsourcing in the EU” gives more information about offshoring models.

Useful sources

- Country commercial guide Germany - http://www.buyusa.gov/germany/en/ccg.html
- EDV-Berater - http://www.vdeb.de

- EUROITX - http://www.EuroITX.com
- German association for information science, telecommunication and new media (BITKOM) - http://www.bitkom.org
- Outsourcing Monitor.EU | European Global-Sourcing Near-shoring Offshoring Business Intelligence - http://outsourcingmonitor.eu
- Who supplies what – http://www.wlwonline.de

4 Prices and margins

Competition is heating up as more and more international players are trying to enter the German outsourcing market for software and IT services. This implies price pressure will continue to be harsh and further consolidation can be expected. Consequently, pricing is increasing in importance as a competitive factor, but quality, timely delivery and service remain equally important.

Unfortunately, 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. Some licence prices of software can often be found on the websites of software suppliers. Information on implementation costs can be found in reports concerning business software, which also give ranges of costs for software and implementations.

Offshoring in the German-speaking countries is still fairly small. Nearly half of the companies surveyed currently purchase offshore services with a total value of less than €1 million. Revenues are therefore also rather low. Around 40% of all companies offering offshore services generate revenues of less than €1 million from this activity. However, no fewer than one in six companies generated revenues of €1 million to €5 million with offshore services. Half of their customers have offshoring project costs of less than €1 million.

According to the Salary Expert (http://www.salaryexpert.com), the software engineer working in Germany now earns an average annual salary of between €91,000 and €92,000. When benefits and bonuses are added to this salary, the average total compensation for this position would be between €94,000 and €95,000. According to Mr. Krick, it is expected that prices for software and IT outsourcing services will go up in the coming years in Germany.

Useful sources
Price information can be obtained through different sources like:
- Distributors, agents and other distribution channels.
- Internet
- Trade organisations
- Trade press or trade fairs
- 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 Germany, you should be aware of the market access requirements of your trading partners and the German 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 Germany in the category search, click on the search button and click on market access requirements.

For more information also refer to the CBI market survey "The software and IT services market for offshore and nearshore outsourcing in the EU".

6 Doing business

General 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' and 'Your image builder'. Furthermore cultural awareness is a critical skill in securing success as an exporter. Information on cultural differences in the EU can be found in Section 3 of CBI's export manual '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 can be found.

Trade press
The following German magazines are specifically focussed on software and IT services:
- Computer Reseller News - http://www.crn.de
- Computerwoche - http://www.computerwoche.de
- InformationWeek Germany - http://www.informationweek.de
- IT bank and insurance - http://www.bauve.de

Trade fairs
An excellent promotion tool is participating in a major trade fair in Europe. Exhibiting at a fair is not only an effective opportunity to promote your company and services, it is also an effective instrument for benchmarking with your competitors. The most important trade fairs for software and IT services in Germany are:
- CeBIT - http://www.cebit.de - Annually, February/March, Hannover - The CeBIT is the largest IT exhibition in the world. It has one hall that is especially dedicated to IT outsourcing and BPO.
- DMS EXPO – http://www.dms-expo.de - Annually, September, Essen - Europe`s leading event for Enterprise Content and Document Management.
- European Banking & Insurance Fair (EBIF) - http://www.ebif.com - Annually, November, Frankfurt.
- Systems - http://www.systems.de - Annually, October, Munich - This popular fair is the second largest IT exhibition in Germany, and not as crowded as the CeBIT.
- Trade fair for customer relationship management - http://www.crm-expo.com - Annually, November, Nuremberg.

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 promotional tool.

This survey was compiled for CBI by Facts Figures Future.