CBI MARKET SURVEY

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

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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 Italy:

- Estimated at €14.9 billion in 2006, the Italian software and IT services market is the fourth largest in the EU, ahead of the Netherlands, Spain and Sweden but behind Germany, the UK and France.
- The market in Italy is dominated by a large number of small and medium-sized enterprises.
- The governmental sector, especially on a local level, is the most important growth driver of the software and IT services market in Italy.
- Offshoring and nearshoring in Italy is still not developed compared to other EU countries.
- In offshoring and nearshoring activities, the manufacturing sector is the most developed.
- India is the most important offshoring destination for Italy because of cost reduction competitiveness and the presence of large Indian offshore providers in the Italian market.

This survey provides exporters of software and IT services with sector-specific market information related to gaining access to Italy. 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 Italy. 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 €14.9 billion in 2006, the Italian software and IT services market is ranked fourth in the EU, ahead of the Netherlands, Spain and Sweden but behind Germany, the UK and France. The market will continue to grow in 2008. The banking and industry sectors represent over 40% of the IT market and illustrate the connection between IT trends and economic and restructuring trends that are going on in the Italian market.

Software

As in most other sectors, the Italian software market has suffered from the difficult economic situation in the past few years. Growth of the software market is not as intensive as it was before 2001. In 2006, the Italian software market valued €5 million. For 2008 a value of €5.5 million is expected. Market analysts forecast a cycle of steady and above-average growth for software in the next three years and a role as a strategic driver for the whole IT sector (see Table 1.1).

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

	2004	2005	2006	2007*	2008*
Systems software	2,536	2,584	2,680	2,827	3,034
Application software	2,283	2,306	2,357	2,427	2,535

* forecast
Source: EITO (2007)

Systems software
The systems software market is expected to increase by 5.5% in 2007, driven by new PC and large systems sales. This growth is also caused by high demand in security software, network & system management solutions, IT management and monitoring solutions and Application Servers as a solution for complex application integration issues.

Application software
The expected growth of 3% in the application software market in 2007 is associated with additional requirements for infrastructure upgrades, content management and Business Intelligence packaged software.

Sectors
The three main sectors that drive growth in the Italian software market are the industry, the banking sector and public administration. In the industrial sector, large and medium-sized companies have continued investing in enterprise resource planning (ERP), supply chain management (SCM), and customer relationship management (CRM). The Italian banking sector, which has been the most active in investing in new technologies, is focusing on delivery channels to give customers greater access to their banking services. The Public Administration on a local level is also investing heavily in software applications, and will remain doing so in the coming years as it continues to increase and improve its online services and advances Italy's information society.

IT services
The Italian IT services market still suffers from long-existing structural problems. The market is undersized and lagging behind in comparison to the other major European countries. However, the technology gap is narrowing and IT penetration is improving. In IT services, the market remained quite flat in 2006. A minor increase is expected in 2007 as a result of the expected take-off of outsourcing services, as Italian companies (especially those with a high international dependency, such as automotive, machinery, engineering textile and furniture) seek to cut costs and catch up with other major EU economies. The market for IT services is expected to grow towards €10.3 million in 2008, coming from €9.8 million in 2006 (see Table 1.2).

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

	2004	2005	2006	2007*	2008*
Professional services	6,982	6,947	7,051	7,227	7,480
Support services	2,867	2,827	2,813	2,827	2,869

* forecast
Source: EITO (2007)

Professional services
Moderate growth can be seen in the consultancy and systems integration sectors (both up 1.2%), as a result of an approach to projects that tightly links the definition of operational requirements and strategy with a re-design of the structural model and the implementation of solutions.

Supporting services
The supporting services sector has begun to show some signs of recovery in 2007 (up 0.5%) after a difficult three year period. Internet-related services to support intranet/extranet and e-business solutions performed well.

Sectors

Companies in vertical markets, particularly in the banking, insurance, manufacturing, media, professional services, utilities and health care sectors, are expected to continue investing in IT services to enhance competition. The Italian Public Administration sector is a major IT investor on a local level, while on a central level it has recently made severe cuts on IT expenditures, in order to contain general budget costs. Public Administration will continue to be a key end-user of IT services in Italy.

Supply

The total number of companies with workers in the software and IT services sector in Italy has risen from 61,660 in 2001 to 62,330 in 2005 with a total increase of 1.09%. The total number of workers in software and IT services sector was 324,790 in 2006. The most important regions for software production and IT services are Turin, Pisa-Florence, Rome, Milan, Bari - Lecce and Catania.

Software

The Italian software segment is heavily fragmented among approximately 75,000 firms, which include manufacturers, distributors and importers. The top five of the largest companies hold approximately 40% of the market. Italy depends heavily on foreign production of software, which accounts for approximately 65% of the total software market value. The United States is the leading exporter of multiple platform and application software, with a share of approximately 80% of imports.

Table 1.3 Leading software companies on the Italian market

Company	Main services	Internet
CA Italia	Life cycle management, data management and application development, business intelligence	http://ca.com/it
Datamat	Solutions for defence and other industries	http://www.datamat.it
EDS Italia	Business intelligence system, middleware and application software.	http://www.eds.com/about/locations/italy
Engineering	Middleware, business intelligence, open source, CRM and custom made software.	http://www.eng.it
IBM Italia	Business intelligence and network management software.	http://www.ibm.com/it
Infogroup	Solutions for banking, e-government, application management.	http://www.infogroup.it
Microsoft Italy	Microsoft products and solutions.	http://www.microsoft.com/italy
SAP Italia	Business intelligence and application management.	http://www.sap.com/italy
SAS Italia	Business intelligence applications.	http://www.sasitalia.it
Teamsystem	Systems software, application management and business intelligence.	http://www.teamsystem.com
Zucchetti	Application management and business intelligence.	http://www.zucchetti.com

Source: Computerworld Italy (2007)

IT services

The IT services market is heavily fragmented among over 56,000 operating companies. The 15 largest companies hold approximately 80% of the business, while the remaining 20% is divided among a plethora of small companies, often very specialised by vertical market segments and serving the needs of SMEs. The U.S. dominates the market and most major American computer services companies have Italian subsidiaries.

Table 1.4 Leading IT service providers on the Italian market in 2006

Company	Services	Internet
Accenture Italia	Planning, system integration, consulting	http://www.accenture.com/Countries/Italy
Atos Origin Italia	Planning, system integration, consulting	http://www.atosorigin.it
EDS Italia	Planning, system integration, consulting	http://www.eds.com/about/locations/italy
Gruppo Almaviva	Planning, consulting, CRM services	http://www.almavivaitalia.it
Gruppo Engineering	Planning, system integration, consulting	http://www.eng.it
HP Italiana	Business solutions	http://www.hp.com/country/it/it
IBM Italia	Planning, system integration, facility management, consulting, e-business hosting	http://www.ibm.com/it
Microsoft	Microsoft solutions	http://www.www.microsoft.com/italy
SAP Italia	Planning, consulting	http://www.sap.com/italy
Value Team	Planning, system integration, consulting	http://www.valueteam.com

Source: Computerworld Italy (2007)

Trends

- The Italian government attempts to advance Italy's information society.
- Companies in the banking, insurance, manufacturing, media, professional services, utilities, and health care sectors are expected to continue investing in computer services and software to enhance competition.
- Security software and services are expected to grow at sustained rates in the next three years.

Opportunities and threats

\+ High investments in software applications by local administration could be a potential opportunity in the future for SMEs in DCs, for example by means of outsourcing.

\+ The high number of SMEs in the Italian software and IT services sector could offer a wide range of possibilities for SMEs in DCs.

± Italy had one of the highest overall piracy rates in Western Europe in 2006. This could lower chances for offshore/nearshore activities. On the other hand, this trend could be a potential chance for development of security software and services.

Useful sources

- AITech-Assinform - http://www.aitech-assinform.it - Association of Italian ICT companies
- Assintel - http://www.assintel.it - Association of Italian software and services companies
- CNIPA – http://www.cnipa.gov.it - National Center for ICT in Public Administration
- Department of Innovation and Technologies - http://www.innovazione.gov.it
- Federation of Innovative and Technological Services - http://www.confindustriasi.it
- Federcomin - http://www.federcomin.it - Italian Federation of Communications and Information Technology Businesses

2 Offshore / nearshore outsourcing

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

In Italy, nearshoring and offshoring has not taken off yet, with only few businesses having shifted activities to Asia or Eastern Europe in order to reduce costs. The offshoring / nearshoring software and IT services market in Italy is far behind other EU countries like the UK, Germany, the Nordic countries and the Benelux and it is estimated at 2% of the whole EU IT offshoring/nearshoring market. According to a recent survey in Italy, the IT offshoring market has a significant growth rate. Only few specialised offshoring companies are directly present in Italy and Italian companies in many cases use offshore services via global providers.

Chances for offshoring/nearshoring

Applications software
There is no major difference between offshoring and nearshoring potential in the sector of applications software. According to the experts, chances are medium to high for both nearshoring and offshoring. The experts also state offshoring and nearshoring are not used nearly enough. The reason for these ill-developed offshoring/nearshoring activities is that Italian companies still prefer to use their own resources and local consultancy companies.

Among application software development, vertical services have the highest chances for offshoring/nearshoring while CRM has a medium to low chance. Experts predict a growth in offshoring activities in the future because of changes in the global IT world and constant attempts to reduce costs.

Systems software
The chances for systems software are on the same level as for application software. There is potential in the field of security systems because of increased demand in the market for the protection of systems and data.

Professional IT services
Chances for nearshoring/offshoring of professional services are low to medium for SMEs from offshoring locations and medium for SMEs from nearshoring locations. Cultural communalities play a role here.

Support software
This is the area with the lowest chance for offshoring and nearshoring activities. The main reason is the language barrier. The appropriate language skills (in most cases Italian) are very important, especially for help desk activities.

Reasons for offshoring/nearshoring
Similar to other EU countries, cost reduction is the main reason for offshoring and nearshoring. The second reason is the demand for IT skills which are not always available in the Italian labour market, especially in some niche areas, like IT solutions.

Critical success factors
The ability to cut prices is a very important success factor because Italian companies are very price conscious when software and IT services are concerned. A clear specification of the offer and specialisation in certain services is an important criterion for success. One of the critical success/fail factors could be the understanding of the business culture in Italy and the language barrier. In terms of technical skills, SAP skills are appreciated.

Sectors
The most interesting sector for offshore / nearshore outsourcing is the manufacturing sector, especially in Northern Italy. Within the manufacturing sector, the car industry is leading in IT offshoring / nearshoring activities. There are examples of Ferrari and Fiat using Indian offshore providers. In the industrial sectors Supply Chain Management (SCM) and Customer Relationship Management (CRM) are mostly offshored / nearshored, especially custom written software. There are also some examples of the defence industry using offshore services.
According to a recent survey conducted by 'Net consulting' -Italian consultancy company- the share of the offshoring / nearshoring market in Italy per sector is structured in the following way:
- Manufacturing – 30%
- Financial sector – 27%
- Telecommunication – 18%

- Retail/services – 14%
- Government – 2%

Offshore / nearshore destinations

The most important offshore destination for Italian companies is India. The top 5 offshoring Indian offshoring providers (Tata Consultancy Services, Infosys Technology, Wipro technologies, Satyam computers and HCL technologies) have a share of 90% of the whole Italian IT offshore market. According to Mr. Giorgio Brambilla -expert for IT outsourcing at the consulting company 'Netconsulting'- there is a trend of moving offshoring activities from India to other offshore locations like the Philippines, Malaysia, China, Brazil, Uruguay, Argentina, and Mauritius. The main cause for this trend is the search for locations with even lower labour costs than India.

The most interesting nearshore destinations are Romania, Bulgaria, the Czech Republic, Poland and Slovenia, but in these new EU member states IT nearshoring services is not yet very common. Business process outsourcing is more used in these countries than IT outsourcing. Also experts see the future potential in non- EU countries from South Eastern Europe such as the Balkan countries or the Ukraine.

Who is offshoring / nearshoring

Offshoring / nearshoring services are mainly used by medium and large companies. The companies in the Northern part of Italy are more active in offshoring / nearshoring than companies in other Italian regions. SMEs in Italy still do not use direct offshoring / nearshoring and are likely to ask for assistance by local consultancy companies. Although still not as developed as in other large EU countries, the Italian offshoring / nearshoring market has an annual growth rate of 50-60%, which is one of the highest in EU.

Trends

- Offshoring / nearshoring of software and IT services is still not the most common way of outsourcing in Italy.
- Especially the SME market is not open to offshoring / nearshoring yet.
- Nearshoring activities are on the increase and there is a slow shift from new EU countries towards non-EU countries in South Eastern Europe, especially Balkan countries.
- Offshoring in Italy is often done indirectly by global IT providers that win contracts from Italian companies and then offshore the work.
- Lower labour costs in the southern part of Italy increase possibilities for onshore outsourcing.

Opportunities and threats

+ The costs of IT services in Italy are considered to be high by the majority of companies. This creates opportunities for SMEs from DCs because of the possibilities for cost reduction they can provide.
+ SMEs dominate the Italian market. This is an opportunity for SMEs from DCs because this is the target group for them.
– The SME market for offshore / nearshore software and IT services is not very developed yet, which might be a threat to SMEs from DCs wanting to enter the Italian market.
– Due to lower labour costs in Southern Italy, competition for SMEs from DCs comes from the side of onshore outsourcing providers.

Useful sources

- EUROITX - http://www.euroitx.com - Look at the section "outsourcing" for more information.
- Salone Outsourcing - http://www.saloneoutsourcing.it - Annual event about outsourcing in Italy.

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 Italian market.
1. Establishing your own sales office.
2. Consultant/broker.
3. Partnership with an Italian (software) company.
4. Direct contact with Italian software manufacturer.
5. Italian 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 Italy.
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 chapter 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
Near- and offshoring in Italy is managed by intermediaries that, thanks to a local presence, act as an interface and front office for clients, guaranteeing competence in processes, quality and discretion. This approach helps businesses overcome the cultural and linguistic barriers that prevent direct relations with factories and services based in other countries. Very good advice for SMEs from DCs is establishing local partnerships with local IT and software providers. Local IT and software providers could also act as consultants with Italian customers.

Specific trade structure facts for Italy
- The backbones of Italy's economy are small to medium-sized companies.
- Large Italian companies usually deal with large offshore / nearshore providers.
- SMEs are still not used to using outsourcing services.

Useful sources
- Country commercial guide - http://www.buyusa.gov/italy/en/ccg05.html
- EUROITX – 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 are hard to find 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.

According to Salary Expert (http://www.salaryexpert.com), a software engineer in Italy earns an average annual salary of between €51,000 and €52,000. When benefits and bonuses are added to this salary, the average total compensation for this position would be between €54,000 and €55,000.

According to some experts, prices in the IT services sector could go down. Down-pricing especially involves certain segments (for example facility and desktop management) and was influenced by increased bargaining power of clients that tend to renegotiate conditions and pricing during regular service assessments.

Useful sources

- Distributors, agents and other distribution channels.
- Trade associations
- Trade press (please refer to Section 6 for relevant trade press in Italy)
- Trade fairs (please refer to Section 6 for relevant trade fairs in Italy)
- Websites of competitors.

Names of some main players and their websites can be found in Section 1. For more information, please also 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 Italy, you should be aware of the market access requirements of your trading partners and the Italian 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 Italy 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 offshorea 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

- 01 Net - http://www.01net.it
- 24 ore - http://www.ilsole24ore.com
- Business in time - http://www.businessintime.it
- Computer Business - http://www.cbritaly.it
- Computerworld - http://www.cwi.it
- Data manager - http://www.datamanager.it
- IT news – http://www.itnews.it
- LineaEdp - http://www.lineaedp.it

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 Italy are:

- Infosecurity Italia - http://www.infosecurity.it - The most important ICT storage and security show. It takes place every year in February in Milan.
- SMAU - http://www.smau.it - International Exhibition of Information & Communications Technology. It takes place every year in Milan in October.

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

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