CBI MARKET SURVEY

THE SOFTWARE, IT SERVICES AND OUTSOURCING MARKET IN GERMANY

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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 Germany:

- The market for software, IT services and outsourcing in Germany has been growing and will keep on growing in the coming 2 years.
- The German software sector reached a value of over € 16 billion in 2005. IT services reached a value of almost € 27 billion.
- 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 and services.
- Application development is the service that is offshored most in Germany.
- At the moment the number of projects transferred from Germany to other countries is still limited. Experts forecast that in the near future this will happen much more.
- While most offshoring projects are not so big, German SMEs are much engaged and interested in offshoring (part of) their work.
- The most important offshoring locations are India and the more near shore Eastern European countries like Poland, the Czech Republic, Hungary and even Russia.
- The most important reasons to offshore for German companies are cost reduction and the need for skilled labour.

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, 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/services that are 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

With a joint market value of €43 billion, Germany is, together with the UK, the largest market for software and IT services. The market will also continue to grow the coming 2 years.

Software

The systems software market in Germany grows from €7.6 billion in 2003 to an expected € 9 billion in 2007. The market for application software grows from €7.2 billion to an expected € 8.6 billion in 2007. The total German software market is expected to grow 5.0% in 2006.

Market segmentation

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 2006 (see table 1.1)

Table 1.1 German software market in € million, 2003 – 2007

	2003	2004	2005	2006*	2007*
Systems software	7,629	7,934	8,251	8,664	9,097
Application software	7,245	7,463	7,836	8,228	8,639

* forecast
Source: EITO (2006)

IT services

The market for professional IT services is expected to rise from €17.9 billion in 2003 to € 21.9 billion in 2007. The market for support services has remained relatively stable at € 7.3 million in 2005 and is expected to remain stable at € 7.4 billion in 2007 (see table 1.2).

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 2006.

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

	2003	2004	2005	2006*	2007*
Professional services	17,914	18,438	19,527	20,706	21,931
Support services	7,134	7,205	7,313	7,387	7,460

* forecast
Source: EITO (2006)

Supply

As with imports statistics, it is hard to provide detailed production data on software and IT services. Only some rough indications can be given. In total, the German IT and telecommunications branch employed 749,000 people in 2005. Within this branch the software and IT services sector employed 372,000 people in 2005. Compared to 2004 this was an increase of 2.2%. 2005 was also the first year that after the decline in 2002 and 2003 and the stable market in 2004 that the number of employees in this sector increased. Within the whole German IT and telecommunications sector, the Software and IT services sector is the only sector that has grown 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 dominated by large, multiservice suppliers. At the same time, it offers potential for smaller companies with highly specialized products. The top 25 suppliers hold approximately 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 United States (primarily through their subsidiaries in Germany.) As in other IT sectors, the German software industry is characterized by mergers and acquisitions. The large software companies try to get medium sized companies as customers through the acquisition of medium-sized software companies such as SAP acquiring DCW/Mannheim/Germany, and Microsoft acquiring Navision and Great Plains. Websites follow below.

The German federal state Badem-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 en 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 a top 10 of German software companies.

Table 1.3 Software providers on the German market

Company	Internet
CA Computer Assoc	http://www.ca.com/de/
Ixos Software	http://www.ixos.com/local/de
Mensch u. Maschine Soft	http://www.mum.de/mum/default.asp
Microsoft	http://www.microsoft.com/germany/default.aspx
Nemetschek AG	http://www.nemetschek.de/
Oracle	http://www.oracle.com/global/de/index.html
Sap	http://www.sap.com/germany/index.aspx
SAS Institute	http://www.sas.com/offices/europe/germany/index.html
SER Systeme AG	http://www.ser.de/ww/de/pub/home.cfm
Software AG	http://www.softwareag.com

Source: internet sources (2006)

For more companies in the German software market, also have a look at the website of Verband der Softwareindustrie Deutschlands e.V. (VSI) and Spitzenverband der deutschen softwareindustrie. Here a member list can be found with numerous German companies in the software market (see paragraph 1.5).

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. Table 1.4 gives a top 5 of German IT service companies.

Table 1.4 IT service providers on the German market

Company	Internet
Accenture	http://www.accenture.de
CAP Gemini	http://www.capgemini.de
CSC Ploenzke	http://de.country.csc.com/de/
Gedas	http://www.gedas.net/
PwC	http://www.pwcglobal.com/de

Source: internet sources (2006)

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

Trends

- Supply Chain Management (SCM)-software is a growing market in Germany. Although it is already established in the larger companies, there is still a lot to do in SME companies.
- Outsourcing is the main engine of the German IT services market.

Opportunities and threats

- The public sector, banking and insurance sector and medical sector invest highly in software. However, these areas are difficult to penetrate by 'new to the market' companies like DC exporters.
- Severe competition in the German market for IT services is underway. This could open up the market for DC exporters.
- Germany imports most of its software (mainly from US).
- Many subsidiaries of US companies are active in the German software market.

Useful sources

- Association of the German software industry (VSI) - http://www.vsi.de
- BITKOM German association for information science, telecommunication and new media, Berlin - http://www.bitkom.org
- Country Commercial Guide Germany (CCG) - http://www.buyusa.gov/germany/en/ccg.html
- EDV-Berater e.V. (IT services Association) - http://www.vdeb.de
- European Information Technology Observatory (EITO) - http://www.eito.com

- Spitzenverband der Deutschen softwareindustrie - http://www.svds.de
  largest European alliance of software organizations

2. Offshore outsourcing

Much of the information that will be used in this chapter is gained from a research performed by BITKOM and Deutsche Bank in 2005. This research was performed among 572 companies who are active in the offshoring business. 267 of these were providers of offshoring services and 305 were buyers of offshoring services. Over two thirds of the companies that have answered the interview questions are SME companies (fewer than 250 employees). Information was also gathered through personal interviews at the CEBIT trade fair in Hannover in both 2005 and 2006. While the survey was focused on Germany, some companies from Switzerland, Austria, Bulgaria, the Czech Republic, Lithuania, Philippines, Poland, China, Romania and Russia participated in the research, because of their own business in Germany or contacts in Germany. In this chapter the most important points from this research and the CEBIT fair will be discussed

The market

As stated in the previous chapter, outsourcing is the main growth engine of the German ICT market. This interest for outsourcing is driven by an increasing search for cost reduction and flexibility. As in the other major European countries, outsourcing represents an optimal method to produce and offer better services and products with fewer resources. 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 2006.

Global sourcing

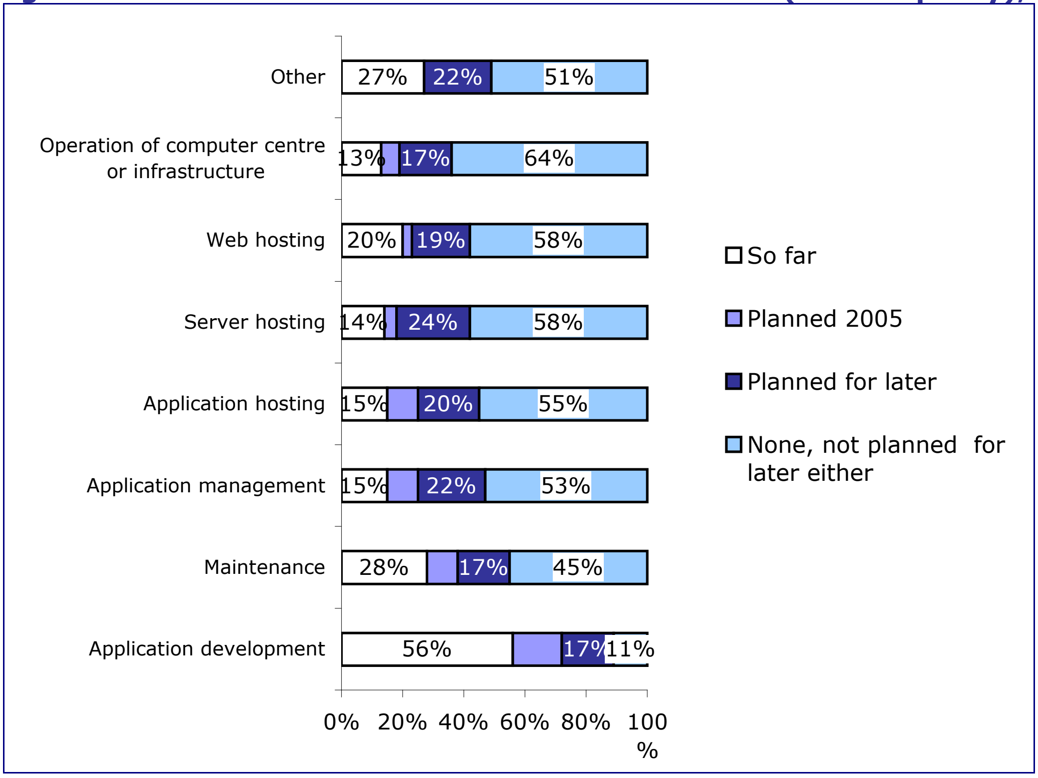
Although relatively few projects and processes are being transferred from Germany to other countries at present, experts forecast offshoring revenues are set to jump in the future. While over 50% of the companies indicate that global outsourcing is important to very important and even crucial for them, there is also more than 40% of the companies that still say global outsourcing is of little or no importance to them. It could therefore be said that German companies are slowly learning to appreciate the benefits of global sourcing.

When being asked about the expected growth of offshoring revenues within the next 5 years, both suppliers of offshoring services and German companies that want to offshore part of their business expect significant growth of their offshoring revenues. Almost 50% of the suppliers expect to have a growth in revenues of more than 20%, while also the majority of the buyers expects to have a growth between 5% and 20% .

What is offshored

Figure 2.1 shows that application development is the service that is already offshored the most, followed by maintenance. The main services that were planned for outsourcing for 2005 were application development, web hosting and maintenance. Many respondents plan application management for later. Operation of computer centre or infrastructure is the service that is planned the least.

Figure 2.1 German IT businesses that are offshored (at least partly), 2005



Source: Derived from BITKOM/Deutsche Bank (2005)

Companies that offshore

Almost three quarters of the companies engaged in outsourcing consists of SME companies. Also more than half of the providers of offshore outsourcing consists of small and medium sized companies (SMEs). This shows that offshore outsourcing really is an item for SMEs in the German market. Most of these smaller companies also specialise in only one or a few projects. According to BITKOM/Deutsche Bank research, the observation "the smaller the company, the smaller the number of projects handled" can be made. Over 40% of the supplier respondents had revenues of less than € 0.5 million from offshoring products that were granted to them. Revenues customers make are also modest. The majority of the SMEs handles between one and four projects per year. Only the very large companies handle more than 20 projects per year.

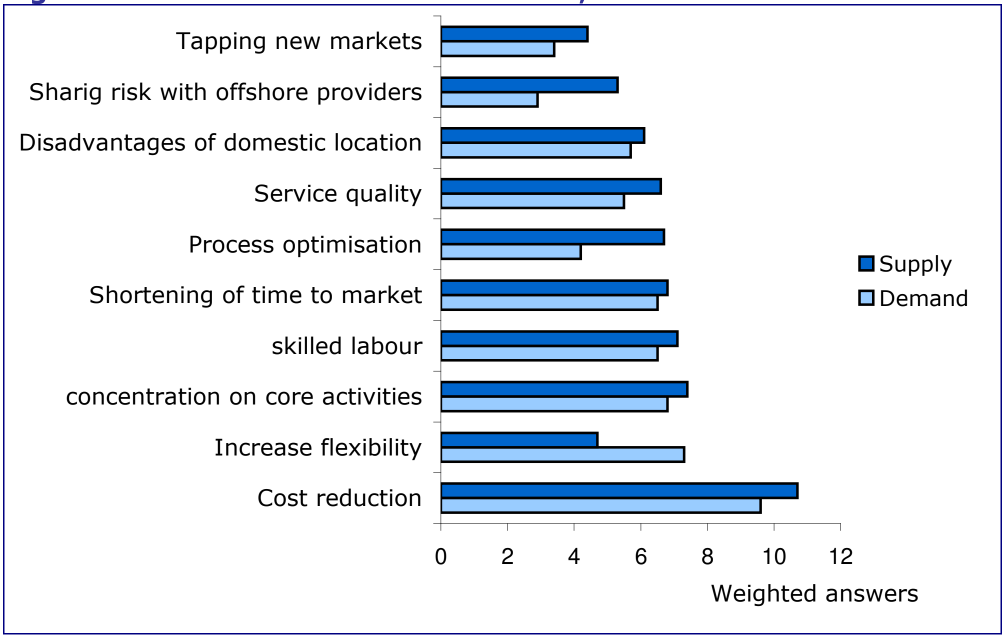
Although offshoring projects are not that big yet, supply and demand agree that the value of the projects will increase significantly. Almost 79% of the companies that offshore part of their services expect the value share of services performed offshore to be much higher in 5 years.

Reasons to offshore

According to the suppliers the most important reason to offshore activities is cost reduction (also see figure 2.2). They estimate that their clients realised at least a 10% reduction by outsourcing activities. While the demand side agrees that cost reduction is the most important factor for offshore outsourcing, most of them estimate their savings due to offshoring to be lower than 10%. Other important motives are "increasing flexibility" and "concentrating on core business". Curiously the "tapping of new markets" is ranked as least important. Companies looking for offshoring possibilities also look for skilled labour.

The suppliers of offshoring possibilities agree that skilled labour is indeed what most of their German customers look for. The suppliers also mention the availability of a contact in Germany as being very important. Both the suppliers of outsourcing possibilities and their customers agree that establishing a sound partnership is very important.

Figure 2.2 German motives to offshore, 2005



Source: Derived from BITKOM/ Deutsche Bank (2005)

Savings through offshoring

While cost reduction was the major incentive to offshore in the previous figure, still many respondents who have offshored their work at least partly indicate that they are not able to give an estimate of how much they saved. In addition, there is still 6% that indicate they have had added expenses. Please also refer to table 2.1.

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%

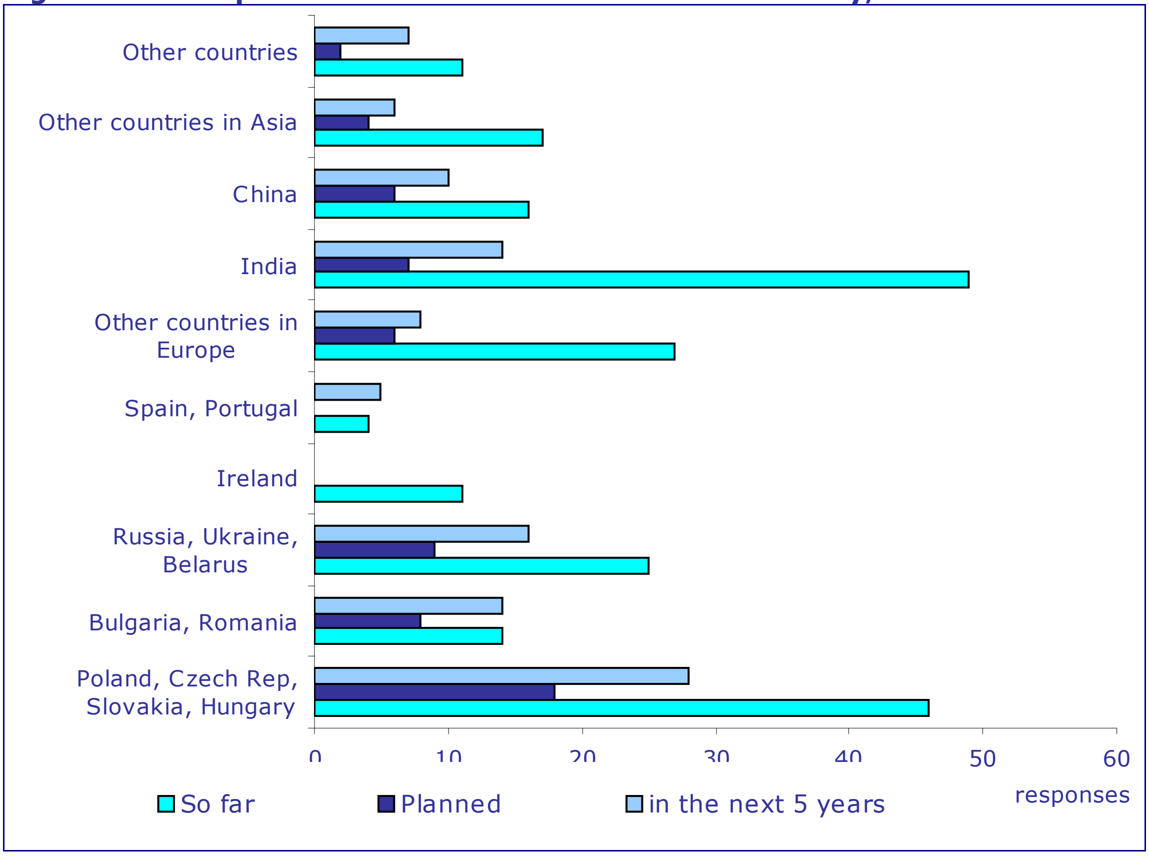
Source: Derived from BITKOM/ Deutsche Bank (2005)

Offshore destinations

The most important offshore country for Germany is India. This can also be seen in figure 2.3. Indian firms are buying smaller companies in Germany in order to create a "language interface" as well as to use them as 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 busy closing the gap. Eastern European 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. Nearshore destinations are bound to become more and more important for German offshore business as the language problem disappears when offshoring to these countries: most of the employees in these countries also speak German.

Figure 2.3 Important offshore destinations for Germany, 2005



Source: Derived from BITKOM/Deutsche Bank (2005)

Opportunities and threats

- Nearshore offshoring offers chances for the German market, especially for DC exporters from Eastern European countries such as Bosnia.
- Offshoring projects are expected to grow in the coming years.
- Many German companies still state that global sourcing is of little importance.
- Problems can occur due to culture or mentality, which is very different in Germany than is most developing countries.
- India and Eastern Europe are already important offshore destinations.
- Only few developing countries are active in the German outsourcing market.
- IT directors think there is a shortage in IT skills in Germany, which is an opportunity for DC exporters.

Useful sources

- CeBIT Trade Fair - http://www.cebit.de
- EUROITX - http://www.euroitx.com/content/focus_2004.php
- German association for information science, telecommunication and new media (BITKOM), Berlin - http://www.bitkom.org

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.

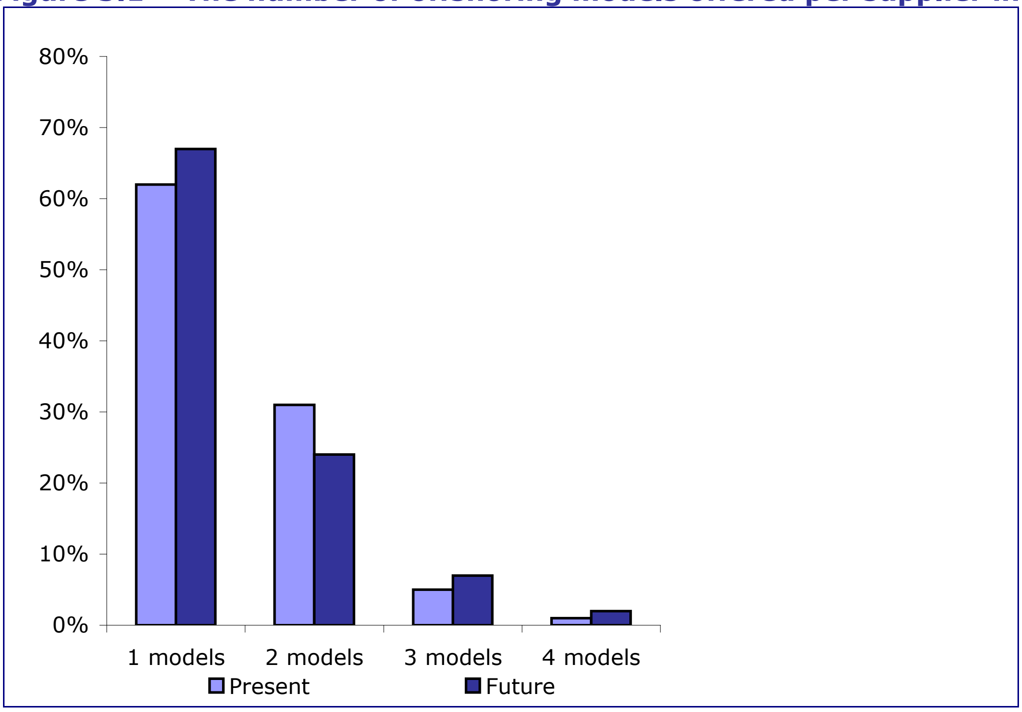
The most important channels for IT services are:
1. Establishing your own sales office.
2. Consultant/broker.
3. Partnerships with large service providers (system integrators) in Germany.
4. Contacting end-user organisations directly.
5. Contacting local offices of multinationals in the home country of the services provider.

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 Germany
- The German market is decentralized and diverse with interests and tastes 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.

Trends
As can be seen in figure 3.1, the majority of companies that provide offshoring offers only one model. For the future this remains the same although using 3 or 4 models is also increasing in popularity. There are several models that are used in offshoring. According to the suppliers of IT outsourcing services, captive offshoring (establishing a subsidiary abroad) is currently the most important one, after that multisourcing (the practice of using many outsourcers at once, being able to build specialization 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 then become the most important model and captive offshoring and preferred supplier will be of equal importance then. Chapter 6 of the CBI market survey "The software, IT services and outsourcing market in the EU" gives more information about offshoring models.

Figure 3.1 The number of offshoring models offered per supplier in Germany, 2005



Source: Derived from BITKOM/Deutsche Bank (2005)

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 want a share of the German outsourcing cake. This implies that 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.

Furthermore, 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, also giving ranges of costs for software and implementations

Offshoring in the German-speaking world 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 €90,525. When benefits and bonuses are added to this salary, the average total compensation for this position would be €93,607.

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 useful sources, also refer to section 6 or 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 subject 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 Germany, you should be aware of the market access requirements of your trading partners and the German 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.

A few specific German facts

- Security and data integrity become more important when these are handled offshore. German law, for example, requires companies to disclose the true identity of any third parties that access personal information – making offshoring very difficult.
- Labour unions put pressure on the German government to take protective action. Exporters from developing countries could be hit hard if protective measures were be taken. Exhibitors of offshore outsourcing on Cebit confirm these developments in the market.

For more information 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

As stated in chapter 2 German companies that want to offshore (part of) their business feel that access to skilled labour is the most important factor when selecting an offshore partner. Second and third come the "knowledge of English" and "wage costs at offshore partner". These factors are most important for German clients to choose a suitable trade partner. Therefore these are also the factors a future supplier to a German customer has to comply with. Also refer to figure 6.1.

Figure 6.1 Factors in choosing an offshore partner in Germany, 2005

Source: Derived from BITKOM/Deutsche Bank (2005)

There are many ways to find potential business partners in the Germany. We focus here on the internet and sources in your own country.

Internet

Some examples of available sources, beside the ones mentioned in chapter 1:

- Eastern Michigan University's ICT website - http://www.emich.edu/ict_usa/
  All kinds of trade partners available for several sectors.
- European Centre for Offshore Development (Ecode) – http://www.ecode.org.uk
  Hit "find a supplier".
- EuroITX – http://euroitx.com
- Europages – http://www.europages.com
- Kellysearch - http://www.kellysearch.com/
- Kompass – http://www.kompass.com (mostly fee based, but the free part is very useful too)
- Thomas Global Register Europe - http://www.trem.biz/
- Wer Liefert was - http://www.wlw.de

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

Your own (DC) country

- Public and private trade promotion bodies
- Diplomatic and consular representatives
- The German chamber of commerce in your country. Find it at http://www.worldchambers.com.
- The German Embassy in your country. Find it at http://www.embassyworld.com.
- Trade associations for individual product groups

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

Reaching an agreement with your trade partner

When dealing with a German trade partner it is also important to know what problems they face in offshoring. In Germany problems between outsourcing partners are often caused by frequent changes in the demand profile. The risk of a brain drain is also a cause of concern for companies looking for outsourcing possibilities. This means that companies are afraid of disclosing their valuable knowledge to other companies who can use it against them.

The factor that causes the most problems for companies from Germany that want to outsource part of their business is the culture and mentality of the offshoring partner which is often very different from the German culture and mentality. Another point that sometimes poses problems is the compliance with quality, deadline & budget requirements. Also data protection, differences in legal systems and bureaucratic obstacles are very important. The language problem also comes up here. Germans prefer communicating in their own language, which sometimes makes things more difficult. In addition, the knowledge of the sector in the offshore company is sometimes inadequate. 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 German company it is also very important to take the German culture on business and social occasions into account. Important cultural tips are the following:

- Germans do not need a personal relationship to do business. They do not like small talk before doing business.
- Germans are very interested in academic credentials and will want to know how long a company has been in business.
- Germans are direct in their communication. This can be associated with bluntness, but is not meant that way.
- Written communication is important in Germany, both to confirm decisions that have been made, but also to record decisions and discussions.

- Appointments are mandatory. It is very rude to cancel an appointment at the last minute.
- Meetings are formal in Germany. They adhere to strict agendas.
- It is important to maintain direct eye contact while speaking.
- Germany is heavily regulated and very bureaucratic.
- Contracts are followed very strictly.
- Decision makers are the top of the company.
- Once a decision has been made it will not be changed.
- Business dress is conservative with dark coloured suits for men and business suits or conservative dresses for women.

For more information on German 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:
- Computer Reseller News - http://www.crn-online.de
- InformationWeek Germany - http://www.informationweek.de
- IT bank and insurance - http://www.bauve.de

Trade fairs
Participation in a trade fair is also a good way to promote a product or service. In Germany, there are several large trade fairs in the field of software and IT services.
- CeBIT - http://www.cebit.de
  The CeBIT is the largest IT exhibition in the world. It takes place every year (February/March) at the Hannover fair ground. It has one hall that is especially dedicated to IT outsourcing and BPO
- European Banking & Insurance Fair (EBIF), Frankfurt - http://www.ebif.com
- Systems - http://www.systems.de
  This popular fair is the second largest IT exhibition in Germany, and not as crowded as the CeBIT. It takes place in Munich every October..

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

This survey was compiled for CBI by Facts Figures Future.