CBI MARKET SURVEY

THE SOFTWARE, IT SERVICES AND OUTSOURCING MARKET IN SWEDEN

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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 Sweden:

- The Swedish software market amounted to €2.6 billion in 2005. The IT services market amounted to €5 billion in 2005.
- Sweden is one of the medium sized markets in the EU together with Spain and Belgium.
- Sweden has skilled domestic software companies.
- The ICT sector is one of Sweden's largest industry sectors.
- The Swedish industry is also highly internationalised and open to outsourcing to low wage countries.
- Outsourcing is becoming more and more common. SME companies start following their big brothers' example.
- India and Estonia are the most important offshoring destinations for Sweden.

This survey provides exporters of software and IT services market information related to gaining access to Sweden. By focusing on a specific country, this survey provides additional information, complementary to the more general information and data provided in the CBI market survey 'The software, IT services and outsourcing market in the EU', which covers the EU in general. That survey also contains an overview and explanation of the selected products dealt with, some general remarks on the statistics used as well as information on other available documents for this sector. It can be downloaded from http://www.cbi.nl/marketinfo.

There is a clear relationship between chapter 1 and 2. Chapter 1 discusses information on the end market for software and IT services in the country. The structure and growth of this end market determine the opportunities for offshore outsourcing, which is the topic of chapter 2.

1. Market description: demand and supply

Demand

The Swedish software and IT services market is a medium sized market in the EU, comparable with Spain and Belgium.

Software

The Swedish software market is sophisticated with skilled domestic software development companies. Sales were at €2.6 billion in 2005 (table 1.1) and are expected to see a growth of around 8% in the next year.

Market segmentation

The Swedish software market consists of global software development companies and small, innovative niche-oriented companies. There are around 900 software companies in Sweden, ranging from very small to very large, many of which specialize in systems software for communications, business systems (tax and accounting packages with local applications), and application software for telecommunications. Security software is also a dominant segment among Swedish software developers.

Over the past decade, the ICT sector has grown to become one of Sweden's major industries. In the private sector, almost 20 percent of the workforce was engaged in ICT services and electronics in 2005.

Table 1.1 Sweden Software market in € million, 2003 – 2007

	2003	2004	2005	2006*	2007*
Systems software	1,141	1,208	1,306	1,414	1,523
Application software	1,282	1,313	1,369	1,422	1,482

* forecast
Source: EITO (2006)

Growth drivers
Sweden has a high number of multinational companies, the highest per capita in the world, which rely on state-of-the-art technology for their operations. These multinationals have a constant appetite for advanced services. The demanding needs of companies such as ABB, AstraZeneca, Atlas Copco, Electrolux, Saab, Sandvik, SKF and Volvo explain why Sweden has such a large number of domestic ICT services, software and telecommunications firms.

Segments
Systems software had the strongest growth in 2005 with an estimated growth of around 6% while application software grew slightly over 3%. It is forecast that growth will be at the same level next year, although application software will gain somewhat on the systems software segment.

Best products for the Swedish market at the moment are:
- Network security applications
- CRM products
- Business Intelligence Products
- Storage management applications

IT services
2005 was a year of clear growth in the Swedish IT services market, according to table 1.2. There was a shift in demand from more cost oriented approaches like outsourcing to more forward looking projects like planning for new systems and updating systems already installed.

Growth drivers
Outsourcing slowed down and there were few truly major deals in 2005. However, the current good market conditions for project services are expected to continue throughout 2006. This could lead to a situation where lack of resources will be a problem in some areas. This gives new impulses for the offshoring of IT services.

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

	2003	2004	2005	2006*	2007*
Professional services	3,448	3,539	3,678	3,872	4,067
Support services	1,308	1,339	1,396	1,457	1,523

* forecast
Source: EITO (2006)

Supply
Domestic production is primarily dominated by the software industry. Software is still one of the nation's most successful growing industry segments. Sweden excels in fields such as wireless communications, microelectronics, telematics and photonics. There are approximately 500 software companies in the Swedish SCS sector. Among these companies are suppliers of large business systems like Intentia, IFS and IBS. Exports account for half of all sales. Import mainly comes from Germany, the US and the UK. For DC exporters, suppliers of software and IT services can be potential clients, for example by means of outsourcing.

Hogia is the leading supplier of small to medium sized systems. Swedish companies are well reputed and leading in some niche markets like the entertainment industry, aerospace industry software support, production of critical software and IT security software with biometrics. They also have good positions in segments like software for wireless applications, intelligent home communications, applications for the health sector, the process control, automotive (i.e.

telematics) and forestry sectors. The Swedish industry has only a small domestic market, which underlines the importance of adopting the newest technologies in order to be internationally competitive. Table 1.3 provides a list of the major software companies in Sweden and table 1.4 contains an overview of some main IT services companies.

Table 1.3 Major Swedish software companies

Company	Main services	Internet
Ericsson	Mobile solutions, networks	http://www.ericsson.com/
IBS	Business systems	http://www.ibs.se/
IFS	Business systems	http://www.ifsworld.com/
Intentia	Business systems	http://www.intentia.se
OM	Financial systems solutions	http://www.omxgroup.se
Industri-Matematik	Distribution-intensive operations, supply-chain solutions	http://www.im.se/
ProAct IT Group	Consultant, systems integrator	http://www.proact.se/
TAC Holding	Software for process control	http://www2.tac.com/se
Technology Nexus	Storage, recovery, security, networks.	http://www.nexus.se/
Telelogic	Solutions software development	http://www.telelogic.com/
TietoEnator	Overall supplier	http://www.tietoenator.se/

Source: Internet sources (2006)

Table 1.4 Major Swedish IT services companies

Company	Services	Internet
Cap Gemini Ernst & Young	Leading management consultants	http://www.se.capgemini.com
Cell Networks	IT Solutions	http://www.cellnetwork.se/
IBM	Overal supplier	http://www.ibm.com/se/
Icon Medialab	IT Consultants. Support. Security. Data Storage. Server Solutions	http://www.lbicon.com/contact/locations.asp
Sigma	IT Consultants E-Commerce. E-Learning. Information Design	http://www.sigma.se/
Teleca	Consultants providing IT Services	http://www.teleca.se/
TietoEnator	Major IT consultants	http://www.tietoenator.se/
WM-data	Leading Nordic provider of design and IT-related Services	http://www.wmdata.se/

Source: Internet sources (2006)

The combination of wireless system producers, application developers and service providers, together with sophisticated users has created several internationally competitive ICT competence clusters in Sweden. Major centres include Mobile Valley, Telematics Valley, InternetBay and Öresund IT.

Sweden has 6 major ICT sectors which specialize in a wide variety of technologies. The largest technology clusters are Mobile Valley and Human Technology. These include the cities of Stockholm and Malmo and are known for their extensive research and development of a wide variety of technologies. Stockholm is the main centre for ICT activities and ICT companies of all sizes. The large amount of funding provided mainly by the government has helped establish Sweden's unusually numerous technology clusters throughout the country.

Trends

- The Swedish high tech market will need more and more IT in the future
- The software industry will continue to grow.

Opportunities and threats

- The ICT sector is one of the largest sectors in Sweden.
- IT services sector is focussing more on the future replacement of systems.
- Sweden mainly produces software.

Useful sources

- IT-Företagen - http://www.itforetagen.se/
- ITSweden - http://www.itsweden.se
  Information on the Swedish ICT sector
- Swedish Association of Software Industry - http://www.swedishsoftware.org/
- Swedish Association for Software Testing SAST - http://www.sast.se

2. Offshore outsourcing

The market

The top companies in Swedish IT outsourcing are IBM, WM-data, and EDS. There is room for growth, as the top 10 cover only about 60 percent of the market, compared to 89 percent in neighbouring country Finland. However, the developments in the offshore market force these local providers to review total offerings and conditions. For example, companies such as HP, IBM and Accenture have already added an offshore component to their outsourcing bid to be able to offer competitive prices.

Offshoring

The market for offshore outsourcing in Sweden offers good opportunities. As in other EU member states, companies are looking for possibilities to reduce costs. According to market research company IDC, the Swedish IT outsourcing services market will grow at an average rate of 11% per year from 2002 up to and including 2007. Especially the demand from companies with more than 5,000 employees and from county councils is expected to increase. The expected increase for the whole Nordic region is even higher, about 17% in that period.

This expected growth is caused by several factors. First, the Swedish economy has also suffered from an economic slowdown and has now taken a turn for the better. Second, outsourcing has become more and more common and accepted by small and medium-sized organizations. Finally, large Swedish companies need to cut costs. Another trend, as smaller companies follow, is a new service called 'out-tasking'. This means that small companies buy various services, e.g. financial systems per use and storage per megabyte. Some services will be charged on a monthly basis.

The Swedish industry is also highly internationalised. Many Swedish businesses are faced with fierce competition and want to improve their competitive position. Swedish decision-makers are more open to use suppliers in low-cost countries than are their Scandinavian counterparts.. Offshoring is one of the possibilities to do so. Like IDC, the Swedish institute for growth policy studies (ITPS) thinks that the trend to offshore that has started in Sweden will not slow down, but pick up even more.

When looking at the number of IT jobs offshored in Sweden, it can be seen that Sweden is a long way behind countries like the UK, Germany and France, but right behind The Netherlands and ahead of Belgium and Spain.

Reasons for offshoring

A Swedish researcher (Dunning) states in the ITPS report 'offshoring IT services; a Swedish perspective' that there are three drivers/motives for offshoring in Sweden:

- Cost reduction
- Access to new markets
- Access to competences not available in Sweden.

From interviews performed by ITPS it becomes clear that for Swedish companies cost cutting is still the most important reason to offshore. However, the respondents also state that all aspects have to be looked at, otherwise the gains made in cost cutting will be lost to other irregularities in the process.

Access to new markets is not mentioned as an important reason to outsource. Furthermore, most competences are available in Sweden, but are far too expensive. Here again it is not so much a question of lacking capabilities but more of a price that is too high.

An important driver for offshoring that was often mentioned in the ITPS report was that speed and time to market have increased rapidly over the past 10 years. In addition, Sweden has faced a sharp decrease in IT students in recent years. Although the government tries to stimulate teenagers to go study IT, this development can also be a driver to offshore.

What is outsourced

Traditionally, custom application development services have been the most outsourced area in Sweden. At the moment, the offshore market is expanding and offers a wider range of IT services, including business services.

Offshore destinations

For Sweden, India and Estonia are two countries that are commonly mentioned. The respondents to the interviews held by ITPS also mentioned the Baltic states and Russia. New offshore destinations that have emerged are Poland and China. Long standing relationships have been developed with the UK, Ireland and the US.

Opportunities and threats

- Swedish companies are looking for cost reduction in low wage countries.
- Offshoring is still on the increase.
- A shortage of IT-professionals threatens the Swedish IT-market.
- India and Estonia are the most important offshoring destinations.

Useful sources

- EUROITX - http://www.euroitx.com/
  Look at the section "outsourcing" for more information
- Swedish institute for growth policy studies (ITPS) – http://www.itps.se
  Have a look at the report 'offshoring IT services; a Swedish perspective'.

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 Swedish market.

1. Establishing your own sales office.
2. Consultant/broker.
3. Direct contact with Swedish software manufacturer.
4. Swedish 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 Europe.
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 Sweden

- Swedish commercial agents and/or sole distributors are organized under the Swedish Association of Agents (Agenturforetagen) http://www.agenturforetagen.se
- The Swedish Companies Registration Office is the authority that registers corporate information when establishing a business in Sweden. Information on various business forms and regulations for establishing a business in Sweden is found on the website. http://www.bolagsverket.se
- Swedish firms do not change suppliers readily and many commercial relationships have been built up and maintained over decades.

Useful sources

- Country commercial guide Sweden - http://www.buyusa.gov/sweden/en/ccg.htm
- 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, also giving ranges of costs for software and implementations.

According to Salary Expert (http://www.salaryexpert.com), a software engineer in Sweden earns an average annual salary of €66,871. When benefits and bonuses are added to this salary, the average total compensation for this position would be €69,263.

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 and visit trade fairs. For more information please refer to the CBI market survey "The software, IT services and outsourcing market in the EU".

5. Market access requirements

Since software and IT services outsourcing are in the field of services, they are not submitted to import duties and/or quota. However, there are non-tariff barriers that DC service providers are facing when they wish to enter the EU market. As an exporter from a developing country preparing to access Sweden, you should be aware of the market access requirements of your trading partners and the Swedish government. Requirements are demanded through legislation, codes and management systems. These requirements are based on environmental, consumer health and safety and social concerns.

Legislative requirements

National legislation in EU countries is compulsory for all products traded within the country concerned. Therefore, as an exporter from a developing country you have to comply with the legislative requirements that are applicable to your products. For information on legislation for software and IT services go to 'Search CBI database' at http://www.cbi.nl/marketinfo, select your market sector, and the EU country of your interest in the category search, click on the search button and click on legislative requirements for an overview of all documents on legislation in your country of interest.

Non-legislative requirements

Social, environmental and quality related market requirements are of growing importance in international trade and are often requested by European buyers through labels, codes of conduct and management systems. For information on non-legislative requirements applicable to software and IT services, go to 'Search CBI database' at http://www.cbi.nl/marketinfo select your market sector and the EU country of your interest in the category search, click on the search button and click on your subject of interest under non-legislative requirements for an overview of all documents on the subject concerned in your country of interest.

For more information about market access requirements please refer to the CBI market survey "The software, IT services and outsourcing market in the EU".

6. Business practices

Selecting a suitable trading partner

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

Internet

Some examples of available sources, next to 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.
- Europages – http://www.europages.com
- IT Foretagen - http://www.itforetagen.se
  Hit "medlemsforetag"
- IT Sweden - http://www.itsweden.com
  Hit "company directory".
- Kompass – http://www.kompass.com (mostly fee based, but the free part is very useful too)
- Kellysearch - http://www.kellysearch.com
- Thomas Global Register Europe - http://www.trem.biz

For more details about how to search the first 4 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 Swedish chamber of commerce in your country. Find it at http://www.worldchambers.com.
- The Swedish Embassy in your country. Find it at http://www.embassyworld.com.
- Trade associations for individual product groups, refer to chapter 1.

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

Reaching an agreement with your trade partner

From the customer's point of view the differences in mentality and culture make it particularly difficult to implement offshoring projects. However, satisfying quality requirements, meeting deadlines, adhering to budgets, overcoming language barriers and knowledge of the sector are also relevant factors from the customer's standpoint. These are the most important challenges 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 Swedish company it is also very important to the Swedish culture on business and social occasions into account. Important cultural tips when dealing with a Swedish company:

- Swedish businesses are far from hierarchic.
- Swedes like to establish personal relationships. However, they keep business and private life separated.

- Expect to call a person by his/her first name.
- Swedes are open and direct in their communication.
- Planning an appointment is necessary.
- Punctuality is very important.
- Swedes respect people who come to them with knowledge and experience. They are very detail-oriented.
- Decisions are never taken during a first meeting. Several meetings will be necessary to work out all details and answer all questions.
- Do not show emotions during a meeting. Swedes see consensus as the only way to make a decision.
- Swedes are sensitive about wasting valuable business time. They do not like meetings without a clear objective and a reasonable likelihood of return on the investment of their time.
- Visits are important because Swedes often rely on business honesty and "handshake" deals and therefore need to be assured of the trustworthiness of the people they are dealing with.
- Swedes are known for their consensus decision-making, not unlike the Japanese, and prefer to stick to carefully considered plans, rather than make "on-the-fly" changes.

For information on negotiating and coming to terms with your trade partner please refer to the CBI market survey "The software, IT services and outsourcing market in the EU".

Sales promotion
Software and IT services can be promoted through several sources. In this paragraph, trade press and trade fairs are discussed.

Trade press
The following list consists of trade press specifically for this sector:
- Computer Sweden (of IDG) - http://www.computersweden.se
- NyTeknik - http://www.nyteknik.se/
  The largest technical weekly magazine in Sweden

Trade fairs
Participation in a trade fair is also a good way to promote a product or service. In Sweden there are several large trade fairs in the field of software and IT services.
- Comdex - http://www.comdex.se
- Dokument INFO 2006 - http://www.dokumentinfo.se
- Digital Office - http://www.exponova.se
- Digital World, November 18-20, 2006 - http://www.exponova.se
- Stockholm ICT Show - http://www.swedenictweek.com

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