

CBI MARKET SURVEY

**THE SOFTWARE, IT SERVICES
AND OUTSOURCING MARKET IN
THE EU**

Publication date: August 2006

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This survey was compiled for CBI by Facts Figures Future in collaboration with Mr. Laszlo Klucs.

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REPORT SUMMARY

Importance for developing countries

IT services and outsourcing market is a good opportunity for developing countries if they wish to participate in global software. This participation is also advantageous for EU companies. They can fulfil their continuing desire to improve quality and reduce costs by profiting from the lower costs and high-quality skills in developing countries.

Objective

The purpose of this survey is to assist small and medium-sized exporters of software related services and IT services from developing countries interested in entering or strengthening a position in European markets. This document is a reference tool. The service provider will need to do his own research to determine if Europe is the suitable market and which country is (countries are) the most promising. Do not assume that what works in the United Kingdom will apply to Germany or France. Although there are many similarities, each country must be treated differently.

Services and countries covered

The definition for software, IT services and outsourcing that is used in this survey is the one used by the European Information Technology Observatory (EITO). Software products consist of systems software and application software. IT services include professional and support services. The most promising segment for developing countries is still outsourcing/offshoring. Therefore outsourcing/offshoring is a major part of this survey. IT outsourcing involves an "annuity -based contract that includes at least one management service and one or more of the other IT services (professional and products support), except for business process transaction management. Besides this survey for software, IT services and outsourcing CBI has also published surveys that give information on a specific EU country. The surveys have been made for Belgium, Denmark, France, Germany, Spain, Sweden, The Netherlands and the United Kingdom.

Industrial demand for software products

The total market for software products in the EU amounted to € 67 billion in 2005, increasing 9.8% compared to 2003. The market is expected to reach a solid growth of 5.8% in 2006. This market consists of systems software (€ 35.5 billion in 2005) and application software (€ 31.5 billion in 2005). Germany was the largest market for software products in 2005. It was followed by the UK, France, the Netherlands, Italy, Sweden, Spain and Belgium.

Industrial demand for IT services

The total market for IT services in the EU was worth € 124.1 billion in 2005. This was a growth of 8% compared to 2003. Growth in IT services is anticipated to reach € 130.4 billion (plus 5%) in 2006. The UK was the largest market for IT services in 2005. It was followed by Germany, France, Italy, the Netherlands, Sweden, Spain and Belgium.

Outsourcing

European-based companies will fuel the growth in offshore outsourcing with a 50% year on year rise in spending in 2006 and 2007. European spending will achieve an average growth of 6% over 5 years and European companies will spend a total of € 146 billion in 2011. IT jobs will move offshore most rapidly from the UK with continental countries matching that trend at a lower level of impact. Across the whole of Europe, Forrester Research expects that almost 150,000 pure IT jobs will move offshore by 2015. Driving factors for offshoring are still cost cutting, access to labour and skills and improving quality. The most important services that were outsourced were user support, desktop support and maintenance and IT strategy. Application support will become more and more important in the future.

Outsourcing trends

- Data recovery and disaster recovery will be the most important focal points

- Security certified offshore providers with good security systems and multi-location footprints will be more popular than the ones without.
- Integrated IT outsourcing (ITO) and Business Process Outsourcing (BPO) deals will have mixed success.
- Nearshoring is gaining in popularity.
- Discrete outsourcing and mega-deals will emerge.
- There will be bigger acceptance of global sourcing for services
- Especially product incubation and development, infrastructure management and the implementation of core business applications will be increasingly performed offshore.
- More complex and customer-facing operations will be off shored now that offshoring becomes more mainstream.
- Growth and efficiency will become more important than cost savings.

Offshore locations

India remains the best offshore location by a wide margin, although wage inflation and the emergence of lower-cost countries decreased its overall lead. However, more and more European countries look at nearshore destinations for offshoring tasks.

Supply side

A consolidation can be seen in the European market for software and IT services supply. Open source software is gaining in importance. Several governments have promoted the use of open source software. Furthermore near- and offshoring is gaining in importance.

Access requirements / quality

Trust and competence are very important in the market. Internationally recognised quality standards could be to the advantage of developing country exporters. The most important certifications are ISO 9000 and the Capability Maturity Model (CMM). Services are not subject to import duties. In the software and IT services industry, the following general rule applies: VAT is paid in the country where the service is actually performed. This means that service providers from developing countries have a competitive advantage compared to service providers in the EU when providing their services to for example financial companies.

Trade structure developing country exporters

In practice, there are two most common sales channels for developing country service providers. First, establishing a sales office in a EU member country could be a very good option to overcome the lack of trust and credibility amongst EU companies. Working with brokers/consultants is another good possibility. An example of a broker is the European Information Technology exchange. It focuses on suppliers from developing countries and buyers from Europe. EuroITX (<http://www.euroitx.com/>) is supported by CBI.

Practice

The most important tools for developing country exporters to promote outsourcing services are:

- Focus on one area (especially for beginners) and specialize in this in order to be able to supply the client with an outstanding service.
- Focus marketing on core sectors and niches and look to visit specific outsourcing events and seminars rather than big events.
- Always explore cooperation possibilities with other companies, trade and/or promotion organisations.
- Going online is fundamental for companies in the IT sector. A website proposing well-defined services, clear prices, competitive advantages (e.g. USP, cost reduction and service quality) and a client reference list helps create a trustworthy environment.
- Service providers could establish strong linkages with overseas diaspora networks, universities, private sector leaders and foreign trade authorities. A foreign national within the client company in the EU could very well favour outsourcing.

1 INTRODUCTION TO CBI'S MARKET INFORMATION

CBI provides a wide range of documents containing EU market information. All CBI market information is targeted at developing countries. For the definition of developing countries used in CBI market surveys see appendix A Lists of developing countries.

Sector specific market information

CBI publishes market information for about 36 market sectors.

For each market sector, the following kind of information is available:

- CBI market surveys on the EU market in general, focusing on developments and trends in the field of market size (consumption, supply and trade), distribution and prices in the EU as well as on marketing. E.g. the software IT services and outsourcing market in the EU.
- CBI market surveys on specific EU markets, focusing on developments and trends in the field of market size, distribution and prices in the EU market concerned. E.g. the software, IT services and outsourcing market in Spain. Those EU markets responsible for the highest share of total EU imports from CBI target countries are discussed in documents of about 10 pages. Less relevant EU markets are discussed in fact sheets of about 2 to 3 pages.
- CBI market surveys on a specific product (group) within the market sector concerned, focusing on developments and trends in the field of market size, distribution and prices in the EU and a number of specific EU markets as well as on business practices. E.g. The EU market for call centres. Information on market access requirements, focusing on legislative and non-legislative requirements based on environmental, consumer health and safety and social concerns in the EU and in specific EU markets.

General trade related information

Besides information on specific market sectors, CBI also publishes more general trade related information, the so-called Export manuals. At the moment, the following Export manuals are available:

- Exporting to the European Union – trade-related information on the EU
- Export planner - how to plan your export process
- Your guide to market research - practical and low cost research methods
- Your image builder - how to present yourself on the EU market
- Your show master - selection, preparation and participation in trade fairs
- Digging for gold on the Internet - internet as a source for market information
- Website promotion - how to promote your website in the EU

These Export manuals can be downloaded from the CBI website at <http://www.cbi.nl/marketinfo> Go to 'Search CBI publications'.

How to use the different CBI market information tools

If you are new to the EU market, it is advised to start by consulting the more general Export manuals, like 'Exporting to the European Union' and 'Export planner', before consulting sector specific information. If you are a more experienced exporter, you can use these manuals as reference material while focusing on the specific information for your market sector. Concerning the sector specific information, you are advised to start with the information on the EU market in general. After consulting this information, you should have gained a better idea of which surveys on specific EU markets are most interesting to consult. It is also advised to check if a survey on your specific product (group) is available. And it is strongly advised to always check the documents on market access for your product.

Finally it is stressed that CBI market information serves as a basis for further research, meaning that you should - after consulting the CBI information - further research your EU target markets for more detailed and specific information related to your specific situation.

The software, IT services and outsourcing market in the EU

This CBI market survey covers the EU market for software, IT services and outsourcing. It consists of two parts: EU Market Information (Part A), and Export Marketing Guidelines (Part B).

Part A EU Market Information

Part A surveys the EU market. The emphasis of this survey lies on those products/services that are of importance to developing country suppliers. Statistical market information on consumption, supply and trade, and information on trade structure, prices and market access is provided. Opportunities and threats for developing country suppliers are highlighted and sources for more information are provided. Separate chapters (6 and 7) are dedicated to offshore outsourcing and locations for offshore outsourcing, as outsourcing offers the only and best way for DC exporters to get involved in doing business with the EU. Chapters 4 and 5 are therefore more or less used as background information, and serve as a support for chapters 6 and 7.

Part B Export Marketing Guidelines

How to get involved in the EU marketplace? Should exporting be part of a business plan? These are common concerns of manufacturers who realise the importance of international trade, but are not sure if exporting to the EU is right for them. That is what Part B is all about: to help you to evaluate whether or not to get involved in international business, and learn how to go about exporting to the EU.

The first chapters 11, 12 and 13 deal with three out of four strategic steps in export marketing: the external analysis and internal analysis (chapter 11 and 12), a SWOT and the decision-making process whether or not to export to the EU (chapter 13).

Subsequently, chapter 14 provides information and sources to enable you to further investigate what would be suitable to export, to which EU markets, through which channels, and at what prices. In other words, which marketing tools can be used for building a successful business relation in the EU? The combination of chapters 11-13 and the elements of chapter 14 provide tools that should enable you to draw up a Market Entry Strategy and Export Marketing Plan (fourth strategic step). Keep in mind that the export marketing process is integrated; each individual part is inter-linked.

Part B is especially interesting for more experienced exporters. If you are a starting exporter, it is advised to read this survey together with CBI's 'Export planner' and to use the interactive tool 'EMP Document Builder' on the CBI website.

CBI market surveys covering specific EU markets, specific product (group)s or documents on market access requirements can be downloaded from the CBI website. Go to 'Search CBI database' on <http://www.cbi.nl/marketinfo>, and select the market sector concerned and a EU country.

2 INTRODUCTION TO THE EU MARKET

The European Union (EU) is the current name for the former European Community. Since January 1995 the EU has consisted of 15 member states. Ten new countries joined the EU in May 2004. Negotiations are in progress with a number of other candidate member states. In this survey, the EU will be referred to as the EU25, unless otherwise stated.

For general information on EU member states, reference is made to CBI's Export manual 'Exporting to the European Union'. Information can also be found at the official EU website http://europa.eu/abc/governments/index_en.htm or the free encyclopedia Wikipedia <http://en.wikipedia.org/wiki/Portal:Europe>.

Monetary unit: Euro

On 1 January 1999, the Euro became the legal currency within eleven EU member states: Austria, Belgium, Finland, France, Germany, Italy, Ireland, Luxembourg, The Netherlands, Spain, and Portugal. Greece became the 12th member state to adopt the Euro on 1 January 2001. In 2002 circulation of Euro coins and banknotes replaced national currency in these countries. Denmark, the United Kingdom and Sweden have decided not to participate in the Euro. In CBI market surveys, the Euro (€) is the basic currency unit used to indicate value. For foreign exchange rates also refer to table 2.1.

Table 2.1 Exchange rates of EU currencies in €, 2004-2006

Country	Currency	2004	2005	May 2006
Cyprus	CYP	1.734	1.741	1.743
Czech Republic	CZK	0.031	0.034	0.035
Denmark	DKK	0.134	0.134	0.134
Estonia	EEK	0.064	0.064	0.064
Hungary	HUF	0.004	0.004	0.004
Latvia	LVL	1.505	1.439	1.442
Lithuania	LTL	0.290	0.290	0.290
Malta	MTL	2.302	2.329	2.338
Poland	PLN	0.221	0.249	0.260
Slovakia	SKK	0.025	0.026	0.027
Slovenia	SIT	0.004	0.004	0.004
Sweden	SEK	0.110	0.108	0.107
United Kingdom	GBP	1.475	1.463	1.456

Source: Oanda <http://www.oanda.com> (May 2006)

Statistics

The information used in CBI market surveys is obtained from a variety of sources. Therefore, extreme care must be taken in the qualitative use and interpretation of quantitative data; it puts limitations to in-depth interpretation of relations between consumption, supply and market figures within one country and between different countries.

3 PRODUCT CHARACTERISTICS

Chapter 3 defines software, IT services and outsourcing that will be discussed in this survey. In section 3.1 the product groups are discussed in further detail. Section 3.2 discusses the difficult statistical product classification for software and IT services.

3.1 Product groups

Participation in the global software and IT services market provides developing countries with a good opportunity for growth. The advantages these countries have are very attractive for EU companies that are continuously looking for a reduction of costs. Since developing countries have an increasing number of technically trained people and more improvements in infrastructure, they are creating greater business opportunities in exports. Many firms in developing countries are increasingly able to offer skilled IT staff against competitive prices. An appropriate time-zone difference between the customer and vendor and an on-line environment can allow for around-the-clock work, resulting in fast turn-around times. Thanks to state-of-the-art satellite links and wired communication, companies in developing countries can become 'virtual labs'.

There are many definitions and classifications for software products and IT services. This survey uses the definition for software products and IT services from the European Information Technology Observatory (EITO). This is a well-reputed source in the industry that has very detailed and up to date information available. Table 3.1 presents the several product groups for software products and IT services.

Table 3.1 Product group definition software products and IT services

Software products	<ul style="list-style-type: none"> • Systems software; system infrastructure and application tools • Application software
IT services	<ul style="list-style-type: none"> • Professional • Support services

3.1.1 Software products

According to EITO, software products are 'commercially available packaged programmes for sale or lease from systems services and Independent Software Vendors (ISVs)'. Value includes the packaged software fees plus related non-consulting revenue, such as fees for maintenance and/or support. It includes licence fees partially earmarked for software maintenance, services, and/or support'. Other forms of software support would be counted within the support services category. As mentioned in table 3.1 software can be categorized into two segments:

- Systems software
- Application software

Systems software

Systems software includes system infrastructure software and application tools:

- System infrastructure software includes system management software, network management, security software, storage software, server ware, networking software, and system-level software.
- Application tools include information and data management software, application design and construction tools, application lifecycle management, application deployment platforms, middleware, other development tools and information access and delivery tools. Examples include database engines, 4GL, AMD (Analysis, Modelling and Design) and 3GL.

Application software

Application software includes consumer, commercial, industrial and technical programmes and code sets designed to automate specific sets of business processes in an industry or business function. It is to make groups or individuals in organisations more productive, or to support entertainment, education, or data processing in personal activity. The packaged application market includes the consumer, content, collaboration, and enterprise applications sub segments. The enterprise applications market is made up of the back-office, engineering, and CRM (Customer Relationship Management) applications markets.

3.1.2 IT services

As mentioned in table 3.1, IT services can be divided in the following product groups:

- Professional services
- Support services

Professional services

Professional services consist of:

Consulting

This product group consists of a wide variety of IT-related planning and design activities that assist clients in making IT-related decisions on business direction or information technology. IT-related business consulting includes corporate strategy assistance, process improvement, capacity planning, best practices, business process re-engineering and change management services for business. Excluded are consulting involving tax, audits, benefits, financial, and/or engineering issues. IT consulting includes information systems strategy assistance, information system and network planning, architectural and supplier assessments, product consulting and technical designs for information technology, and maintenance planning.

Implementation

Implementation comprises all activities directly involved with the creation of technical and business IT solutions, specifically with procuring, configuring, installing, developing, moving, testing and managing information technology. Implementation services also include all activities involved with custom application development and work performed on packaged applications. Training and education is also included in this segment. It includes activities required for the transmission of new behaviours, skills or actions that can be used to begin performing job-specific tasks or improve performance in IT-related functions.

Operations management

This involves taking responsibility for managing components of a client's IT infrastructure. Specific activities include help-desk services, asset management services, systems management, network management, software update management, facilities management, back-up and archiving and business recovery services.

Support services

These services include all activities involved with ensuring that hardware, software and networking products are performing properly as a service to clients. Activities include all maintenance contracts for hardware, software and networking products, as well as services,

such as telephone support to resolve problems for clients and help with workarounds. Services in this category appear as bundled packages of other services or stand-alone.

Keep in mind that processing services were removed from the scope of IT services as they are provided increasingly by business services players as part of their Business Process Outsourcing (BPO) activities. For more information on BPO please also refer to the CBI market survey 'the BPO market in the EU'.

3.1.3 Outsourcing / offshoring

The market for software and IT services is enormous in Europe. Nevertheless, the opportunities for developing country exporters in this field in Europe are generally minimal. The main problems are credibility and very high marketing costs. In many cases, application software is partly produced in a developing country, but it will be owned and marketed by an (often well-known) American or European company. Only very few firms in developing countries are able to build and market application software themselves. Success in their domestic market was essential and without any local market for packaged software it was almost impossible to finance export marketing. The major opportunity for success is to develop entry into the market with a niche item (a very specialised item).

A famous saying states: 'if you want something done right, do it yourself'. This is still true for many industries, but not for the increasingly cost-conscious and core-focused international business of software and IT services. Companies in advanced, 'high-cost' economies are increasingly looking to contract out software and IT services work to companies in 'low-cost' developing nations. This service is called outsourcing and is by far the most promising ICT segment for companies in developing countries.

According to market research agency Gartner, IT outsourcing involves an 'annuity-based contract that includes at least one management service and one or more of the other IT services (professional and product support), except for business process transaction management'. There is no official classification for offshore outsourcing. In this survey, offshore destinations are meant to be all countries further away than neighbouring countries, for example on other continents than the European Union.

Software outsourcing and IT service outsourcing

Software, IT services and outsourcing having been discussed separately in the above sections, software outsourcing and IT services outsourcing will now be discussed and explained.

IT services outsourcing

The core interest consists of custom development solutions, web application development, system integration, database management and IT consultancy services (re-engineering, localisation, maintenance, testing, coding, IT security services, web enablement, migration).

Outsourcing services that are IT driven or require the help of IT infrastructure and resources are called IT enabled services. The major part that is outsourced and has added a value to the IT industry is the IT enabled services. The IT enabled services consist of medical (legal) transcription, online education, online training, data processing (data entry), data digitisation and the call centres. It is important to understand that IT services and IT enabled services have overlapping areas. Some examples are data centres, network management, desktop PC management, helpdesk support, IT facility management, imaging and engineering.

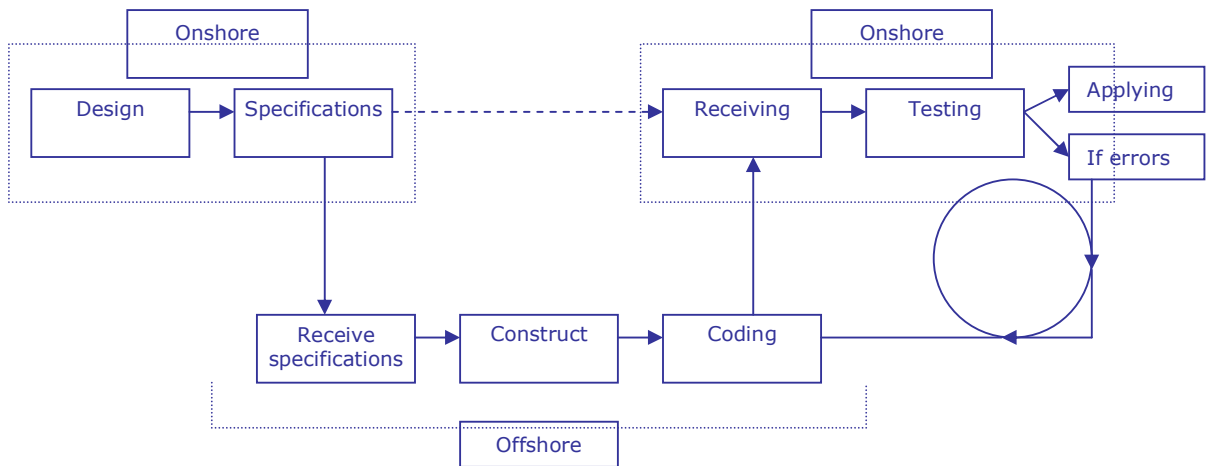
In general the following activities can be considered as IT-activities with a high potential for offshore outsourcing:

- Activities with a high degree of commoditisation
- A low degree of customer intimacy

Software development (offshore) outsourcing potential

The above factors show that software development, large programming projects and maintenance are activities with a high (offshore) outsourcing potential. In more detail the real development of software could be outsourced more easily than the design, specification and the receiving and testing. Figure 3.1 shows this in a simplified manner.

Figure 3.1 Software development process



Source: Hee, van (2004)

3.2 Statistical product classification

Measuring trade in software and IT services for business purposes is very complicated, due to limitations in definitions and challenges in measuring the data. There are no well-defined classifications in 6 or 8 digits HS-codes, as with trade in goods.

Software

Although software is included in international merchandise trade statistics, relevant trade data are difficult to gather. This is because only the trade in the medium that contains the software is measured. As this mainly concerns consumer products, software for business purposes, as described in section 2.1, is hardly dealt with.

IT services

In general, international (trade) statistics of services are hard to measure. This goes as well for the imports and exports of IT services. As an indication, IT services are included in the trade in services statistics of the Balance of Payments (BOP) of many countries. IT services appear in the following sections of the BOP-system (source UNCTAD):

- Computer services (263)
- Royalties and license fees (266).

Focus on outsourcing

Once again, there are many practical challenges with these definitions. Be aware that the import statistics just give a very rough indication and detailed statistics are lacking. In fact, outsourcing could be regarded as a way of importing software services by the EU-countries. For this reason and since outsourcing forms a major opportunity for developing country exporters, this market survey is about outsourcing in particular. Where possible and relevant, in other chapters outsourcing is dealt with as well.

4 INDUSTRIAL DEMAND

In this chapter the demand side of the EU market is discussed. It gives an idea of the developments and structure of the end market for software and IT services. Section 4.1 discusses the market size, section 4.2 deals with the main trends for the EU market and section 4.3 contains useful sources for further research. Please note that this chapter (and also chapter 5) is a background for one of the main chapters of this Survey, chapter 6, where outsourcing is discussed.

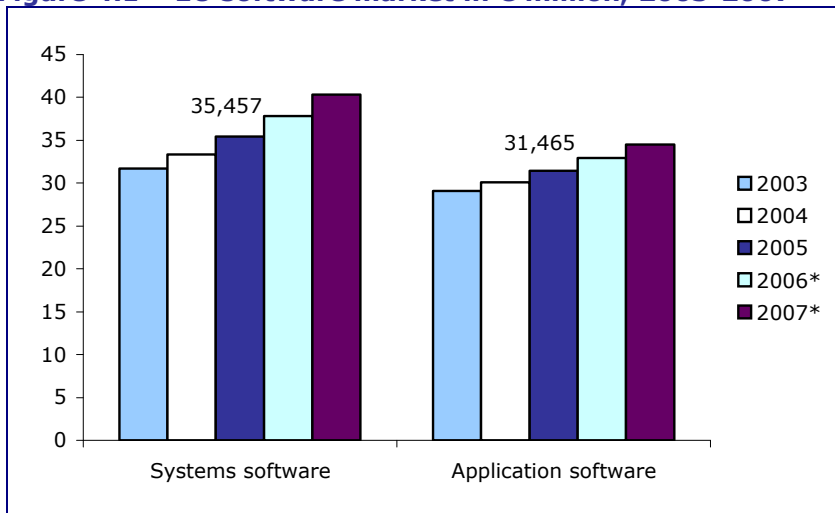
4.1 Market size

This section deals with the EU market for 1) software and 2) IT services. Information about the market for outsourcing can be found in chapter 6 and 7.

Ad 1) Software

According to figure 4.1, the total market for software products in the EU amounted to € 67 billion in 2005, increasing 9.8% compared to 2003. The market is expected to reach a solid growth of another 5.8% in 2006. This market consists of systems software (€ 35.5 billion in 2005) and application software (€ 31.5 billion in 2005). Systems software was the largest growing segment, increasing 12% compared to 2003. For 2006 the systems software market is expected to grow 6.7% to € 37.8 billion. The market for application software increased 8.1% compared to 2003. In 2006 the market for application software is expected to rise to € 32.9 billion (plus 4.5%).

Figure 4.1 EU software market in € million, 2003-2007



*These years are forecasts
Source: EITO (2006)

Germany was the largest EU-market for software products in 2005, amounting to more than € 16 billion in 2005. This is an increase of 8.2% compared to 2003. It was followed by the United Kingdom (UK), with a total of € 14.5 billion in 2005, increasing 14.1% compared to 2003. Ranked third was France (€ 11.7 billion in 2005, increase of 12.6% compared to 2003). For figures of all EU25 countries, see table 4.1.

Table 4.1 EU software market, by member state, € million, 2005

	2005		Systems		Application	
	Systems	Application	Growth '03-'05	Growth '05-'07*	Growth '03-'05	Growth '05-'07*
Germany	8,251	7,836	8.2%	10.3%	8.2%	10.2%
UK	7,907	6,604	14.1%	15.3%	8.0%	9.0%
France	6,545	5,248	12.6%	14.1%	7.8%	9.1%
Netherlands	2,675	2,321	12.8%	14.8%	6.2%	8.7%
Italy	2,585	2,307	5.1%	8.9%	3.2%	5.3%
Sweden	1,306	1,369	16.7%	23.0%	35.8%	-7.2%
Spain	1,375	1,157	20.5%	10.8%	-9.8%	28.1%
Belgium/ Luxembourg	800	938	8.3%	15.9%	47.5%	-21.0%
Denmark	774	789	0.9%	27.8%	-10.3%	29.2%
Austria	817	680	19.8%	8.9%	-7.5%	27.1%
Finland	701	570	12.3%	15.5%	8.4%	10.5%
Poland	340	368	29.8%	27.1%	29.6%	31.5%
Czech Rep	248	246	1.6%	31.5%	15.0%	1.2%
Ireland	268	245	16.0%	20.5%	9.9%	11.8%
Portugal	275	227	41.0%	11.3%	20.7%	37.0%
Hungary	195	219	1.6%	29.7%	57.6%	-22.4%
Greece	215	153	30.3%	5.1%	-9.5%	69.3%
Slovakia	57	70	72.7%	-15.8%	66.7%	-10.0%
Slovenia	40	51	233.3%	-55.0%	168.4%	-45.1%
Lithuania	15	24	36.4%	-6.7%	26.3%	4.2%
Latvia	13	22	8.3%	23.1%	22.2%	13.6%
Estonia	13	21	-72.3%	438.5%	-62.5%	319.0%
Cyprus	na	na	na	na	na	na
Malta	na	na	na	na	na	na

*forecasts

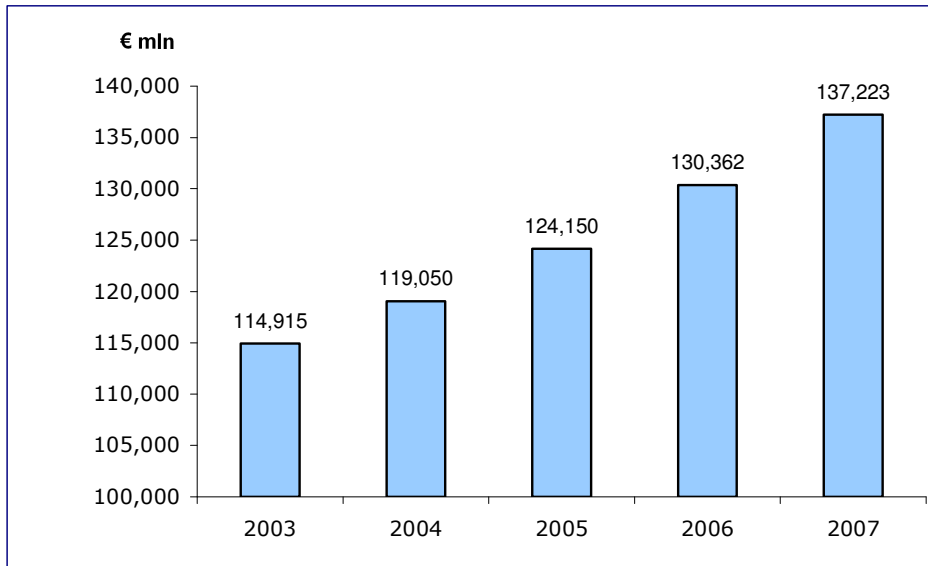
Source: EITO (2006)

Ad 2) IT services

Figure 4.2 shows that the total market for IT services in the EU valued € 124,150 million in 2005, a growth of 8% compared to 2003. Growth in IT services is anticipated to reach € 130,362 million (plus 5%) in 2006. Overall, outsourcing and managed services will continue to be the main protagonists of market growth. This trend, however, shows strong geographic differences, with considerably more contract activity in Northern Europe than in Central or Southern Europe and with Germany and Italy continuing to show rather disappointing performances in both 2005 and 2006.

The EU IT services market is subdivided into professional services and support. EITO only supplied the figures for IT services without a further specification in the two different sectors within IT services (professional services and support services).

Figure 4.2 EU IT services market in € million, 2003-2007



Source: EITO (2006)

EITO has gathered data on professional and support services for the former EU15 countries. For the new EU members the data consists of a total figure for IT services. Therefore, there are two separate tables for these services (table 4.2 for the EU15 and table 4.3 for the new EU members).

EU15 countries

The UK was the largest EU-market for IT services in 2005, amounting to almost € 28 billion, an increase of 10% compared to 2003. Germany was the second largest market (€ 27 billion in 2005, an increase of 9% compared to 2003), followed by France (€ 25 billion, an increase of 7% compared to 2003), Italy (almost € 10 billion, increase of 1% compared to 2003) and the Netherlands (€ 7 billion, increase of 8% compared to 2003). Refer to table 4.2 as well.

Table 4.2 IT services by EU15 country in € million, 2005

	2005		Professional		Support	
	Professional	Support	Growth '03-'05	Growth '05-'07*	Growth '03-'05	Growth '05-'07*
UK	20,814	7,953	10%	11%	7%	10%
Germany	19,527	7,313	9%	12%	3%	2%
France	17,824	6,990	7%	10%	6%	8%
Italy	6,947	2,827	1%	4%	-1%	0%
Netherlands	5,330	1,276	8%	11%	5%	10%
Sweden	3,678	1,396	7%	11%	7%	9%
Spain	3,460	1,280	15%	20%	11%	16%
Belgium/Luxembourg	2,630	999	8%	13%	5%	9%
Austria	2,376	814	12%	15%	12%	13%
Denmark	2,230	793	14%	13%	14%	11%
Finland	1,626	485	9%	12%	8%	9%
Portugal	622	205	6%	10%	6%	6%
Ireland	599	198	13%	16%	12%	13%
Greece	484	236	14%	16%	9%	11%

* forecasts

Source: EITO (2006)

New EU members

Poland is the new EU member with the highest value of IT services. Poland is followed by the Czech Republic and Hungary. The thing that is remarkable about this table is the growth figures. In 2004, services in all countries grew more than 25%. The Polish market even grew 47%. In 2005, services in all countries again grew more than 10%. Especially the Lithuanian, Estonian, Slovakian and the Czech market grew very fast.

Table 4.3 IT services by new EU member in € million, 2005

	2005	Growth '03-'05	Growth '05-'07
Poland	1,182	47%	15%
Czech Rep	883	22%	20%
Hungary	636	26%	18%
Slovakia	233	33%	23%
Slovenia	144	23%	17%
Latvia	58	29%	14%
Lithuania	51	28%	25%
Estonia	50	28%	26%
Cyprus	na	na	na
Malta	na	na	na

Source: EITO (2006)

4.2 Trends

This section discusses some main patterns and trends for the software and IT services market. EITO indicates some key trends in its 2006 publication, for both the application and systems software markets and the IT services market. Depending on your company and your services, these trends can be opportunities or threats.

Application software will be mainly shaped by the following trends:

- Renewed interest in Enterprise Resource Planning (ERP) applications. The interest is driven by the need to improve efficiency in business processes, and growing investment plans in the financial, retail/wholesale and business services sectors. This can be an opportunity for companies from developing countries that are in ERP applications.
- Sustained investments in the areas of compliance, collaboration, and performance management, as well as upgrades and new investments in traditional Customer Relationship Management (CRM) and Supply Chain Management (SCM) systems with government, transport, utilities, healthcare/education. Business services are expected to represent the best growth opportunities in application solutions, driven by the modernisation process in the public sector and the need to improve efficiency. Business services are therefore the processes to focus on for companies from developing countries.
- Increasing adoption of SCM, Supplier Relationship Management (SRM), and Product Lifecycle Management (PLM) in manufacturing. For these processes software is needed that can also be offered by companies from developing countries.
- Increased customer awareness, with customer care continuing to be at the heart of companies' attention and CRM consequently expected to be stronger in banking and insurance.
- Availability of more usable and attractive applications with vertical specific functionalities, Industry-specific applications is a key priority for the financial services and healthcare sectors in particular.
- Regulatory compliance is expected to be a key driver for application software demand in several industries, with particular reference to manufacturing, healthcare and financial services.
- Business intelligence tools together with information and data management software will continue to fuel growth in the software products market, although interest in these solutions is gradually starting to fade because of increasing market saturation in top European countries.
- The software tools segments will continue to be characterised by the central role played by Web-enabling solutions as companies throughout Europe recognise the need to add Web

interfaces to their solutions. This allows them access to relevant information concerning key users, improve flexibility, and maximise the value of their existing IT investments.

The systems software area will be characterised by the following trends:

- Growing demand for system infrastructure software driven by security software, as well as storage replication and resource management software. There are opportunities for companies (also in developing countries) that specialise in these kinds of software
- Increasing investment in the optimisation and simplification of existing IT infrastructure. The requirements for resilience and security in several industries will be complemented by the need to ensure interoperability among various systems in order to allow a single customer/citizen view.
- Attractive opportunities for systems software will also be driven by a generalised modernisation process, which will boost demand for better infrastructure as a prerequisite for increased flexibility and improved quality of services. This trend will be particularly visible in the public sector where an optimised infrastructure will lead to improved quality of services to citizens.
- System infrastructure software will continue to represent a large share of spending in many industries, as security and optimisation of the infrastructure remain at the top of companies' investment priorities across Europe.
- Open Source software will be an increasingly important area of investment for enterprises and governments in 2006. They seek to optimise their needs for flexibility of deployment and cost containment. This can be a threat to developing countries as Open Source software is available free of charge and can replace other software that has to be paid for.

IT services

- Outsourcing and managed services will remain the largest growth initiators in this sector. This trend varies geographically. The northern part of Europe, for example, shows much more contract activity than Central or Southern Europe. Northern Europe could therefore be more interesting for companies from developing countries.
- European companies will continue to concentrate on small budget projects. These projects will be focused on replacing ageing equipment and the implementation of network and integration services.
- Software as a Service (SaaS) is an area to watch closely. SaaS is a model of software delivery where the software company provides maintenance, daily technical operation, and support for the software provided to their client. This is also a chance for companies from developing countries
- Using offshore resources will continue to be an important element of IT services delivery in the next two years. This has become a standard ingredient in service delivery. This is a good sign, also for companies in developing countries.
- In 2006, offshore services spending will increase in Europe. Increased spending means more work that is offshored. Developing countries can be a location for these expenditures.

4.3 Useful sources

- European information technology observatory (EITO) – <http://www.eito.com>
- EUROITX – <http://www.euroitx.com> (take a look at the section 'market and trends' for more information)
- European Information & Communications Technology Industry Association (EICTA) - <http://www.eicta.org>

5 SUPPLY

This chapter discusses the “production” of software and IT services. However, software and IT services can hardly be called products. In this case it is better to talk about supply. Section 5.1 discusses the size of the supply, in section 5.2 the major trends are discussed and section 5.3 contains some useful sources to find further information.

5.1 Size of supply

As with imports statistics, detailed and up to date supply data are very hard to provide for software and IT services. Only some rough indications can be given by, for example, the supply statistics of IT service companies and their employment level by country in 2001. This may be rather ‘old’ information, but at least it gives information about all 25 EU countries, enabling a comparison between them.

Production value (EU25)

In 2001, IT service companies in the large EU countries France, Germany, Italy and the UK generated more than 70% of the production value and added value in today’s EU-25. In contrast, IT services companies of the new EU member states had almost no importance for the sector in 2001. This situation, however, has changed. As discussed in this survey (see, for example, chapter 6 and 7), many Eastern European IT service companies are currently offering offshore services to West European businesses. Also refer to table 5.1 for more information.

Table 5.1 Production value of IT services, value and employment, 2001

	Production value in € million	Production value % of EU-25	No. of persons employed
United Kingdom	69,379	27%	576,733
Germany	51,825	20%	379,175
France	36,704	14%	335,532
Italy	30,782	12%	340,373
Netherlands	14,902	6%	138,257
Sweden	13,613	5%	121,323
Spain	10,928	4%	165,489
Belgium	7,411	3%	49,446
Ireland	5,303	2%	22,260
Denmark	5,200	2%	45,984
Austria	4,118	2%	38,759
Finland	3,705	1%	37,505
Poland	2,463	1%	na
Czech Republic	1,424	1%	43,031
Portugal	1,186	1%	17,297
Hungary	1,154	0%	42,237
Luxembourg	566	0%	4,804
Slovakia	372	0%	11,616
Slovenia	335	0%	na
Latvia	120	0%	4,534
Lithuania	96	0%	4,070
Estonia	84	0%	2,804
Cyprus	75	0%	1,269
Malta	52	0%	1,168
EU*	261,799	100%	2,383,666

* EU without Greece

Source: E-Businesswatch (2005)

5.2 Trends in supply

Consolidation

Triggered by the long-lasting economic downturn after the end of the dot-com boom, rivalry in the IT services market has significantly increased during the past years. The recent consolidation process in the software market, for example, has driven merger & acquisition

dynamics and led to headlines like "In the flat enterprise software market the message is clear: It's time to hunt or to be hunted". A prominent example of this development was the hostile takeover of PeopleSoft by Oracle (both active in the ERP market). As a consequence, IT services companies have to deal with a continuously changing industry structure. For small suppliers from developing countries, increased competition can be a threat.

Open source

The use of open source software and standards is more and more promoted. Even governments promote the use of these "free" software sources and standards. The operating system Linux is gaining terrain on "paid" systems like Microsoft Windows. This is a threat for developing country suppliers as this open source software replaces other (paid) software systems, possibly supplied by them.

Near (and off) shore outsourcing

The labour costs per employee of IT enterprises in countries like Poland, the Czech Republic or Hungary used to be only about one third of those in companies in most former EU15 countries. These low labour costs together with relatively good technical and linguistic expertise provide IT companies in these countries with the opportunity to offer offshore services (see chapter 6 and 7). A successful establishment of Eastern European offshore providers could, in turn, accelerate the adjustment of wages within the EU. Countries like Morocco and Tunisia are interesting in this light for France because of their language abilities. However, the fast development of Eastern Europe can be a problem for developing countries outside this region as it increases competition.

In a period where cost cutting and at the same time delivering good (superior) quality are the main issues, companies in the EU more and more accept near- and offshoring.

5.3 Useful sources

- Ebusinesswatch - http://www.ebusiness-watch.org/resources/ict_itservices/SR10a_ITS_2005_web.pdf
- E-commerce and Development Report 2003, Unctad: open source software: Implications for ICT policy and development - http://www.unctad.org/en/docs/ecdr2003ch4_en.pdf
- European Information & Communications Technology Industry Association (EICTA) - <http://www.eicta.org>
- European Software Association - <http://www.europeansoftware.org/>
- MIMOS Open Source - <http://opensource.mimos.my/>
- Open source initiative - <http://www.opensource.org/>
- Outsourcing center - <http://www.outsourcing-center.com/>

6 OFFSHORE OUTSOURCING

This chapter is about offshore outsourcing. As mentioned in chapter 3, reliable and recent statistics on imports of software and IT services are hardly available. As offshore outsourcing is in fact a form of importing services from foreign countries, EU companies 'buy' services in foreign countries, this topic is dealt with in sections 6.1 up to and including 6.4. The total EU outsourcing market, sector comparison and trends are topics in these sections.

Because of the lack of reliable statistical indicators on global outsourcing, we have to look at the results of market research, on-off surveys and case studies. They may be coloured, either positively or negatively, by the specific interests of the agencies. Estimates of the impact on Europe are vague, especially in relation to outsourcing to smaller Asian countries and eastern European states. Almost all sources agree: the European outsourcing market is booming.

6.1 EU (offshore) outsourcing market

According to Gartner (2006), European-based companies will fuel the growth in offshore outsourcing with a 50% year on year rise in spending on the world market in 2006 and 2007. Globally the number of companies using high levels of offshore activity is set to increase from 13 to 20% in the next two years. European companies will be the first to act when new markets open up. Demand is largest in the UK and the Nordic countries. As stated earlier, the activity is considerably less in central and southern Europe.

The UK and Ireland spend a large part of their IT-budgets on offshoring. This is mainly due to the lower language barrier they have to a country like India. Therefore the largest increase is expected to come from these countries in the near future. According to Forrester Research, the UK will account for three quarters of all European offshore outsourcing in the next five years. The companies in the Nordic countries are more attracted to nearshoring. This of course because of a mature nearshore market in Eastern Europe and the Baltic States. Southern European countries are less keen on outsourcing, although Italy has been shown to offshore to Brazil. Especially France is not so keen on offshoring.

For Europe as a whole, Forrester forecasts a sustained but moderate growth. European spending will achieve an average growth of 6% over 5 years and European companies will spend a total of €146 billion in 2011. Forrester and Gartner obviously present different forecasts and data. Their working methods may differ or they may use a different definition of offshore outsourcing. This could explain the difference in data they present.

IT jobs going offshore

IT jobs will move offshore most rapidly from the UK with continental countries matching that trend but at a lower level of impact. Across the whole of Europe, Forrester expects that almost 150,000 pure IT jobs will move offshore by 2015 (see table 6.1).

Table 6.1 IT jobs moving offshore by country, 2005-2015

	2005*	2010*	2015*
UK	26,728	48,597	87,474
Germany	2,733	10,163	17,091
France	1,480	9,051	15,447
Netherlands	1,475	5,511	9,236
Italy	853	1,771	2,807
Sweden	861	3,127	5,358
Belgium	310	1,082	1,910
Switzerland	424	1,456	2,604
Denmark	420	1,548	2,620
Spain	345	677	1,132
Austria	313	1,218	1,980
Finland	285	1,012	1,762

Ireland	127	231	416
Portugal	79	162	259
Greece	34	67	111
Luxembourg	16	58	98
Total	37,482	85,731	150,304

* forecasts

Source: Forrester (2004)

However, in these large markets the competition is fierce. In the UK alone, hundreds of offshore service providers are trying to find clients. Small countries can be attractive because competition is less fierce. Table 6.2 shows that even computing professionals will face job displacement offshore.

Table 6.2 Forecast: European IT jobs moving offshore by job type, 2004-2015

	2004	2010*	2015*
Computing professionals	24,151	65,951	118,712
Junior computing staff and operatives	6,705	19,780	31,592
Information Technology total	30,855	85,731	150,304

* Forecast

Source: Forrester (2004)

Driving factors

Recent research has identified a range of driving factors for software and IT service outsourcing:

- Cost differentials regarding labour and other costs
- Availability of labour and access to knowledge
- Cost savings achieved by economies of scale through consolidating activities
- Corporate restructuring including concentration on core business activities.

Pressure Point Index (2004)

The Pressure Point Index (PPI) is an annual piece of pan-European research into the pressures faced by IT directors. They answered, among other things, the following questions:

- Which responsibilities and IT functions would be outsourced?
- What are the main benefits of outsourcing?
- What are reasons for not outsourcing?

The survey was carried out among IT managers and IT directors in the following regions:

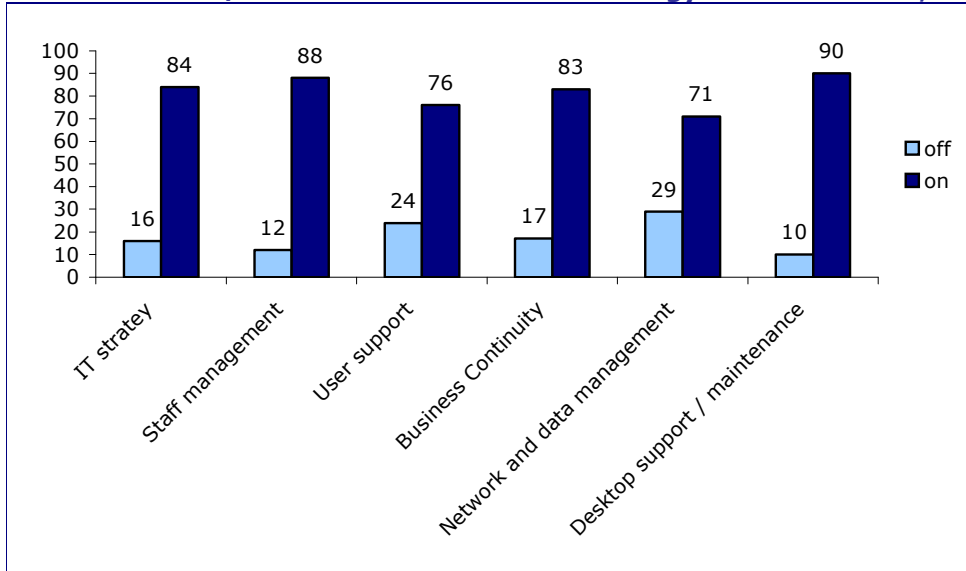
- Belgium / Luxembourg
- Ireland
- France
- The Netherlands
- Spain
- Germany
- The UK

The questionnaire was mailed to IT managers/directors, divided equally between the following vertical industries: banking, insurance, manufacturing, public sector, and retail and miscellaneous. The IT managers selected were located at the head or central office of a company with a minimum of 200 employees. Of the responses, 700 completed questionnaires formed the basis of the results, representing each country and sector proportionately.

Outsourced IT functions

The most important services that EU companies would consider outsourcing offshore in 2004 included network and data management (29 percent) and user support (24 percent). More details are included in figure 6.1.

6.1 Offshore / Onshore outsourced technology functions in EU, 2004



Source: PPI (2004)

6.2 Outsourcing sector comparisons / services groups

IT functions

Table 6.3 shows a sector comparison between manufacturing, public sector, retail, insurance and banking. It shows the IT functions that are preferably outsourced offshore in the EU for each of these sectors. In manufacturing, the public sector and insurance, desktop support and maintenance is the IT function that is considered as the most important one. In retail the IT strategy and in banking user support is the most important IT function outsourced offshore.

Table 6.3 Offshore outsourcing IT functions (in %), 2004

	Desktop support / maintenance	Network / data management	Business continuity	User support	Staff management	IT strategy
Manufacturing	29	27	15	21	5	14
Public sector	23	18	11	20	11	13
Retail	25	6	7	22	25	36
Insurance	30	13	13	23	8	7
Banking	22	24	14	27	13	14

Source: Synstar (2004)

Application outsourcing is expected to be one of the quickest-growing categories of IT services over the next five years. Financial service firms in countries like UK, Scandinavian countries and the Netherlands will be responsible for the major part of spending here (€ 17 billion in 2006 and € 27.5 billion in 2011).

While many companies already have experience in offshoring application development projects, IT infrastructure (for e.g network, distribution and server) is another thing. Often different mixes of locations and commercial models are necessary. Some IT infrastructure technologies are easier to offshore than others. Leading companies that have started to offshore these infrastructures have already seen the savings that are possible here. When they saw this opportunity many suppliers started offering a broad range of network, help desk, distribution and application integration capabilities.

The leading position application development has in offshored IT services will be taken over by more traditionally outsourced IT services like hardware and software maintenance and network administration in the future.

6.3 Outsourcing models used in the EU

The following outsourcing models are applicable for use in Europe:

Onsite contract worker / projects

In this mode a company in the EU hires staff from an offshore services company to work on their location in the EU. The latter acts as a staff augmentation firm. They ensure the quality of staff and deal with entry visas, and repatriation of contract workers. The advantage for the hiring company is the lower cost of offshore personnel. This is one of the least sophisticated models for offshore services. In a variation on this model, onsite projects, the offshore company provides teams that have the responsibility for a full project or sub-project. The teams are expected to have experience in working as project teams and are responsible for delivering against detailed specifications. However, European companies new to offshore services are increasingly opting to use more sophisticated offshore models instead.

Offshore project

In this model the project work is done in the home country of the offshore service provider. This can be ordered by a company or subcontracted through a local systems integrator. This model offers more cost-savings than the above, as no relocation costs are necessary. However, the risk of project failure is larger. As a company from a developing country it is important to know that this model is mainly used by smaller, emerging offshore services companies that lack the resources to provide more than local sales support in the client's country.

Onsite-offshore project

In this model, most of the work is still carried out by offshore resources, thereby maintaining a significant cost advantage. But some members of the 'offshore' team are located on the client's premises, so they can more easily deal with project management, clients needs and do so with a much shorter reaction time. This approach is more focused on managing communication and risk. It is best suited to somewhat more complex services than the pure offshore model.

Onsite-onshore-offshore model

Most of the work is carried out offshore; however, this is supported by both an onsite team and additional development and testing resources at a local office. The onsite team is again focused primarily on project management and requirements definitions/changes, but has the added advantage of additional local resources to provide on-site testing as well as local development on an as needed basis. This model increases response time and reduces the risks. For these reasons, this model is best suited for complex development projects.

Near shore outsourcing

Near shore outsourcing is the practice of getting work done or services performed by people in neighbouring countries rather than in the client's own country. For example, a German company might outsource software programming to Poland.

A combination of the different models is also possible. Most popular is the onsite-offshore model.

6.3.1 Offshore outsourcing models

There are several models for offshoring and they will influence the trade structure to some extent. Ventero discusses the following models for offshore outsourcing.

BUY MODELS

1. Offshore Staff Augmentation

The offshore staff augmentation model functions in a similar manner to onshore staff augmentation. In this model, an onshore team will provide daily oversight of an offshore resource (or team of resources). This model forces a great deal of communication between your onshore and offshore teams and requires an incredible overhead. That is why this model is not recommended.

2. Project Outsourcing

In this model, the customer identifies a specific project needing completion and prepares all necessary project-related materials. The customer then retains an offshore vendor to deliver the project. At the completion of the project, the engagement ends. This model is suited for projects longer than 3 months without future prospects beyond this project.

3. Offshore Dedicated Centre (ODC)

In the dedicated centre, a set number of resources are assigned to the client for an ongoing series of projects. In this model, the client is responsible for a fully burdened resource cost and will be responsible for downtime between projects. The upside to this model is that in case of a series of related projects, the client will keep the same resources on each project eliminating the ramp time and will not end up paying for additional team ramp costs. An Offshore Dedicated Centre model is a good option if a client has forecast a long-term need for a specific series of related projects.

4. Functional Outsourcing

In this model, the vendor will outsource a complete function or application. While pay models occasionally are structured on a time and materials basis, most functional outsourcing engagements heavily leverage a risk-reward model. Also, these engagements typically encourage you as the vendor to bring tools, methods, resources and knowledge to the engagement in order to achieve a greater performing engagement. With the high-calibre offerings now being developed by outsourcing vendors around the world, this model is now proving to generate the best possible value for customers.

BUILD MODELS

1. Do It Yourself (DIY)

The Do It Yourself model is what it implies: The client does everything, from finding an offshore office, obtaining all local licenses and permits, hiring all employees and managing the daily activities of each employee once the team is assembled. Of all the potential options for a client to build his own offshore team, this has proven to be the most expensive and least successful one, with a success rate of less than 35%.

2. Build Operate Transfer

In the Build-Operate-Transfer model a local offshore outsourcing vendor is hired by the client to completely build an offshore team. Once the offshore facility is up and running successfully, the customer will then buy out the offshore facility under pre-defined terms.

Of all the build models, Ventoro found this model to generate the best results:

- This is an incredibly low risk model. If, at the end of the ramp period of time, the business needs other applications, the client is not stuck with a long-term offshore obligation. Depending on how the contact is structured, the client can simply hand the vendor the keys and walk away without future liability.
- Statistically, this is lower cost and higher performing than when the client does it himself. Having a firm that specializes in building outsourcing teams build an offshore team will cut the cost and time required to generate a positive ROI by 30%!

3. M&A

Firms wanting to build an offshore team are turning to Mergers and Acquisitions (M&A) strategies. This approach is found to be sound and buying or merging with a mature offshore team has already given several onshore companies a lightening fast method for launching an offshore strategy. If a client is planning on staying in the offshore market, the M&A approach is an interesting option and should be seriously considered.

Section 11.3 contains more information on the sales channel assessment and the process of selecting outsourcing partners by EU organizations.

6.4 Outsourcing decision making process in EU companies

To give the exporter an idea of how decisions are made by EU companies that outsource, this section discusses some more important factors as to why EU companies offshore and where they offshore to. They are divided into country-specific and vendor-specific elements.

Ad I) Country-specific elements

1 Cost savings

As mentioned in chapter 3, cost cutting is an important factor for EU companies in order to survive and overcome the recession. The price is therefore an important factor, although this does depend on the nature of the service.

2 Availability of skilled professionals

Software outsourcing clearly demands a large supply of highly skilled professionals. Most software development tasks, however, do not require a college degree in computer science. In fact, most Indian programmers are quite overqualified for their jobs.

3 European-based operation

The number of outsourcing service providers has grown so much, that EU companies are often approached by service providers from various countries, taking away the need to travel to offshore locations. This underlines the necessity of a European presence for countries/companies seeking to provide an alternative to India and the other well-established countries. European companies are simply not used to doing business with Pakistan, Nepal, Sri Lanka and other countries that do not have a track record in this industry.

4 Personal connection

One of the most important factors driving outsourcing decisions is the existence of a personal connection between the European client company and a foreign country. A foreign national within the client company in the EU could very well favour outsourcing (diaspora, refer to section 14.5.5).

5 Project management skills and quality certification

In practice, coordination between the client and the overseas provider is a critical success factor. Although ISO and CMM (refer to section 10.1) are referred to as critical for the outsourcing provider, flexibility is sometimes more important.

6 Language & culture

Language is important for both the provider and the client to communicate efficiently. Moreover, programmers will need to communicate during the project with the client. IT service companies in Romania, for example, provide services to French companies. They are able to communicate with French customers in their own language. English-speaking service providers from India, Ireland, Northern Ireland and South Africa are suitable partners, from a linguistic point of view, for markets in the United Kingdom and United States. German companies will find outsourcers willing to speak German in the Czech Republic and Poland. Furthermore, culture is a very important issue. In the past, differences in culture have led to problems during execution of projects.

7 Western business practices

Closely related to the factors mentioned previously, EU companies tend to select companies whose management is trained and adept at conducting business used to Western business practices and norms.

8 Telecommunications infrastructure

Almost all IT services depend on voice- and data telecommunications services. An EU company would be looking for an outsourcing provider that has the availability of a reliable infrastructure. Moreover, the bandwidth and its cost are important factors as well.

9 Intellectual property rights protection

For some EU companies, this is a serious issue, for some it is a condition to work only with providers from countries that have legitimate Intellectual Property Rights (IPR) protection enforcement regimes. That is why China has serious problems.

10 Political stability & diversification

Political stability is an important factor in outsourcing decisions. Especially for IT services this is often a criterion, as the contractual relationships are often for a longer term.

11 Time zone difference

In projects where communication is important, such as software development projects, time zone differences could be an obstacle. This is reverse for IT services, where it is viewed as one of the major benefits. Most hotel reservation and customer service centres are open 24 hours a day. Since operating these night shifts is expensive, offshore options have become increasingly attractive.

12 Country image

One of the major barriers (or opportunities) for a developing country to establish a presence in IT services may be its country image.

13 Government support

India has become such an important player in the outsourcing industry because the Indian government has supported and stimulated it to a large extent. This ranges from providing education, investment in infrastructure facilities and technology parks, setting up a Ministry of Information Technology, and promoting the sector in a structured manner.

Ad II) Vendor-specific elements

Next to these country-specific elements, some elements apply when it comes to selecting the offshore partner (or vendor) in the chosen country. These include, among others:

1 Decision authority

One of the major issues that EU companies could consider is where the decision-making authority resides within the offshore company. For example, many Indian firms are still Indian-centric, forcing delays when major decisions must be made. Some customers may consider it necessary to obtain fast decisions under certain circumstances without having to wait for eight or 16 hours.

2 Domain expertise

Expertise in specialized technologies can be an important asset for some providers.

3 Global presence

This will increasingly become more important in the future.

Other elements that play a role, include for example:

- Ongoing Research & Development (R&D)
- Specialities

- Superior service delivery
- Proven offshore methodologies
- Ample project expertise
- End-user vs. product expertise
- Staff retention
- Strategic plan and vision
- Processes methodologies
- Marketing and sales capability
- Financial stability
- Customer references
- Innovative solutions
- Commitment
- Size of vendor
- Flexibility on contract terms
- References and reputation.

6.5 Trends

One of the most important trends in Europe is nearshoring. Many European companies start choosing this option because of the geographical and cultural advantage and the good quality nearshore companies deliver. Nearshore countries with potential as offshoring destinations are: the Czech Republic, Hungary, Poland, Slovakia, Russia, Bulgaria, the Baltic States, Egypt, Morocco and South Africa. Although these destinations might be more expensive than certain Asian countries, this is not the most important factor. It is the cultural fit with the customers and the closer linguistic fit that is important. The ability to deliver more complex concepts is important too. Russia is developing a niche in global IT and R&D offshoring, based on its strong human resources. The Czech Republic, Hungary, Poland and Slovakia will profit from the advantage of low costs, strong skills, the implementation of EU regulations and solid infrastructure. Romania, Bulgaria and the Baltic States will offer the same skills at an even lower price and are therefore expected to see a flow of new investments in offshoring from the EU. As stated before, developing countries outside the central and Eastern European region will face heavier competition.

Other trends

- Offshore IT outsourcing will become an accepted alternative to onshore outsourcing.
- Further acceptance of global sourcing for services. Global sourcing for services will become an issue for top managers, a good opportunity for developing countries.
- Data recovery and disaster recovery will be the most important focal points.
- Security certified offshore providers with good security systems and multi-location footprints will be more popular than the ones without.
- Discrete outsourcing and mega-deals will emerge. Discrete outsourcing is characterized by making use of several suppliers and supply markets to spread risks.
- Growth and efficiency will become more important than cost savings. This can be a risk for developing countries as price will no longer be the only factor companies from Europe will look at.
- Especially product incubation and development, infrastructure management and the implementation of core business applications will be increasingly performed offshore.
- A significant investment in project management offices is expected because of multi-vendor, multi-model, and multi-country contracting that is coming up.
- India will strengthen its position by offering more extensive choices.
- It is expected that many mid-sized offshore service providers will be taken over by larger multinational service providers who want to increase their delivering capability. The same counts for small service providers.
- Integrated ITO and BPO deals will have mixed success.
- Global outsourcers are focussing their attention towards the EU region now that the demand is growing. Competition on the EU market will therefore become heavier. This can be a threat for companies from developing countries.

6.6 Useful sources

- CIO magazine - <http://www.cio.com/sourcing/outsourcing/index.html>
 - EUROITX - <http://www.euroitx.com>
- EUROITX offers a section for technology specifically with useful sources and information
- Forrester - <http://www.forrester.com>
 - Gartner - <http://www.gartner.com>
 - NeoIT - <http://www.neoit.com>
 - Offshore Outsourcing Best Practices - <http://www.oobp.org/default.aspx>
 - Outsourcing center - <http://www.outsourcing-center.com/>
 - Ventoro - <http://www.ventoro.com/Offshore2005ResearchFindings.pdf>

7 OFFSHORE LOCATIONS

This chapter provides an overview of the leading and emerging offshore countries for software and IT services. India is the number one in the offshore market, but many other locations are emerging fast. The main characteristics of not only India, but of China, the Philippines, Russia, and the Eastern European countries as well will be discussed in chapter 7. Exporters from developing countries could use this information in order to determine their competitive environment in an indicative manner. In the sections 7.1 up to and including 7.2, the most important offshore locations will be discussed. Although Canada and Mexico are important offshore locations, they are not included in this section since they mainly supply services to companies in the United States.

7.1 Overview offshore locations

This subsection shows a global overview of offshore locations by providing

- Global ranking by AT Kearney
- NeoIT Offshore Attractiveness Index.

Table 7.1 shows a global overview of the main offshore countries, based on a study by AT Kearney (November 2005). The A.T. Kearney Global Services Location Index analyses the top 40 services locations worldwide against 40 measurements in three major categories: cost, people skills and availability, and business environment. These categories reflect the drivers of offshoring decisions. The table could give developing country exporters some help in determining their competitive position.

As can be seen countries from Asia such as India, Thailand, Malaysia, the Philippines and Singapore have the highest total score. These are considered to be the top service locations in the world. In the middle of the list the more nearshore destinations for Europe can be found. They are more attractive than most EU countries and the USA.

Table 7.1 A.T Kearney global services location, 2005

	Cost	People and skills availability	Business environment	Total score
India	3.47	2.14	1.26	6.87
China	3.21	1.76	1.17	6.14
Malaysia	2.95	1.12	2.00	6.07
Philippines	3.58	1.16	1.05	5.78
Singapore	1.62	1.44	2.67	5.73
Thailand	3.27	0.94	1.51	5.72
Czech Republic	2.57	1.12	1.90	5.58
Chile	2.73	0.97	1.87	5.58
Canada	1.10	2.03	2.40	5.52
Brazil	2.91	1.36	1.23	5.50
United States	0.54	2.74	2.22	5.49
Egypt	3.55	0.95	0.98	5.47
Indonesia	3.51	1.06	0.89	5.47
Jordan	3.02	0.91	1.43	5.35
Bulgaria	3.29	0.86	1.11	5.27
Slovakia	2.72	0.90	1.55	5.24
Mexico	2.87	1.16	1.19	5.22
Poland	2.67	1.06	1.44	5.16
Hungary	2.61	0.88	1.63	5.13
UAE*	2.66	0.61	1.85	5.12
Costa Rica	2.96	0.79	1.34	5.09
Ghana	3.57	0.58	0.93	5.08
Argentina	3.14	0.93	0.98	5.05
Romania	3.07	0.92	1.05	5.03
Jamaica	2.92	1.01	1.10	5.03

Vietnam	3.55	0.69	0.76	5.00
Russia	2.83	1.31	0.85	4.99
United Kingdom	0.46	2.12	2.41	4.99
Australia	0.97	1.66	2.29	4.91
Tunisia	2.97	0.69	1.20	4.86
Germany	0.50	2.10	2.23	4.84
South Africa	2.76	0.81	1.24	4.81
Israel	1.86	1.22	1.67	4.75
New Zealand	1.28	1.19	2.28	4.74
France	0.40	2.24	2.05	4.69
Panama	2.90	0.65	1.10	4.65
Portugal	1.60	0.88	1.80	4.28
Spain	0.96	1.50	4.67	4.12
Ireland	0.42	1.41	2.25	4.07
Turkey	2.14	0.91	0.92	3.97

*United Arab Emirates (UAE)

Source AT Kearney (2005)

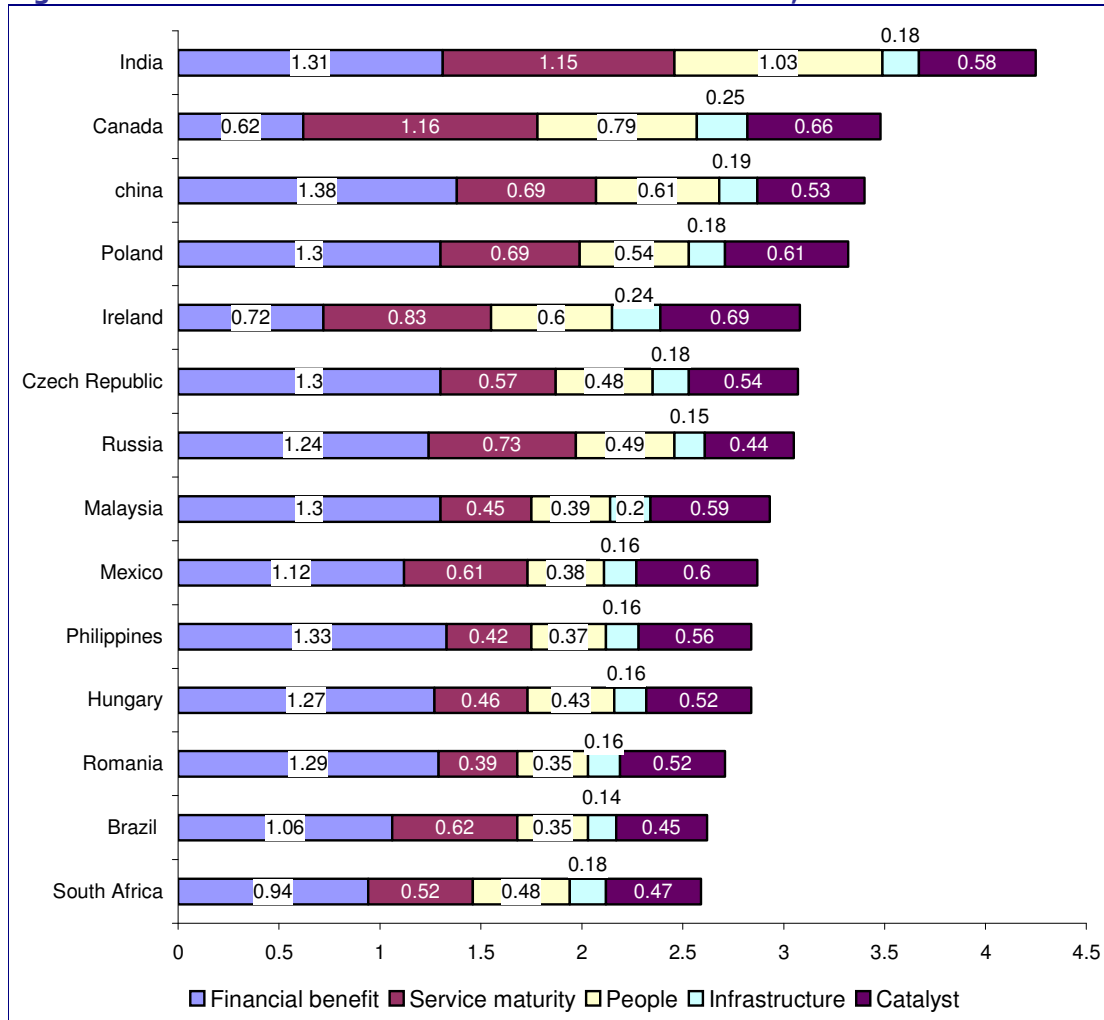
Additional findings

- India remains the best offshore location by a wide margin, although wage inflation and the emergence of lower-cost countries has decreased its overall lead.
- Improved infrastructure and relevant people skills have increased the attractiveness of China as a low-cost option for servicing Asian markets.
- Thailand jumped from 13th to 6th in this year's Index and Southeast Asian countries now make up four of the top six locations on the Index. Indonesia leaps into the Index on the 13th place. Even Vietnam, 26th in this year's Index, sees its ranking rise from 20th to 16th position among the original 25 countries included in both the 2004 and 2005 Indices.
- Offshore attractiveness in Europe continues to migrate eastward as Bulgaria, Slovakia and Romania all enter the index for the first time, while the more established offshore locations included in the previous years' indices (the Czech Republic, Hungary and Poland) have slipped slightly in the rankings.
- The Middle East and Africa appear to be the next frontier in offshoring as countries such as Egypt, Jordan, the United Arab Emirates and Ghana perform well. Egypt and other North African nations stress their unique combination of European language skills, technical proficiency and low wages.
- Two countries perform surprisingly poorly in the index, despite their emerging success as offshore destinations: Turkey and South Africa. They perform poorly in the published index, since their high costs relative to other emerging markets are not offset by correspondingly higher education levels or business environment ratings.

As an addition to this index, NeoIT developed the 'offshore location map' for 2005. It compared the most important offshore locations on their strengths and weaknesses. Each location has been judged on:

- Financial Benefit (labour cost, operating and capital expenditures)
- Service Maturity (Process maturity and competency of suppliers, Industry size and growth)
- People (labour pool and skill level, language proficiency, HR and educational system)
- Infrastructure (ICT and physical infrastructure)
- Catalyst (Government support, geopolitical environment, physical and time zone displacement, cultural compatibility)

Figure 7.1 NeoIT Offshore Attractiveness Index – ITO, 2005



Source: NeoIT (2005)

As can be seen in figure 7.1, India dominates the ITO landscape. India is followed by Canada and China. Poland, the Czech Republic and Hungary form a group of new players on the ITO market. In the same region Romania stays behind. Although it is the most cost-competitive one it lacks in other areas such as service maturity, nor is it an EU member. Surprisingly, the Philippines do not score high. Especially service maturity and the people factor do not score high here. South Africa is ranked last. This has to do with moderate scores overall.

Another interesting table to find out more information about your competitors is table 7.2. It details each country’s suitability on a variety of business factors. As shown, India offers practically every kind of ITO service mentioned in the table. Of the other real developing countries there is not one that offers the same number of ITO services. When looking at the countries in Eastern and Central Europe it can also be said that they offer a large number (most) of the services mentioned in the table.

When looking at services solely, it shows that all countries offer CAD services. Practically every country present in the table also offers application management & support, multimedia & animation and web-based applications.

Table 7.2 ITO competency-destination matrix, 2005

	Brazil	Canada	China	Czech Republic	Hungary	India	Ireland	Malaysia	Mexico	Philippines	Poland	Romania	Russia	South Africa
CAD	•	•	•	•	•	•	•	•	•	•	•	•	•	•
QA/testing			•	•		•	•						•	
Application Management & Support	•	•		•	•	•	•		•	•	•		•	
IT Consulting		•				•	•				•			
System Integration/ EAI	•	•	•			•	•		•		•		•	
Packaged S/W Implementation		•				•	•	•					•	
S/W Localization			•	•	•				•			•		
Infrastructure Management Services	•	•				•			•					
E-business	•	•				•	•				•		•	
Embedded Technology			•			•							•	
Multimedia & Animation		•	•	•	•	•	•	•	•	•	•	•		•
Web-based Applications	•	•	•			•	•	•		•	•	•	•	•
Wireless technology		•	•			•	•						•	
EA (ERP, CRM, SCM, DW/DI, KM)		•		•	•	•	•				•			

Source: neoIT (2005)

7.2 Useful sources

- AT Kearny - http://www.atkearney.com/shared_res/pdf/GSLI_Figures.pdf
- CIO magazine http://www.cio.com/archive/071506/2006_global_outsourcing_guide.pdf
- EIU - http://graphics.eiu.com/files/ad_pdfs/eiuOffshoringWP.pdf
- NeoIT - <http://www.neoit.com>

China

- China Software Industry Association (CSIA) - <http://www.csia.org.cn>
- China's software industry - current status and development (PDF file) <http://zlin.ba.ttu.edu/papers/Outgoing/GITM-ITC-3.pdf>

Czech Republic

- Asociace pro poradenství v podnikání - <http://www.asocpor.cz/>

Hungary

- Hungarian Software Alliance (HSA) - <http://www.h-s-a.hu>

India

- NASSCOM - <http://www.nasscom.org>
- Outsource2india - <http://www.outsource2india.com/>

Philippines

- Digital Philippine Foundation - <http://www.digitalphilippines.org>
- European I.T. Service Center (EITSC) - <http://www.eitsc.com>
- Outsourcephilippines - <http://www.outsourcephilippines.org/>

Poland

- American Chamber of Commerce in Poland - <http://www.amcham.com.pl>
- Polish Chamber of Information Technology and Telecommunications - <http://www.piit.org.pl>

Russia

- Outsourcing-Russia - <http://www.outsourcing-russia.com/>
- Select 'database of Russian Offshore Software Development companies' for an overview of companies.

8 TRADE STRUCTURE

Section 8.1 contains information on the trade structure for developing countries. The distribution channels for software, IT services and outsourcing have been separated in this chapter, although in practice, these channels mix. This is because some major companies provide both software and services to their customers. For the purpose of this survey, both channels have been separated to give the developing country exporter an idea of the possible distribution channels. In section 8.2 useful sources for more information can be found.

8.1 Distribution channels

In general, the best possibilities for developing country exporters definitely lie in outsourcing. Supplying software products on the EU market would demand such a huge investment of resources and marketing costs that no company or group of companies could afford it. It is very difficult to build distribution and support channels. Niche products are an exception to this. A specialist firm that can supply a specific piece of software for a key sector could have a chance of success. But even then, marketing costs will be huge. Some important success factors would include:

- Specialised software for a niche market.
- Solid and proven global client base.
- High-level support services.
- Competing (price, features, quality, reliability, etc.) against global market leaders in their own category.

From practice, it becomes very clear that multinationals, like banking company ABN AMRO and other large companies, perform their outsourcing process on their own. They set up their own offices or make agreements with other major outsourcing providers. They will –as a rule– seldom do business with SME providers from developing countries. For DC exporters, therefore, the SMEs in the EU form the most potential target group.

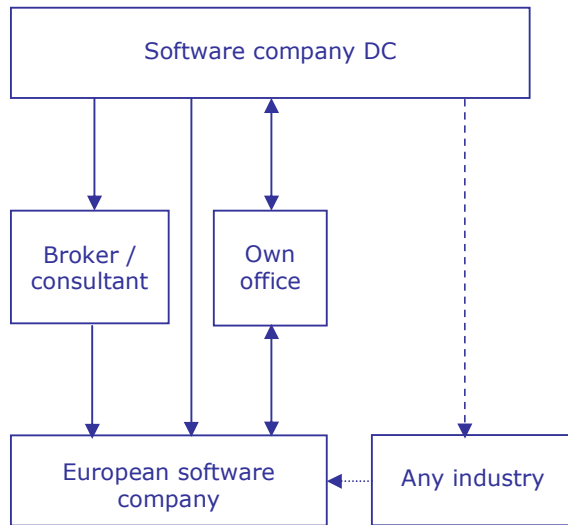
A distinction in the trade structure for developing countries in outsourcing software and IT services outsourcing should be made. First, the level of education differs. Developing software requires, in general, an advanced technical knowledge, while only basic training is needed for IT services. On top of that, language proficiency is a requirement in IT services. Although English is the primary language in demand, the demand for outsourcing services in languages such as German and French is increasing. Examples of the need for language proficiency are on-line support and transcription services (e.g. medical notes that are poorly handwritten may require some degree of familiarity with different scripts of the local language).

Second, the nature of both areas of outsourcing differs. Outsourcing is a communication intensive business, in which some programmers spend about 50% of their time interacting with others. It involves an interactive process of building, checking, revising and testing. Almost every project is unique, requiring the same time-intensive attention. This differs from IT services. For IT services, the complexity is in the start-up process. Once the process is established, there is far less need for communications. The level of education and communication will influence the trade structure of software and IT services.

Trade structure software outsourcing

Figure 8.1 shows the most common distribution channel for developing country outsourcing service providers in the software industry.

Figure 8.1 Distribution channel outsourcing software

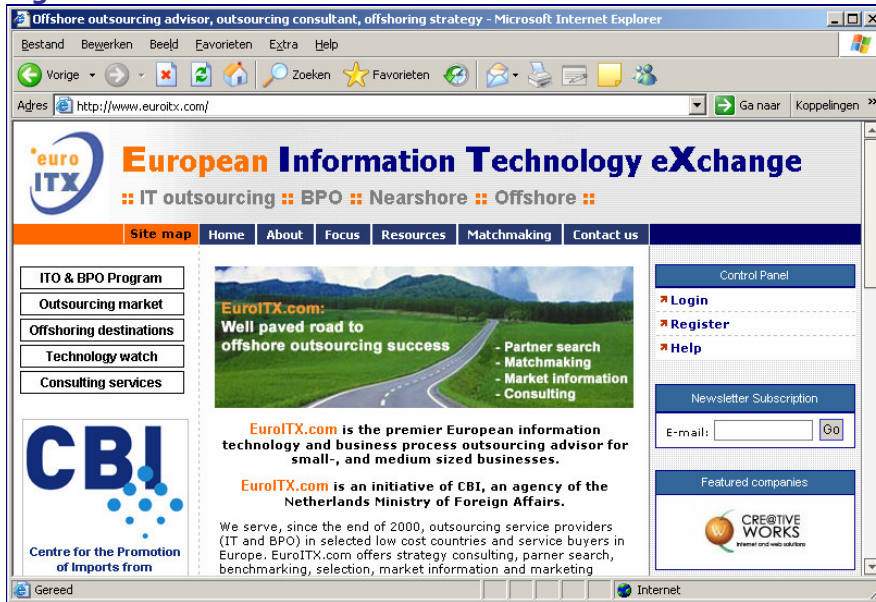


Outsourcing service providers in developing countries that look to enter the EU market in general have four options. Establishing a sales office in a EU member country is the first option. It could be wise to do this in a joint effort. For example, the government or the industry association might contribute to such a presence, allowing several companies at a time to profit from the office and facilities.

Another possibility is to cooperate with a middleman, a specialized broker and/or outsourcing consultant. In practice, there may be a difference between these, as brokers more or less focus on matchmaking. They typically establish relationships with multiple offshore providers, and then channel work to these firms as they acquire business. These solution providers tend to have a deep knowledge of the outsourcing business, as well as extensive business networks that they utilize to secure new contracts. Beside matchmaking, consultants advise and provide a wide range of support services on the whole outsourcing process as well. More information on brokers and consultants can be found in section 11.3.

An interesting example of a broker is the European Information Technology exchange. It is a European one-stop-shop that provides information for both buyers and suppliers of offshore IT (enabled) services outsourcing. Their website <http://www.EuroITX.com> has three units: Intelligence, Marketing and Supply-Demand. The Intelligence unit contains, creates and maintains all the information, papers, external resources and news. The Marketing unit promotes the associated service providers from developing countries. The Supply-Demand unit manages and develops the database of company profiles. This database contains both suppliers and buyers. It focuses on suppliers from developing countries and buyers from Europe. EuroITX is sponsored and supported by CBI (<http://www.cbi.nl>), refer to figure 8.2.

Figure 8.2 Euro ITX



Source: <http://www.euroitx.com> (2006)

In practice, these first two options are most common. In addition, there are two more options. The first would include working with EU software companies directly. Although almost any industry could be a potential outsourcer of software development projects, European software companies themselves are the most interesting target group for the exporter from developing countries. Industries in Europe do not turn directly to service providers in developing countries very often. Usually, EU industries contact a EU software company that sometimes outsources the project partially or fully to developing countries.

The second option is that European software companies set up businesses in developing countries themselves. In this model, European companies establish subsidiaries abroad. This is useful if large amounts of software need to be created. For this purpose, enterprises such as Philips, Vanenburg and Invensys/Baan have set up subsidiaries in India. The ABN Amro Bank operated a software facility in Lahore (Pakistan). Another IT-firm recently set up an office in Kathmandu (Nepal).

Trade structure IT services outsourcing

Figure 8.3 shows the most common distribution channels for developing countries within the IT services outsourcing industry. It has the same options, although there are some differences and extra possibilities. For outsourcing IT services, local presence by having their own office or using brokers/consultants are the two most common channels as well. For example, Tata Consultancy Services, one of the large five Indian firms, has offices in many European cities (and more). Refer to the case study of Preciss Patrol Kenya as well.

Case study Preciss Patrol Kenya (<http://www.precisspatrol.biz/kenya.htm>)

One of the key success factors of the Kenian company Preciss Patrol was to open a small liaison office in Massachusetts (USA). In the beginning, it was a company specialized in simple data mining and specialized research on the Internet. The existence of an office in Massachusetts greatly facilitated various operations such as marketing, banking and communicating with potential clients. In four or five months, PrecissPatrol was able to cover its operating costs.

Source: Unctad 2003

In general, it has been difficult for companies in developing countries to enter into partnerships with large service providers (system integrators) in Europe directly, such as CMG and Cap Gemini or other large professional services companies like Accenture, Ernst & Young, Dimension Data, EDS, IBM, PwC Consulting, Unisys and Xansa. Although these companies may not actively promote their offshore capabilities, they will make use of DC suppliers in order to reduce project costs and shorten delivery time scales.

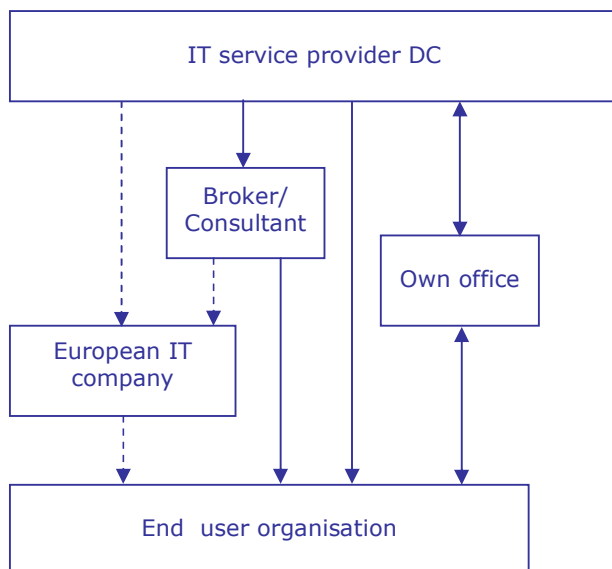
Contrary to the software outsourcing industry, exporters of services from developing countries could contact the end-user organisations directly, such as banks and financial institutions. This is the fourth option. Some already use services from developing countries. These include, for example, companies that outsource data entry and other services. They also tend to be larger and are frequently multinational corporations. However, this is probably not a viable model for new entrants into the outsourcing field since most European companies enter into their outsourcing relationships through a European-based company. This is especially true for smaller companies. Refer to section 6.2 for a sector comparison on the responsibilities that EU companies would like to outsource and in what way this differs by sector.

According to Sampath (2004) and exhibitors from CeBIT 2005, the following pattern can be distinguished in the purchasing strategy of European companies divided by size:

- The Fortune 1000 do business directly with offshore suppliers or have their own company.
- The large caps (companies with a turnover of over € 300 million) do business with offshore suppliers, local intermediaries or local suppliers.
- Large to medium sized companies (> € 100 million) do business with local intermediaries and local suppliers.
- Medium sized companies do business with local suppliers and local intermediaries.

As an addition, outsourcing service providers of software and IT services could use the following model as well. Local offices of multinationals in the home country of the service provider could be used as a bridge to get into contact with its other offices spread all over the world. For example: once a service provider has worked for Shell in developing country X, it could do the same job for Shell in EU country Y.

Figure 8.3 Distribution channel outsourcing IT services



Over the last decade, frontline IT services firms have relied on organic growth. Through the 1990s, the IT services firms set up global delivery centres bit by bit, on their own, across the world. Over the last four years, the IT services firms have changed tack and are scaling up

these centres to provide customers with a blended model: an on-shore, near shore and off-shore capability, depending on what customers want.

8.2 Useful sources

- Offshore Outsourcing Best Practices - <http://www.oobp.org/default.aspx>
- Ventoro – <http://www.ventoro.com/Offshore2005ResearchFindings.pdf>
- European Information & Communications Technology Industry Association (EICTA) - <http://www.eicta.org>

9 PRICES

9.1 Prices

NeoIT predicts prices for Offshore ITO services will appreciate slightly. Offshore service providers have demonstrated the ability to offer more than cost savings to clients; business transformation opportunities are provided as well. As a result established providers will be able to ask premium pricing, though the overall price increase will remain under 3% in 2006.

But there is also a price pressure in the offshore market. The price pressure seems to be particularly strong in the low skill segment, i.e. for IT services with low requirements on the skills and experience of those providing them. In addition, the consulting company Meta Group expects declining prices in the traditional software market (supply of standard software) of up to 35% by 2008 and another 15% by 2010. IT service providers face a challenge, therefore, either to find new ways of avoiding the competitive pressure on prices, or to deal with it by lowering costs. New developments in the field of IT and e-business may help overcome these challenges. The integration of open source components or the outsourcing of development tasks to offshore providers, for example, are frequently discussed strategies for focussing on core competencies and lowering costs.

Wages for IT outsourcing service providers in key offshore markets, including India, China and Poland, are increasing an average 8 to 11% per year, which is nearly half of what has been commonly reported, according to new findings by Everest Research Institute (May 2006). The lower figures reflect in part the efforts that offshore outsourcing suppliers have been making to control rising labour costs, including the expansion of their operations into second-tier, lower-cost cities and countries, as well as exchange rate movements and other factors. Despite salary increases in key offshore markets, the idea that India and other key markets will price themselves out of the outsourcing business in the short term is unfounded.

In table 9.1 it can be seen that the countries in Asia are in fact the least expensive outsource destinations. Popular destinations like India and the Philippines are still among the least expensive outsourcing countries. However, as the industries in those destinations mature, labour costs will also rise. But, as said before, they will not be priced out of the market. The countries in Eastern and Central Europe are somewhat more expensive but still offer a lot of cost-saving opportunities. Other advantages that companies have in these countries are the language abilities and cultural compatibilities that are often better than in countries in Asia. With one or two exceptions, growth figures for 2005 until 2010 are below 8% and therefore on a moderate level.

Table 9.1 IT Salary levels in outsourcing countries, 2005

	Average Salary	Entry Level	Team Leader	Project Manager	Growth Percentage '05-'10
Vietnam	6,131	3,440	5,782	9,171	7.3%
India	9,896	5,715	9,374	14,597	8.7%
China	10,095	5,678	9,609	14,997	7.2%
Thailand	11,340	5,951	10,632	17,438	3.9%
Philippines	12,522	7,277	11,887	18,402	6.8%
Romania	15,743	9,085	14,606	23,536	4.8%
Brazil	15,935	9,410	15,068	23,326	5.4%
Slovakia	17,395	9,285	15,050	27,850	4.2%
Russia	21,018	12,131	19,690	31,235	7.2%
Costa Rica	21,083	11,794	19,995	31,460	7.2%
Malaysia	21,823	12,953	20,712	31,803	4.4%
Mexico	22,484	13,176	21,029	33,246	4.8%
Czech Republic	22,500	12,010	19,500	36,096	6.5%
Hungary	25,174	14,606	23,322	37,595	5.8%
Poland	29,393	16,536	27,567	44,076	5.3%
South Africa	39,696	20,357	34,694	55,036	4.0%

Singapore	41,512	24,003	38,873	61,660	3.3%
Canada	43,841	25,845	41,894	63,785	3.9%
Ireland	57,072	32,130	53,002	86,085	3.2%
Israel	39,880	23,038	38,294	58,307	3.1%
US	79,107	46,194	75,166	115,962	3.6%

Source: NeoIT (2006)

Section 14.3 gives more information on price models.

9.2 Useful sources of price information

As it is quite difficult for suppliers of software and IT services to give exact prices, it is also hard to obtain information about current price levels. Software products can be broken down into licence prices per module and number of current or named users. The licence prices are usually found on the websites of the software suppliers. Information on implementation costs can be found in reports concerning business software, also giving ranges of costs for software and implementations.

Outsourcers / exporters have access to this information by using several sources. The main ones are:

- Industry associations
- Offices for statistics (per country)
- Trade press
- Websites of competitors
- Everest Research Institute - <http://www.everestresearchinstitute.com/>
- NeoIT - Offshore and Nearshore ITO and BPO Salary Report - <http://www.neoit.com>
- Visiting trade fairs.
- Salary expert - <http://www.salaryexpert.com>

Choose the job position and the country to see the salary level for that position in the country.

10 MARKET ACCESS REQUIREMENTS

As an exporter in a developing country preparing to access EU markets, you should be aware of the market access requirements of your trading partners and the EU governments. Requirements are demanded through legislation and through codes and management systems. These requirements are based on environmental, 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 may demand.

10.1 Legislative requirements

European legislation is compulsory for all products traded within the EU. 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 in the category search, click on the search button and click on legislative requirements for an overview of all documents on legislation.

EU rules on public sector information

This EU directive aims to harmonize the conditions under which public sector information is made available for commercial exploitation. Existing differences in the approaches taken by Member States have made it difficult for companies to develop value added pan European information services based on raw public sector data. More information:

Directive 2003/98/EC

http://europa.eu.int/information_society/policy/psi/docs/pdfs/directive/psi_directive_en.pdf

European Commission website on Public Sector

http://europa.eu.int/information_society/policy/psi/index_en.htm

TUPE

Under the European Transfer of Undertakings for the Protection of Employees (TUPE) <http://www.dti.gov.uk/employment/trade-union-rights/tupe/page16289.html> and <http://www.opsi.gov.uk/si/si2006/20060246.htm> regulations, companies that outsource offshore existing in-house agents, or outsourcers that decide to move some or all of their operations outside of Europe, must negotiate with the affected agents to transfer their individual work contracts. Settlements under TUPE include buying agents out or in more extreme cases offering to pay them to work offshore at EU wages. Once settlements are reached that still may not be the end of the matter. Some employees are now suing to get their jobs back. But this law does not affect companies that plan to outsource offshore to supplement existing call centres or outsourcers adding capacity offshore.

Redundancy laws

The issue of moving jobs overseas has encountered much concern in some member countries of the EU, as they fear loss of employment in the IT sector. In Germany and France the discussions about this topic are very hot at this moment. Labour unions put pressure on the German and French government to take protective actions. Exporters from developing countries could be hit adversely if protective measures were to be taken. Exhibitors of offshore outsourcing on CeBIT confirm these developments in the market.

10.2 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 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.

Responsible offshoring

Another issue that is increasing in importance is Corporate Social Responsibility (CSR). Consumers are more and more conscious of companies’ ethical behaviour and the products/services they acquire. In the IT business, health and social issues are becoming important, e.g. workspace for employees, pension plans and health insurance.

Judy Kuszewski and Kavita Prakash-Mani (2004) highlighted twelve steps companies can take to manage the CSR implications of offshoring, both in the home country and the recipient country:

1. Consult with affected stakeholders before making a decision to offshore.
2. Clearly articulate policy and be honest and transparent about company decisions.
3. Limit or avoid involuntary redundancy.
4. Invest in retraining and skill development for affected employees.
5. Work with communities to help find ways to fill the gaps created by offshoring.
6. Work with suppliers in the recipient country to develop best practice and CSR awareness.
7. Set standards for suppliers, and monitor their implementation.
8. Train and develop new employees and provide growth opportunities.
9. Help employees deal with psychological and cultural issues that may be involved.
10. Listen to local stakeholders to understand their needs and perspectives.
11. Invest in community, to secure the company’s long-term social licence to operate.
12. Share technologies and skills to enable local people and companies to advance.

More information can be found on

http://www.sustainability.com/downloads_public/insight_reports/good_migrations.pdf

These quality standards are expensive. There are, however, some initiatives to obtain these quality standards in a less expensive manner. Industry associations sometimes contribute as well as some governments. A check on this may be well worth the effort! Furthermore, it should be noted that The Centre for Internet Studies found some proof that these certifications are less important for smaller companies. For them, flexibility is the most important issue.

10.3 Tariffs and quota

You can download information on requirements on tariffs and quota in specific EU markets from the CBI website. Go to ‘Search CBI database’ at <http://www.cbi.nl/marketinfo>, select your market sector and the EU country of your interest, click on the search button and click on ‘market size, distribution, prices and margins’ for an overview of documents on the country of your interest.

Computer software and IT services are services, so they are not submitted to import duties. VAT taxes and outsourcing are a hot issue in the EU. VAT is a tax, levied by the individual member countries in the European Union. It is added to the price of products and services and will therefore influence the price consumers and companies have to pay. These VAT-rates differ per EU-country and are shown in table 10.1.

Table 10.1 VAT-rates applied in the EU-member states, 2006

Country	VAT rate
Belgium	21
Czech Republic	19
Denmark	25
Germany	16
Estonia	18
Greece	19

Spain	16
France	19.6
Ireland	21
Italy	20
Cyprus	15
Latvia	18
Lithuania	18
Luxembourg	15
Hungary	20
Malta	18
Netherlands	19
Austria	20
Poland	22
Portugal	21
Slovenia	20
Slovakia	19
Finland	22
Sweden	25
United Kingdom	17.5

Source: <http://www.expatax.nl/vatrates> (2006)

In the software and IT services industry, the following general rule applies: VAT is paid in the country where the service is actually performed.

- Example 1) UK financial service company that outsources the helpdesk activities to a local UK company should pay VAT;
- Example 2) UK financial service company that outsources the helpdesk activities to a service provider in India should not pay VAT. The rules within India apply for the service provider with regard to VAT.

This means that service providers from developing countries have a competitive advantage compared to service providers in the EU. At the moment, there is a lot of discussion on whether or not to change this rule within the EU.

This concludes part A of this survey. Having analysed the information about demand, trends, outsourcing and access barriers of the computer software and IT services market in the EU, exporters will have to be able to make decisions in the export process. Part B is about this topic and will present some guidelines on entering the EU market.

11 EXTERNAL ANALYSIS: MARKET AUDIT

11.1 Market developments and opportunities

Part A has described the actual and future market situation for the EU market for software, IT services and outsourcing. From the data of chapters 4, 5, 6 and 7 some main conclusions can be drawn. For exporters from developing countries, industrial demand and the market for outsourcing in the member countries of the EU are very important indicators. There has to be a certain market and acceptance of the service, as exporters from developing countries generally cannot create a demand themselves. Some important developments can be seen in the software and computer software business:

- Market recovery for the whole European IT industry
- Trend for cutting costs in the EU
- (Offshore) outsourcing on the increase
- Emerging offshore locations (refer to chapter 6)
- Severe competition from Central and Eastern Europe (refer to chapter 7)
- Open source
- European companies concentrating on small budget projects

Market research

For exporters from developing countries, an analysis of the opportunities and threats in EU-markets is very important before making decisions. As a suggestion, focus your market research first on that service in your company that is the most competitive or unique. Of course, the demand side also determines this choice. Elements like market size of specific services, market developments (increase/decrease), prices, profitability, technologies, and types of users should be researched.

The CBI Manual 'Your guide to market research' (section 3.1.1 to 3.1.6) gives exporters information on conducting market research and how to find reliable sources. For more information you can also have a look at CBI's Export planner (section 3.1 and 3.2) and CBI's EMP document builder (chapter 3).

11.2 Competitor analysis

Exporters would want to have information on competition as well. When looking at the offshore outsourcing market, not only domestic companies, but also companies in other offshore locations are important to look at, as the Central and Eastern Europe and Asian areas are emerging as well. Not only the price is important. Other factors such as government support, availability of labour, education level, infrastructure, quality, cultural compatibility, proficiency of languages within the EU and time zone distance play an important role as well. Chapter 7 profiles the main offshore locations and their pros and cons. Furthermore, visiting trade fairs could supply an exporter with very useful information. Trade associations, both in the EU and in other offshore locations, could be of value as well by providing information on trends and member lists, for example.

Questions

A - Determine direct competitors

- 1) Which other developing countries and/or from Central and Eastern Europe have comparable software or IT services?
- 2) What are other companies in your country that offer a comparable product/service?

B – Analyse these competitors

- 3) What are their marketing policies?
Try to get information on their price-, product-, promotion- and distribution policy.
- 4) Which are the reasons for the (non-) success of their services?
- 5) How do they define and measure quality (technical capabilities and service levels)?

C – Determine your own strengths and weaknesses (refer to chapter 13)

- 6) Use this information to compare: exploit the strengths and eliminate the weaknesses.
- 7) Prioritise strengths and weaknesses; some are (far) more relevant than others.

More ways to get information that you might find useful:

- Analysing offshore locations (chapter 7)
- Finding websites of competitors (chapter 7 for offshore locations)
- Visiting trade fairs
- Contacting trade associations

For general information, refer to section 2.5.4 and 3.3. of CBI's Export planner, chapter 3 of CBI's EMP document builder and section 3.1.7 of CBI's Your guide to market research.

11.3 Distribution channel assessment

The choice for the most relevant sales channel is different for each individual exporter, since several factors play a role. The outsourcing decision making process by an EU company, as described in section 6.3, gives exporters from developing countries a good insight into what criteria are used to select an outsourcing partner and how important these are. According to the trade structure in section 8.1, the most relevant distribution channels for developing country exporters are, generally speaking, having their own sales office in an EU member country and using a specialized broker/consultant. The reasons to choose for each of them will be discussed below.

Sales office in a EU member country

The most important benefits of establishing an office in a member country within the EU follow below. It:

- Improves credibility
- Strengthens long-term relationship
- Improves communication and service
- Eliminates time difference
- Gives trust
- Creates better understanding of market
- Enables Face to face contact

As stated in section 8.1, it might be preferable to set up an office in a joint effort. For example, the government or the industry association could contribute to such a presence, allowing several companies at a time to profit from the office and facilities. Before starting such an operation, a thorough marketing plan should be drawn up, discussing in detail questions like: what are the expected revenues? What are the costs? Who is responsible for which activities? One of the great challenges is to find the right manager: the human factor is decisive. A good project manager leads the process and makes it run smoothly. Also take into consideration that in general it takes several years to reach Break Even Point. Part of the process is the decision where to locate a European office. Which country? Which region? Which city? The

country selection in section 13 could assist in choosing a target country and most suitable region within a country.

Broker / specialized consultant

If establishing and maintaining a sales office in the EU is not a feasible option, working with a broker and/or consultant could be the second option. In general, brokers and consultants serve the less experienced or starting EU-customers moving offshore. Exporters have to give up some margins as the services of these brokers/consultants have to be paid for, refer to section 11.4 as well. Once again, brokers focus more on matchmaking, although the working area of brokers and consultants sometimes mix. Some benefits of working with brokers/consultants are:

- Improved credibility and trust (probably the most important benefit for developing country exporters).
- Lower sales & marketing costs (compared to an own sales office)
- Easier access to the global markets
- Face to face contact
- Good local knowledge of the market
- Getting better visibility when recommended by the broker/consultant, thereby increasing their chances of getting short-listed in the RFP.

Often, brokers/consultants advise customers to have several vendor channels for best pricing. Though such brokers/consultants act as the agent of the customer, they often require the vendors to register with them, and pass through a pre-qualification process involving an audit. Some large outsourcing consultants are neoIT, McKinsey and GartnerConsulting, with an increasing focus on the Indian market. Outsourcing consultants currently facilitate less than 10% of the total revenues of the Indian IT sector. The credibility and trust of the broker/consultant are very important in this process. An example of a broker was mentioned in section 8.2. It is the European Information Technology exchange. Their website <http://www.EuroITX.com> has the goal to bring IT service providers of developing countries in contact with (potential) EU clients. The services offered are for free.

The choice for the distribution channel will vary per exporter. As a summary: seriously considering a local presence would definitely be recommended, with regard to the common practice in the market, the market developments and the opinions of experts. This should be preferably done by combining forces (industry associations or other service providers joining the effort). Carefully look at the advantages, disadvantages, expected costs and revenues, speak to colleagues/experts and take a decision. Working with a broker/consultant is an option when resources are not sufficient to establish your own sales office and/or when the company does not have enough trust or credibility yet. Although the main goal would be to establish a sales office, a possibility could very well be to start working with a broker/consultant and gain some experience with the market. If the results are good, the next step could be the sales office.

For general information, refer to section 4.6 and 4.7 of CBI's Export planner, chapter 3 and section 7.7 of CBI's EMP document builder and section 3.3.3 of CBI's Your guide to market research.

11.4 Price structure

As with prices, it is hard to give a detailed picture of the price structure in the software and services industry. The price structure varies per project, per client and per sales channel. Below follows an indication of prices and margins for the two most relevant sales channels.

Own sales office

In general, margins will be higher when a middleman is cut out. But, once again, price is not the only argument, as credibility and trust play an important role as well.

Brokers / consultants

The contracts that these brokers and especially consultants negotiate could, generally speaking, have tight pricing and somewhat lower margins than the current average levels in the industry. These brokers/consultants have a clear understanding of the detailed cost structure of the provider and, moreover, have relationships with several vendors. As a consequence, they are in a position to negotiate the best deal for the client in the EU. In most cases, service providers are asked to work out their breakeven costs (even excluding the sales and marketing overheads), and offer a 20-25% mark-up on these costs, meaning a net margin of 17-20% on sales. The pipeline of contracts being negotiated through such brokers is expanding.

Some examples in practice: in general, consultant NeoIT is known as price aggressive and will negotiate the lowest possible price for its clients. On the other hand, consultants McKinsey and Gartner are more likely to emphasise the qualitative aspects of the vendors. As mentioned in section 11.3, brokers/consultants often recommend clients to adopt a multi-vendor strategy to have at least one leading customer and one mid-size vendor, in order to keep pressure on the pricing from both vendors.

Refer to section 14.3 for drawing up an offer, and for general information, refer to section 2.5.4 and 3.3 of CBI’s Export planner, chapter 3 of CBI’s EMP document builder and section 3.1.7 of CBI’s Your guide to market research.

11.5 Product profile

This subsection gives a structure for setting up two product profiles for a computer software product (CRM) and IT Outsourcing. The exporter will find information on market requirements, market structure and practical tips on improving the quality of the products/services. It is an example and is meant to give the exporter an idea of how to improve or develop a service.

PRODUCT PROFILE – CRM		
<p>1. Product name: Customer Relationship Management</p>	<p>Main items:</p> <ul style="list-style-type: none"> Operational - automation to the basic business processes Analytical - support to analyze customer behaviour, implements business intelligence alike technology Collaborative - ensures the contact with customers (phone, email, fax, web, sms, post, in person) <p>Main material: service, n/a</p>	
<p>2. Market requirements: European quality standards ISO 9000 and ISO 15504</p> <p><u>Dimensions</u> In the CRM software market it is not only important to have a clear understanding of the IT market but also to have a good knowledge of business management processes. As a result, outsourcing works best for customer management processes that enterprises can easily isolate from the rest of their business. "It's great when the requirements are very well known and the process doesn't change much and the outsourced application is fairly isolated from the rest of the enterprise operations."</p>	<p>3. Market Structure:</p> <p><u>Average prices (retail)</u> Many solutions and prices differ per solution. Price will continue to be a key factor in the software market. Preference is for fixed-price projects.</p> <p><u>Market trends</u> Outsourcing CRM trends are price, quality, audits of outsourced CRM services, offshoring and near shoring, leadership(demand for CRM through leadership and partnership with outsourcer’s clients)</p> <p><u>End-users</u> The most important end-users of CRM systems:</p> <ul style="list-style-type: none"> Manufacturing industry 	<p>4. Main suppliers: Vendor ranking across the five countries shows SAP dominating in Germany, while Siebel (recently taken over by Oracle) leads in France, Italy, Spain, and the U.K.</p> <p>Largest companies and their market share: -SAP (GERM 23%) -Siebel (US 13.7%) -Oracle (US 3.5) -SAS (US 2.1%) - Amdocs (US</p>

	<ul style="list-style-type: none"> • Banking and insurance <p>Others are telecommunications industry, utilities, retail, services and public organizations and transportation companies.</p> <p>Major users are very large companies but the SME market is expected to grow. Decisions for CRM are made by CEOs, and marketing and IT departments.</p> <p>Most important for an outsourcing decision is determining the intensity of the customer relationship (frequency of contact with customers, economic value for company). "Service-oriented companies (maximizing value of their customer relationships) shouldn't outsource. This is better suited to small and medium-sized companies that lack the requisite expertise.</p> <p>Reasons for outsourcing are to improve company focus, reduce and control operating costs, free resources for other activities, gain access to world-class capabilities, resources not available internally.</p>	<p>1.6%)</p> <p>In addition to the relatively large IT service consulting firms, there is an increasing number of smaller companies, which specialize in this complex area and are expected to have positive growth potential through their product and specific industry knowledge.</p>
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PRODUCT PROFILE – IT OUTSOURCING		
<p>1. Product name: IT outsourcing</p>	<p>Main items:</p> <ul style="list-style-type: none"> ▪ Software related services (including web and web technology based software services): coding, testing, localisation, re-engineering, maintenance, (web) application development, web site development, etc. Any or all parts of the software development lifecycle, key process/practice area (engineering, project management, quality assurance) or product component(s) might be outsourced. ▪ IT infrastructure services: remote maintenance and monitoring, product support (hardware, software), IT security, network monitoring and management, desktop management, etc. ▪ IT Intensive Services: CAD/CAM, CAE, GIS, animation, graphics design, etc. <p>Main material: service, n/a</p>	
<p>2. Market requirements:</p> <p><u>Quality standards:</u> A few major quality standards are applicable;</p> <ul style="list-style-type: none"> ▪ ISO 9001 ▪ CMMI ▪ ISO 17799 <p>The above major standards address the key practice areas of software development (project management, engineering and quality assurance) and/or key processes in the organisation (HR, finance, etc.) There are also best practices, other standards and industry recommendations which address various practice areas, e.g. ISO 12207 - lifecycle process, agile software development - engineering, etc. Recently, efforts are made to introduce Six-sigma in software organisations and map Six-sigma with CMMI</p> <p><u>Import regulation:</u></p> <ul style="list-style-type: none"> ▪ In some domain areas data protection is of the utmost importance (e.g. healthcare). The EU has a data protection law along with national policies. ▪ Intellectual property is another fundamental issue which, again, is regulated by the EU; ▪ Other non-tariff barriers ▪ The above legal requirements are not mandatory in all market segments, only where they are applicable. More information is at: ec.europa.eu 	<p>3. Market Structure:</p> <p><u>Average prices:</u> price is still the major motivation in offshoring but buyers consider many other factors such as geographies, skills, experience and quality. Prices are usually quoted in man hours. The average price is between EUR 10 - 60 / man hour. This again, depends on many factors, such as; size of project team, length of the contract, skill levels, and technology</p> <p><u>Main markets:</u> The main EU markets are Germany, the United Kingdom, The Netherlands, Belgium, Finland and Sweden.</p> <p><u>Market trends:</u> Historically the most active country in offshore outsourcing of IT services is the United Kingdom. Nevertheless offshoring is gaining momentum in Belgium, The Netherlands and Germany as well.</p> <p>Multi-national and global companies are still the forerunners of offshoring. Though, in the past few years more and more SMEs also capitalise on offshoring.</p> <p>The average sales cycle is 8 - 12 months. Many companies in the EU would prefer near shore locations. Decision making takes into consideration many issues, such as labour market conditions, political situation, trade unions and society along with questions closely related to offshoring.</p>	<p>4. Main suppliers:</p> <p>The largest and best known supplier is India. China is gaining popularity. Russia is another major supplier of IT services along with some of its former republics.</p> <p>Some of the new EU members also on the supply side of IT services, such as Hungary, the Czech Republic and Poland. Competition is expected to grow stronger when Romania and Bulgaria join the EU.</p> <p>Other Asian and Latin American locations are less popular in Europe.</p> <p>Many suppliers have experienced market entry difficulties to continental Europe, because of language differences.</p>

12 INTERNAL ANALYSIS: COMPANY AUDIT

12.1 Product standards and USP

Standards

Trust and competence are very important in the market and therefore it could be to the company's advantage to have some form of internationally recognised quality certification. The two most important quality standards in the computer software and IT services industry:

1. ISO 9000
2. Capability Maturity Model (CMM, preferably at least level 3)

Service Level Agreement (SLA)

SLAs are an effective means to quantify the services that you provide to clients and to continuously improve your services. SLAs are essential for external outsourcing engagements because they form a vital part of the contract. Furthermore, the quality of the SLA is one of the pillars of a healthy long term outsourcing relationship. Developing SLAs involves the definition of service level requirements and related metrics. The SLA contents should be jointly developed and agreed upon by the ITO service provider and the service recipient. Key factors to develop an SLA, which is manageable, and support successful long term outsourcing relationship are:

- Risk and reward sharing
- Flexibility
- Mutual benefits

More information can be found at www.euroitx.com (hit 'focus').

Quality of service

Quality is always very important when supplying services to a client. In this case it is even more important as it contributes to the trustworthiness of a developing country service provider. Practice learns that an excellent project manager is a critical condition for success. In order to give that guarantee or even improve quality, providers could make sure that project requirements are well known and clearly defined, communicated, understood and measurable. This could mean clear and concise process requirements, work descriptions and agreements. Furthermore, a contact list and action plan could be drawn up in case a problem cannot be resolved immediately. Certainly for beginning exporters, it could be wise to focus on one area and to specialize in this to be able to supply the client with outstanding service. Once the client is satisfied, the services could be expanded.

Data security

Worries for data security are another element service providers should take into account. EU organizations evaluate outsourcing vendors on whether they have sufficiently robust security practices and in what way vendors can meet the security requirements the EU organizations have internally. Most EU companies would not risk security breaks or the loss of intellectual property. Exporters should therefore fully address privacy concerns. One way to do this is by documenting the requirements and the methods, refer to section 14.3 as well.

USP

The more unique the product or service is, the higher the chance of success and profit for exporters. If it has some special characteristics that the competition will have a hard time copying, exporters have an advantage. This is called a USP, a unique selling proposition. Be sure to communicate this to the client, as it is a strategic advantage. In this USP lies the negotiating power of service providers. Remember, the main benefits of outsourcing are perceived to be:

- Ability to measure value for money
- Guaranteed service levels
- Access to a greater skills pool
- The ability to focus on the job at hand.

Questions quality and standards

- Are there any subsidies to obtain standards? For example trade associations and/or government of developing countries sometimes subsidize the process of getting certified.
- Does your client appreciate a standard?
- Have all services/processes been properly described and measured in order to meet the SLA? Is it necessary to adjust the SLA?
- Do your competitors (both foreign and local) have standards? If so, which ones?
- Do you have a (or several) very good project manager(s) at your disposal?
- Are you sufficiently flexible, if necessary?
- Are procedures and project requirements well defined and communicated?

Questions Unique Selling Proposition (USP)

- What are typical characteristics of the service compared to the competition's service (especially in Western Europe)?
- Which of these are not easily imitated by competitors?
- How will you communicate this message?
- Which of these factors are most important to the buyers and end users of your business or brand?

For general information, refer to section 2.1 to 2.4, section 2.5.2 and section 4.2 and 4.3 of CBI's Export planner and section 4.1 and Section 7.5 of CBI's EMP document builder.

12.2 Marketing and sales

There are many ways an exporter could make use of marketing techniques. If an exporter opts for a structural export of his services, his organisation has to be adapted to this. He has to set a policy and choose instruments to achieve his goals. Some main items to be evaluated are:

- Organisation of your own sales office in the EU
- Promotion

Questions organisation of your own sales office in the EU

- Does the sales manager have sufficient relevant contacts in the target country?
- Is he capable of speaking the local language and dealing with the business culture?
- Is he able to obtain information on the DMU within the potential client's organisation?

Promotion**Promotion**

- Which main trade fairs do you (have to) visit and are you able to do so (refer to section 14.5.1)?
- What are possibilities for advertisements in relevant trade magazines and can you afford them (refer to section 14.5.2)?
- What are the possibilities for free publicity and are you capable of writing a press release (refer to section 14.5.2)?
- Do you have a good quality website (refer to section 14.5.3)?
- What are Direct Marketing possibilities and can you find the relevant contact persons (refer to section 14.5.4)?
- What are relevant international business events on outsourcing and can you afford this? (refer to section 14.5.5)?
- Are your company details known with referrers like Embassies, Chambers of Commerce and trade associations?
- How frequent should your visit to the customer be and can you afford this?
- Are you able to localize a foreign national within the potential client company (diaspora, refer to section 14.5.5)

The choice for the sales channel will influence the way these instruments will be used. For example, the sales support materials for establishing your own office can differ from the materials for a broker/consultant. Refer to section 11.3. For general information refer to section 2.1 to 2.4 and 2.5.2 of CBI's Export planner and section 4.1 of CBI's EMP document builder.

12.3 Financing

The management has to be willing to allocate sufficient funds and create an adequate budget for export activities. Exporters who want to break into exporting will need funds for working capital, product/service modification, medium term credits to overseas customers, and operations such as staffing, communications and travel budgets. If internal funds are not available, think about securing funds through commercial banks and other financial service providers who can help you meet your long-term objectives.

Questions

- What would be the minimum budget to establish a sales office in a EU member country and would it be available?
- Do you need external funds?
- If yes, which resources are willing to fund?
- Are there any subsidies, in your own or the destination country?

For general information, refer to section 2.1 to 2.4 and 2.5.2 of CBI's Export planner and section 4.1 of CBI's EMP document builder.

12.4 Capabilities

Operating foreign markets has consequences for the whole organization. Not only sales and administration are involved, management plays an important role as well. Typical for the outsourcing industry, there are some requirements on which basis EU companies decide to work with an offshore service provider.

Questions

- Do you have sufficient skilled personnel available?
- Is there a personnel connection with you and a potential prospect in the EU?
- Are you able to supply the client with a high quality service (refer to section 12.1)?
- Can your staff deal with foreign languages and cultures?
- Has your staff adapted to Western business practices and norms?
- Is the telecommunications infrastructure within your company of sufficient quality?
- Do you dispose of a legitimate Intellectual Property Rights (IPR) protection enforcement?
- Does your organization have access to sufficient software and hardware resources?
- Are you able to react fast when a client would demand a decision?

For general information, refer to section 2.1 to 2.4 and 2.5.2 of CBI's Export Planner and section 4.1 of CBI's EMP document builder.

13 DECISION MAKING

13.1 SWOT and situation analysis

A SWOT analysis looks at the companies:

- Strengths (to build on)
- Weaknesses (to cover)
- Opportunities (to capture)
- Threats (to defend against).

A tailor-made checklist could assist exporters in determining the specific strengths, weaknesses, opportunities and threats for their own situation. This checklist for the software and IT services industry can be found in table 13.1. Mark the box that shows how each issue will affect your organization, and whether it has a high or low influence on the company's performance. The final analysis should help the exporter develop short and long term business goals and action plans, business plan, export plan and an annual marketing plan.

Table 13.1 Checklist SWOT analysis (to be adapted to exporter's own situation)

Strengths/Weaknesses	Effect for your company			Influence on performance	
	Strength	Neutral	Weakness	High	Low
1 Quality					
Quality standards (ISO and CMM)					
Project manager					
USP					
Safety / security					
Definition and measurement of quality					
2 Marketing and sales					
<i>Sales office</i>					
Qualified staff (especially sales manager)					
<i>Price</i>					
Pricing strategy					
<i>Promotion</i>					
Trade fairs					
Promotional materials in several languages					
Trade magazines (advertisement and free publicity)					
Internet opportunities (website)					
Direct Marketing					
International business events					
Referrers					
Visits to clients					
Foreign nationals within EU client company (diasporas)					
<i>Distribution</i>					
Own sales office in EU country					
Cooperation					
3 Financial					
Financial stability (budget)					
Access to external funds					
Subsidies					

4 Capabilities					
Skilled personnel					
High quality service					
Dealing with foreign languages and cultures					
Telecommunications infrastructure					
Intellectual Property Rights protection enforcement					
Access to soft- and hardware					
Flexibility					

Opportunities/threats	Effect for your company			Influence on performance	
	Opportunity	Neutral	Threat	High	Low
1 Offshore outsourcing					
Demand					
Growth					
Trends					
• Internet					
• BPO					
• Other					
Price level					
Technology					
2 Economics					
Business culture / Language					
Stability exchange rate					
3 Competition					
Offshore locations (from developing countries and Central and Eastern Europe)					
4 Distribution					
Own sales office					
Broker/consultant					
5 Others					

13.2 Strategic options & objectives

Having completed the checklist for your own situation, determine the most important (for instance three) Strengths, Weaknesses, Opportunities and Threats items. Your own internal situation is now combined with the external environment in such a way that adequate strategies can be distilled. As a summary, table 13.2 shows the SWOT-combinations and the strategies in general.

Table 13.2 SWOT-combinations and strategies

	Strengths	Weaknesses
Opportunities	Grow	Improve
Threats	Defend	Problems

Now, insert them in the appropriate box in the matrix below, in the so-called SWOT-matrix (figure 13.1). The cells S, W, O and T are now completed and appropriate strategies can be thought of in the other cells.

- **Strengths+Opportunities (S+O)**

Use strengths to take advantage of opportunities. The strategies that result from combining these two should be exploited as much as possible. It may provide a sustainable competitor advantage.

Example

Assume the following situation for a service provider:

S= The exporter has a good technological knowledge.

O= Increasing use of Internet

S+O strategy= Develop a quality website

- **Weaknesses+Opportunities (W+O)**

Try to improve your internal weaknesses and consequently you should be able to take advantage of the existing opportunities.

Example

Assume the following situation for a service provider:

W= Little knowledge on EU-market and potential partners

O= Availability of 2 or 3 trade fairs, which is visited by the major part of the industry

W + O strategy = Visit relevant trade fair(s), for example the CEEBIT

- **Strengths+Threats (S+T)**

Try to defend against threats by using your strengths.

Example

Assume the following situation for a service provider:

S= Low labour costs and highly skilled workers

T= Lack of credibility and trust

S + T strategy = Establish your own sales office in EU country

- **Weaknesses+Threats (W+T)**

Minimize weaknesses and avoid threats. This is the worst scenario a service provider could face. Try to avoid this situation or withdraw from it.

Example

Assume the following situation for a service provider:

W= Low financial resources

T= Lack of credibility and trust

W + T strategy = contact brokers/consultants

Figure 13.1 Example confrontation matrix

	Opportunities (O) List opportunities
Weaknesses (W) List weaknesses	Threat (T) List threats

	<p>Strengths – S S1 Exporter has good technological knowledge</p> <p>S2 Low labour costs and highly skilled workers</p> <p>S3 Unique Selling Proposition (USP)</p>	<p>Weaknesses – W W1 Small player</p> <p>W2 Little knowledge of EU-market and potential partners</p> <p>W3 Low financial resources available for marketing efforts</p>
<p>Opportunities – O O1 Increasing use of Internet by target groups</p> <p>O2 Availability trade fairs, visited by major part of industry</p> <p>O3 EU software</p>	<p>S+O Strategies 1 Develop quality website (combination S1+O1)</p> <p>2</p> <p>3</p>	<p>W+O Strategies 1 Visit relevant trade fair(s) (combination O2+W2)</p> <p>2</p> <p>3</p>
<p>Threats – T T1 Image / lack of credibility and trust</p> <p>T2.1 Large IT service companies controlling the market</p> <p>T2.2 Tough competition</p>	<p>S+T Strategies 1 Establishment sales office in EU country (combination S2 + T1)</p> <p>2</p> <p>3</p>	<p>W+T Strategies 1 Contact broker/consultant (combination T1+W3)</p> <p>2</p> <p>3</p>

Defining options

Having defined his strategies by performing the SWOT-analysis, the service provider can divide them into three categories:

- 1) Strategies which are a must and which are carried out
- 2) Optional strategies, from which some are selected: choices have to be made by the service provider!
- 3) Combination of several strategies, if possible

Subsequently, the service provider can make an overview of his various strategic export options, then formulate his business/export objectives and choose his strategies. Elements of the SWOT can also be used as an input for the export marketing policy.

An export plan gives some necessary guidelines and direction to reach your goals. It helps define where you are now, where you will go, how fast this goes, what to do to accomplish your goals and how to deal with uncertainties and change. It does not always guarantee success, but it does help face important issues inside and outside the business. It allows you to develop strategies that should be built on strengths of the company and the opportunities that exist in the market and, moreover, it should reduce the risks.

As a summary, for the decision whether or not to export, the following strategic steps should be reviewed:

- 1 External analysis (market audit, chapter 11) and internal analysis (company audit, chapter 11);
- 2 SWOT (section 13.1);
- 3 Decision making & formulation of objectives (chapter 13);
- 4 Elements that can be used as input for the Market Entry Strategy (MES, as e.g. level of risk, price level) and Export Marketing Plan (EMP, next chapter 13).

In this situation, the service provider could choose between establishing his own sales office in a EU member country and working with a broker/consultant as a sales channel. A very good website is a must in this process.

Generally, the market entry strategy (MES) is determined after the external and internal analysis and the decision to export have been made. After this, an export marketing plan (EMP) is made. It contains details on how the service provider will export the selected service to the selected market(s) and by the selected channels.

For more information on writing an export marketing plan and a market entry strategy, please refer to chapter 4 and chapter 6 of CBI's Export planner, CBI's EMP document builder and section 3.3 of CBI's Your guide to market research.

14 EXPORT MARKETING

14.1 Matching services and the service range

First of all, exporters should adapt the service to the demands of the market and thus the buyer. As described in section 10.1, quality standards ISO and CMM play an important role in this, as they will increase the trust potential clients may have in the provider. Furthermore, especially for starting exporters, the quality of the service is a very important issue, refer to section 12.1. As mentioned in section 11.3, it could be wise, certainly for beginning exporters, to focus on one area and to specialize in this to be able to supply the client with outstanding service. Once the client is satisfied, the services could be expanded.

For general information, refer to section 4.2 to 4.4 of CBI's Export planner, section 7.4 and 7.5 of CBI's EMP document builder and section 3.2 of CBI's Your guide to market research.

14.2 Building up a relation with a suitable trading partner

Having evaluated the most suitable trade channel (section 11.3), it is time to put it into practice. Business partners have to be found and a relationship has to be established.

Dealing and communicating with business partners in the long term

It can take a long period – sometimes years – before a substantial contract is signed. Sales cycles are long, especially in the financial sector. Once a relationship has been established, it has to be maintained. Personal contact is essential. After establishing a list of possible trade partners it could be necessary to visit the market to meet them and assess their various merits. Take cultural differences into account when communicating with your trade partner. For example, trade partners from some cultures may initially tell you what they think you want to hear. Cultural traits can vary, even per EU-country. Refer to section 6.4 for this as well.

Business culture

Take the following example: business dinners are very common in the UK. In Germany, dinners are just to enjoy, foreigners will not be invited too quickly to join them. If this does occur, such an invitation indicates a very good relationship between the parties. On the other hand, in Italy a warm welcome is essential. Guests should initially insist on paying the bill, but should finally concede to the host. In France, there are two sorts of dinners. The first one is the one to generally start a relationship, with no strings attached. The second one is a dinner where transactions are not really concluded, but are discussed, in order to prepare the final deal. Handshakes are common in almost all EU-countries. Especially in France this is important. It is common to shake hands with all the people present in the room.

In general business practice, Europeans appreciate a follow-up. Confirm appointments and thank them for attending meetings. The French are impatient, be prompt in answering their requests. Send back a fax or an e-mail, just to let them know that the problem has your full attention and that you are working on the problem. In the German market, e-mail and (especially) fax are important. Be on time when visiting the German client; this is extremely important. When targeting the UK market, it could be useful stating distances in kilometres and miles.

For more information on how to build a business relationship, please also refer to the recently published CBI manual 'Your image builder' and chapter 5 of CBI's Export planner.

14.3 Drawing up an offer

The following section contains an example of how an offer in software development and software related services could be made. The example could be used as a framework for exporters' own offers, both in the software and in the services industry.

According to industry expert Laszlo Klucs there are three specific areas of importance with respect to software development:

- 1 Specifying what is wanted (requirements)
- 2 Ownership
- 3 Pricing software development.

Ad 1) Specifying what is wanted (requirements)

The definition of what exactly is being purchased is very important. It is essential for the purchaser to be able to state what they want and for the supplier to be able to provide a detailed price. The purchaser could therefore specify:

- The functionality of the software itself;
- The standards that the software is required to conform to;
- The environment the software will operate in;
- The performance of the software in the selected environment.
- SLA (refer to section 12.1)

These things may have been done already at the Request for Proposal (RFP) stage. If not, they need to be identified before a final agreement is established.

Ad 2) Ownership

The second area of importance relates to the difficult question of ownership of the completed product. There are a number of options and implications for both parties here. Service providers have a range of approaches to this issue, including:

- Building the software for the purchaser's specific needs.
- In this case the client owns the software and it is used only by his/her company. The
- Software is so specific to the purchaser's organisation that it has no market value outside the company.
- The supplier owns the developed software, licenses it back to the purchaser and reserves the right to license it to others.
- The purchaser owns the software and licenses it back to the supplier, who is allowed to market it as well.
- The purchaser and the supplier participate in a joint venture to market the software.

Ad 3) Pricing software development

The third area concerns the methods of payment for the software. There are generally two common ways to price software development:

- Fixed price
- Time and materials

Fixed price

A fixed price is the price for the whole project, no matter the extra materials or time it may take. In most cases, suppliers are likely to build in a much more controlled process to address changes of any sort to the originally specified system. This is done for their own protection. The supplier will deliver what was contracted for, even if the buyer were to decide it is not what he wants, unless the purchaser follows an appropriate change control procedure. This procedure could be defined in the agreement.

Moreover, the service provider, most probably, will charge a premium for a fixed price relative to the risks involved. The more defined the project to be delivered, the less the risk. The smaller the risk, the lower the premium. Despite this premium, the buyer still may prefer the apparent extra cost of the fixed price as it provides a degree of certainty.

Time and materials

The second method of payment would be a project based on time and materials. This allows more flexibility, but may lead to a less disciplined approach to the project. The supplier may not be formally bound to produce what the purchaser has asked for within a set cost and time frame. The risk for the buyer lies in the fact that the supplier may charge some extras, for example by adjusting the original requirements. Therefore, the responsibility lies much more with the purchaser to ensure that the costs do not grow significantly. It may be wise to include some change control procedures. These could be specified in the agreement as well.

In addition, the time and materials agreement could deal with other variable issues such the acceptable level of daily allowances and travelling. Both parties need to consider when payment for services will occur. Will this be in one amount at the end of the project, as the expenses are incurred or some other staged approach? If this latter method were adopted, the agreement would typically include a payment schedule that sets out the agreed milestones and the payments that become due upon their achievement. The agreement could also take into account what happens if any of the software development key parameters change. Are there extra payments to be made? How will the financial issues be dealt with?

Most contracts are written for shorter periods of time now than they were five or 10 years ago. It is now uncommon to enter into a 10-year contract; most contracts are written for periods of between five and seven years. While it is possible to get contracts for shorter terms, such as three years, this is less desirable for both the outsourcer and the vendor.

The long term of a contract may give a feeling of certainty to the service provider. But it has a main disadvantage as well, as markets and the economic climate may change. For example, some contracts signed in the late 1990s have been renegotiated and adapted to the new market situation. Including a benchmark clause could therefore be an idea. This allows reassessing and adjusting contract terms.

Selecting price methods

In IT outsourcing two benchmarking methods have emerged in terms of pricing: the price-down approach and the cost-up approach. The price-down method compares prices paid by the client against real market prices paid by other customers who buy similar services. This method works as long as price data for similar services is readily available. Where price data is available, but for different services, adjustments must be calculated to produce a fair market price.

The cost-up method calculates a fair market price by simulating the outsourcer's costs, based on the known costs of organisations delivering similar services in-house. These costs are supplemented by an extra premium to represent the outsourcer's overheads, profit, and risk. This process appears more complex than the price-down method, but is the only option when comparable market prices are not available. In practice, both methods are common. Selecting the appropriate method depends on a number of factors, summarised in table 14.1 below.

Table 14.1 Selecting price method

Price down method	Cost up method
Vendor's pricing is detailed Services are commodities and vendors price the service in similar ways Comparable price points are available	Vendor pricing is too high level Large multi-service contracts in which some services may have cross-subsidised others Insufficient comparable price points are available Contracts include a high proportion of intangible 'value add'

Source: <http://www.compassmc.com> (2005)

Currency

The most commonly used currency is the US dollar. But a good alternative would be the Euro (€).

Other possible issues

- What documentation is to be produced, to what standard, in which language and who provides it? Who installs the software and at what cost?
- What actions must be performed as a condition of acceptance (e.g. what tests will be carried out) and who performs them?
- What data conversion is required and who does this?
- What defect/issue resolution support is to be provided during the warranty period?
- What quality assurance tasks are required and who performs these?
- All the offshore contracts could specifically highlight the system of dispute settlement. Although there are international dispute settlement groups situated in London, Brussels and Geneva, it is recommended to clarify the legal aspects of dispute settlement in the outsourcing contract itself.
- Risk/reward sharing deals can become more common.

Some practical suggestions

Some suggestions for successful proposals:

- Make the offer as customized as possible. Show that you understand the buyer's specific needs by asking specific questions before stating the offer.
- Prove your expertise. As the 'expert' you could present solutions and outline your approach. Mention relevant experience and include some names of well-known clients.
- Quote a fair price. Inaccurate and unrealistic offers lower your credibility.
- Be aware that in the EU client may expect too much of the savings of the project. Some clients expect too much cost reduction when outsourcing offshore. To prevent this from happening, describe why you're worth the price and what additional value you'll deliver. Mention some hidden costs and your USP as well (refer to section 12.1).
- Study your competition. Find out about awarded projects in the past to find out what the winners did differently and adjust accordingly.
- Make a telephone call to ask whether the offer (and the brochures, if applicable) has (have) arrived and ask whether additional information is needed. This allows an extra contact moment with the client.
- Also take the cultural differences into account when sending an offer. For example, always approach a German in a very polite and formal manner. In France, the relationship with a client is very important. Terms and conditions are discussed later; first the buyer and seller have to have a good relationship. First get to know each other! Refer to section 14.2 as well.
- Make use of local lawyers.

Please refer to the CBI's Export Planner for more detailed information and definitions of payment methods.

Adaptive Sourcing

Based on inflexibility that doesn't account for the predictable patterns of technology adoption and deployment that every company goes through, Forrester (2006) proposes a new outsourcing business model — Adaptive Sourcing. It contains flexible contracts, pricing, and service delivery that adapts over time to customer needs and expectations.

More information

- Contracts, models and drafting - <http://www.intracen.org/laft/>
- Collection of more than 160 model contracts and users' guides
- Working effectively with standard outsourcing contracts – http://wp.bitpipe.com/resource/org_973204426_74/working_effectively.pdf
- Problem areas according to the Robert Frances Group are discussed, fees, service levels, ownerships and termination

- Elance – contract agreements –
http://www.elance.com/c/static/main/displayhtml.pl?file=signing_the_deal.html
- Legal Issues in Offshore Outsourcing | Business –
- <http://www.offshoreoutsourcing.org/legal-issues-offshore-outsourcing.asp>

For general information refer to section 4.5 of CBI's Export planner, section 7.6 of CBI's EMP document builder and section 3.3.2 of CBI's Your guide to market research.

14.4 Handling the contract

Once the agreement is signed, both buyer and supplier will have invested significant time and effort in completing negotiations and assembling all the required schedules into the final document. Both parties should now put this investment to work for them to ensure that all stages of the delivery, installation and acceptance are completed in accordance with their agreement and as agreed by both parties. From practice, a very important success factor could be both parties appointing one or more project managers. They will be responsible for managing the agreement and monitoring progress through each stage. They should each have a clear understanding of the contractual requirements and processes. In any software development, the project managers need to exercise strict control of changes to the requirements to ensure that costs, quality and time-scale are controlled. Communication between the other members of the project groups from the buying and supplying company should be stimulated. Cooperation could be optimised by the Internet, intranet, groupware and videoconferencing.

Example: chatting as main communication instrument

The Dutch IT company Decos, specialized in document management, owns a company in India. 10 out of 30 employees are working in India. Their communication runs by chatting. The experience is a very effective communication because most of the communication is writing instead of talking. Writing leaves much less room for interpretation and is therefore less likely to be misunderstood

More staff is onshore at the beginning of the transition. The ratio may also be adjusted based on complexity of the work and risk factors. Strategy, solutions architecture, prototyping, and design work are performed at the client site. Development and testing are performed offshore. User acceptance testing and implementation are performed both onsite and offshore.

More information

- Compass `The three year itch - Adjusting Outsourcing Relationships to a New Economic Reality (PDF file) –
- http://www.compassmc.com/white_papers/1ThreeYearItch.pdf
- For definitions of payment methods and delivery terms, refer to appendix 1 and 2 of CBI's Export planner.

14.5 Sales promotion

There are numerous tools to promote outsourcing services. Developing country exporters could focus their marketing on core sectors and niches and look to run events and seminars rather than big events. In general, a specialist seminar on a core topic area would bring in more benefit than attending a more general exhibition. Always explore cooperation with other companies, trade and/or promotion organisations.

14.5.1 Trade fairs

Trade fairs play a major role in product and service marketing in Europe. Participation in trade promotion events is highly recommended as one of the most efficient methods of testing market receptivity and finding prospective business partners in Europe and beyond. Experience in the Netherlands shows, however, that in the software and IT services sector, the success of trade fairs differs. Generally trade fairs will be not successful in the short run. They are certainly a good way to promote the country. Experience learns that, generally speaking, developing country exporters in the IT industry profit more from visiting a trade fair than from participating. However, this picture is changing today. For example the exhibitors of IT outsourcing on CeBIT 2005 and 2006 were overall satisfied with the number of the serious leads. CeBIT has a specific hall for outsourcing.

Table 14.2 lists some of the most important exhibitions and trade fair organisers in Europe in this industry. Note that every European country has its own IT fair, mainly targeting the local market. Exporters could ask European sources (e.g. software industry associations, local partners) for details. Internet is also a valuable source of information.

Table 14.2 Most important trade fairs in Europe

Country	Trade Fair	Website
Europe	Association of German Trade Fair industry	http://www.auma.de
Belgium	Siexpo Telecom cITy - The Marketplace for ICT-solutions	http://www.siexpo.lu http://www.tmab.be/
France	Infopromotions Le Salon de la Sécurité InformatiqueLocation MILIA, World Interactive Content Forum	http://www.groupe-solutions.com http://www.infosecurity.com.fr http://www.milia.com
Germany	CeBIT European Banking & Insurance Fair (EBIF), Frankfurt Systems	http://www.cebit.de http://www.ebif.com/ http://www.systems.de
Italy	SMAU	http://www.smau.it
Netherlands	Jaarbeurs	http://www.jaarbeursutrecht.nl
United Kingdom	RAI Online Information	http://www.rai.nl http://www.online-information.co.uk
Spain	UK Trade Fairs Feria Internacional de Informatica y Telecomunicaciones,Nuevas Tecnologias – SIMO	http://www.exhibitions.co.uk http://www.simo.ifema.es
Sweden	Comdex Stockholm International Fair	http://www.comdex.se http://www.stockholmsmassan.se/stockholmsmassan_eng/

Source: AUMA and own research (2006)

A thorough preparation is a key element in successful trade fair participation. The CBI manuals 'Your showmaster, a guide for preparation and participation in European trade fairs' and 'Your image builder' are very useful. Recently, the 'Expo Coach' was developed as well, helping to plan, prepare and participate in exhibitions more effectively and efficiently. They can all be downloaded at <http://www.cbi.nl>.

14.5.2 Trade press

An advertisement in a trade magazine could be another possibility. Table 14.3 can be helpful in selecting the right trade magazine. A very large number of IT magazines is available in Europe. Most of these magazines are mainly aimed at local markets; there are hardly pan-European IT

magazines on the market. The names of the popular magazines can be requested at the various European software industry organisations. Below you will find the most popular magazines for the selected EU countries.

Table 14.3 Important magazines

Country	Magazine	Website
Europe	International Data Group (IDG)	http://www.idg.com
	National Outsourcing Association	http://www.noa.co.uk
	VNU-net in Europe	http://www.vnunet.com
Belgium	Datanews	http://www.datanews.be
France	CIO France	http://www.idg.fr/cio/
	Informatique	http://www.01net.com
Germany	Le monde informatique	http://www.weblmi.com
	Computer Reseller News	http://www.crn-online.de
	InformationWeek Germany	http://www.informationweek.de
Netherlands	IT Banken und Versicherungen	http://www.bauve.de
	Automatisering Gids	http://www.automatiseringgids.nl
Spain	Computable	http://www.computable.nl
	VNU	http://www.vnunet.es/
Sweden	Computer Sweden (of IDG)	http://www.computersweden.se
	NyTeknik - The largest technical weekly magazine in Sweden	http://www.nyteknik.se/
United Kingdom	Computing	http://www.computing.co.uk
	Infomatics	http://www.infomaticsonline.co.uk
	ITWeek	http://www.itweek.co.uk

Source: Own Internet research (2006)

The trade press could be used for free publicity as well, as outsourcing is a hot issue in the European markets. A press release is the most common method to contact the press. Make them short and punctual and send them well in advance, depending on the target group. Remember that it is a neutral message with information, it is not an advertisement! Some practical suggestions for press releases include:

- Write it as if you were the journalist (saves time for the receiving person!)
- A tailor made press release may be worth considering: a journalist of a magazine may write another text than a national newspaper journalist
- Mind the timing! Newspapers will be interested in recent events, while supplements and event listings are written weeks (or sometimes months) in advance. Some monthly magazines are even planned up to a year in advance.
- Pay special attention to the introduction (lead). It should briefly answer who, what, where, why and when.
- Put the most important information at the beginning, followed by less important details
- An attractive quote may make the information even more interesting for the readers
- Maximum length 1 A4 (in general)
- Include contact details of yourself or your staff (e-mail and mobile phone number)
- When sending it by e-mail, please mind the following:
- Put all e-mail addresses in the Blind Carbon Copy (BCC) address field of the message so the receivers cannot see to which other parties (competitors) the e-mail has been sent.
- Always refer to your website.

A big advantage of a press release is that the information is much more reliable for readers than, for example, an advertisement. An advantage of an online press release is that you can reinforce your article with hyperlinks that will contain interesting background information. The British newspaper Financial Times regularly reports on the Indian software sector. The articles are written with support from the NASSCOM and individual Indian companies.

14.5.3 Internet

Internet offers many opportunities for developing country exporters, in terms of sales promotion too. The communication can be fast, at low cost, independent of distance and timeline and unlimited in size.

Website

Going online is fundamental for companies in the IT sector. Especially when taking into account that trust and credibility are major challenges for developing country exporters, the website could work favourably in this sense. A website proposing well-defined services, clear prices, competitive advantages (e.g. USP, cost reduction and service quality) and a client reference list helps create a trustworthy environment.

When developing a website, developing country exporters could take some suggestions into consideration:

- Include local content as this can stress the unique pros of the destination.
- Use both local languages and the languages of the most important EU regions of origin.
- Mind privacy of consumers. An increasing number of countries enforce legislation to protect consumers against misuse of personal data. Pay attention to a solid data protection and especially avoid spamming (sending unasked e-mail / business proposals).

Having a local-language website is an excellent way of advertising to attract relevant visitors. The website's content and structure (including "look and feel") could be localized to the target market/country. Hiring people who have a native understanding of the target country's culture to localize the website could probably be the best strategy. However, for websites, particularly those used for e-commerce, language issues can have many hidden costs. Native-language staff need to maintain the sites, answer customers' questions, and fulfil orders generated electronically, if this is desired.

Marketing the website

Last but not least an exporter should promote his website in a structured manner, so that potential business partners will be able to find the website. Two pieces of advice on promoting websites are:

1 Determine website goals

First of all, determine the concrete goal for your website. Who are your main target groups: software companies, brokers/consultants and/or end users like banks? What are the actions you want them to take? Each target group may require a different approach.

2 Submit the website

- Why submit the site?

More than 50% of the visits of a website come from a search engine. Surfers on the web use these services to find and select the information they need out of billions of pages that are available on the web. Therefore it is necessary that owners of websites inform the search engines about their websites. This can be done by submitting your website to the search engines or directories of choice. The name of the website should be 'logical' for the target group. Some people only type the name of an organization without using a search engine. Making use of several domain names for your website may be useful in this case.

- How to submit the site?

Manual submission has certain advantages over automated submission. The most important one is that you will submit your website to a search engine according to the procedures of that search engine, and you can monitor the progression of your listing. The disadvantage is that you cannot do as many search engine submissions as an automated service does. Look upon it as a difference between quality and quantity.

- Manual submission

For manual submission of your website, you need to take some actions. Whitelines (<http://www.whitelines.nl/html/regional-search-engines.html>) helps you in this process by offering the direct links, listed on the country pages, to the submission pages of the search engines. Follow the procedures of a submission form of a certain search engine.

- Most important tip

The page title is the most important factor that influences the ranking of your website within a search engine. The title should not be longer than 60 characters (including spaces), and appear in the top of the HTML code of your page delimited by the <TITLE> and </TITLE> directives. Make sure your title covers the content of your page. Avoid using titles like "Welcome at". It does not cover the content.

The Manual Website promotion 'how to promote your website in the EU' contains more detailed information on marketing the website. It is available at CBI.

Marketplaces

In the ICT industry, marketplaces are used relatively much, certainly in the future. The most important strategic questions for you are:

1 Are you ready to use an E-marketplace?

Even if e-marketplaces are relevant to your business, your company may not be ready for this step. You have to consider whether the cultural environment within your company is appropriate to accommodate change.

2 Which are the right E-marketplaces?

If you have decided that an e-marketplace may be of interest to your company, we recommend the checklist of <http://www.emarketsservices.com>. According to this website, there are 42 specialized e-marketplaces for the IT sector. It includes more useful information on marketplaces and gives practical suggestions.

Software-related marketplaces

There are some specialized marketplaces too that specialize in matching software development, on which potential buyers and sellers are matched. These electronic marketplaces follow the outsourcing model, where a company is not required to commit resources to meet short/medium term software development project outcomes. Some examples are:

- Smarterwork - <http://www.smarterwork.com/>
- One stop click - <http://www.onestopclick.com/>

Brokers/consultants

Some brokers/consultants in the EU use the Internet as a possibility to get in touch with suppliers and possible European clients. This stresses once again the need for a good online marketing policy. Also refer to section 8.2 for more information on brokers/consultants.

14.5.4 Communication

Exporters could use the following tips in developing good communication with prospects:

- Get to know the decision makers in the EU-company. Only thereafter you send a personalized letter.
- Take good care of existing contacts. This includes for example expressions of thanks to business partners, regular information on the company developments like services range and quality improvements.
- Standardise all printed-paper used outside the company (letterheads, visiting cards, fax form, e-mail).
- A brochure of your company (including photos of offices and personnel) can be useful to promote new contacts and sales.

- Be prompt in answering the buyer's communication. Even if you don't have an answer at hand you should inform him that you have received his message and will reply ASAP.
- Always be available by (mobile) phone, fax and/or e-mail at office hours. Do not forget the time difference between your country and the EU countries.

Clients database

Always keep your client information in details up to date: name, address, telephone numbers, e-mail. Additional information could be insights into the Decision Making Unit (DMU). This could be a software-based program (Microsoft Access or Excel) but a database with file cards as well.

Refer to section 14.2 for more information on building up a relationship and finding prospects.

14.5.5 Other tools

Beside the tools mentioned, some more relevant tools to reach EU prospects could be mentioned briefly. These include:

International business events

Participating in international business events, like the conferences organized by the Outsourcing Institute could also be considered as a way to find potential clients and learn about strategies and good practice.

Brochures

Some guidelines for an effective brochure:

- Learn from brochures of competitors!
- Stress the strengths of your service (USP)
- Include a map, including the region within the country, as not all clients know your country.
- Do not mention prices in the catalogue but stress the tailor made character of your services

Video, DVD and CD-rom

This could be a low cost medium to reach clients directly. When preparing a video, make sure it is in PAL format and not in NTSC.

Trade missions / referrers

The effectiveness of trade missions shows a mixed result. The exporter could join a trade mission of his local country or a sales mission organized by the government. Sometimes they lead to good sales leads, sometimes they do not. Sales mission could also be organized by European companies looking for offshore providers in for example developing countries. Most of the time, trade associations, Chambers of Commerce and/or Embassies are asked for more information or long lists of potential service providers. Make sure these organizations know you.

Business cards

Calling cards are part of international trade. Some practical tips

- Make it easy to store or scan the business card for future reference by only using the standard format (approx 9cm x 5cm).
- In non-English speaking countries it pays to print full details on the reverse side of the card in the local language.
- Provide international telephone contact details.
- Display logo CMM / ISO if applicable

Diaspora

Executives originally from Bangladesh or India, for example, might be motivated to outsource to their respective countries. Service providers could establish strong linkages with overseas

diaspora networks, universities, private-sector leaders, and consular and foreign trade authorities in their governments. Research confirms the importance of the diasporas in offshore outsourcing (Carmel and Tjia, 2005).

Country branding

Some EU companies do not know that some developing countries exist, let alone that they offer high quality IT services. This cannot be solved by one individual exporter. Trade associations and/or government could play an important role in this matter (refer to the success of India). The exporter himself could include a country map on for example his website and/or brochure.

For general information refer to section 4.8 of CBI's Export planner, section 7.8 of CBI's EMP document builder and section 3.3.4 of CBI's Your guide to market research.

APPENDIX A LISTS OF DEVELOPING COUNTRIES

OECD DAC list - January 2006 - When referred to developing countries in the CBI market surveys, reference is made to the group of countries on this OECD DAC list of January 2006:

Afghanistan	Grenada	Palestinian Admin. Areas
Albania	Guatemala	Panama
Algeria	Guinea	Papua New Guinea
Angola	Guinea-Bissau	Paraguay
Anguilla	Guyana	Peru
Antigua and Barbuda	Haiti	Philippines
Argentina	Honduras	Rwanda
Armenia	India	Samoa
Azerbaijan	Indonesia	São Tomé & Príncipe
Bangladesh	Iran	Saudi Arabia
Barbados	Iraq	Senegal
Belarus	Jamaica	Serbia and Montenegro
Belize	Jordan	Seychelles
Benin	Kazakhstan	Sierra Leone
Bhutan	Kenya	Solomon Islands
Bolivia	Kiribati	Somalia
Bosnia & Herzegovina	Korea, rep of	South Africa
Botswana	Kyrgyz Rep.	Sri Lanka
Brazil	Laos	St. Helena
Burkina Faso	Lebanon	St. Kitts-Nevis
Burundi	Lesotho	St. Lucia
Cambodia	Liberia	St. Vincent and Grenadines
Cameroon	Libya	Sudan
Cape Verde	Macedonia	Surinam
Central African rep.	Madagascar	Swaziland
Chad	Malawi	Syria
Chile	Malaysia	Tajikistan
China	Maldives	Tanzania
Colombia	Mali	Thailand
Comoros	Marshall Islands	Timor-Leste
Congo Dem. Rep.	Mauritania	Togo
Congo Rep.	Mauritius	Tokelau
Cook Islands	Mayotte	Tonga
Costa Rica	Mexico	Trinidad & Tobago
Côte d'Ivoire	Micronesia, Fed. States	Tunisia
Croatia	Moldova	Turkey
Cuba	Mongolia	Turkmenistan
Djibouti	Montserrat	Turks & Caicos Islands
Dominica	Morocco	Tuvalu
Dominican republic	Mozambique	Uganda
Ecuador	Myanmar	Ukraine
Egypt	Namibia	Uruguay
El Salvador	Nauru	Uzbekistan
Equatorial Guinea	Nepal	Vanuatu
Eritrea	Nicaragua	Venezuela
Ethiopia	Niger	Vietnam
Fiji	Nigeria	Wallis & Futuna
Gabon	Niue	Yemen
Gambia	Oman	Zambia
Georgia	Pakistan	Zimbabwe
Ghana	Palau	

APPENDIX B LIST OF CBI COUNTRIES

List of CBI countries – January 2006 - CBI supports exporters in the following Asian, African, Latin American and European (Balkan) countries:

Albania
Bangladesh
Benin
Bolivia
Bosnia-Herzegovina
Burkina Fasso
Colombia
Cuba
Ecuador
Egypt
El Salvador
Ethiopia
Ghana
Guatemala
Honduras
India
Indonesia
Jordan
Kenya
Macedonia
Madagascar
Mali
Montenegro
Mozambique
Nepal
Nicaragua
Pakistan
Peru
Philippines
Senegal
Serbia
South Africa
Sri Lanka
Suriname
Tanzania
Thailand
Tunisia
Uganda
Vietnam
Zambia

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