

# India Goes Europe

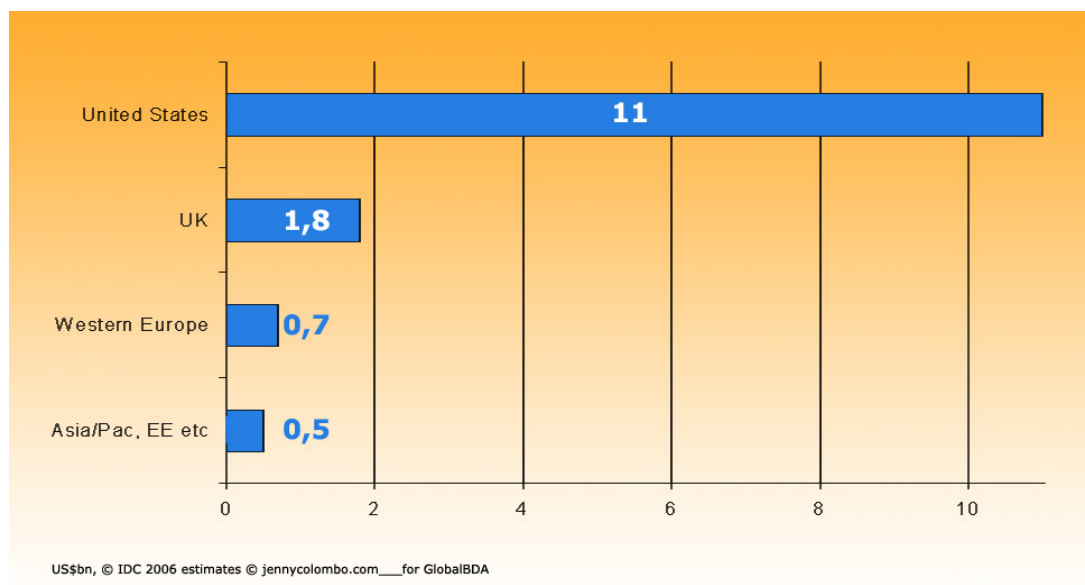
A campaign of Global BDA

March 20, 2007

It is time for Indian IT and IT-enabled Service providers to consider the business potential for them. Global BDA has launched a major initiative to bring companies to the markets of continental Europe. With concepts of outsourcing and off-shoring being discussed more widely, Indian companies can score well with their experience.

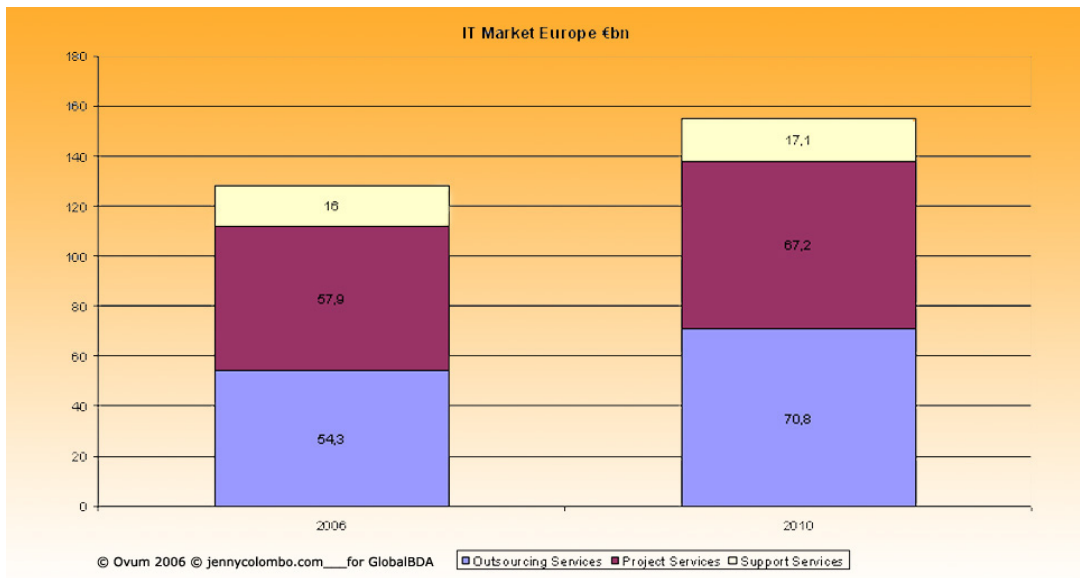
## The size of the pie

To understand the potential, let us use IDC's analysis of spending on IT-off shoring in 2006 (not including BPO and captive offshoring, figures from Deutsche Bank Research 19 July 2006). In the US U\$ 11bn is spent on IT-off-shoring, whereas Europe lags with U\$ 2,5bn. Within Europe, the UK accounts for more than 70% of the volume. Continental Europe only accounts for 5% of the global market.



US\$bn, © IDC 2006 estimates © jennycolumbo.com for Global BDA

To bring continental Europe up to the level of offshoring of the US, U\$7,5bn must be spent by continental European companies. Ovum projects growth of Total IT spent in Europe from 128 €bn to 155 €bn in 2010. The Experton Group projects just for Germany a volume of 15,3bn Euro (US\$ 20bn) for the total outsourcing market including BPO, expecting a growth rate of 10 % for 2008.



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On 20 Feb, 2007, BITKOM, the German Association for Information Technology & Software, announced 20.000 open positions in the ITC sector in Germany. Half of the companies say it is difficult to find qualified staff and this will have negative effects on growth.

So: the figures vary depending definition, but there are clear signs of potential and opportunities for IT and IT related services in Europe.

### **Continental Europe is 5-10 year behind the US & UK**

The concepts of shared service and outsourcing are only now being looked at in Germany and other European countries. The service sector is beginning to follow the manufacturing sector with ideas like global delivery. Additionally continental Europe has a much less flexible labour market then the US and the UK.

Up to now, companies prefer Eastern Europe as a perceived safer option for off-shoring. If you go to Bulgaria and Romania, India does not have a pricing advantage. For Managers it is possible to do day trips to their operations/providers. This also reduces somewhat the cost of setting up a new operation and it creates more control, which in turn is important for the more risk adverse European companies. The convergence of these countries into the European Union also means a more transparent and business friendly legal and tax environment.

On the other hand the talent pool in these countries is limited. This means that issues like wage inflation and high attrition rates will arise early and are already a problem in Prague and Budapest. There are talent shortages in India too, but the country is large and Tier II and Tier III cities are beginning fill the gap.

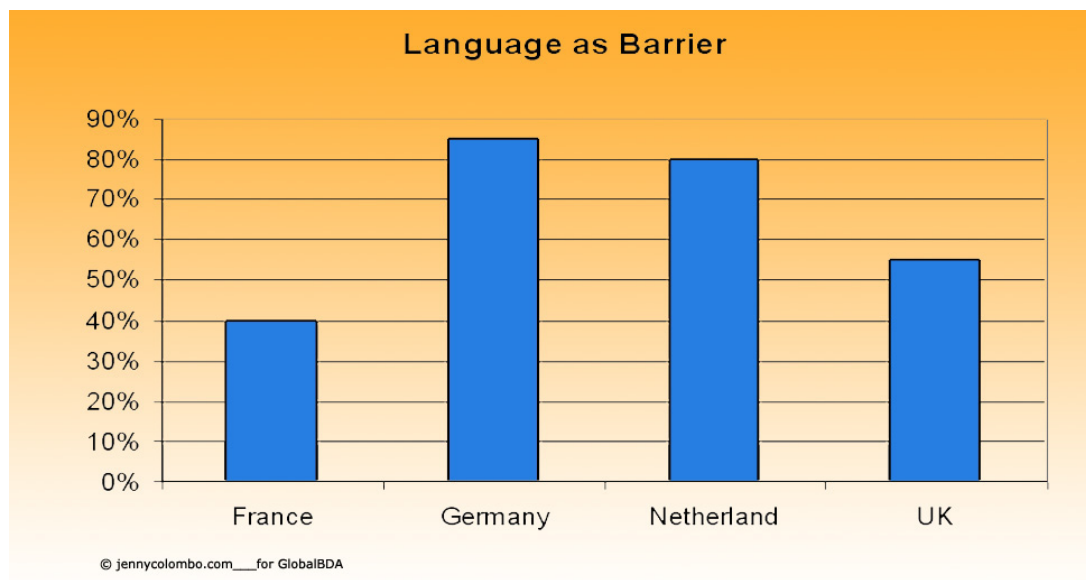
The sophistication of services you can procure in Eastern Europe is much less mature than what is offered in India. Business models like BOT (Build - Operate - Transfer) are not available.

Contracts in this industry generally and in particular the European risk setting, contribute to extremely long sales cycles. This in turn raises the cost of market entry.

Yet both sides are eager to exploit opportunities.

### **Language and Culture as Barrier**

Between 50% and 80% of companies in France, Germany, Netherland and the UK think of language as a principle barrier for off shoring.



Many would-be buyers of off shore services overrate the importance of language. This is an on-going argument even for European based shared service centres (captives). But the better the language compatibility, the easier it is to conduct transactions (and business). As it is perceived as very strong barrier, it needs to be taking into account. 40% of students in Hungary, Poland and Czech Republic are learning German. Most of the students have at least travelled to other European countries; many have spent a year in these countries. All this is true for all phenomena generally described as 'culture'. There are also very practical issues like reading handwritten notes. On a higher level there are differences on the level of control European companies want to exercise versus their US counterparts.

These are all reasons for continental European companies to look for near shoring in Eastern Europe rather than off shoring in India. But some cities in EE already have a shortage of skilled employees and the convergence of these markets will remove any cost advantages within years.

For a variety of reasons continental European companies are not looking for 'mega'-deals, but are considering several smaller contracts. The simple 'front-office / back-office' model will be replaced by a multi-location model, whereby part of the work will be done near-shore and other parts will be done off-shore.

Large providers like Satyam and Infosys have opened offices in the Czech Republic and Hungary respectively. They have also acquired EU based companies (Wipro). This lessens the above mentioned disadvantages.

Solutions to reduce the language and cultural barriers for not-so-large providers are e.g. linking up with partners in Eastern Europe and the CIS or simply recruit skills in Eastern Europe to supplement the teams responsible for European clients.

It is necessary to understand European business customs. This can be achieved by using more European suppliers. Not only for language & cultural staff training, but also for IT solutions, office equipment and other. This will also expose Indian service providers to different cultures within Europe.

Measures like this will make Indian IT & ITeS providers 'fit for Europe'.

### **Move away from India vs. Eastern Europe**

Indian operators are also well organised to scale up their operations, something Eastern European and CIS based providers have yet to show.

The number of mega-deals in Europe is small, as companies tend to split projects and processes looking for risk reductions, but also best in class solutions. This means that in a true global delivery model, providers and suppliers will be clustered around advantages. In this view one should move away from the India vs. Eastern Europe debate to a view of creating best solutions for potential clients utilising alliances, partnerships, but also mergers and acquisitions. This brings the better of the two worlds to the table (EEIndia).

It can be concluded that there is no easy deal to make. Europeans tend to analyse best practice projects, dedicate a great deal of time for decision making and process design. On the plus side this are very stable supplier relationships.

Whether the strategy to enter the continental European market is by building a sales force, acquisition, building alliances or partnerships: The key is marketing and not so much a sales effort. It is also necessary to understand the requirements and issues of the potential clients very closely in order to build the right approach and products for a successful entry.

This means service providers need to spend time in Europe. Visit trade shows, congresses and other events. Build competencies as discussed above. The learning has to happen on a management as well as an organisational level. Managers have to expose themselves to the issues faced by European companies in different industry sectors and countries. It is nearly as difficult for an UK company to enter France, Spain or Germany, as it is for a non EU company. The European Union has made progress towards more integration, but this can not be compared to a much more homogenous market in the US.

Therefore, there is a vast potential for Indian companies and their services to enter the EU market.

We, at Global BDA, believe it is time to explore this opportunities. As it is difficult to build an understanding of a country and its markets from abroad, we have created a service to screen, analyse and translate relevant news for you. When the time comes to start working directly in these markets, Global BDA can offer Support Services, so you can delay the commitment of bringing your own resources on-shore. Finally, when you decide to start operations, Global BDA can still support you and your incoming executives until the business is fully independent and operational.

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**Global BDA** is a business development agency. It supports companies moving into European markets by acting as outsourced business development team. We support clients as partners in all stages of a market entry. Global BDA not only provides know-how, but also an administrative infrastructure. Services are available on demand.

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