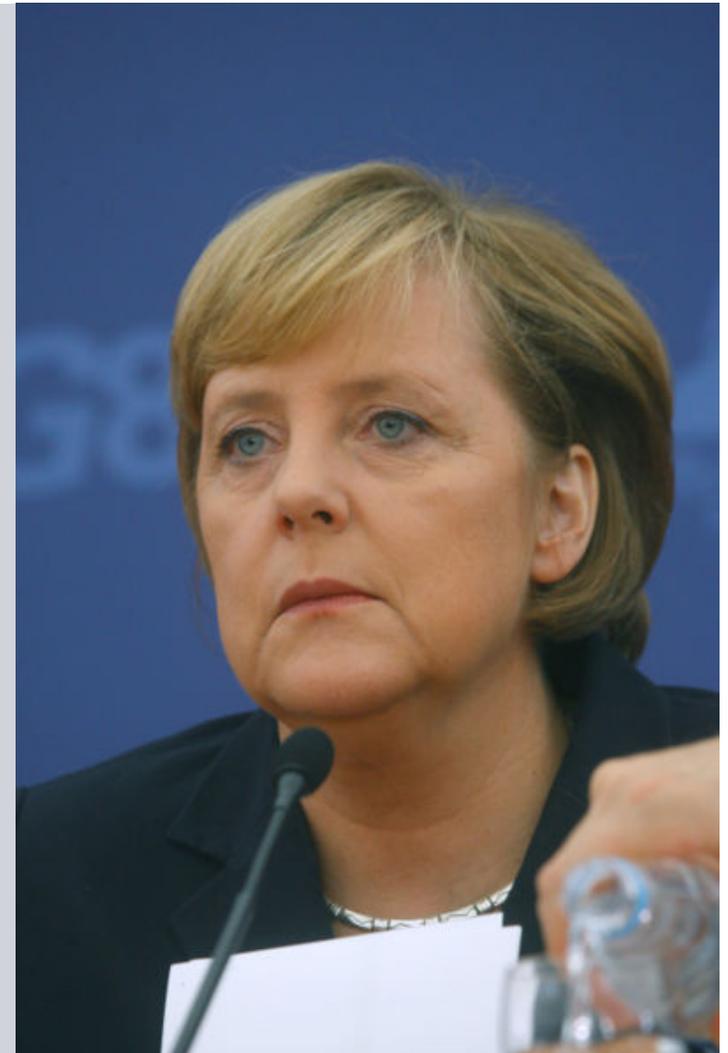




Outsourcing Market in Germany

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Kiev, 27 October 2006

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Agenda

Introduction of GOAL

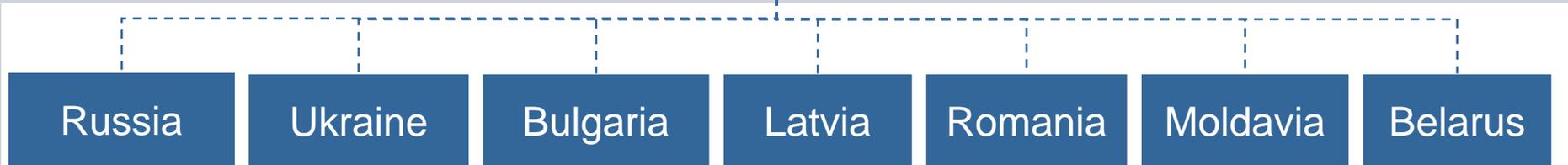
German Economy

German Outsourcing and Offshoring Trends

Recommendations for Offshore Suppliers

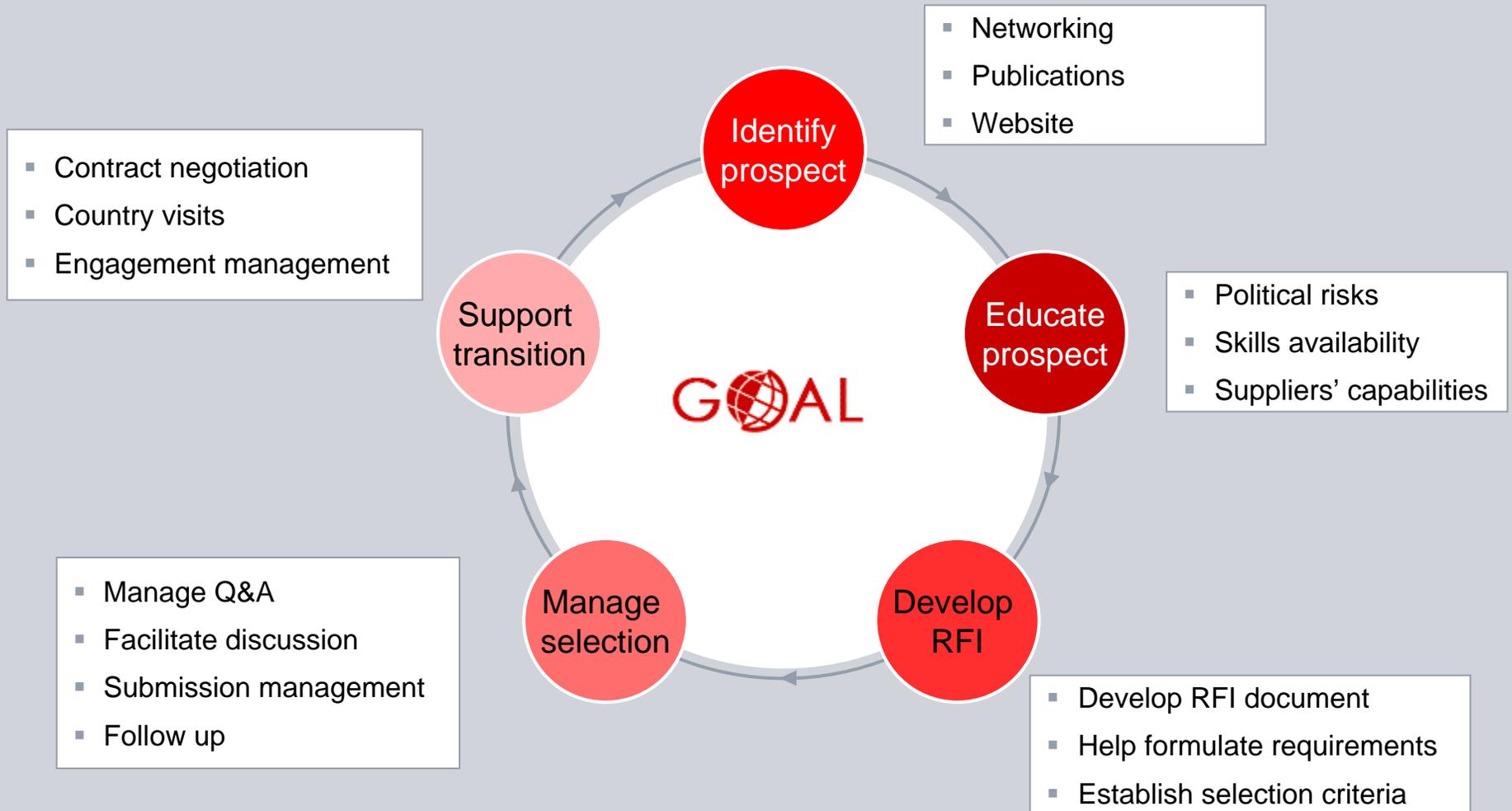
Helping navigate through differences in political risks, skills availability, labor cost

GOAL



Suppliers

GOAL Services



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Germany at glance

DDR integration, good engineers, reliable infrastructure, abundant cheap beer, strong environmental focus, wind energy leader, BMW, Siemens, Daimler Chrysler, Bosch



<http://www.land-of-ideas.org/>

German Economy

Export Leader

Largest goods exporter, second overall exporter. GDP of \$2.8 trillion. World's 3rd economy

Mittelstand

3.3M SMEs, responsible for success of German economy. Significant potential for outsourcing

Labour Market

Hard to lay off workers, high payroll tax; unions; government incentives to hire; unemployment 8.3%

DDR Integration 1990

Infrastructure development, government support, labour migration, shared territory but lower cost

Economic downturn 2001

Contraction of GDP, high unemployment, weak internal demands low productivity, high taxes

Economic forecast 2006

Growth of 2%, highest level of business confidence in 15 years, 16% companies hiring, 17% firing.

Implications for Outsourcing Industry

High unemployment: outsourcing as destroyer of jobs. IT job losses 50,000 - 130,000 jobs by 2008; revenue Euro10B in 2008

Labour Laws and Unions (ver.di): outsourcing mainly for new hires (Hiring again T-Systems, SAP, Software AG amongst others)

Rising business confidence will lead to higher spending, including abroad; software and IT services grew 5.5% in 2006, will continue

Mittelstand – ideal outsourcing client for Eastern European outsourcing industry: faster decision making, opportunistic, small

DDR: understanding of EE mentality; some speak Russian

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BITKOM – IT Association of Germany

Association

- Der Bundesverband Informationwirtschaft, Telekommunikation und Neue Medien
- 1000 member companies, direct 750 members with total revenue of Euro 120 Billion and 700 000 employees
- Work with government to promote favourable legislation, organises events etc
- Open to non-German companies
- Fees from Euro 1000 to 2000 minimum
- More on www.bitkom.org

Activities

- Nov'06 - Outsourcing Workgroup Meeting
- March'07 CEBit
- Sep'07 Outsourcing Congress 2007
- Oct'07 Munich "Systems" conference
- Specialised events / market research

Collaboration with Russian APKIT

- Russian-German Outsourcing Associations collaboration announced in October 2006
- 12 events throughout 2007
- Positioning paper about German-Russian collaboration
- Support in organising CEBit offshore IT section
- Contact: Dr. Mathias Weber, head of BITKOM IT Services division including outsourcing m.weber@bitkom.org (former DDR, Moscow University Education, fluent Russian)
- Belarus is, but Ukraine is not included in the announced activities

German Offshore Outsourcing Trends

Market is 5 years behind US / UK (BITKOM)

Little Offshore Outsourcing, every sixth supplier interviewed by BITKOM has Euro 1-5 Million every year.

In the next 5 years participants expect 5-10% growth (some over 20%) of offshore outsourcing market. Minority plans to reduce offshore sites.

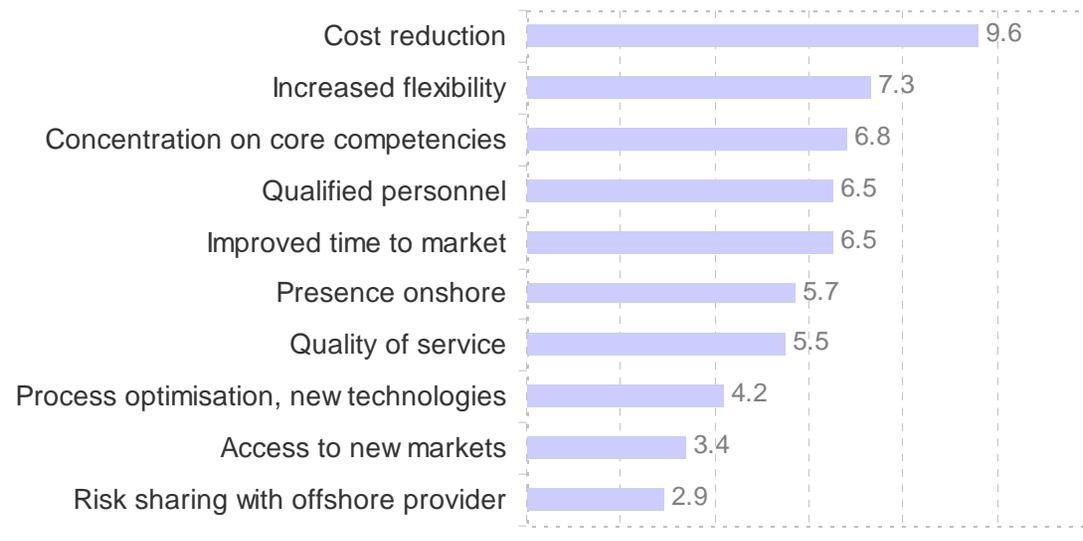
Quarter of interviewed users of offshore outsourcing have achieved minimum 10% of savings

Scepticism towards outsourcing support processes is still high: there is little tendencies to BPO (accounting, HR)

Reasons to outsource

Cost savings: Germany is closed to labour from new EU states, wages not as high, but overheads and taxes are significant.

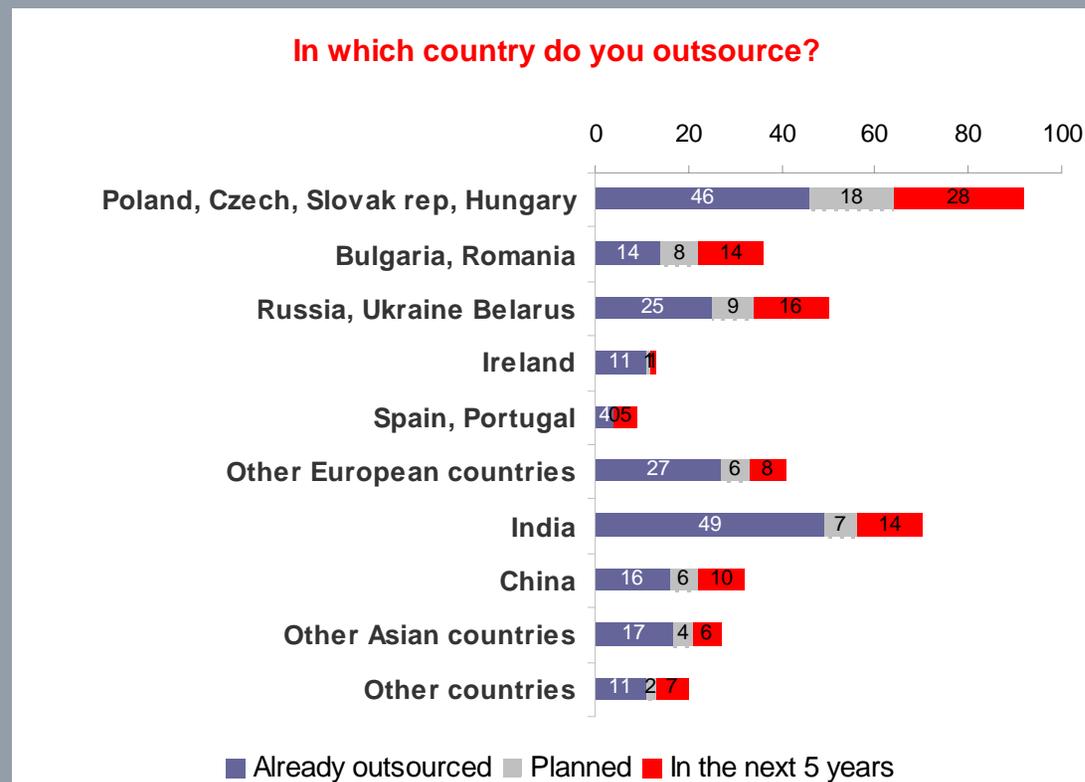
What importance have the following factors in your decision to outsource?



Source: BITKOM / Deutsche Bank Research 2005

Germany: Offshoring Destinations

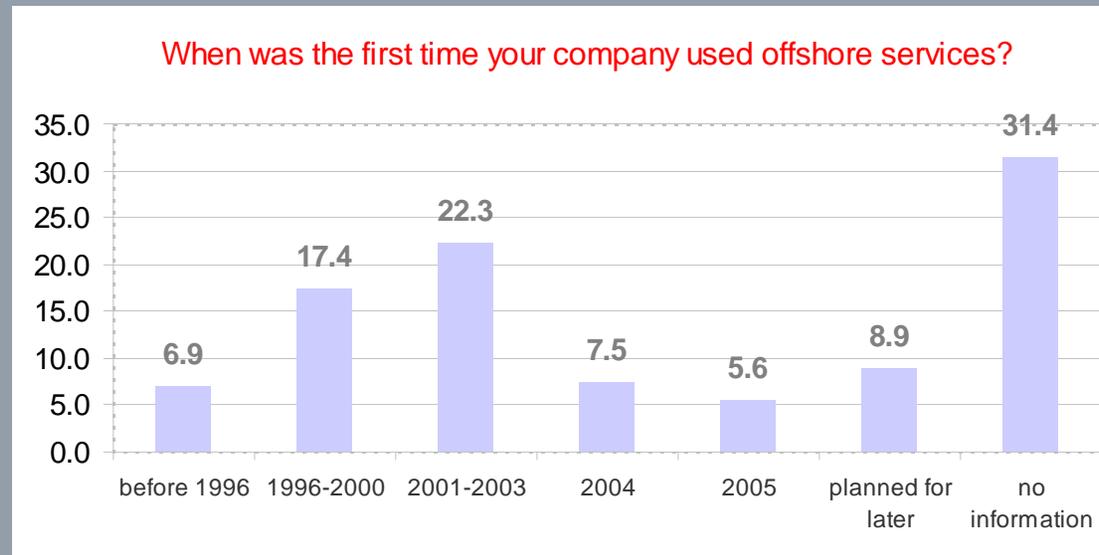
New EU member states dominate as offshore destinations, however higher wages will push Offshoring further east



Source: BITKOM / Deutsche Bank Research 2005

Usage of Offshore Services

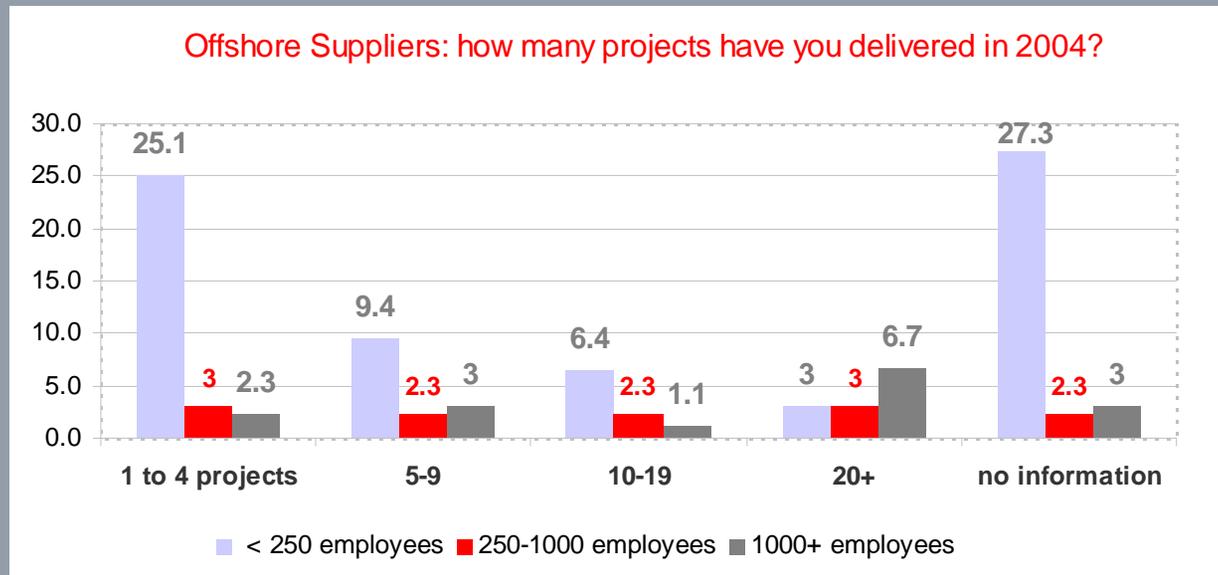
The demand picked up in 2001 onwards: the industry is still young compared with adoption of offshore outsourcing in the US / UK



Source: BITKOM / Deutsche Bank Research 2005

Activity of Offshore Suppliers

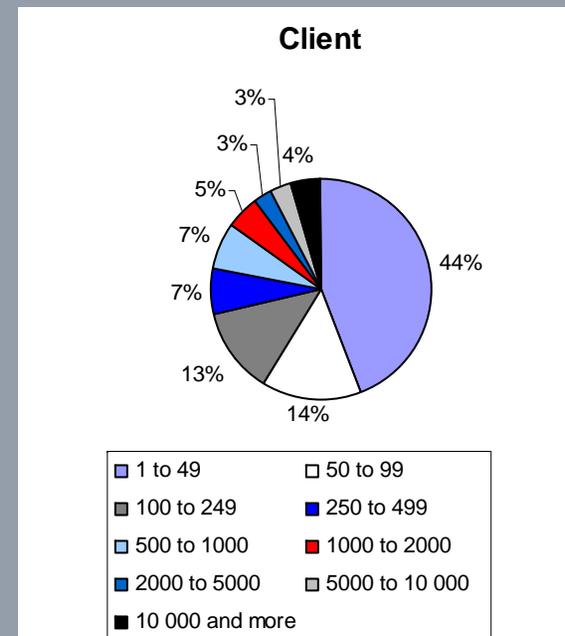
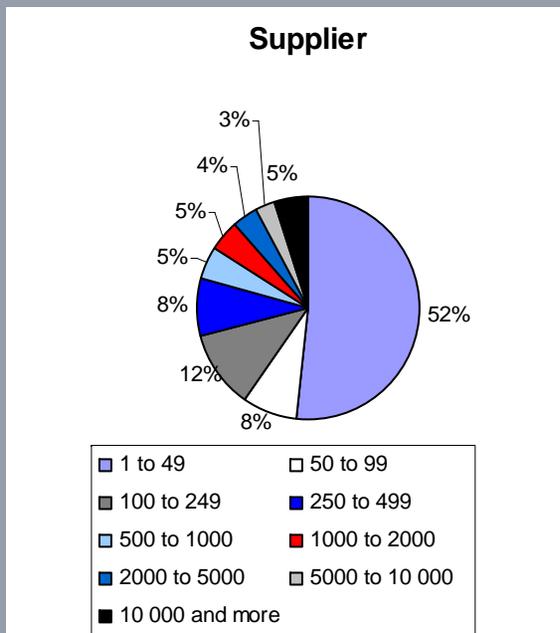
Small suppliers are active on the German offshore outsourcing market although the number of projects delivered remains small



Source: BITKOM / Deutsche Bank Research 2005

Size of Offshore Players

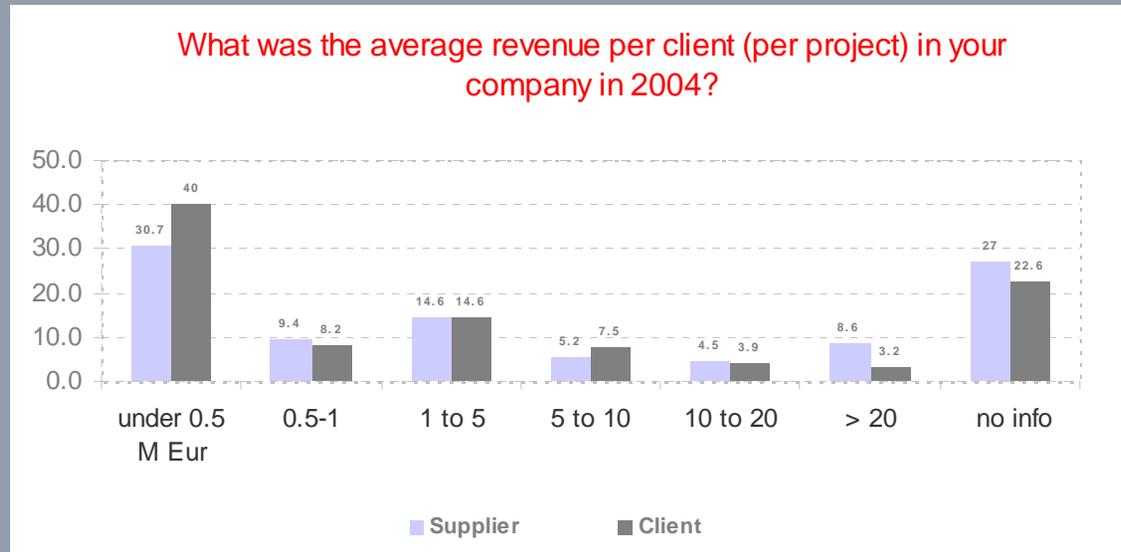
How many employees worked in your organisation during 2004?



Source: BITKOM / Deutsche Bank Research 2005

Offshore Volumes

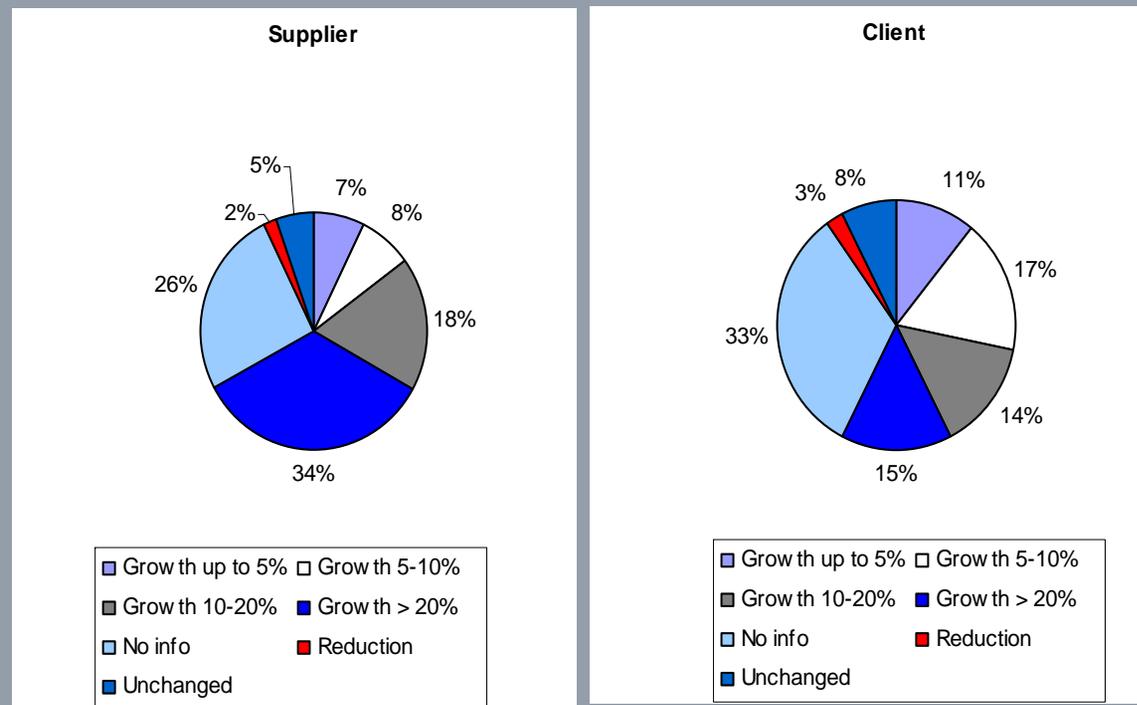
Most of the offshore outsourcing projects accounted for under 0.5M Euros: easy volume for the majority of EE suppliers



Source: BITKOM / Deutsche Bank Research 2005

5-20% Offshore Market Growth

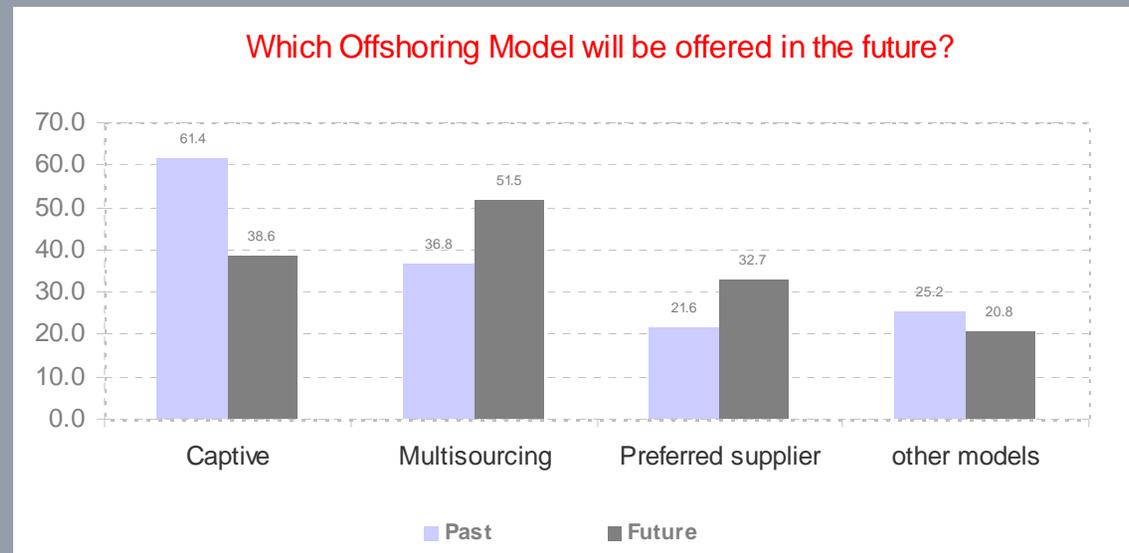
How will Offshore Outsourcing Market develop in the next 5 years?
Suppliers are more optimistic than users, but growth will take place.



Source: BITKOM / Deutsche Bank Research 2005

Offshore Models

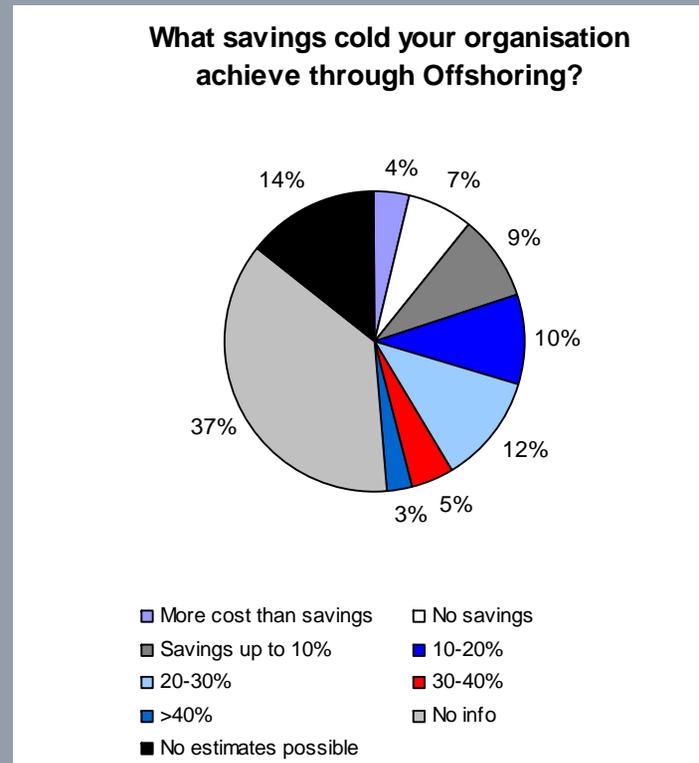
In the future Multisourcing model is expected more widely than in the past



Source: BITKOM / Deutsche Bank Research 2005

Anticipated Cost Savings

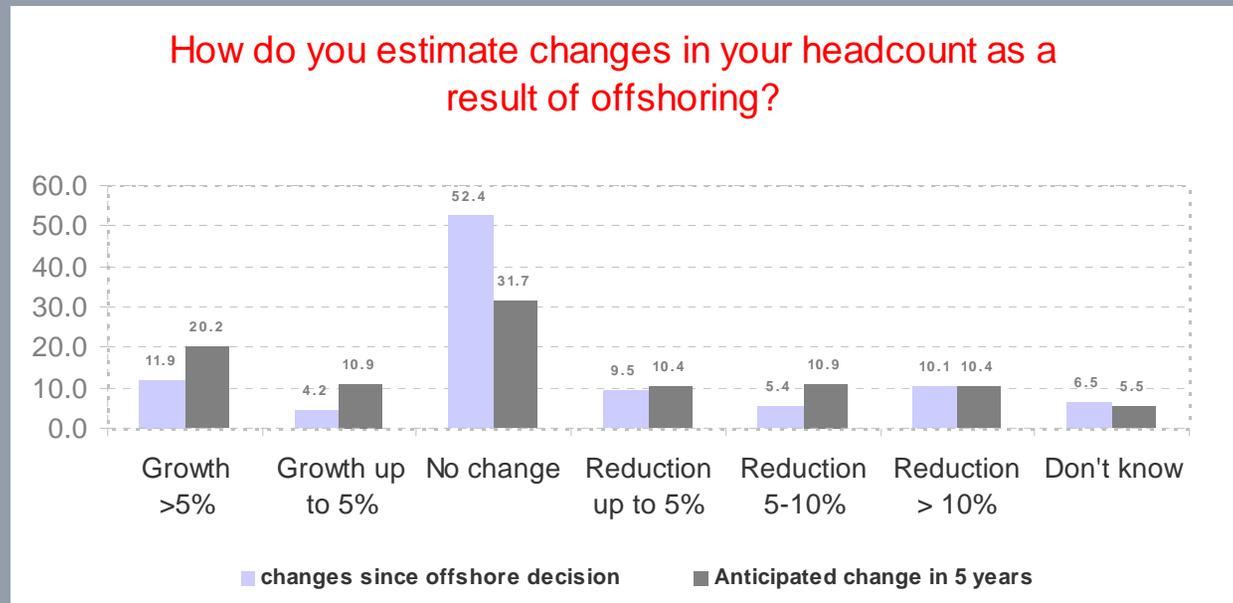
Clear indication that Offshoring delivers cost savings



Source: BITKOM / Deutsche Bank Research 2005

Headcount Impact

A significant number of users do not anticipate significant changes of headcount, the causes may vary.



Source: BITKOM / Deutsche Bank Research 2005

Other Findings

Satisfaction

More than 2/3 of the customers are pleased or very pleased with their experience, and over a half of the respondents see their expectations either met or exceeded.

Suppliers Challenges

the suppliers of the services see the biggest challenge of managing projects on time, on budget and on the desired level of quality.

Clients Challenges

From the client side the main complications reside in cultural differences and mentality.

Nearshoring

Eastern Europe is taking a firm place as a nearshoring destination

Cost Reduction

Saving costs remains a main driver, in Mittelstand also time savings of 20% anticipated, in addition to cost savings of 10% (*FT Germany 4.09.06 / Kienbaum Management Services*)

Management of Nearshore and Offshore Projects

Workshop at BITKOM Outsourcing Forum 2006



Costs to take into account

- Management cost / supervising
- Quality assurance cost, longer test cycles
- Knowledge transfer cost
- Translation cost

Projects suitable for offshoring

- Standardized services
- Tasks with well defined input and output
- Avoid outsourcing tasks which require interaction
- Do not outsource processes hard to document
- Reduce complexity

Germany-specific Offshoring challenges

- Bureaucratic culture, longer decision making cycle
- Negative stigma of outsourcing as a problem
- Language barriers
- Immigration regulations
- Availability of documented tasks
- Onsite portion of offshore projects is usually higher (due to language, culture, and communication tradition)

Germany versus US / UK:

- US / UK companies have faster, more pragmatic decision making processes
- minimal or no language barriers
- Cultural awareness / melting pot

Management of Near and Offshore Projects

Results of BITKOM Outsourcing Forum 2006



Specifics of Nearshoring to Eastern Europe compared to offshoring

- Information flow: need to ask for info
- Importance is attributed to the company's culture
- Project management capabilities are there (Bulgarian example of Certification)
- It is easier to maintain contact with nearshore partner
- Ukraine has exceeded all expectations

What should clients do to prepare themselves for offshore/nearshoring?

- Transparency of internal processes: communications, specifications
- Internal change management, fight resistance / negative attitude
- Beware what effort it requires to outsource abroad (integrate this awareness in internal processes which is often simpler for the larger companies)
- In addition: Offshoring also requires exit investments;
- Professionalism can be improved through Offshoring

Conclusions: German Outsourcing Market

1. Relatively early days compared to US Offshoring uptake

2. Significant future opportunities in Mittelstand offshoring and new job creation that can go offshore

3. Country specific challenges: risk aversion, bureaucracy, language

4. Eastern Europe has strong potential

5. Long term process to reduce risk perception / learn German

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Snapshot

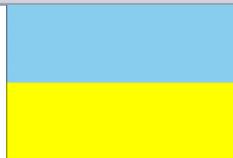


Germany:



- Population: 82 Million
- Land 357'000 sq km
- GDP per capita \$30'600

Ukraine



- Population: 46.5 Million
- Land: 603'700 sq km
- GDP per capita: \$7200



Germany Outsourced Boxing to Ukrainians



Ukraine Outsourced Horse Jumping to Germany

Two German riders Björn Nagel and Katharina Offel obtained Ukrainian citizenship to compete in horse jumping for Ukraine (sponsored by millionaire A. Onischenko)

The result was their 4th place at World Championship in Aachen in 2006

Onischenko is now preparing for the Olympic games with Nagel and Offel and stationed 14 horses in Paul Schockemöhle, German Lower Saxony



Ukrainian German relationships

Politics

Close relationships between the two countries: security of Europe, trade, natural resources

Business

Germany is the second largest trade partner after Russia
Discussion about gas exploration, German investors interest

Culture

Smalz = salo, many similarities between traditions, foods, mentality
German population in Ukraine 0.1% (same as gypsies)

Future

Interest in Ukraine is high, however challenges include weak legal systems, and foreign investors rights, stability, and possibilities to invest

Recommendations

Move Incrementally

- Attend a few events
- Speak to industry players
- Get a feel for business culture

Networking

- Make them know your face and logo
- Educate rather than sell
- Develop contacts within community (associations, journalists, lawyers)

Learn the language

- The management HAS to speak German
- German-speaking project managers and developers will make or break German strategy, but require time and money

Adopt internal processes

- Change document management & written communication to include translation

Learn the culture

- **Current events:** taxes, healthcare reform, Merkel versus Schroeder, approval of Putin, Environmentalism and recycling, Ordnung must still sein
- **Business culture:** pragmatic, official, taken at the face value, things are said once and will not be repeated

Presence in Germany

- Initial presence through agents
- Upon customer acquisition consider local office
- GmbH is most respectable form, needs Eur 25 000 in share capital. Will require an EU-passport director.
- Foreign ownership of German company, most complex tax issues demands specialist help.

Decide where to start: German IT Cities

Berlin

3,4 Million people, capital with significant government spending on start-ups (Adlershof)



Berlin

Hamburg

1.7 Million people, Major sea port, rich and arguably most beautiful city in Germany



Hamburg

Munich

1.4 Million people. The Silicon Valley of Germany, target number 1 for offshoring, annual Oktoberfest location



Munich

Cologne

Circa 1 Million people. Television industry, Eau de Cologne



Cologne

Frankfurt

660 000 people, financial and transport capital of Germany, central location - conferencing facilities, wealthiest town in Europe



Frankfurt

Stuttgart

600 000 people. Automotive and high-tech industry, Fraunhofer Institute, 11% of German government's R&D spending



Stuttgart

Düsseldorf

600 000 people. Top telecommunications center in Germany (also fashion and advertisement capital) Vodafone, E-Plus, Nokia, Ericsson



Dusseldorf

Useful Contacts

BITKOM

Dr. Mathias Weber, head of IT Services of BITKOM, outsourcing and offshoring to Eastern Europe: m.weber@bitkom.org +49 30 275 76 121

Legal advice

If you decide to open an office in Germany, you **WILL** need legal help.
Olga Ametistova of Buse Heberer Fromm +49 (0) 3032 79 420
ametistova@buse.de

Sales and Marketing

GOAL is open for enquiries: natasha.starkell@goaleurope.com
Consider German marketing agencies with wide network in mittelstand

Translations

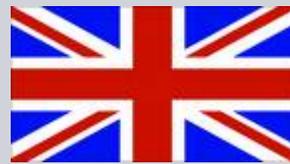
MM Translations (English-German-English)
contact: Meredith.Meade@t-online.de

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