

Understanding the market – IT offshoring in Germany

Germany is an attractive market for Indian providers / A well thought out strategy is necessary

By Torsten Gründer

IT costs continue to be a hot topic in Europe's largest economy, especially in tough times like this. Indian offshore service providers are now targeting the German market. To be successful, these providers will need more than just good skills and a regional presence. What are the essentials that IT companies need to consider if they hope to attract business in Germany?

German companies are now more willing to consider IT service outsourcing. IT efficiency is being scrutinised even more closely in the wake of the global economic crisis. India is being increasingly considered as an outsourcing region for IT services. Worldwide computer networks make it irrelevant where the software is developed and tested and where network management actually takes place. These services can be performed in India and Malaysia just as well as in Frankfurt or Cracow, Poland.

Germany is a particularly attractive market for IT providers. Europe's largest economy is home to major players in the automotive, chemical and machinery manufacturing industry. In addition, a large number of SMEs including hundreds of industrial, service and commercial world market leaders operate in the country. German companies rely heavily on the export market, and worldwide demand for their products remains strong despite the crisis.



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Indian providers target Germany

Indian providers such as TCS, Wipro, Infosys, HCL, etc. only achieve around 25 per cent of turnover in Europe. Germany is seen as the prime target market in Europe. Besides the established IT service providers, startup companies in Eastern and Southeastern Europe (Poland, Slovakia, Russia, Romania and Bulgaria) are some of the strongest competitors.

Offshoring in Germany - key success factors

- * Professional project management (OMIT reference model)
- * Bid team with intercultural experience
- * Organisational structure in Germany
- * Accurate description of contractual services
- * Clear definition of responsibilities and requirements
- * Transparent controlling and governance tools
- * Flexible price structure
- * Balanced contracts according to current German law
- * Strong retained organisation (service customer)
- * Experienced key resource team (service provider)

Following the erosion of the worldwide financial industry, the broad industrial base in Germany appears to offer greater stability and lower risk. As a result, leading providers from the subcontinent are currently intensifying their IT activities there. The intention is to generate interest in offshoring services as was done in the US and the UK, but so far the efforts have not been as successful. To make progress in Europe's core market, companies have to factor in certain aspects and include them in their long-range planning.

The need for a sound strategy

Indian providers may at times be surprised to find that German companies are often more interested in seeing a well thought out strategy right from

the start rather than mountains of impressive slides and comparatively low hourly rates. A lot of SME's, many of which are family owned, will not work with a supplier unless a long-term business strategy is in place.

Another aspect to consider is the difference in communication styles, which often becomes apparent during the initial discussions. The German team is accustomed to open, direct communication and firm commitments. Professional competence and expertise are highly valued. Constructive criticism based on factual information is seen as part and parcel of effective project management, and the criticism can sometimes be directed at individuals higher up in the chain of command. The overriding goal is achievement of top quality results.

The importance of firm commitments and trust

Trust and adherence to agreements play a central role in the business relationship. Verbal commitments are regarded as binding. Failure to keep them results in a loss of trust, and it tarnishes a company's reputation. Quality parameters such as KPI's in the outsourcing agreement are seen as firm commitments rather than rough guidelines. Pretending to have capabilities that do not in fact exist or failure to immediately report difficulties that occur during the project are not likely to be appreciated.

Teams often take the same approach to offshore projects as they would for internal projects. When this is the case, Indian providers in Germany should be prepared for a relationship which is based on measurable deliverables. Strong emphasis is placed on clearly formulated agreements which include well-defined requirements, performance commitments and workflows. Many companies will only consider business relationships which include an objective assessment of services provided and mechanisms for verifying invoices. Adherence to the agreed schedule (date of service delivery, meetings) is taken for granted in

the German business world. Failure to comply is seen as unprofessional.

Local organisational structures

German companies expect service providers to have a permanent base in Germany. German companies prefer suppliers who have established a legally recognized subsidiary and are willing to negotiate contracts based on German law. Proximity to the provider also facilitates governance and coordination of ongoing project activities.

English is often used at meetings and in contractual agreements, but good German language skills are also very helpful to come to an agreement. To an increasing extent, companies prefer to conduct negotiations in German. All of the documentation that is provided (e.g. for Application Management Services) is expected to be in English, but there may be gaps in the original documentation and some of it may not be in English.

Treating employees in a responsible manner

Foreign IT outsourcing providers are often expected to retain existing staff. The legal framework in Germany is defined in § 613a BGB (German Civil Code), but in practice the process is invariably complex. Indian service providers will improve their probability of success during the bidding process if they have the organisation and financial plan in place to take on existing IT staff. Providers will be expected to treat these employees in a responsible manner, not just because the Worker's Council has a legal right to take part in the decision making process. These obligations make it more difficult to transfer a large part of the IT activities to India, as relocation still remains very much the exception. The right solution is to agree on a balanced onsite/offshore mix with appropriate governance mechanisms.

Managing distance

Offshoring relationships must overcome the geographic and cultural gap between the customer and the provider, and that creates new challenges during day-to-day IT operations. If both sides are unprepared, the expected advantages of offshoring can quickly evaporate. Providers from India can avoid the problem by putting together a good long-term strategy for the German market. A professional approach based on partnership is the right recipe for success.

IT firms

Bullish on hiring

Showing signs of economic recovery, information technology and IT-enabled services firms like Accenture and Infosys BPO said they were planning to start recruiting people soon. Accenture plans to hire around 8,000 new employees next year, while Infosys BPO will recruit 2,000 new employees. "We have 42,000 employees right now, and we imagine we will be about 50,000 by the end of 2010", said Accenture Chairman and Chief Executive Officer William D. Green. "We believe that analytics is going to be an important trend that our customers are going to demand from us. We think India is going to be a great place for us", he added. Similarly, the BPO arm of IT giant Infosys also plans to recruit around 2,000 more people this fiscal. "We plan to hire 2,000 people in the next four-five months or by the end of this fiscal. At present we have 16,000 employees in India", told Infosys BPO CEO Amitabh Chaudhry.

CeBIT

Green IT 2010

"Green IT World" at CeBIT 2009 established CeBIT as the world's leading green IT exhibition. Green IT has developed from a media buzzword to a generic term for energy-efficient products and solutions. On the one hand, green IT involves constant innovations by the ICT industry to make its products more energy-efficient. On the other, it involves the use of ICT applications in virtually all branches of industry to help optimize business and production processes. With 80,000 trade visitors and more than 1,200 specialists in 2009 this was by far the world's biggest green IT event. Next "CeBIT Green IT 2010" will take place from 2nd to 6th of March 2010 in Hanover.

SAP

Prestigious TÜV certificate

German-based business software company SAP has received the prestigious TÜV certificate for the software company's internal measures and IT systems supporting business continuity management. On the basis of the internationally recognized standard British Standard BS 25999-2, the certification organization's auditors verified SAP's ability to keep business-critical processes up and running even in exceptionally tough times. This is the first BS 25999-2 certificate issued to a company in Germany. For a global high-tech company like SAP, it is crucial to have IT services available seven days a week and 24 hours a day.

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