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**EXPORT OF SERVICES: HYPE OF HIGH POTENTIAL?  
IMPLICATIONS FOR STRATEGY- MAKERS**

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**Exporting Information and Communications Technology  
Services – Still an Opportunity?  
The Experience of Romania**

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## **EXPORTING INFORMATION AND COMMUNICATIONS TECHNOLOGY SERVICES – STILL AN OPPORTUNITY? THE ROMANIAN SOFTWARE INDUSTRY AND SERVICES**

### **Overview**

The Romanian IT industry is at an early stage of a constant growing process, with good chances to attain a maturity stage; this is proved by observable trends, such as internal market orientation, development of complex projects and a growing interest of managers for IT products.

The growth of internal market sales volumes is more accelerated than that of the Romanian IT products exports, while software sales rapidly gain ground against hardware sales, the clients being increasingly interested in complex projects. However, software and services exports dominate the Romanian software market, making up an estimated 97% of total projects, resulting in extremely low software license volume percentage.

Meanwhile, IT managers, company executives and even marketing managers show a higher interest towards IT solutions, which indicate that the beneficiaries are starting to see IT solutions as business solutions.

According to ANIS (The Employers' Association of the Software and Services Industry) estimates, the Romanian IT market registered a growth of 12% in 2002 compared to 2001, with a total value of 680 Million €.

If the present rate of growth is maintained, 2005 should be superior to the rate of growth of most of the Eastern-European countries. These estimates are only temporary and the Romanian IT market growth rate is increasing and will continue to be superior to the regional average, while the Romanian market is one of the most interesting in Central and Eastern Europe, after Ukraine.

Considering piracy reduction as an engine for a significant growth for the IT sector, the Romanian IT&C market might reach 660 million USD in 2006, with an increase of 76 %, should software piracy be reduced by a mere 10 % per year. In Romania, software piracy has dropped from 86 % in 1996 to 75 % in 2001, and the IT market has increased its value to over 374 million USD.

IDC is the premier global provider of market intelligence, advisory services, and events for the information technology and telecommunications industries. According to the estimates of an IDC study that takes into consideration several hypotheses, there is a direct connection between the decreasing rate of piracy and economic growth. IDC validated these facts by measuring the percentage of the software element in total IT industry, in countries with different rates of software piracy.

Another hypothesis taken into account by IDC is that IT services companies and the distribution firms also benefit from the decreasing level of piracy, but not to the same extent, because they can also obtain incomes from subcontracting companies using unlicensed software.

In the project methodology of this study, IDC did not include the indirect economical benefits, such as increasing collateral industries personnel (transport, human resources, consumables suppliers, etc.), increasing productivity of imports or exports. The effects of piracy abroad, which can affect the exporters, have not been taken into account.

### **IT Outsourcing in Romania**

Mr. Erran Carmel, expert in the global outsourcing of the software services and author of „Global Software Teams”, makes the distinction between the software exporting nations within the Taxonomy of new Software Exporting Nations (Electronic Journal on Information Systems in Developing Countries, vol. 13, May 2003):

1. "Major software exporting nations" – the most part of the OECD members, like: USA, Canada, UK, Germany, France, Belgium, Netherlands, Sweden, Finland, Japan, Switzerland, and Australia. It includes and the newcomers from the 90's: Ireland, Israel and India.
2. "Transition software exporting nations" – Only Russia and China.
3. "Emerging software exporting nations" - Brazil, Costa Rica, Mexico, Philippines, Malaysia, Sri Lanka, Korea, Pakistan, Romania, Bulgaria, Ukraine, Poland, Czech Republic, Hungary, and others.
4. "Infant stage software exporting nations" - Cuba, Salvador, Jordan, Egypt, Bangladesh, Vietnam, Indonesia, Iran, others;
5. "Non-Competing" – Most of the countries (small, less developed).

So, Romania is a part of „emerging software exporting” countries. These countries are registering already massive exports of software through the specialized clusters of small and medium-sized companies, with qualified human resources.

The outsourcing potential of Romania cannot be compared with India's or China's, but this sector is for the time being, the most important promotion tool for the IT industry and services offered by the Romanian companies on the international market. For now, 97% from the Romanian IT market is focused on the service externalization and only 3% at the products with higher intellectual value.

In order to develop an industry based on licenses in Romania there is a need for a stable financial mechanism and also for sustained marketing and sales activities. The foreign companies are proceeding often to externalize of the services as a strategic modality of using the extern sources for the traditional processes that involves staff and internal resources Anyway, the commercial balance concerning this sector is favorable to Romania. According to a recent study of ITC (Institute for Computers) Romania, the actual trends are leading to the specialization and to a direct approach of the customers.

The number of the Romanian companies that are developing the outsourcing activities was in 2003, about 370 from the total of 4800 companies from the IT software and services market. At the same time, the exports summarizing 90% from the current activities for the majority of these companies (about 200). The last two years trend shows that the big software companies increased their exports faster (+ 106%) than the small ones (+ 53%), says the same report.

From the point of view of the human resources, within the outsourcing activities of the Romanian companies for the foreign customers, are involved about 4,700 of persons, that means about a quarter from 18,700 of employees from IT sector in Romania, at the end of 2001.

The image of Romania abroad, is the main impediment in software exports' developing and as regards the increasing of investments in the IT sector. A McCann Erricsson study, realized in 20 developed countries, shows that Romania is perceived rather as a poor country. In the same time, there is a tendency to associate the poverty with a low level of the education and with the lack of technological development. This is the reason for why the technology and the software development are not in generally associated with Romania and as a consequence, the Romanian companies which are looking for new partners or customers abroad, must invest twice or three times more than a similar company from Hungary or Czech Republic.

The mentality oriented towards production and not to the client satisfaction and the legal framework are rather obstacles in the increasing way of the exports of this sector. "The low level of salaries represents the main Romania's advantage as regarding the IT outsourcing, but in a few years, this will not exist anymore. In order to face competition in a successful manner in the future, the Romanian companies need to develop other skills, as the managerial ones, marketing

and quality control” said Erran Carmel, at the International Conference of Outsourcing – Bucharest 2003.

For instance, there is a comparative study concerning the level of the Romanian programmers revenues with those from other countries outsourcing oriented (in USD): US - 63,000; Japan - 44,000; Indonesia - 12,000; Russia - 7,500; Philippines - 6,500; China - 5,000 up to 9,000; India - 5,000 up to 8,000; Poland, Czech Republic and Hungary – 4,000 up to 8,000; Romania - 3,000 up to 8,000 (an average of 4,700); and Pakistan - 3,500-6,000.

Romanians are having recognized linguistic skills. The European culture, the geographic proximity and a compatible meantime zone with working schedules within the US and also the Western Europe, accompanied by lower costs than Hungary, Czech Republic and Poland, represent the competitive advantages of Romania.

These advantages are a starting point into increasing the exports of software and IT services. According to the Information Technology/Country Profile – the export potential of Romania is comparable with the one of Poland, Czech Republic and Slovenia and is superior to the one of Ukraine, for instance, traditionally recognized as a favorite destination for the externalization of the IT services in the East of Europe. The first places belong to Russia, Baltic Countries and Hungary. Domestic market availability makes from Romania a potential target, through a developing of industry and implicitly of exports.

### **Romania IT Services 2004-2008 Forecast**

Economic growth and preparation for the EU membership helps Romanian IT services market and in this light, spending on IT services is expected to rise as more and more companies invest in complex IT services, says IDC

The Romanian IT services market rose by 10.7% to \$109.27 million in 2003. According to a new IDC study, continued economic expansion in the country and resulted almost a doubling of the growth rate in 2004. Accounting for over 17% of all IT spending in Romania last year, services are expected to represent more and more of the overall IT market as Romanian companies, especially small and medium-sized enterprises, invest in the systems and infrastructure needed to do business in the increasingly technology-dependent economy.

More than thirty IT services providers fought for share in Romania in 2003, with the top twenty providers capturing just over three-quarters of revenue. The competitive nature of the marketplace was underscored by the fact that fifteen of the top twenty vendors shifted places in the rankings last year. Leveraging their installed base, many IT vendors have already added IT services to their portfolios in an attempt to generate business from both new and existing customers. The increased competition will force IT services providers to go beyond their current clients to secure sufficient numbers of lucrative projects, especially in the long term. Specialization might also help, and companies should consider developing expertise in selected services areas.

Hardware support and installation once again accounted for the single largest share of IT services revenue in Romania last year. It was followed by systems integration and software support and installation. Altogether, these three areas represented more than 60% of IT services revenue last year. Although still small parts of the market, software as a service and IT education and training were the fastest expanding segments, with revenue jumping by more than 44.4% and 42.0%, respectively. But over the next few years there is expected a growth to be fairly evenly divided between the different service areas, says an IDC specialist. This means support and installation and systems integration are likely to remain the sweet spots of the Romanian IT services market.

In terms of vertical sectors, utilities spent the most on IT services in Romania in 2003, banking was second and the central government was the third. The telecommunications, manufacturing,

and finance verticals will be the ones to watch and all three are healthy and expected to invest heavily in IT upgrades as privatization and EU preparations continue apace.

According to the IDC report is expected the Romanian IT services market to maintain a healthy speed over the next few years. The right combination of economic growth, technological advancement, and EU-inspired liberalization and privatizations has created a solid foundation for IT services growth.

### **Instead of Conclusions**

A press conference on IT sector was held in the spring of this year and Mr. Jonathan Scheele, Head of the European Commission Delegation in Romania, had been invited to say a few words about this issue.

He appreciated that "Romania is becoming a preferred partner for foreign companies outsourcing certain IT processes. Investments in R & D on behalf of these companies mean not only more jobs and investments, but also a rise in domestic industry competitiveness".

Further to Mr. Scheele's comments, has been underlined the necessity that the specific brand of innovative intelligence in the field of IT be accompanied by "the tenacity and perseverance to see a project through, up to the phase of its implementation".

The President of ANIS pointed out that Romania has a good chance to become a regional leader in the IT sector, the software and services market having the perspective of growing to at least 10% of the Central and East European market. The context of a new growth cycle - after the global recession - represents a strong growth factor for the Romanian industry.