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Offshoring Report 2005
Ready for take-off

The offshoring of business processes has so far had a limited impact on the job situation in Germany. This is one of the key findings of a **survey conducted jointly by BITKOM and DB Research**. A moderate number of job cuts is expected in Germany in future, but on balance, no dramatic transfers are anticipated. In fact, nearly one-third of respondents on the demand side expect to hire an additional 5% or more employees due to offshoring. Further findings made by this survey of over 570 companies in German-speaking regions are discussed below.

- **Offshoring revenues are set to jump in the future**. However, they will be taking off from a low level. At present, relatively few projects and processes are being transferred from Germany to other countries. But nevertheless one in six providers is already generating annual revenues of between EUR 1 m and EUR 5 m with offshore services.
- **Total demand for offshore services is also likely to rise**. A clear majority of those on the demand side expect to see moderate (5-10%) to strong (over 20%) growth. Only very few firms on the demand side intend to cut back their offshore activities in the next 5 years.
- **The providers of offshore services are much more bullish about the volume of potential savings than their clients**. One-quarter of clients have achieved savings of at least 10% thanks to offshoring. Both sides say that reducing costs is the dominant motive for shifting processes abroad.
- **On the customer side there is still a great deal of scepticism about offshoring non-core business processes**. Their willingness to shift human resources administration or accounting jobs is not very pronounced. Those on the supply side are much more optimistic, though. ICT-processes are considered particularly suitable for offshoring, especially application development.
- **India is currently the most important offshore location in the ICT sector, but Eastern Europe continues to narrow the gap**. Those on the demand side in particular are more interested in having partners in Poland, the Czech Republic, Slovakia and Hungary, as these are their neighbours to the east.
- **It emerged that the key factor for providers and purchasers is establishing a good partnership with the offshore contractor**. For the supply side, the biggest challenges in practice are maintaining quality, complying with deadlines and keeping costs under control. For the demand side, the differences in culture and mentality are more important.
- **All in all, customer experience has been largely positive.** Two-thirds of the companies surveyed are satisfied to very satisfied with their cooperative offshoring ventures ito date, and more than half feel their expectations have been met, if not exceeded.

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The German Association for Information Technology, Telecommunications and New Media e.V. (BITKOM) is the mouthpiece for the IT, telecommunications and new media industry in Germany. It represents a total of 1,300 companies. Its 700 regular members include nearly all the leading players and major providers in the industry, as well as 500 innovative small and medium-sized enterprises (SMEs). These member companies generate combined sales of 120 billion euros, accounting for 90 percent of the German ICT market. BITKOM is a large, powerful network that brings together the best minds and the best companies in the digital world.

BITKOM generates impulses for the business community, government, and society as a whole. Its services include political consulting, public relations work, knowledge management and a variety of services customized to its members' individual needs. In addition to providing cooperative platforms for its members, BITKOM promotes an ongoing exchange of ideas between specialists and executives. BITKOM is the sole ICT sector representative in the Federation of German Industries (BDI) and in the leading European industry association EICTA. Through its PR work and services, BITKOM promotes its members' interests and contributes to their ongoing economic success.

Competence Center IT Services

Companies and public authorities are increasingly integrating complex IT and telecommunications systems into their business and administrative processes. IT service providers operate at the interface between the suppliers and users of ICT systems. BITKOM pools the expertise of service providers in its own competence center, called IT Services, where new business models and issues linked to IT-oriented quality management are discussed. IT outsourcing and IT offshoring have become prominent themes at BITKOM. The working group “IT Outsourcing” forms a strong network of experts in the field. It engages in market research and offers models for offshoring in its paper “BITKOM-Guidelines Offshoring”.

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Offshoring Report 2005
Ready for take-off

The intractably high unemployment in Germany is causing public concern. And the rise in offshoring of production processes is currently being condemned as one of the main reasons for redundancies: the public perception is hardening that German businesses are slashing the number of jobs at home in order to take on new staff in Eastern Europe, India and China. This public attention is focusing on the IT and telecommunications sector, since IT-based processes and digitisable services are the ideal candidates for outsourcing to low-wage countries that are even far away. This controversial trend of offshore outsourcing or offshoring is the subject of heated discussion.

In the current debate there is a very stark divergence between the public's perception of offshoring and its actual significance. An objective approach to the topic therefore needs to be taken. With this goal BITKOM and Deutsche Bank Research jointly surveyed 572 providers and purchasers of offshoring services. Each company was asked which processes are currently being offshored and which ones will be in future. The motives and impacts of offshoring were also recorded as were the geographical dimensions of offshoring and the assessment of the impact on jobs. The findings are presented in detail in this report.

Joint survey conducted by BITKOM and DB Research

BITKOM and Deutsche Bank Research conducted a jont survey of companies providing or purchasing offshoring services. 572 completed questionnaires were analysed – 267 from providers and 305 from buyers of offshore services. The response rate came to about 10%. The survey focuses on Germany. Thanks to the support of Bitkom's partner association, SwissICT (www.swissict.ch), 38 providers and 65 purchasers from Switzerland also participated in the survey. 17 foreign providers that focus on the German market also took part (1 from Austria, 4 from Bulgaria, 1 from the Czech Republic, 2 from Lithuania, 1 from the Philippines, 1 from Poland, 1 from China, 2 from Romania and 4 from Russia). On the demand side 21.3% came from Switzerland and 1.3% from Austria. The majority of purchasers – 77.4% – came from Germany.

Globalisation reaches the service sector

There is nothing new about offshoring production processes. It has long been the practice in industrial-scale production. Increasingly, however, services and IT-based processes in particular are feeling the force of globalisation as technological advance has changed their structure. Prior to the digital age, services had to be used at the same time and at the same location as they were provided. In the meantime, however, there is a constantly rising proportion of services where personal contact between the producer and the consumer is no longer necessary. Modern IT enables the digitisation of information-rich services such as many of the tasks performed by office staff. This means they can easily be stored as computer files and copied. Moreover, the internet enables digital goods to be traded and distributed worldwide. Even the data connections between industrial countries and the emerging markets are now sufficiently stable for this. This smoothes the way for a geographical reconstruction of the value chain in the service sector and for the global utilisation of comparative advantages.

Acknowledgement

BITKOM and DB Research would like to thank SwissICT for its assistance with the questionnaire. Other organisations such as openBC and CIOFORUM Deutschland e.V. provided information about the survey. Special thanks are due to the Fraunhofer Institute for Industrial Engineering IAO, especially for its support with data collection via the internet and to experts from the BITKOM IT Outsourcing working group for their valuable advice on the questionnaire design.

Offshoring boosts productivity and aggregate demand

From a macroeconomic perspective, offshoring cuts the costs of the domestic service sector and especially the costs of ICT services. Offshoring, as a process innovation, boosts company productivity. Owners make bigger profits. This in turn attracts new providers, thereby fostering competition and reducing margins.

On the demand side the purchasing power of consumers is boosted by services being offered more cheaply. The lower production costs reduce the price of the goods and services provided for the existing customers. Smaller firms can thus also be won as customers. Aggregate demand is boosted, growth is generated and jobs are created in other companies.

The US leads the way

ICT firms have indeed utilised the cost and quality advantages of alternative locations since this has been technologically possible. They want to maintain or increase their global competitiveness. The real pioneers were the major US ICT firms whose first port of call was India during the mid-1990s. Major financial groups then followed suit. One reason for the vitality of the US economy during the last decade has been the globalisation of its value chains. Scientific analyses have calculated that US growth between 1995 and 2002 would have been 0.3 percentage point p.a. lower, if companies had not carried out IT offshoring. In the meantime more and more countries are going ”offshore“, and other locations apart from India are becoming more important.

Time for the German ICT sector to act

German ICT firms cannot ignore this trend either. They, too, have to restructure and optimise their value chains on a global basis in order not to fall behind in the international arena or even lose ground in their domestic market. Integrating the quality, efficiency and cost advantages of dynamic offshoring providers into the value chain is therefore absolutely essential to ensure a strong domestic ICT sector that protects and creates skilled jobs.

Innovations required instead of protectionism

The advantages of offshoring should, however, not be allowed to obscure the fact that structural change does also mean that there will be some losers. Isolated calls have been made for protectionist measures to avert the dreaded job losses. On both sides of the Atlantic voices have been raised in favour of throwing national spokes into the wheels of the global economy. However, such calls are doomed to end in failure as protectionist measures deliver only short-term success. A more pressing need is to meet the imminent challenges head-on. To this end a precise analysis of the current situation is necessary. And that is the starting-point for this report. Conditions in the domestic location need to be made attractive enough to enable it hold its own in the face of international competition. These factors include a labour market that is flexible enough to create new jobs and an effective education system that produces large numbers of talented people and dynamic entrepreneurs. Only their innovations can maintain the competitive edge that justifies high wages and salaries and ensures high employment levels.

The main findings in brief: overstated risks, exploit opportunities better

One of the most important findings in the survey was that the offshoring of processes in IT-driven services has had a limited impact on the job situation in Germany. Neither the providers nor the purchasers of offshore services expect the net effect of offshoring to reach dramatic proportions. Job cuts are expected in Germany in future, but nearly one-third of the respondents on the demand side and almost one-quarter of those on the supply side expect to increase their headcount by 5% or more over the next 5 years.

Offshoring in Germany ready to take off

The offshoring business in Germany is taking off from a low level. However, the survey also revealed that respondents expect a pick-up in activity in future. Accordingly, there are relatively few projects and processes currently being transferred from Germany to other countries and the revenues generated are still small. However, the companies are widely agreed that both their offshoring revenues as well as the overall demand for offshoring services are likely to increase appreciably in the years ahead.

The offshoring business has gathered pace only slowly in Germany. While nearly one-third of providers say that they have been offering offshore services for over 10 years, it took until the second half of the 1990s for broader interest in offshoring to develop on the client side.

Cost-cutting is the primary motive

As in industry, cost considerations are the main reason why western companies outsource their processes abroad. This comes as no surprise. But, as in prior globalisation phases, there are additional drivers. If the required skilled staff cannot be found “at home“, production can be transferred to countries where there is a plentiful supply of the relevant experts. A local presence is often needed to tap new markets in fast-growing regions with large populations. And finally, the differing quality of locations (e.g. business-friendly environment) can also influence a company’s decision to procure services abroad.

The survey revealed that greater flexibility, concentration on core activities and access to highly specialised staff are the other main motives for offshoring, apart from cost-cutting. The providers of offshore services are much more bullish about the savings potential than their clients. The providers’ assessments of the feasibility and the success of offshoring are in any case somewhat more positive. This may be because they have more experience in the field or possibly because of their specific business interests.

Stark differences between processes

All the same, offshoring has until now only been considered for processes with specific characteristics. They need to be standardised, modular and easy to cooperate on. By contrast, specific core business processes are scarcely suitable for intercontinental relocation. If queries regularly need to be answered, if matters have to be dealt with in strict confidence or the interfaces are highly complex, different time zones, language and cultural barriers in many cases cause the business model to fail. The setting up, coordinating, monitoring and rectifying of processes cost too much time and money.

Offshoring is therefore ideal for support processes that are not tied to a specific sector and where there is no direct contact with the end user. In many cases these are back-office tasks. This has been confirmed by our survey.

Processes considered particularly suitable for offshoring can, however, be found in the ICT sector, especially application development. Their modular character and the numerous standardised processes make long-distance cooperation easier. On the customer side there is generally greater scepticism regarding offshoring and this becomes more pronounced the closer they are related to core activities and the less IT-focused they are.

Eastern Europe to become more important

It is also likely that the development of the preferred offshore locations for German companies will differ at least partially from that for Anglo-Saxon companies. India will continue to play a major role as an offshoring region for continental European partners, since its pool of established companies with many years of experience and highly skilled staff available on favourable terms is so large. Currently they account for nearly 90% of western European offshoring revenues. All the same, the central and eastern European states including Russia are becoming more important. Their cultural, language and geographical proximity makes cooperation easier.

Our survey established that India is currently the most important offshore location in the ICT sector, but that Eastern Europe is constantly catching up. Those on the demand side in particular are more interested in having partners in Poland, the Czech Republic, Slovakia and Hungary, as these are their neighbours to the east. China is also becoming more important, but is a long way from achieving the clout that it has gained in the industrial sector.

Offshoring is highly popular

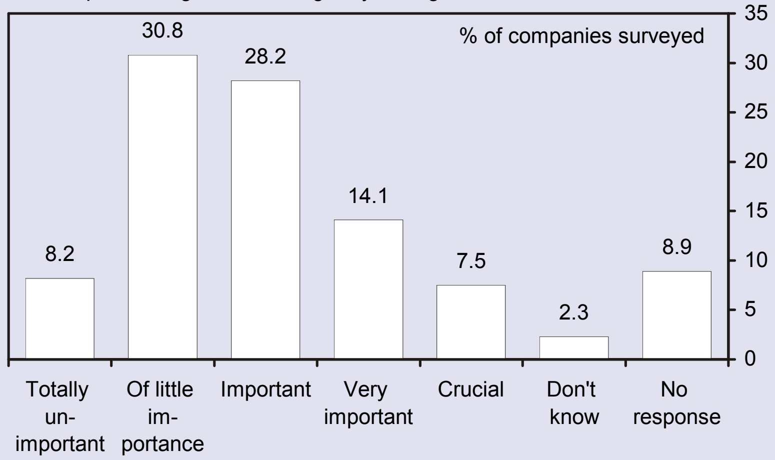
All in all, customer experiences have been positive. Two-thirds of the companies surveyed are satisfied to very satisfied with their cooperative offshoring ventures to date, and more than half feel their expectations have been met, if not exceeded.

Nevertheless, not all is well in the offshoring business. Satisfying quality requirements, meeting deadlines and adhering to budgets are the biggest challenges facing the providers of offshore services when implementing their projects for German clients. From the customer's point of view it is the differences in mentality and culture that make offshoring projects particularly difficult to implement.

Offshoring in Germany is thus gradually gaining momentum as an ICT sector business model. This is an important message for all parties affected by the structural change in the sector: providers, buyers and employees. The speed and dimension have so far evidently been more moderate than the nightmare scenarios painted by the public led one to expect. This, however, is only partially good news. Germany's backwardness in offshoring also means that the potential of the business model in the international arena has still not been exploited sufficiently. There is some catching up to be done. Going forward, it is important to know the strengths of offshore locations, the potential pitfalls in a cooperative venture and the expectations of clients. The Offshoring Report 2005 seeks to provide assistance in this regard.

German companies are learning to appreciate the benefits of global sourcing

"How important is global sourcing for your organisational unit?"

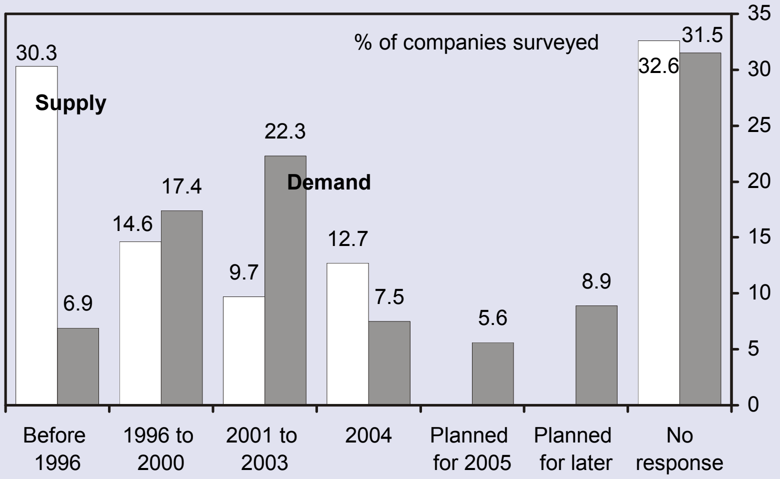


Source: BITKOM / DB Research, 2005

In Germany, companies have come to realise that the global-sourcing business model has positive effects. Around half of the respondent companies demanding services in the offshore market believe global sourcing is important, if not crucial. However, nearly 40% of the companies still think global sourcing is of little or no importance.

Long tradition of offshoring on the supply side; demand side still learning

"When did your company first provide or demand offshoring services?"

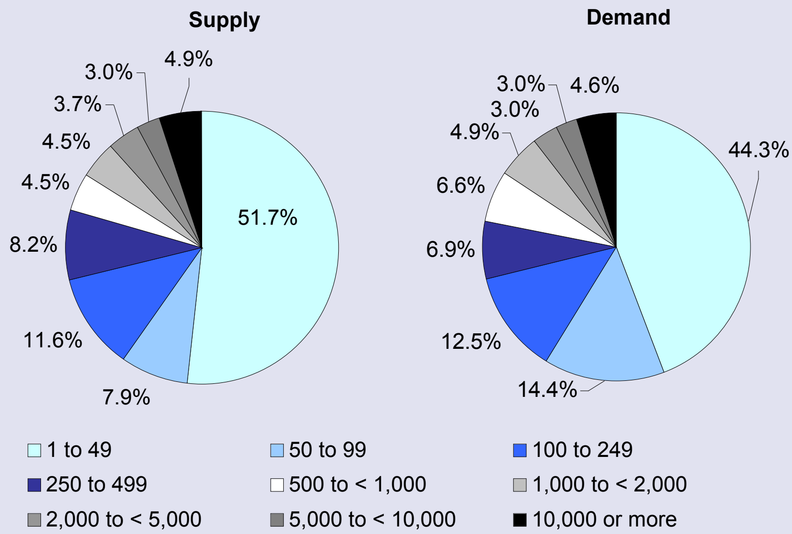


Source: BITKOM / DB Research, 2005

The demand for offshore services in Germany started with a time lag. While nearly one-third of the providers say that they have been in the business of offering offshore services for over 10 years, broader interest did not take off on the client side until the second half of the 1990s. For more than one-third of the companies on the demand side their first experience with offshoring services did not occur until between 1996 and 2003.

SMEs preponderant in offshore activities

"How many employees worked in the organisational unit on average in 2004?"

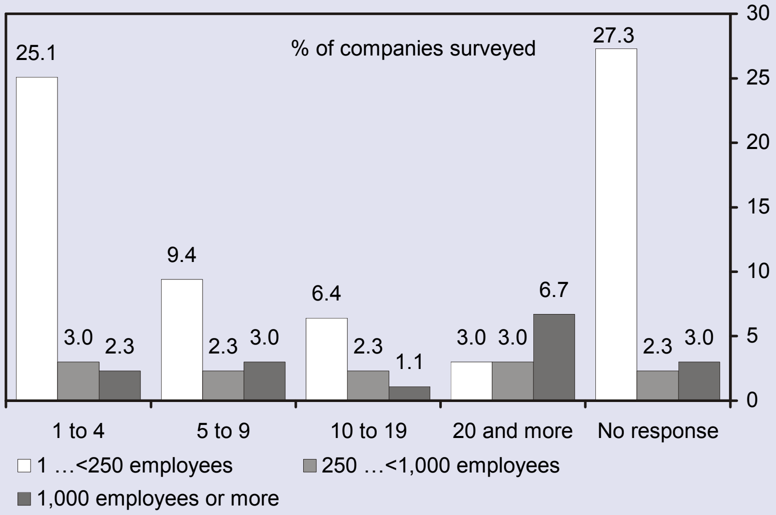


Source: BITKOM / DB Research, 2005

Offshoring is not the preserve of big companies. Both the purchasers and the providers of offshoring services are mostly from the ranks of small business. Over two-thirds of the companies surveyed employ 250 employees or fewer.

Many smallish providers have a strong specialisation in offshore projects

"How many offshore projects were handled by your organisational unit altogether in 2004?"

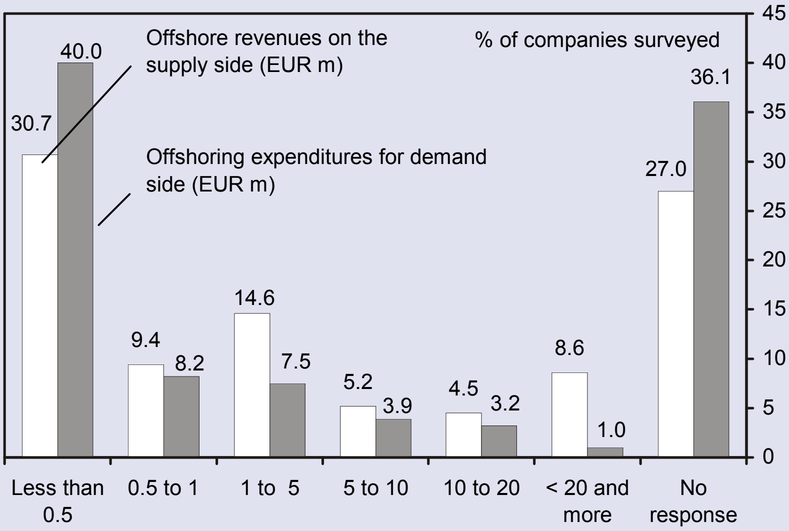


Source: BITKOM / DB Research, 2005

Most of the providers of offshore services still concentrate their efforts on just a few projects. In most cases, these are smallish providers who have specialised in offshoring projects. Only in cases where more than 20 projects are handled per year are big companies predominant.

Offshore purchase volumes and revenues are still low

"In your estimation, how high are the revenues generated by offshoring for customers?" and
"How high do you estimate the overall offshore purchase volume for your organisational unit to be for 2004?"

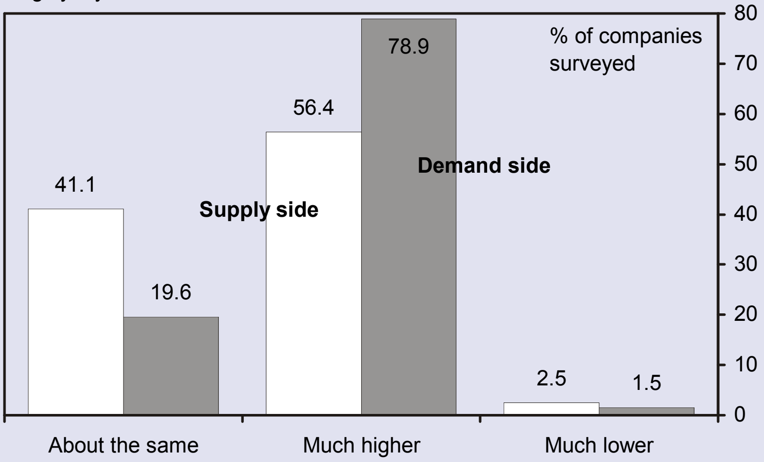


Source: BITKOM / DB Research, 2005

Most offshoring projects in the German-speaking world are still fairly small. Nearly half of the companies surveyed currently buy in offshore services with a total value of less than EUR 1 m. Revenues are also not very high yet. Around 40% of all the companies offering offshore services generate revenues of less than EUR 1 m from this activity. But no less than one in six companies generated revenues of EUR 1 m to EUR 5 m with offshore services. Half of their customers have offshoring project costs of less than EUR 1 m. Amazingly, more than one-third of the companies surveyed that demand offshore services refrained from responding.

High expectations for future development of offshoring

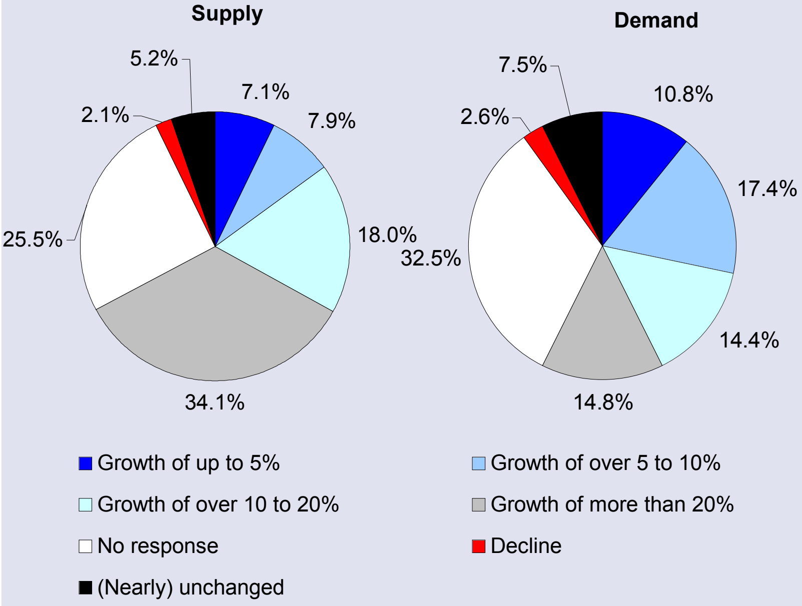
"Comparison of value-share of services performed offshore at present and in roughly 5 years"



Source: BITKOM / DB Research, 2005

There is broad agreement on both the supply side and the demand side that the value-share of offshoring services is set to increase significantly in the years ahead. Especially the customer side (nearly 80%) expects a substantial rise in the value contribution from offshore services. Hardly anybody expects the offshore component to decline.

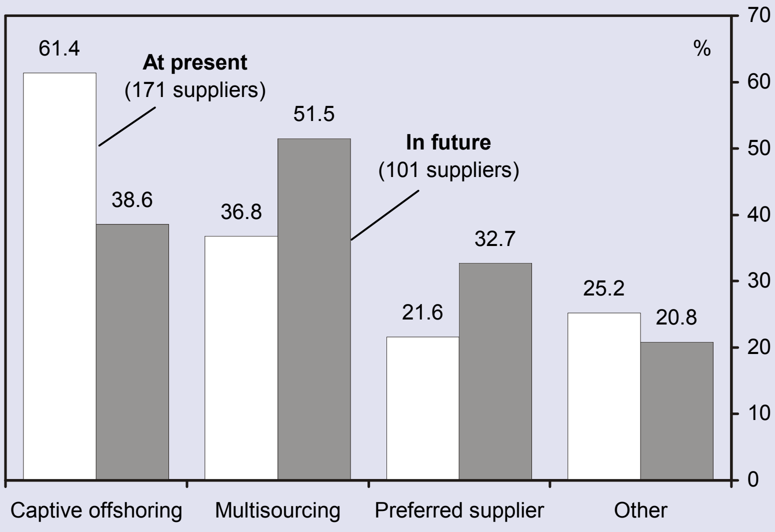
Providers expect strong revenue growth
"How will your offshore revenues grow in the next 5 years?"



Source: BITKOM / DB Research, 2005

The providers of offshore services are optimistic about the future. More than one in three of them expect their revenues to increase by over 20% in the next 5 years. Over 50% of them expect growth to top the 10% mark. The demand side is also optimistic, though to a more moderate degree. Nevertheless, almost 30% of the client group expects growth of over 10%.

Suppliers want to vary their model range more in future
"Which business models does your company use to supply offshore services?"

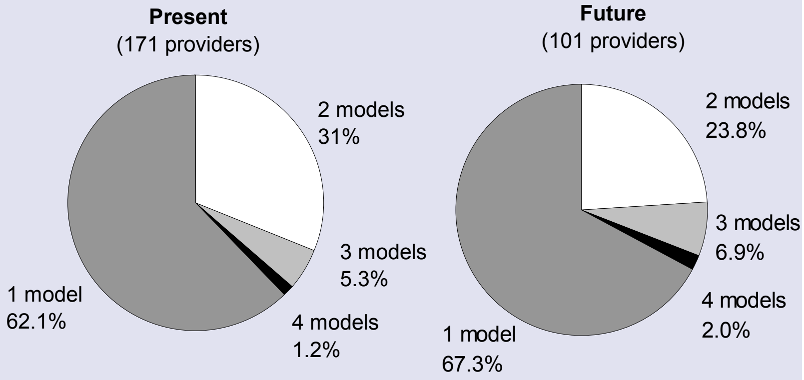


Source: BITKOM / DB Research, 2005

The providers' business models – captive offshoring, multisourcing, preferred supplier etc. – are still not firmly established. Many of the providers intend to switch from captive offshoring to multisourcing or the preferred supplier model in future.

Trend of specialising in a few models

"How are offshore services offered in your company (number of offshoring models in practice)?"

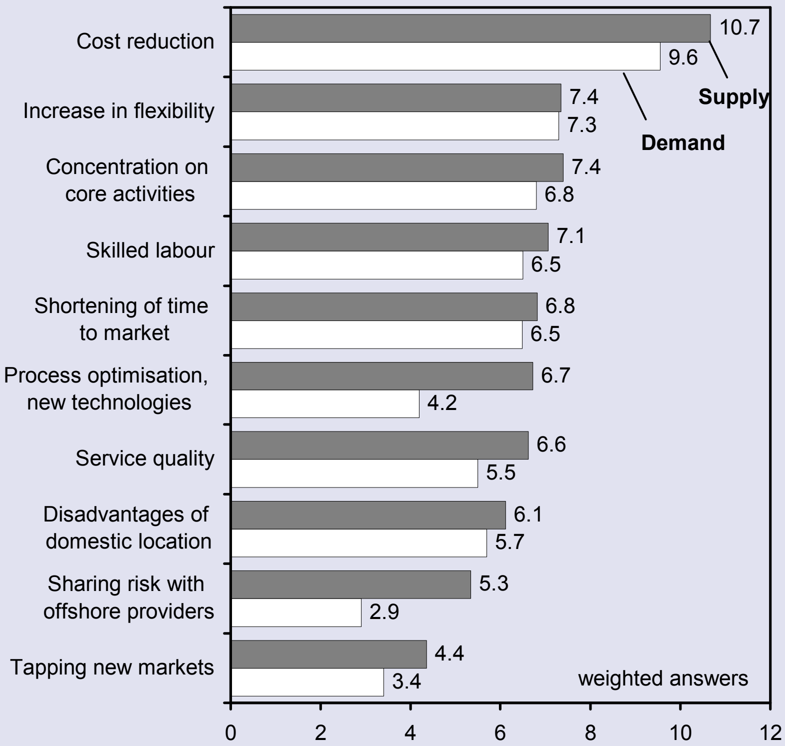


Source: BITKOM / DB Research, 2005

The bulk of the providers of offshore services offer merely one or two different business models. This does not look set to change.

Cost reduction is the dominant motive

"How significant are the following factors as motives for your company and for your clients to move activities offshore?"



Source: BITKOM / DB Research, 2005

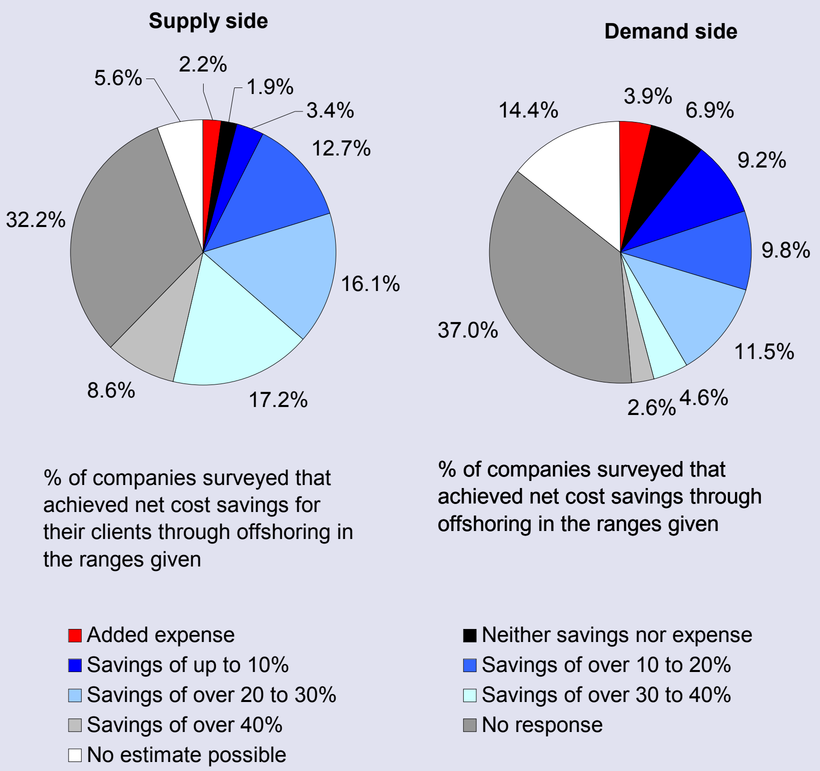
The providers of offshore services consider that their customers are far more interested in reducing their costs than any other motive. The customers themselves make a similar assessment. Less important motives are to increase flexibility and concentrate on core activities. However, access to particularly skilled labour still plays a major role in this regard.

Methodological note on “weighted answers”

For several questions about the significance of factors, motives etc. the respondents were able to choose between “none”, “low”, “medium”, “high” or “very high”. To simplify the graphical representation these answers were assigned the values 0, 1, 2, 3 and 4. This allowed the answers to be aggregated. Additionally, the size of the companies surveyed was also taken into consideration in the aggregations. This was done on the basis of the operating size as indicated by the respondents. This means that the higher the figures shown in the charts, the higher the number of big companies that attribute a given factor a comparatively high degree of significance.

Substantial savings possible thanks to offshoring

"What savings can your organisation achieve thanks to offshoring
(1) for a typical German client (supply side)
(2) client side?"

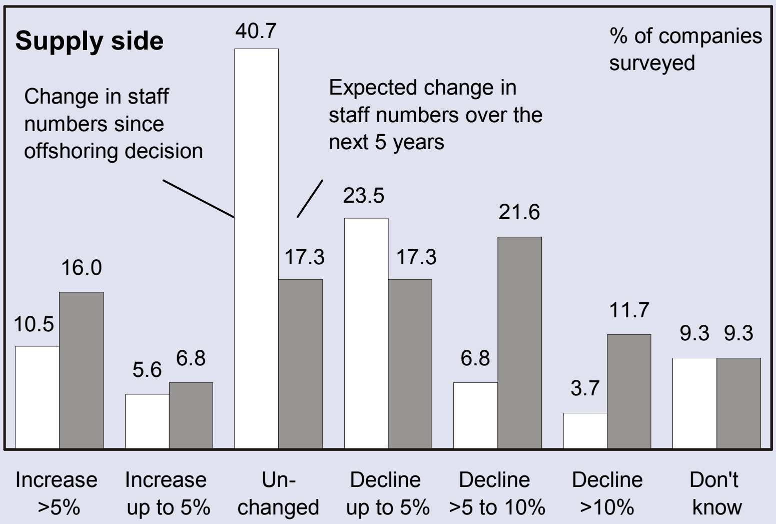


Source: BITKOM / DB Research, 2005

The providers of offshore services put a much higher figure on the savings potential than their clients do. The majority of those providing offshore services believe that they have achieved savings of at least 10% for their clients. Over one-quarter of those on the demand side share this assessment. Surprisingly, over half the respondents say they cannot estimate the savings potential.

Balance of employment effects

"In your opinion, how pronounced are the effects of offshoring on jobs in your organisational unit?"

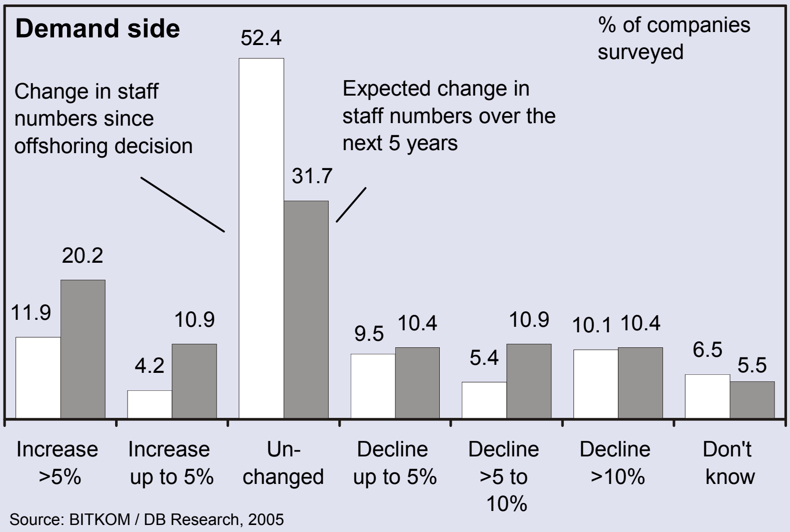


Source: BITKOM / DB Research, 2005

On both the demand side and the supply side alike, expectations are that the offshoring of services will have effects on employment. Off-shoring is expected to trigger both hiring and firing. On balance, no dramatic shifts are anticipated. A moderate number of job cuts is expected in Germany in future. Nearly one-quarter of the providers estimate that offshoring will in fact raise employment by 5% or more in the next 5 years.

Balance of employment effects

"In your opinion, how pronounced are the effects of offshoring on jobs in your organisational unit?"

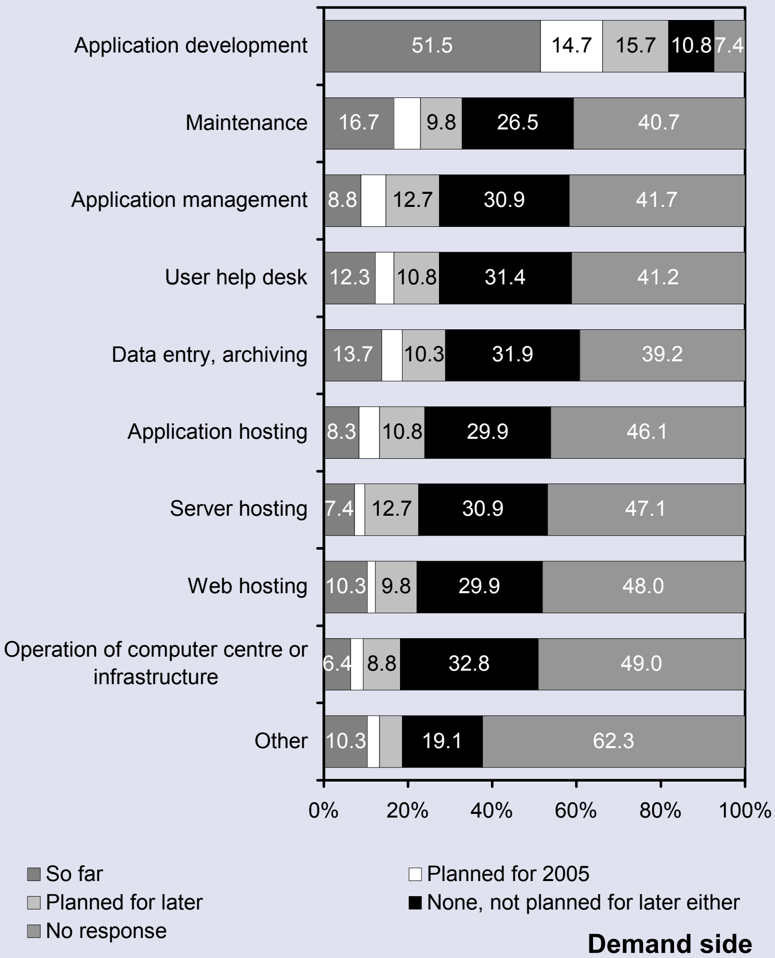


Source: BITKOM / DB Research, 2005

Generally, those demanding offshore services are somewhat more moderate in their assessment of offshore-related lay-offs in Germany. Nearly one-third of respondents on the demand side expect to increase their staff by 5% or more for offshoring-related reasons over the next 5 years.

Application development most suited for offshoring

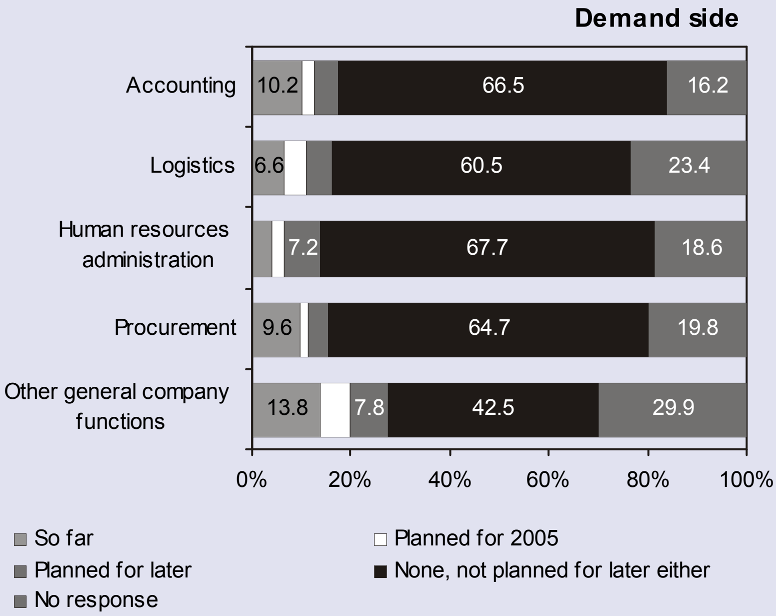
"Which ICT business processes does your company at least partly turn over to offshore partners?"



Source: BITKOM / DB Research, 2005

ICT processes are best suited for offshoring. Besides application development (demanded by over half the customers surveyed), the ICT processes offshored most often were application management, data entry, archiving and user help desk functions. All in all, the survey collected information about three process categories: ICT processes, general business processes and processes that pertain to the customers' core business areas.

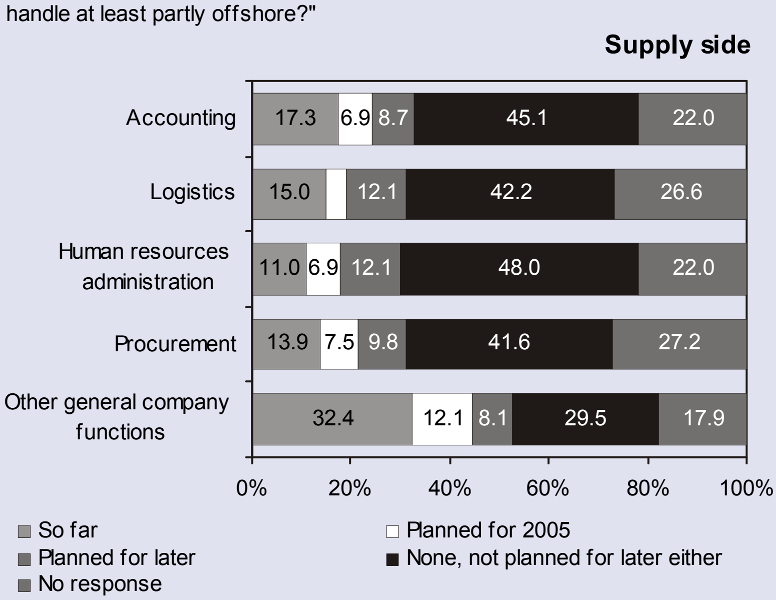
Scepticism about non-core business processes
"Which non-core business processes do you at least partly turn over to offshore partners?"



Source: BITKOM / DB Research, 2005

Much less experience has been gathered in offshoring general business processes than IT processes. Hence, companies have only guarded expectations that general business processes will be offshored more intensively in future.

Scepticism about non-core business processes
"Which processes pertaining to clients' general business functions do you handle at least partly offshore?"

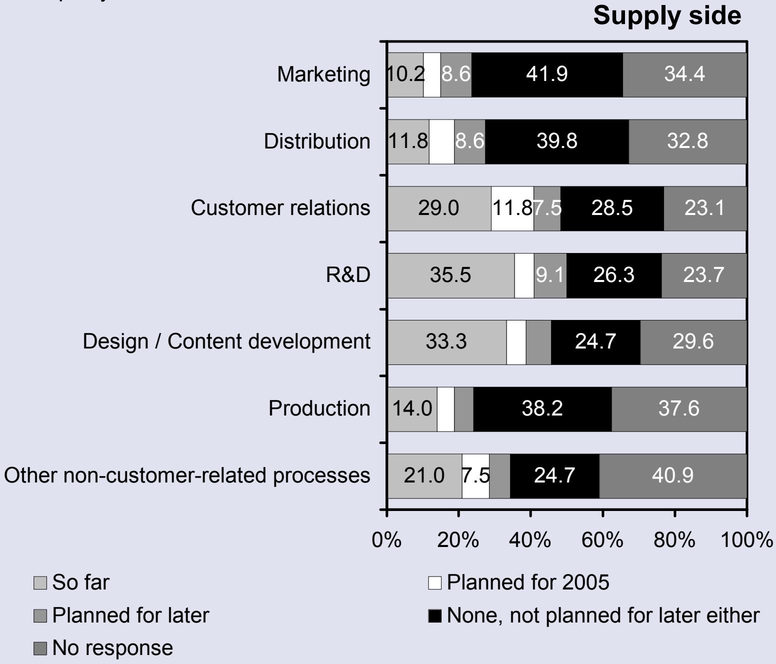


Source: BITKOM / DB Research, 2005

Those on the supply side are more optimistic, though. They particularly favour IT-based business processes such as human resources administration, accounting, logistics and procurement. The respondents did not cite any clear priority for one particular process, though.

Greatest doubts pertain to feasibility of offshoring core business areas

"Which of your clients' core business processes are handled by your company at least partly offshore?"

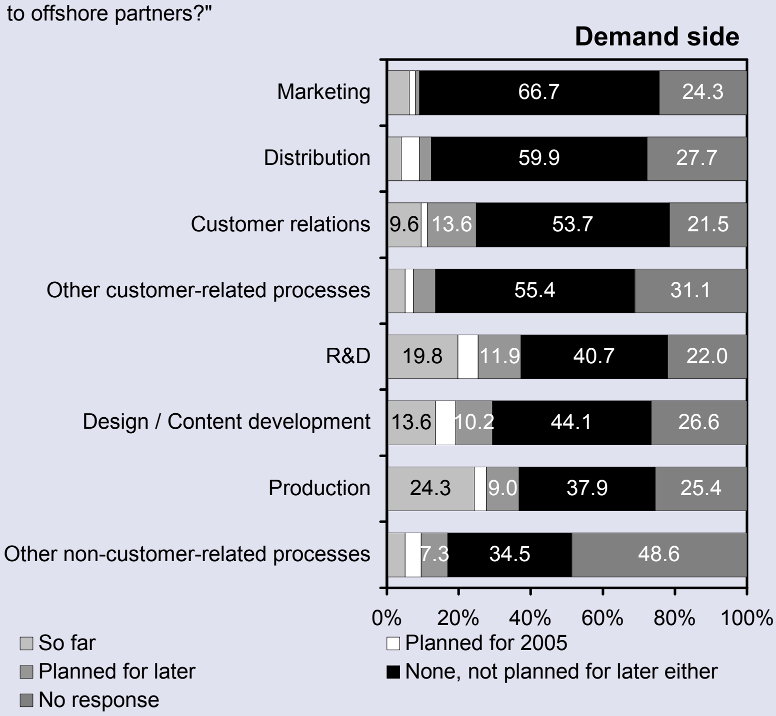


Source: BITKOM / DB Research, 2005

Scepticism is greatest in relation to the offshoring of core business areas. All the same, the providers offer processes from the core business areas of research & development, design / content development and customer relations. Still, they are particularly sceptical about the offshoring of marketing and distribution activities, be it now or going forward.

Customers say offshoring core business processes is virtually out of the question

"Which core business processes does your company turn over at least partly to offshore partners?"

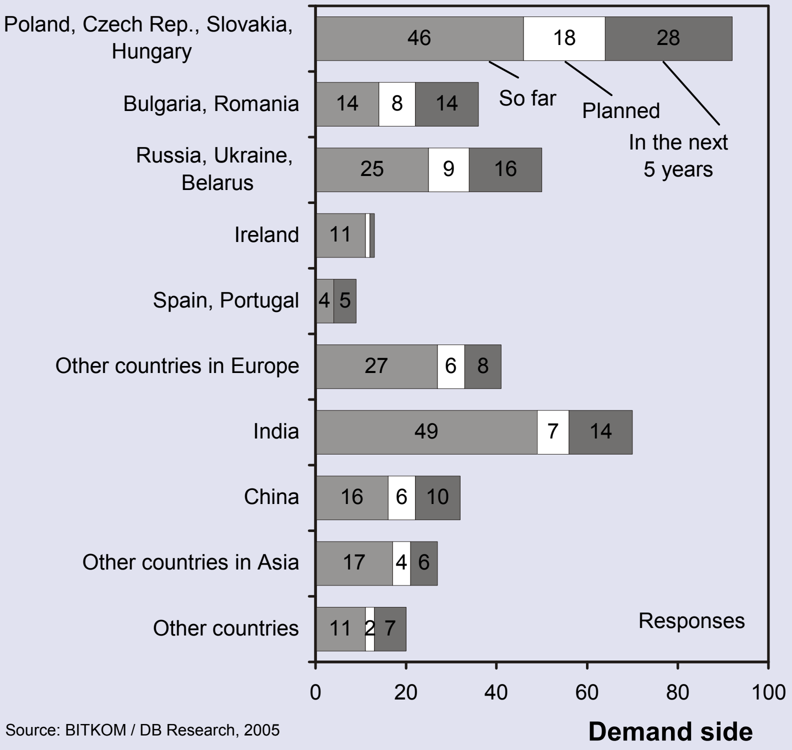


Source: BITKOM / DB Research, 2005

On the demand side, the doubts pertaining to offshoring core business processes are even more pronounced in some cases. However, at least some of the respondents say they already offshore production, R&D, design / content development and customer relations, or could imagine doing so in future.

Eastern Europe advancing rapidly

"In which countries does your company offshore its business processes?"

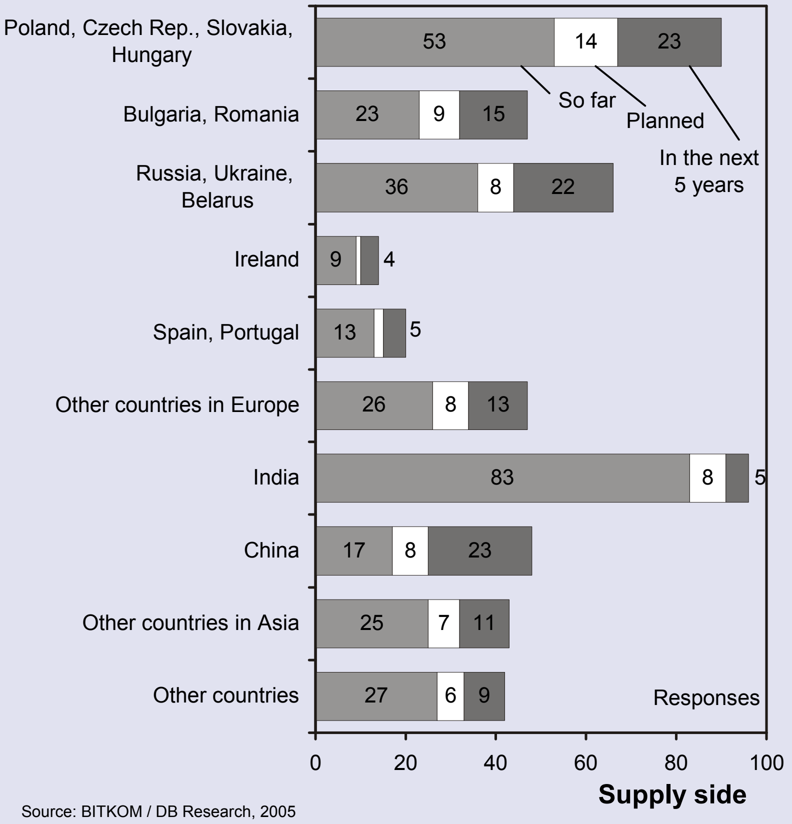


Source: BITKOM / DB Research, 2005

India is the most important location for offshoring at present, but Eastern Europe continues to narrow the gap. Especially the customers of German and Swiss providers have a greater interest in near-shore partners, i.e. their neighbours to the east in Poland, the Czech Republic, Slovakia and Hungary. These countries are expected to see the strongest growth going forward.

India the most important offshore location, Eastern Europe narrowing the gap

"Where are the offshoring capacities to be found that your company makes use of for German clients?"

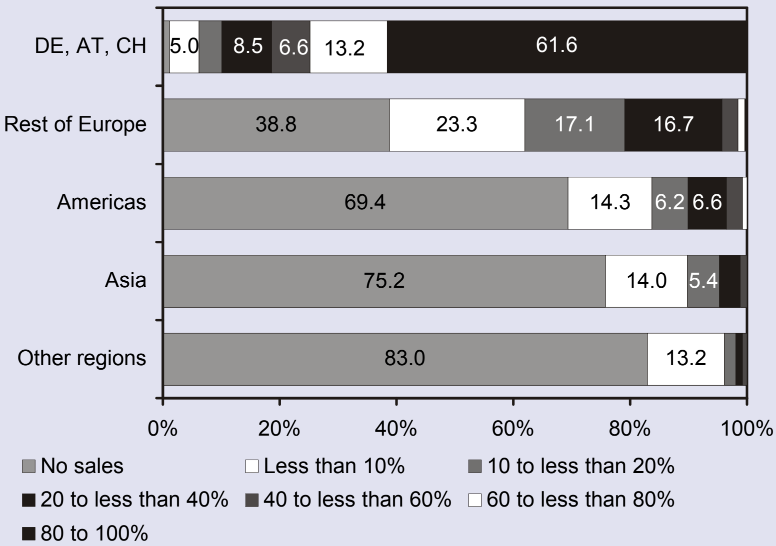


Source: BITKOM / DB Research, 2005

The providers themselves continue to put their money on India. But even they say that the strongest growth in the next 5 years is likely to be seen in the neighbouring countries of central and Eastern Europe. China appears to be an increasingly attractive location, as well. Interest in the western European countries with relatively low wage levels (Ireland, Spain and Portugal) is comparatively moderate.

Bulk of sales in domestic market

"Where did your company generate its sales in 2004?"

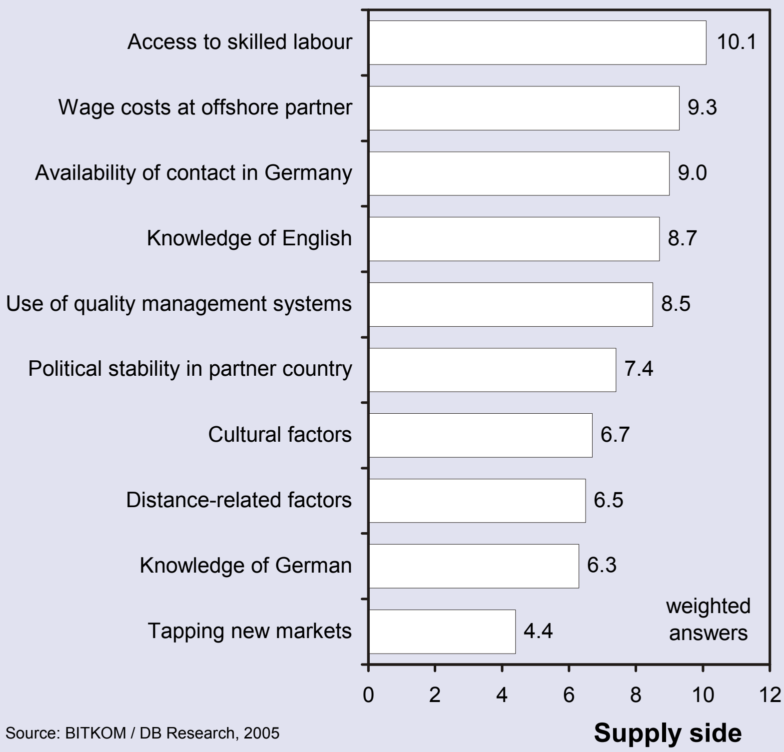


Source: BITKOM / DB Research, 2005

The vast majority of the companies surveyed generate the bulk of their sales in Austria, Germany or Switzerland, with the rest of Europe and the Americas next but some distance behind. In concrete terms, of the 258 respondents from the demand side, 179 did not generate any sales in the Americas in 2004. Even though the processes can increasingly be sourced around the globe, the local markets retain their high degree of importance.

Labour skills are the crucial factor

"From the viewpoint of one of your company's typical clients, what significance do the following factors have in the selection of an offshore partner?"

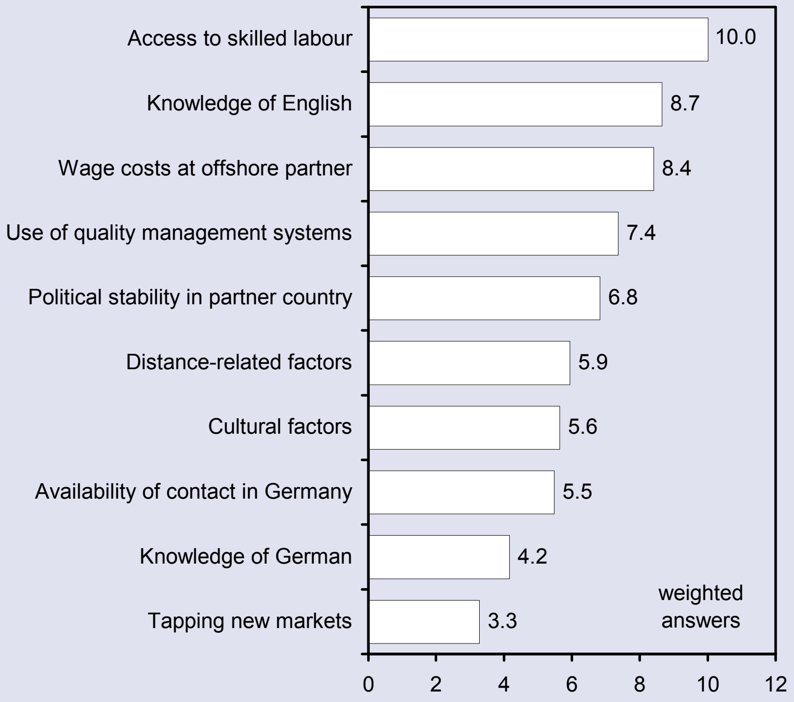


Source: BITKOM / DB Research, 2005

In Germany, both the supply side and the demand side are agreed that the most important criterion when scouting for offshore services is their access to skilled labour. On the supply side they say that after that come wage costs in the offshore regions, followed by availability of local contacts and English language skills. The tapping of new markets plays a negligible role in the selection of a business partner.

For clients, access to skilled labour is decisive factor

"What significance do you attach to the following factors when selecting an offshore partner?"



Demand side

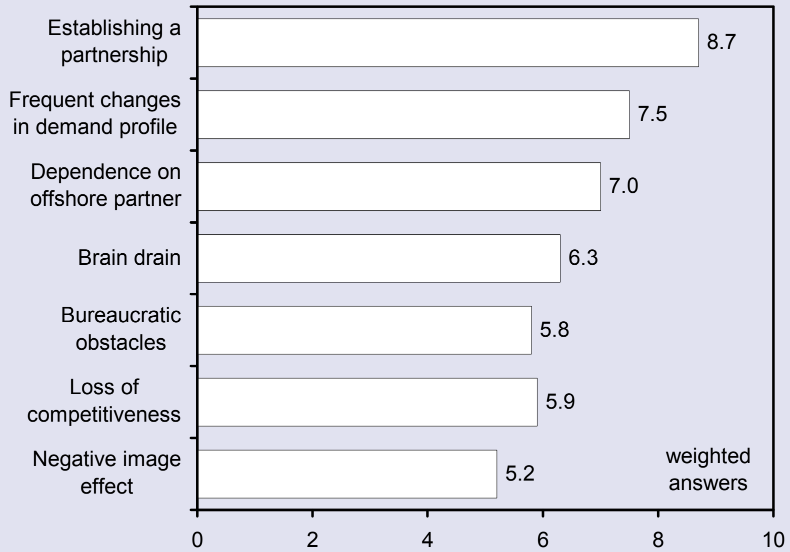
Source: BITKOM / DB Research, 2005

On the demand side, the next most important factors are the knowledge of English, wage costs at the offshore partner and the use of quality management systems. Amazingly little importance is attached to tapping new customer markets.

The survey differentiated between several problem groups: internal implementation problems encountered by customers, problems with the offshore entity and implementation problems in the country of the offshore partner.

Partnership is key challenge for demand side, suppliers say

"What significance do you attach to the challenges:
a) that the client has to face,
b) posed by the business environment in Germany?"



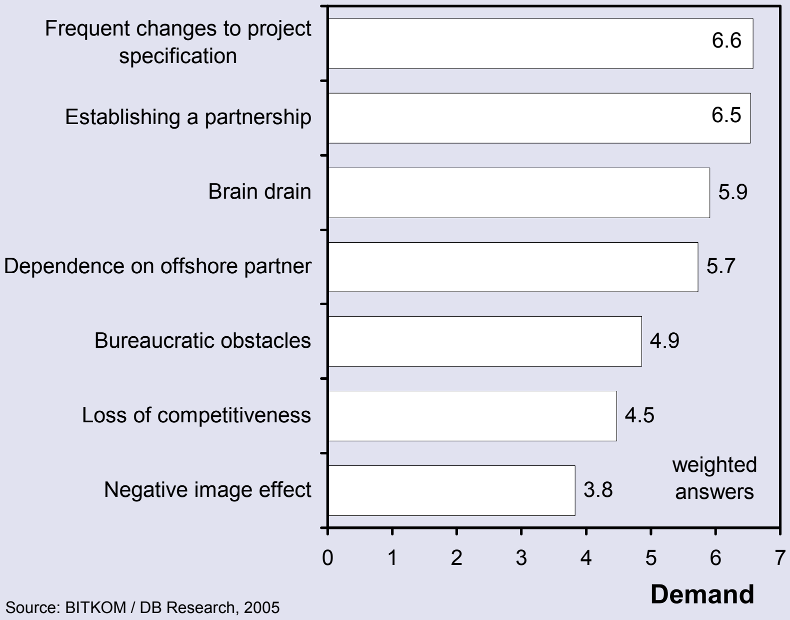
Supply side

Source: BITKOM / DB Research, 2005

Establishing a partnership is very important to the clients of German offshore service providers. This is where providers of offshore services identified the biggest challenge that faces their customers or that is posed by the business environment in Germany. Other possible obstacles are the potentially frequent changes in project specifications and the degree of dependence on the offshore partner.

Frequent changes to project specification pose problems

"What significance would you attach to the implementation problems that lie with the customer or the business environment in Germany?"

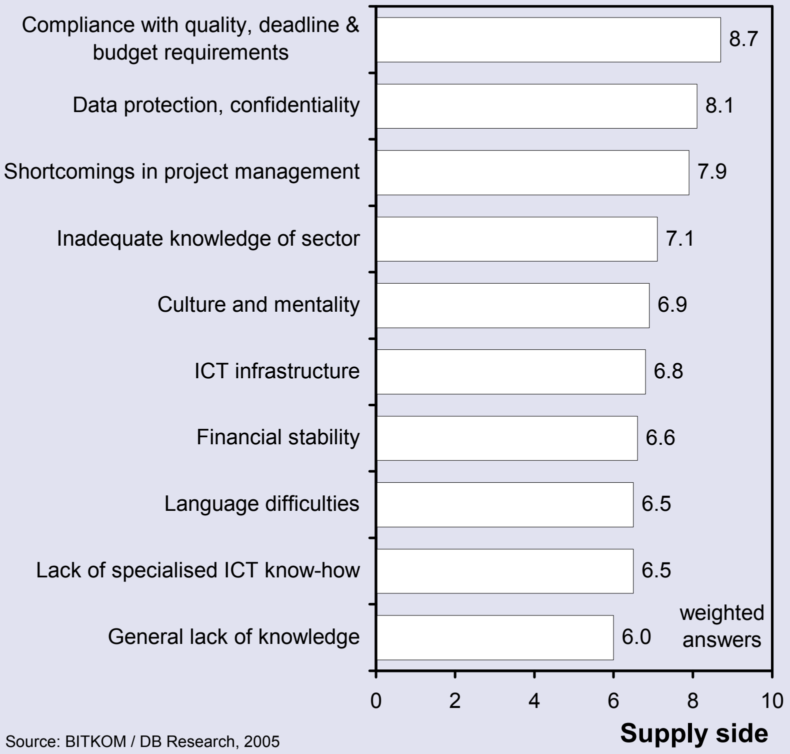


Source: BITKOM / DB Research, 2005

Those demanding offshore services also regard the establishment of a partnership as a very important challenge, one which is only slightly exceeded in importance by the aspect of frequent changes in project specification. Brain drain and the risk of dependence on the offshore partner follow but are much less pressing concerns. The least significance is attached to the negative image effects of offshoring.

Domestic clients attach importance to agreements being observed

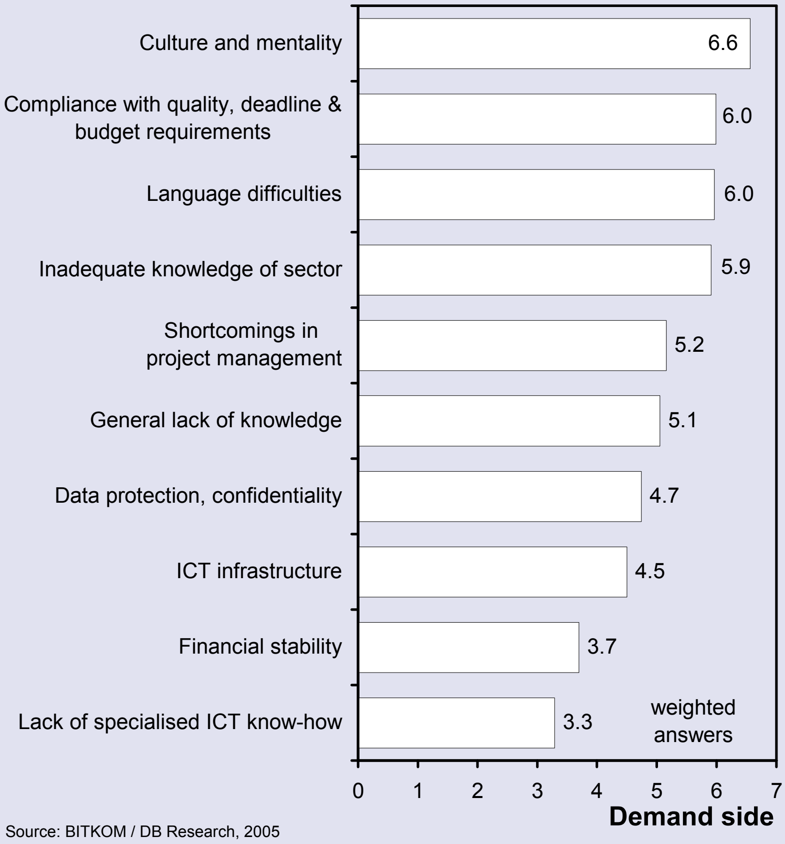
"What significance do you attach to the challenges you have encountered in practice as a provider of offshore projects to German customers?"



Source: BITKOM / DB Research, 2005

Satisfying quality requirements, meeting deadlines and adhering to budgets is the biggest difficulty which the providers of offshore services have to face in implementing their projects for German clients. But data protection, security aspects and the demands made on project management also play a major role.

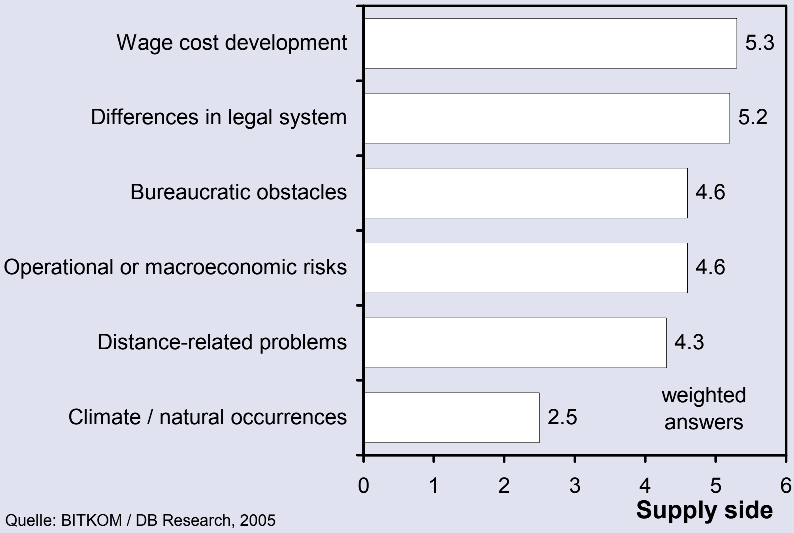
Differences in culture and mentality play a role
"What significance do you attach to implementation problems that lie with the offshore supplier?"



Source: BITKOM / DB Research, 2005

From the customer's point of view the differences in mentality and culture make it particularly difficult to implement offshoring projects. But satisfying quality requirements, meeting deadlines, adhering to budgets, overcoming language barriers and knowledge of the sector are also relevant factors from the customer's standpoint.

Wages and legal system are major issues for the supply side
"What significance have the challenges resulting from the business environment in the country of the offshore partner had so far?"

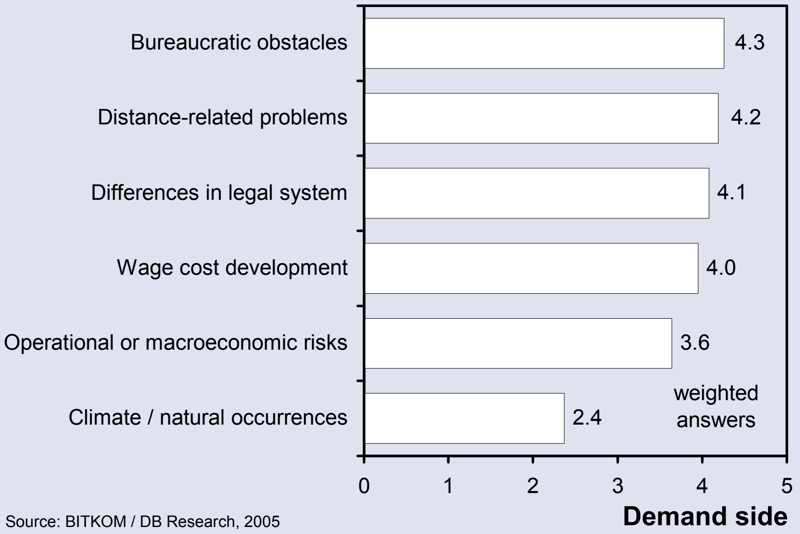


Quelle: BITKOM / DB Research, 2005

Providers of offshore services regard the biggest challenges in the business environment of the offshore partner country to be the wage developments and the differences in the legal systems of the target and the home country. They attach somewhat less importance to bureaucratic obstacles, specific risks in the target country and distance-related problems. The climate is considered to play the smallest part.

On the demand side, clients say bureaucratic obstacles and distance issues hamper cooperation

"What significance have the challenges resulting from the business environment in the country of the offshore partner had so far?"

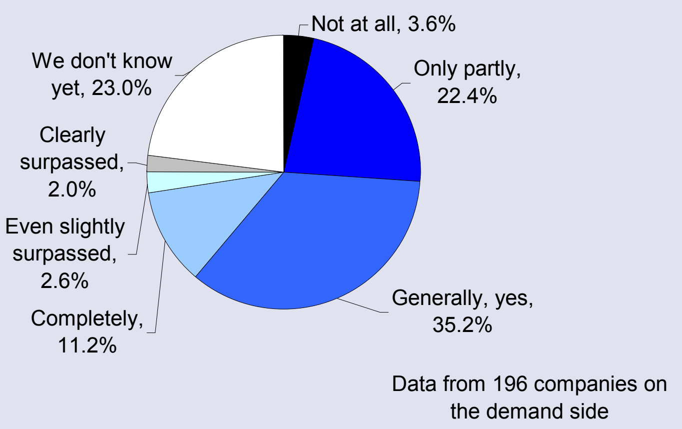


Source: BITKOM / DB Research, 2005

By contrast, the customers say the most critical factors are bureaucratic obstacles in the target country and distance-related problems. These are followed – with a nearly equal weighting – by the differences in legal system and wage cost development.

Customer expectations mostly fulfilled

"Have the results to date been in line with your expectations?"

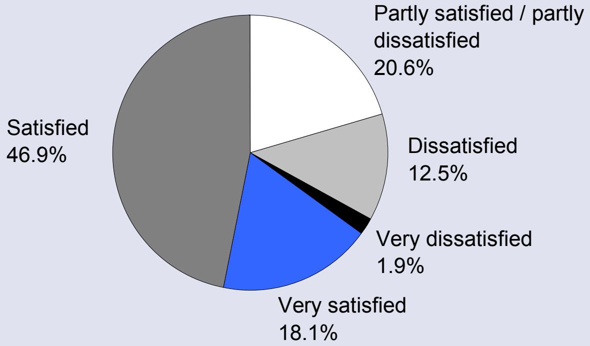


Source: BITKOM / DB Research, 2005

The customers say their expectations of offshore solutions have been largely fulfilled. Over half of those surveyed said their prior expectations had been generally fulfilled if not in fact slightly exceeded. However, over one-quarter indicated that they were disappointed with the results to date.

Customers very satisfied with their offshoring experience

"How satisfied are you with offshore cooperative ventures to date?"



Response from 160 companies on the demand side

Source: BITKOM / DB Research, 2005

The clients purchasing offshore services are largely satisfied. Over two-thirds of the companies surveyed are satisfied to very satisfied with their cross-border cooperative ventures to date. Barely 15% of the respondents said they were dissatisfied to very dissatisfied.

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