



**employers' association of the
software and services industry**

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Software & IT Services in Romania

A Study on the Development of the Industry of Software and IT Services in Romania in 2013

Executive Summary

The link between ICT and the economy in general has been investigated by scholars, academics, and managers over the past 40 years or more. The added value brought to the economy by the development of a healthy ICT sector translates, for instance, into a positive contribution to GDP, an increase in company formations, and a positive impact on the overall employment rate, as well as productivity gains and heightened industrial innovation. Among the different segments comprising the ICT sector, the software industry represents a particularly dynamic area, more than ever in a market that is shifting towards the “as a service” model and in which the hardware component is gradually losing momentum.

Moved by the evidence above, the Employers' Association of the Software and Services Industry in Romania, known as ANIS Romania (hereinafter ANIS), has requested an in-depth analysis of the Romanian software industry in order to obtain a detailed description of its current status, a clear understanding of its competitive factors and areas of improvements, and a better appreciation of its positioning vis-à-vis the regional landscape. IDC has therefore conducted ad-hoc primary and secondary research to produce this study, which examines the present status of Romania's software industry and provides a series of recommendations on how to move forward in times of economic uncertainty and hectic technological change.

The software industry is a complex one, which can be comprehended in different ways and according to different perspectives. In order to have a full picture of the software-related dynamics in Romania, this study investigates the traditional packaged software industry (represented by its three main components: applications, system infrastructure software, and application and development software), as well as another fundamental market in Romania, custom application development (CAD).

The key messages from this analysis of Romania's software industry are summarized here:

- Local software companies in Romania are still largely focused on custom development projects, which usually have a quicker turnaround and generate the majority of operational revenue streams.
- In terms of commercial packaged software, ERM applications are the most popular among Romanian companies, with 54% of all respondents mentioning their involvement in developing this kind of application, followed by OMA (41%) and CRM (38%). The least popular commercial packaged software applications developed locally are, as expected, security and storage applications, with international vendors dominating the market.
- In terms of vertical split, the top three most popular vertical industries are manufacturing, finance (including banking, insurance, and other financial services), and retail and wholesale, each with approximately 13%, followed by government (11%) and business and personal services (10%). The least popular target sectors for the development of local packaged commercial applications are construction, education, and telecommunications.



- In terms of revenue models, the traditional licensing model based on fixed license fees and recurrent maintenance is still predominant when it comes to selling commercial packaged applications (accounting for close to 80% of packaged software revenues). Subscription-based revenue specific to cloud delivery accounts only for 18.8% of all revenue stemming from commercial packaged software.
- The vast majority of the interviewees seem not to be directly involved in the development of mobile applications. However, enterprise mobile apps (particularly industry-specific, ecommerce, and office and productivity apps) appear to play a significant role in Romania, and local companies have therefore started to pay greater attention to this segment, as it has the highest growth potential.
- Despite the fact that these markets have recorded consistent growth rates in recent years, Romania is likely to follow the path of its neighbors and major competitors, where market development has been hindered by a significant increase of human resources costs. If this proves to be the case, a slowdown, or even stagnation, in the export of services sourced in Romania will probably follow.
- Domestically developed software mostly targets international markets, in which demand is expected to grow much faster than in Romania.
- The study has also revealed that the packaged software market is growing faster than the R&D and CAD segments, signaling the possible migration of the specialists involved in custom software development to the creation of packaged software, either through setting up new startups or by joining the existing companies involved in packaged software development.
- The number of startups in Romania is constantly increasing, with most focused on developing consumer applications that leverage social media. However, the number of applications successfully developed and marketed is relatively small.
- The latest IDC-ANIS survey of local software companies revealed that Romania's most threatening competitors when it comes to attracting offshore/nearshore activities are Russia (cited by 26% of respondents), Ukraine (23% of respondents), Bulgaria (17%) and Poland (16%).
- The main attraction of Romania for investors is the size of the country's labor force and student population and its strong language skills. In addition, it is home to very capable programming talent, and many offshore/nearshore investors are using the country for their R&D operations. While challenges persist in other areas of the operating environment, Romania's human resources profile will remain on the radars of most offshore/nearshore investors considering CEE as a potential base for their sourcing operations.
- High personnel turnover is considered the most challenging barrier when pursuing a packaged software development project. The second most important barrier is a lack of government incentives to encourage companies to undertake such projects, together with a lack of sufficient marketing budgets to support product launch campaigns. Other barriers include high R&D costs, the highly competitive environment, and poor intellectual property legislation.



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- Unsurprisingly, the role of the public sector (at both national and EU levels) is of paramount importance for access to financial resources. In parallel, the government's support in creating industrial parks, free zones, and incubators is seen as a fundamental stimulator of the commercial packaged software industry in Romania.
- One cost-effective approach to help generate momentum is to make better use of EU funds, something the government has made a priority. With the lowest fund absorption rate of EU member states, Romania stands to gain enormously when the next round of funding comes into play in 2014.

About the Study

„Software & IT Services in Romania - A Study on the Development of the Industry of Software and IT Services in Romania in 2013” was commissioned by ANIS and developed by IDC.

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Methodology

For the quantitative data used in this report, IDC has used the standard research programs and continuous intelligence services on software and IT services in Central and Eastern Europe, including Romania. In addition, IDC, in collaboration with ANIS, conducted an ad-hoc quantitative survey of 201 companies involved in the development of either proprietary or custom software. The sample was selected randomly from a comprehensive database of software development companies operating in Romania. The survey took place from June to August 2013.

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