employers' association of the software and services industry

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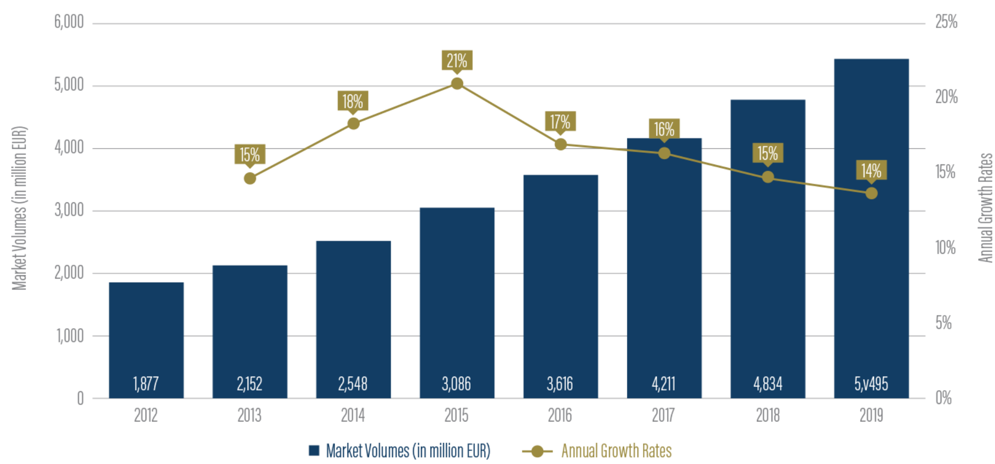
Software and IT Services in Romania 2016

General considerations

Pushed up by the high demand from Western Europe and the still very attractive cost structure, the growth of the Romanian software and IT services industry is inhibited by the lack of availability in number and IT skills set of resources that the customers are looking for.

It is estimated that the software and IT services industry will generate more than 3% of Romania's GDP in 3 years, provided the industry manages to leverage and compensate a legacy education system and still a low rate of foreigners (especially from Ukraine, Bulgaria, Serbia, etc.) with high IT skills attracted in the country.

Fig. 2 | Romania - Total SITS Industry - Volumes and Growth Rates



Being based on its human capital and able to pay its specialists much higher-than-the-average salaries, the software and IT services sector is clearly a growth vector for the country's reputation, wealth and stability.

On the mid-term, the trend of increasing the value added to the IT services provided from Romania is visible, while still focusing on growing on the junior workforce, for which the gap from Western costs is the most important.

On the longer term, Romania's positioning is expected to consolidate as a target market for higher added-value services, R&D centers and significant domestic market projects that would include high-end solutions and technologies.

PAC, during its 17+ years of market research and strategic consulting services on the Romanian market, has remarked the very interesting compensation between the two quite different segments that compose the Romanian software and IT services sector: the local market and the export of IT services, with software products development generating rather small percentages of the sector turnover.

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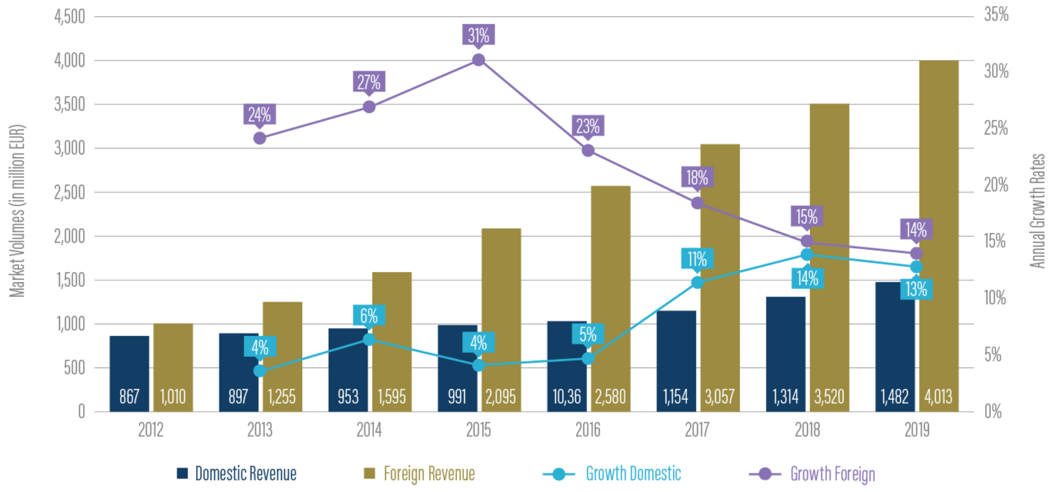
Since 2008, these two segments have grown at very different paces and we expect that, especially because of the lack of resources, the individual growth rates will be steady and contribute to accelerating differences between them.

It is worth mentioning that the export of software and IT services in 2016 is expected to exceed 2.5 billion euro, which is more than the double of the value registered 4 years ago, while during the same period the domestic market demand increased by less than 200 million euros.

Fig. 4 | Romania - Total SITS Industry – Market destination - Volumes and Growth Rates



The Romanian software and IT services market has been affected by several strong internal and external factors, which have influenced its development and the chances of the IT suppliers to grow or even to continue to exist.

With an overall maturity still behind Poland, the Czech Republic, Hungary or Slovakia, Romania has been the only country in the region where very few IT suppliers have captured almost the full market for complex IT solutions in the public sector and state-controlled companies, especially in energy, but also in transportation, relationship with the political power playing the most important role.

During the last 3 to 5 years, several of the leading local IT systems integrators have been subject to investigations around corruption and/or tax evasion, resulting in some declaring insolvency and others significantly restructured their business.

The local private market is concentrated around multinationals, in terms of potential multi-million IT deals, albeit local budget spending is uncertain, even for them. Nevertheless, there are clear signs of an increasing local IT market maturity, increasingly educated IT managers/CIOs, as well as top executives. The types of solutions and IT tools required show a growing interest in business-oriented technologies, with lower TCO and faster ROI.

The overall climate in the private sector remains characterized by decisions that are made slowly and carefully, money being spent only to meet clear and focused targets, in the short term. Most companies are still reluctant to launch IT projects fully delivered by IT suppliers, which makes the time & material model still very popular.

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The offshore/ nearshore IT centers have significantly developed and continue to expand very fast, being and boosted by fiscal incentives, a significant pool of highly qualified resources, as well as a growing demand from developed markets (especially Western Europe and the US) to decrease software development and other IT services-related costs.

However, this development has not been focused so far on very high added-value software product development or critical IT services, but mostly on low-end support services, coding and application management, where the cost difference was the highest.

Looking at the ownership structure of the software and IT services companies in Romania, it results that strategic investors (IT corporations) and entrepreneurs have been the most active during the last 10 years. Investment funds and "business angels" are increasingly visible on the market, analyzing different opportunities to enter the capital of high-potential local IT companies.

In the current environment, where the large multinationals clearly dominate the software and IT services sector, it is obvious that the chance of local entrepreneurs is almost exclusively in the development of high added-value services and/or software products targeting the global market.

Niche software products tailored for the local market cannot generate enough business volumes to sustain their development, while commoditized IT solutions for global markets cannot be expected to be competitive in front of hundreds of other vendors already present on the targeted markets.

About the Study

„Software and IT Services in Romania 2016" was commissioned by ANIS and developed by PAC – Pierre Audoin Consultants.

The report can be ordered online here: http://itstudy.anis.ro/