

Romania as a Growing Center of Software and Services Expertise

Romania is one of the most interesting markets in Europe for technology investment and trade, as well as a recognized partner for some of the world's most demanding customers in IT services outsourcing, business process outsourcing, call center support and product development.

Between 2002 and 2007, Romanian software industry registered CAGR of +20%, and at the beginning of 2008 the projected CAGR for the following 5 years was of at least 15%.

The last decade was quite a beneficial period for the local IT in industry: the number of companies tripled to 11.000, as well as the number of employees in the sector estimated at 60.000 in 2010 only for the software segment.

Romanian software companies used this accelerated growth period to accumulate knowledge, especially on the business side, gain customers and better position themselves on the regional and international market. Between 2005 and 2008 at least 15 major mergers & acquisitions and investment funds takeovers were a clear indicator of the rising interest for Romanian companies.

Despite significant slowdown in 2008 and 2009, accompanied by non-typical evolution of markets, niches and companies, the focus on increasing productivity and decreasing costs through technology was actually the winning card for Romanian software companies, both on the internal and external market.

According to preliminary estimates, 2010 seems to mark the post-crisis recovery year for Romanian software and services exporters. Both the number of projects and their value are on the rise, following the up-side curve of foreign partner companies' crisis mitigation options.

Feedback from companies and ANIS estimates show that the sector has an excellent opportunity of maintaining the growing trend, although in a notably slower pace than in the pre-crisis years.

Romania as an Offshore Destination

Romania has a strong position for attracting a significant amount of the incoming offshoring business to be located in CEE countries.

Romania is already home to a significant amount of offshore business, with many companies - small enterprises operating below-the-radar of mainstream international attention - engaged in custom application development for foreign clients. These companies have been gaining experience in the offshore business, with growing projects and extended sector expertise, and based on their development potential, will be able to serve as a reliable sourcing operation for many years to come.

Attractive Price vs. Performance Balance

Romania is not the lowest cost location for outsourcing, but when performance is added to the equation it can be highly competitive. Customer surveys show that costs and pricing only represent a fraction of the decision criteria for locating offshoring projects. Previous sector experience, technology expertise, quality of the proposal, solid procedures of financial reporting and coordination systems are some of the criteria that decide in favor of Romanian companies.

Technical and sector specific skills at best practice

Romania cannot hope to rival much larger countries such as India, China and Russia in terms of breadth of expertise across application development. Nevertheless, Romanian companies often excel in use and development of new technologies and offer strong software development methodologies and processes.

Romanian IT services companies have been involved in projects on the internal market that addressed very specific vertical segments or niche technologies. Turning on the international market, these companies hope to leverage turn-key software applications and customization expertise gained in, among others, public sector, utilities, education and finance sectors.

Ability to understand and satisfy client needs beyond basic technical requirements

It is a common perception that Eastern European countries, Romania included, are not able to compete with "classic" offshoring destinations in terms of number of people and costs.

However, companies with experience of outsourcing to Eastern Europe point to a number of advantages that the region offers for more complex or business-critical engagements. Surveys indicate Romanian development companies' customers have experienced particular good understanding of their requirements and business needs beyond those set out in the RFP or project specs.

Cultural Fit, Language Skills and Similar Mentality to US/ Western Europe

Geographical proximity to Western Europe is clearly common to all developers in the CEE region, but Romania has a cost advantage compared to Central Europe while its membership of the European Union differentiates it from most of Eastern Europe, enabling Romanian-based providers to more easily visit or deploy staff to client sites both within the EU and without.

An area in which Romania is regarded as particularly strong compared with other countries in Eastern, or even Central, Europe is in the language skills of both management and technical staff. Romania boasts one of the highest rates in CEE of participation in language classes at secondary school level. Language proficiency among the adult population is similarly high. In addition to a significant proportion of the labor force having a high degree of competency in English, there is widespread knowledge of other European languages, most notably French, but also Italian and German.

Sources:

- IDC Whitepaper: Romania as an Offshore/ Nearshore Outsourcing Location (2007)
- Mircea Vuici, National Institute for Computers - Geography of the IT&C Industry during crisis
- ANIS - Employers' Association of the Software and Services Industry - estimates and company interviews

Geo-distribution of the Romanian IT&C industry

• Excerpts from "Geography of the IT&C Industry during crisis", Mircea Vuici, National Institute for Computers, January 2011

Bucharest the capital city of Romania, maintains the position as main location for the IT&C industry, with 67% of the country turnover, 56% of the number of employees and over 60% of the GDP contribution of all three subsectors - software and services, hardware and telecom. A drop of 10% in the contribution of Bucharest to the industry turnover during the last two years is a clear indication that the capital loses ground in favor of the North-West region, mainly due to the Nokia's establishment of production capacities in Cluj.

Software and Services

Recession didn't cause major shifting in the software development and IT services sector from the geographical point of view, but we have witnessed a better evolution of clusters outside Bucharest.

The capital city still dominates the software sector with 63% of total revenues and 50% of the personnel; counties of Timis with 8.6% and Cluj with 6.6%, both manifesting steady growth, are still far behind.

The evolution of such clusters outside Bucharest was triggered by software development activities in the benefit of foreign customers, as well as by the expansion of research, development and support centers opened by multinational companies.

The expansion movement towards alternative clusters was generated back in 2000 by the growth of internal consumption, which demanded extensive access to human resources.

Many of the companies based in Bucharest have opened offices and hired personnel in other cities. Similar behavior was adopted by companies in cities other than Bucharest, especially ones with foreign capital, expanding outside the initial location, and big multinational companies opening development and support centers. Most of the latter opened in Bucharest, after 2005, but once the need for qualified resources grew, they migrated towards other high-education technology centers.

Examples are numerous: HP software development center in Cluj, IBM expanding to Brasov, Microsoft present in Timisoara, Accenture and Genpact in Cluj, Wipro in Timisoara, Ubisoft in Craiova or Continental Automotive in Iasi and Sibiu, and Capgemini and Amazon in Iasi, chosen as initial location.

Evolution of main cities and companies

Bucharest. 27 of the 30 biggest companies in software and services and 190 of the 290 companies with revenues over 1 M EUR are based in Bucharest; these are big local companies, integrators and solution providers, as well as support and R&D centers of IT multinational companies.

Timisoara. For many years in a row the second biggest software center, Timisoara is the only city on growth in 2009. The positive evolution was due to the significant growth of R&D activities in Continental Automotive (+50%), but also to similar evolution of software development and outsourcing companies present here: ACI Worldwide, Saguaro Print, OCE Software, Internet Marketing On-line, Berg Computers.

Cluj. After Bucharest, Cluj is the second city on the number of software and services companies based here; also, the share in the total turnover and number of employees in the sector has been growing over the last years, maintain the third place, after Bucharest and Timisoara.. Medium sized software and outsourcing companies have reported turnover growth: Arobs Transilvania Software, Softvision, Endava, Tora Trading Services, Yonder, ISDC, Uniqa Raiffeisen Software, Work Solutions and Neusoft Mobile Solutions.

Iasi. Although in 2010 the number of employees of the sector was on the rise, compared to 2009, the revenues decreased by 10%. Some of the local companies have experienced difficulties, but they were compensated by a better evolution of development and support centers opened in the last years: Continental Automotive, Capgemini, Genpact and Amazon.

Brasov. Sensible decrease in turnover and number of employees in some of the companies was pondered by the positive evolution others, such as la Pentalog Romania and Pentalog Technology (+154%), LMS Romania, Route 66 and Awinta.

Dolj. Most of the companies have reported sensible growth for 2010 - CS Romania, Netrom Software, Museglobal, IT Six Global Services, Redline Communications, Caphyon, this leading to a balanced evolution compared with 2009 in turnover and personnel.

Telecommunications

Concentration in Bucharest accentuated over the last years. The turnover for Bucharest dropped in 2010 by 13.5%, while the capital city still counts for 92.5% of the total, compared to 71% in 2005. This was caused by the rapid development of big operators and the acquisitions they made outside Bucharest.

In the counties of Brasov, Prahova, Covasna, Cluj the decrease was less severe, under 10%, while in Iasi, Constanta and Ilfov the turnover dropped severely.

Hardware and electronics

The solid growth of Nokia and the rather contradictory evolution of other production units of companies in the Western region, combined with the severe decrease of local computer manufacturers, modified radically the geo-distribution of this sector. Cluj, with 100% growth, consolidated the leader position, generating half of the country production, while Bihor, Timis and Brasov counties maintained their 2009 position.

General Info

Area: 231,391 km² (92,043 sq mi.) (9th in EU)

Population: 21.6 Million (7th in EU)

GDP: 125 Bn EUR (2009)

Corporate tax: 16% flat, VAT level: 24%

Member of: EU, WTO, IMF, WB, NATO

Strategic location: at the crossing of 3 pan European transport corridors, holding the Eastern border of the inland European Union and at the turning point where EU meets the Balkans and CIS countries.

Main cities: Bucuresti, Iasi, Cluj Napoca, Timisoara, Constanta, Craiova, Galati, Brasov

Industry Info

Main technology centers: Bucuresti, Timisoara, Cluj Napoca, Iasi, Brasov, Ploiesti, Sibiu, Craiova

International presence: Accenture, Alcatel-Lucent, Apple, Dell Perot Systems, EA Sports, Ericsson, Freescale, Genpact, HP, IBM, Infineon, Intel, IXIA, Microsoft, Oracle, Siemens, TechTeam, Wipro, WindRiver

Main competencies

- Business Applications: enterprise management, customer management, production cycle management
- Security Applications and Services
- Embedded Automotive Systems
- Product Design & Development Tools
- Development Services
- Consulting and Implementation
- Maintenance and Support
- Specialized Training

Opportunities for Development

- Encourage adoption of technology-based management systems
- Generate products and services to encourage new ways of doing business - web based services, mobile technologies etc.
- Create more products and services addressed to SMEs
- Educate customer demand for more innovative products and high value added services
- Identify sources of financing for new products and technologies