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Competing on Strengths
The Challenge for Europe's IT firms

INFORMATION, COMMUNICATIONS & ENTERTAINMENT

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Introduction

On behalf of KPMG's Technology practice, I am pleased to introduce the second annual review of Europe's technology sector.

Produced in co-operation with the Economist Intelligence Unit, the aims of the study are twofold: to identify the major opportunities and challenges facing Europe's information technology firms, and also to advance steps that industry leaders and policymakers can take to foster greater competitiveness.

In our previous study on Europe's technology sector *A Wake-up Call for Europe* we suggested that, in global context, the region's IT suppliers are losing competitive ground to rivals in the U.S. and Asia, particularly in markets outside of Europe. In the European market, as made clear in this new analysis, the situation is brighter: Europe's IT managers retain a strong

preference for purchasing from local suppliers, and believe the latter are improving their performance in a number of areas. Price competitiveness is not one of those areas, however, and it remains imperative for European IT providers to address pricing if they are to make inroads into overseas markets.

Some of the challenges facing Europe's technology sector are of a more fundamental nature – ensuring a continued flow of talented IT professionals into its firms, and fostering the entrepreneurial skills necessary to help smaller IT providers grow to sufficient scale. It is here that policymakers can make a tangible

difference, provided the European Commission and national governments channel their energies wisely.

KPMG's Technology Practice continuously aims to provide clients with informed perspectives on critical industry issues. The following analysis not only highlights the depth of industry knowledge available from KPMG member firms, but also demonstrates an on-going commitment to turning knowledge into value for the benefit of our clients, our people, and the capital markets.

Frederic Quelin
Chairman
EMA Technology Practice

Executive summary

European suppliers of IT can take heart: despite a modest growth in spending, their customers are loyal and believe that local suppliers retain a competitive edge in key areas of performance.

This is among the major findings of a research programme conducted by KPMG, in co-operation with the Economist Intelligence Unit, into the competitiveness of Europe's IT sector.

Our previous study, *A Wake-up Call for Europe* published in December 2005, found that the weaknesses of Europe's technology firms* vis-à-vis overseas rivals outweighed their strengths, particularly in the area of price competitiveness. This remains a weakness, particularly for European firms looking to tap demand in foreign markets. This year's research, however, based on a survey of over 100 European IT managers and in-depth interviews with leaders of some of the strongest home-grown IT firms in Europe, finds new opportunities and challenges close to home.

Key findings from our analysis include the following:

- Growth in IT spending by European firms is moderating, but the good news is that faster growth pockets exist where European suppliers perform well in comparison with overseas rivals - IT services, mobile devices and enterprise software. Over half (51 percent) of IT managers in our 2006 survey plan to boost IT services spending with local suppliers; 44 percent say the same in regard to both enterprise software and mobile devices.

- Public sector IT in central and eastern Europe is another emerging area of opportunity for local vendors. It is a market where local knowledge still counts for a lot; hence it is attractive for smaller specialised suppliers. Nevertheless, US vendors will be strong competitors in this new market.

- European customers also display a high degree of regional loyalty. Nearly nine out of ten IT managers in the survey would prefer to utilise local suppliers for at least some IT products and services. A relatively high percentage (29 percent) say they have had unsatisfactory experiences with overseas suppliers, and less than one-third plan to boost their spending with suppliers from Asia's emerging markets.

- The most significant area of improvement for Europe's IT firms appears to be in their level of innovation. More than half of IT managers in the survey believe European firms are improving their ability to introduce innovative new products and services.

> ### The 2006 survey on Europe's IT competitiveness
>
> In September 2006, KPMG and the Economist Intelligence Unit polled 109 CIO's, IT managers and directors in Europe for their views on the competitiveness of Europe's IT firms. This is the second year that this survey has been conducted: our 2005 survey polled technology managers worldwide, while in 2006 we opted to focus our research exclusively on executives in Europe.
>
> The survey covered more than 20 countries, with the UK, Germany, Italy, Switzerland, Spain and the Netherlands providing the largest number of respondents. A range of sectors is represented, with financial and professional services, technology, manufacturing and also the public sector accounting for the majority of respondents. The companies represented in the survey were of substantial scale: 63 percent earn more than €500 million in annual revenue, and 45 percent earn over €1 billion.

- Poor price competitiveness, highlighted in the previous study, remains a major stumbling block for European suppliers. Nevertheless, the growth of offshoring and the development of alternative methods of delivering and pricing software and services give vendors new ways to tackle this problem. Central and eastern Europe, for example, provides attractive "nearshore" locations with which vendors can more cost-effectively deliver IT to clients in the west.

- Price is not everything. IT managers rate European suppliers highly for the technical excellence of their products and their close attention to local needs. In this year's survey, 42 percent believe European vendors are improving on technical excellence, while another 44 percent say they are at least holding their ground. And nearly 40 percent of respondents believe local vendors are getting better at catering to local needs.

There are a number of areas where Europe's policymakers can help improve the competitiveness of Europe's home-grown IT firms, albeit over time. Above all, 77 percent of respondents cited the need for governments to increase investment in education, in order to foster the growth of IT skills and to ensure an adequate supply of talented people for the technology sector. The competitive edge that European IT companies enjoy in quality and technical excellence hinges on it.

*European IT firms are defined here as suppliers of IT hardware, software and services whose birthplace is Europe. Country or region of origin is important to this analysis as, in our view, it is the business environment which determines the ability of entrepreneurs and their firms to emerge and grow.

Finding the opportunities

After a 2004-2005 recovery in spending, the growth of Western Europe's market for computer hardware, software and services is moderating. Spending is likely to expand 4.1 percent in 2006 – slightly down from the previous year – to reach €280 billion, according to technology research firm IDC.

Europe's IT industry can take some comfort from knowing that IT spending is running ahead of the region's GDP growth, which the Economist Intelligence Unit expects will come in at 2.8 percent for 2006. In 2007, moreover, IDC predicts IT demand growth to accelerate to 5.3 percent, creating greater opportunities for suppliers, particularly of services and software.

The European IT managers in our survey broadly agree with this outlook. While 17 percent say they plan to keep to their current spending level over the next two years, 53 percent plan to boost their expenditure.

Europe's IT market is not homogeneous, and as the European Union (EU) enlarges so too does the divergence between IT spending among its member states. Germany, France and Italy are mature IT markets with
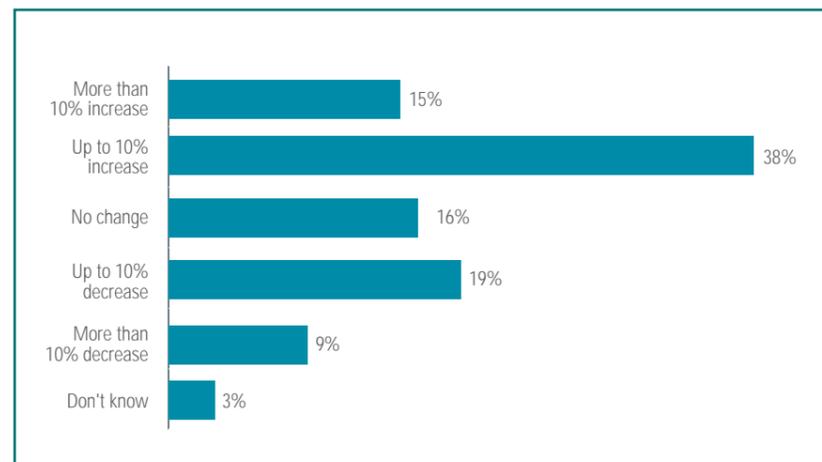
below-average growth. Spain and Benelux are the most buoyant markets of the traditional EU-15 members, with growth rates of over 5 percent. The UK falls between the two growth extremes.

The emerging economies of central and eastern Europe (CEE) offer the continent's best growth prospects. IDC predicts that IT spending in CEE

will reach $54bn in 2009, more than double the figure for 2004. The combination of public sector reforms, increased foreign direct investment and major efforts to meet international standards has spurred businesses to pump money into IT in the region's new EU member states including Bulgaria and Romania, the latest entrants.

How is your company's overall spending on IT likely to change over the next two years?

Category	Percentage
More than 10% increase	15%
Up to 10% increase	38%
No change	16%
Up to 10% decrease	19%
More than 10% decrease	9%
Don't know	3%

Source: KPMG/Economist Intelligence Unit survey, September 2006

In western Europe, too, public sector reform is also driving IT spending, with trends such as decentralisation, shared services and e-government providing strong business for vendors. "Public sector IT is a good business to be in, particularly the local government and healthcare sectors," says Massimiliano Claps, a senior research analyst at IDC.

In the UK, for example, shared services have become a focal point for boosting government efficiency. "Among governments of the major EU nations, the UK's is the most advanced at leveraging technology," says Pierre-Yves Cros, director of global strategy for IT services firm Capgemini.

Western Europe IT market size and growth, 2006-2008 (US$bn)
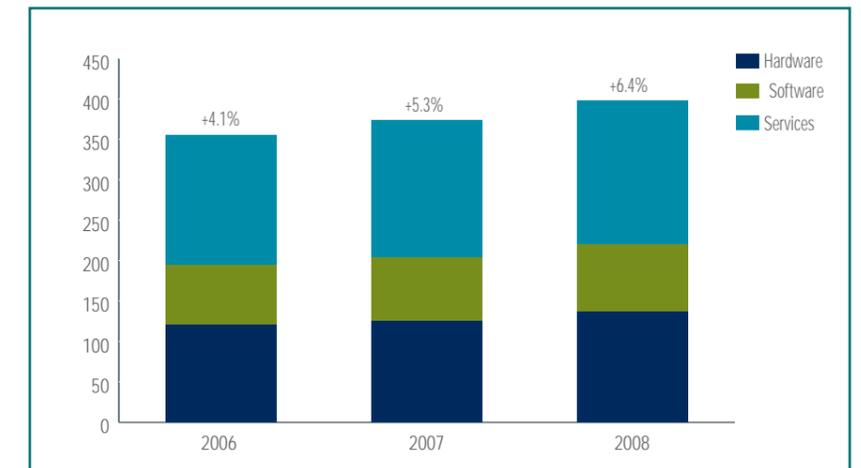
Source: IDC market forecasts, November 2006

Pockets of growth

Against a background of modest European increases in IT spending, pockets of faster growth exist where its suppliers are strong; namely in IT services, mobile devices and applications, and enterprise software.

Over 50 percent of our 2006 survey respondents predict an increase in their spending with European IT services firms over the next two years. In our 2005 survey, by contrast, only 35 percent of respondents said they planned to spend more with European IT services firms in the subsequent two years. Notwithstanding this, the pressure on service providers to reduce their cost base through greater use of offshore outsourcing will continue. It also means that consolidation is likely. "Europe's IT services market is still very fragmented despite the attempts made to consolidate," says Soumitra Dutta, Professor of business and technology at Insead, a European business school.

Two other promising growth areas for Europe's IT industry, according to the survey, lie in mobile devices and enterprise software. European vendors established an early lead in mobile devices in the 1990s and, in an industry now characterised by intense price competition and relentless innovation, Europe's mobile market continues to offer opportunities both for giants like Nokia and the smaller more specialist vendors. "Mobile technology is an area where Europe

How is your company's IT spending with European suppliers likely to change over the next two years in the following categories?
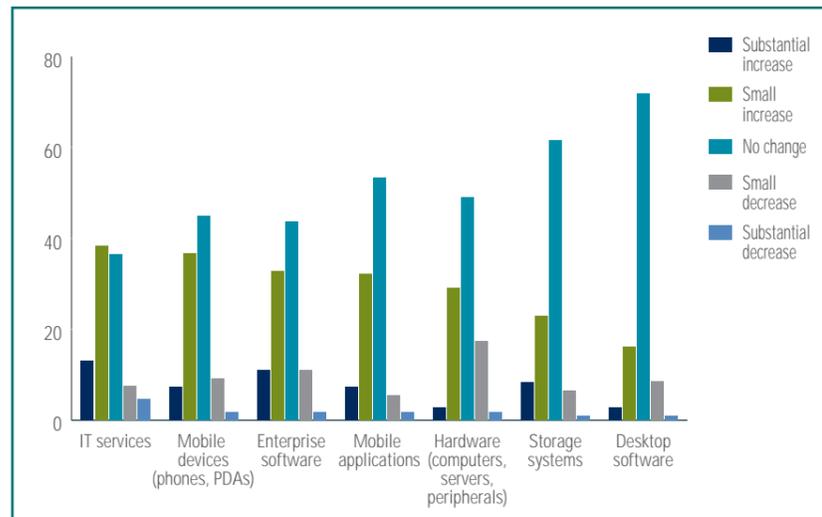
Source: KPMG/Economist Intelligence Unit survey, September 2006

is still ahead of the US," says Jon von Tetzchner, Chief Executive of Opera Software, a Norwegian firm that produces browsers for mobile devices. Opera is supplying its browser to, among others, T-Mobile for the latter's new mass-market mobile web service.

Among IT managers in our survey, 44 percent say they plan to boost spending with European suppliers of mobile devices, including PDAs and smartphones. (IDC predicts growth of European spending on smartphones of nearly 40 percent per annum over the next two years.) And 39 percent say they will spend more on mobile applications.

Enterprise software is another relatively buoyant IT market and one where European suppliers continue to count, although recent years have seen several of Europe's smaller vendors acquired by North American rivals. While 44 percent of IT managers expect to maintain the same level of spending on European enterprise software, the same number say they plan to increase it.

Germany's SAP continues to dominate the enterprise software market in Europe, and its huge presence sustains an extensive "ecosystem" of systems integrators and smaller software firms who benefit from partnering with the German giant. One such firm is Autonomy, the UK search engine specialist. The association with

SAP works well, according to Mike Lynch, the firm's Chief Executive, as Autonomy customers often buy both vendors' products together. (Autonomy recently acquired its main rival, the US firm Verity. "We are a very rare example of a European software company buying a US company," says Mr Lynch.)

The more numerous and successful the giants, the more successful the ecosystem. However, Europe's technology sector has few such giants, and European IT firms appear to find it more difficult to scale up than their US counterparts.

Competitive strengths and weaknesses

Scale affords IT providers greater opportunities to achieve cost economies, whether through stronger bargaining power with their own suppliers or geographic reach to exploit lower cost sources of labour.

In general, European IT firms are at a disadvantage in this area in comparison to US and Asian rivals, and it reflects on their price competitiveness. As highlighted in the 2005 study, price competitiveness remains a major stumbling block for European suppliers, particularly when it comes to penetrating markets outside of Europe.

Almost 40 percent of IT managers in this year's survey say the price competitiveness of European IT suppliers is "poor" or "below average". (44 percent rate it as "average".) This represents a deterioration from the assessment provided in 2005, when 31 percent of survey respondents said the same.

Indeed, more IT managers believe European firms' performance in this regard is deteriorating as opposed to those who say it is improving.

How would you assess European suppliers of IT hardware, software and services against the following criteria?
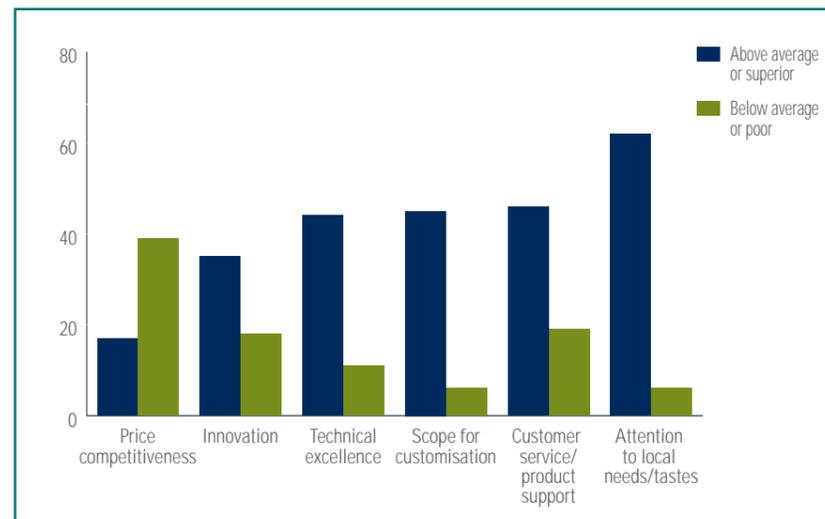
Source: KPMG/Economist Intelligence Unit survey, September 2006

This is regretable, as poor price competitiveness vis-à-vis Asian and North American rivals is by far the biggest negative issue facing European vendors. In our 2005 research, 82 percent of global IT managers rated Asian suppliers as "competitive" or "superior" in terms of price competitiveness, while 44 percent said the same of North American suppliers. Just 18 percent of respondents said this of European suppliers. The difference in assessments was almost as stark when it came to suppliers' ability to deliver value for money.

Asian competitors, with their lower cost base, are perceived to have much greater flexibility than European firms to reduce contract prices. But many large US vendors also have such flexibility. Mr Claps at IDC cites the example of a consortium led by a US software and services firm that reportedly submitted a bid for a government contract in Europe that was 50 percent lower than the base price. So low, in fact, that it triggered an investigation to check the

consortium could really do the work at that price. The group, which included several local players, was ultimately awarded the contract, beating off competition from European rivals.

Local quality matters

The good news for European suppliers is that, among European IT managers, price is not everything. Nearly nine out of ten participants in the 2006 survey would prefer to find local or regional suppliers for at least some IT products and services. "Despite the consolidation we have seen in IT services, there is still room for local heroes," says Mr Claps, adding that this is particularly the case with IT contracts in local and central government where software often has to be customised.

Less than one-third of European IT managers say they plan to boost their spending with suppliers from Asia's emerging markets, despite the latters' typically lower prices. Overall, European firms report mixed experiences in dealing with overseas IT suppliers, whether from Asia, North America or elsewhere: while 39 percent of survey respondents describe their experiences with vendors from distant regions as satisfactory, a relatively high 29 percent say their experiences have been unsatisfactory.

Please indicate whether you agree with the following statements:

We are likely to increase our IT spending with suppliers from Asia's emerging markets

Disagree 50%
Agree 32%
Don't know 18%
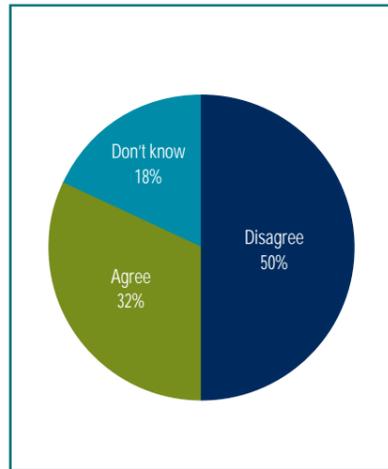
Source: KPMG/Economist Intelligence Unit survey, September 2006

On balance, our experience in using IT suppliers from distant regions has been unsatisfactory

Disagree 39%
Agree 29%
Don't know 32%

Source: KPMG/Economist Intelligence Unit survey, September 2006

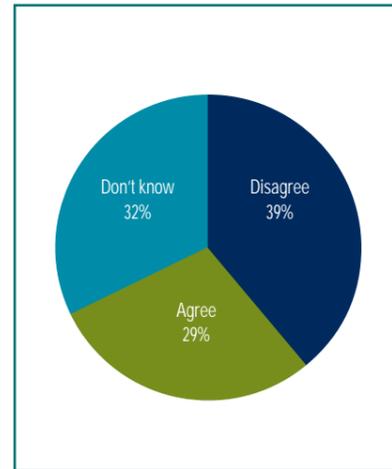In 2005 IT managers – in both Europe and other regions – rated European vendors on a par or better than North American and Asian rivals on the technical excellence (and quality) of their products and their degree of attention to local needs (customisation). In the 2006 survey, 44% of European IT managers believe European suppliers are at least maintaining their performance in the area of technical excellence, while another 42 percent believe they are improving on it. Just under 40 percent of European respondents in 2006 believe local vendors are getting better at catering to local needs. (54 percent say there has been no change.)

The most significant area of improvement for Europe's IT firms, however, appears to be in their level of innovation. More than half of IT managers in the survey believe European firms are getting better at introducing innovative new products and services. Altogether 47 percent rate European firms as "average" at innovation, while another third believe they are "above average".

Mobile software firm Opera and search specialist Autonomy may be seen as examples of such innovation emanating from Europe's smaller IT firms. Autonomy's search technology was borne out of research at Cambridge University, and Chief Executive Mike Lynch believes the firm's success is down to its marketing of the technology rather than a software solution. "If you are a European company, you have to have a fundamental technology, not just a nice piece of software," he says.
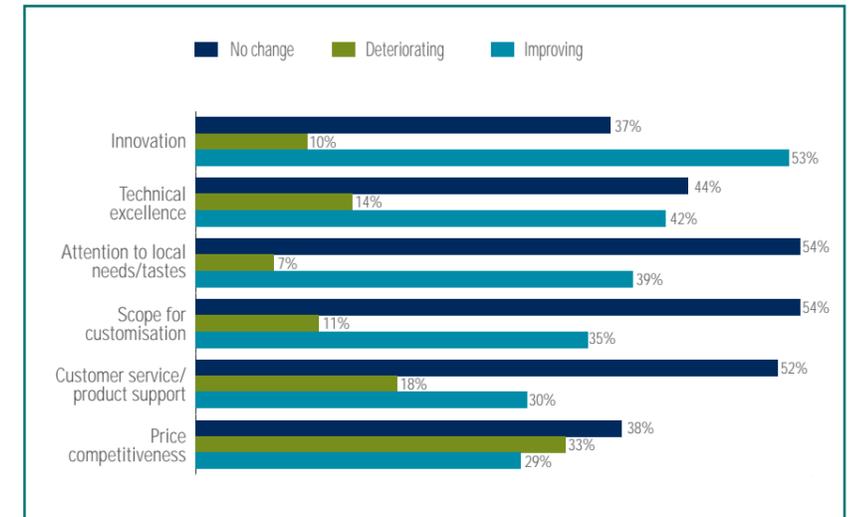
Achieving this type of edge, of course, requires skilled people – not only engineers and applications developers with advanced technical knowledge, but also entrepreneurial individuals and managers who can help commercialise innovations. European business leaders - in all industries, not just technology - observe that the skills to match the requirements posed by new technologies and business models are in increasingly short supply. Should this skills shortage prove to be sustained, many European IT firms will find it difficult to maintain their edge. As we will discuss below, they look to governments to take long-term measures to address this problem.

Addressing the cost structure

So, all things being equal, European buyers will favour European suppliers. But other factors rarely are equal, least of all price. This is a problem that will not go away, particularly as European firms attempt to compete in overseas markets. Indeed, two- thirds of IT managers in our survey expect to see further reductions in the price of IT over the next two years. How can Europe's IT industry respond to the pricing challenge?

Increasing the use of offshoring is one approach. North American IT firms are enthusiastic outsourcers of software development, service delivery and other functions to India and other low-cost countries. "In the last three or four years, our US clients have been able to move ahead by sending more IT work offshore and achieving significant savings," says Mr Cros of Capgemini.

In your view, how is the performance of European suppliers changing against these criteria?

Legend: No change | Deteriorating | Improving

Innovation: 37%, 10%, 53%
Technical excellence: 44%, 14%, 42%
Attention to local needs/tastes: 54%, 7%, 39%
Scope for customisation: 54%, 11%, 35%
Customer service/ product support: 52%, 18%, 30%
Price competitiveness: 38%, 33%, 29%

Source: KPMG/Economist Intelligence Unit survey, September 2006

Europe's IT firms have been much slower to embrace offshoring, often due to cultural and political constraints. According to IDC, European IT service providers still have a lower share of their workforce offshore than their US and Asian competitors. The picture is beginning to change, at least among the largest suppliers. Capgemini, for example, recently announced that it will acquired Kanbay, a US-listed outsourcing company that has most of its workforce in India. The deal will almost double Capgemini's headcount in India to 12,000, around 16 percent of its global workforce.

Offshoring is nevertheless seen as double-edged sword by many European vendors. They need to do it to remain competitive but if taken too far, it can lead to coordination headaches - particularly for smaller IT firms and those with limited resources to manage outsourcing providers – and customer complaints that their local European vendor is no longer that local.

"Proximity is important in this business and our customers want to be able to talk to us face-to-face," says Pascal Brosset, Head of Market Strategy at SAP. He and SAP believe the optimum solution is to split work equally between high-cost countries like Germany and low-cost ones like India – not that India is the only option.

Because of a shortage of high-calibre IT staff and rising costs back home, Indian offshoring firms are locating "nearshoring" centres in eastern European countries with a plentiful supplier of skilled and relatively cheap IT workers. Satyam, for example, opened a centre in Budapest in 2004.

Western Europe's IT firms are doing the same. Logica CMG operates a "nearsourcing" centre in Prague, and Capgemini has a similar operation one in Krakow, which it acquired in 2003, just before Poland's accession to the EU. There are also local outsourcing players emerging from central and eastern Europe, such as the Russian-US firm EPAM or Prague-based IBA. Among European IT managers, 39 percent say their firms are likely to begin or increase the outsourcing of IT services to providers in the CEE region.
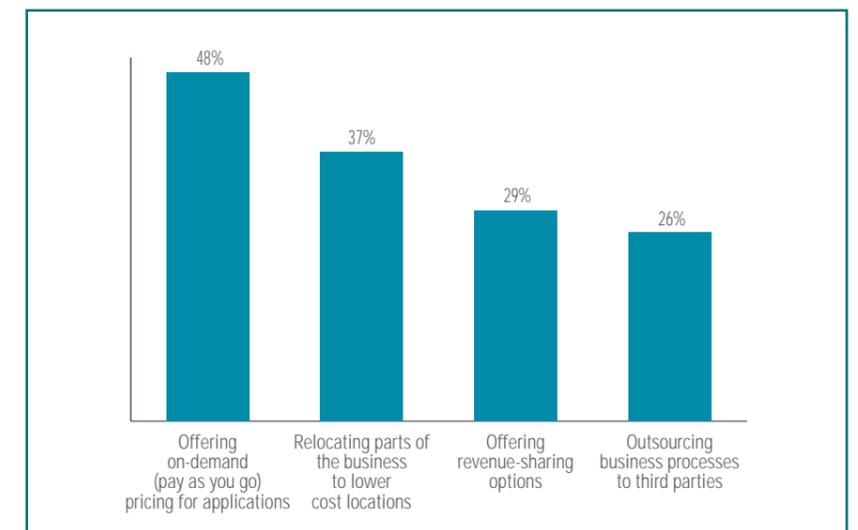
Creative pricing

Europe's technology firms may or may not be able to improve their cost structure – and price competitiveness – through outsourcing, but greater flexibility in the structure of contract pricing could make a difference. One of the clearest findings from our survey is that customers are dissatisfied with traditional pricing and delivery models and would like to see more innovation from vendors on this front.

Almost three out of every four European IT managers in our survey expect to see significant changes in how suppliers structure pricing in the next couple of years. When asked to suggest the most effective measures European software vendors could take to improve their competitiveness, top of mind is the offer of pricing for applications based on the level of demand or usage. Third on their list comes the offer of revenue-sharing arrangements, whereby software suppliers forego an up-front fee for a share of revenue from the software-enabled service.

Europe's mainstream vendors are of two minds when considering change to established business models. "On-demand is the way to go, and it reflects the maturing of this industry," says SAP's Mr Brosset. "However," he adds, "we also have to offer flexibility to our customers, and on-demand would require them to use software that is more standardised than they are used to. It's a two-way street."

In your view, what would be the two most effective measures that European software suppliers can take to improve their price competitiveness? (Top responses)

48%	37%	29%	26%
Offering on-demand (pay as you go) pricing for applications	Relocating parts of the business to lower cost locations	Offering revenue-sharing options	Outsourcing business processes to third parties

Source: KPMG/Economist Intelligence Unit survey, September 2006

The policy challenge

It is no accident that the country which spawns the world's largest and most competitive IT firms – the United States – is also where enterprise use of technology is most widespread.

European policymakers have long worried that IT investment in the US is considerably higher than in the EU, and that US firms are more effective in using it to boost productivity.

By consistently spending more on IT, US businesses tend to adopt new technologies quicker which, in turn, leads to greater productivity gains. "Studies by the European Commission have shown that a major part of the productivity gap between Europe and the US is down to the different rates of take-up of technology," says Professor Dutta.
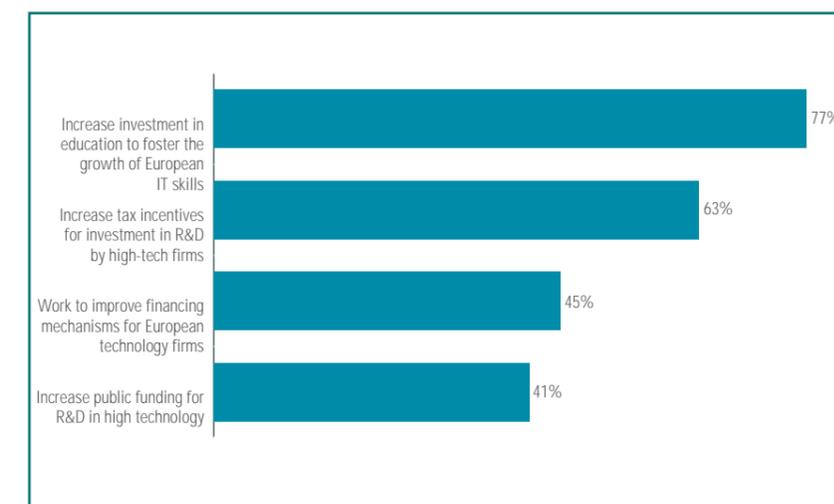
The demands that US firms place on their software, services and hardware is one important force driving US suppliers to innovate continuously. Partly in recognition of this link, the European Commission and national governments have actively promoted – through the eEurope, i2010 and other initiatives - the adoption of digital technologies by European individuals and businesses in order to foster a "knowledge economy".

Take-up of enterprise broadband technologies has increased in many European countries as a result, but executives recognise that policymakers need to take the long view in striving to improve conditions on the supply side of the market. There are several such areas where policymakers can help improve the competitiveness of Europe's home-grown IT firms, according to survey respondents.

First and foremost is education. Mindful of the looming skills shortage in Europe that will affect businesses in the technology and other sectors, over three-quarters of IT managers in our survey believe that governments need to increase investment in education to foster the growth of IT skills. The Commission appears to be taking this concern on board in its promotion of dialogue on skills among EU, national government, academic and enterprise bodies; it is formulating a long-term strategy to foster "e-skills for competitiveness, employability and workforce development" to be unveiled in 2007.

Another area where government can help is supporting private-sector research and development (R&D). A central aim of the Commission's current strategy is to encourage an 80 percent increase in R&D spending in Europe's high-technology sector by 2010, but firms wonder if the Commission is using the right mechanisms to achieve this. Survey respondents would like, for example, to see more tax incentives to encourage investment in R&D by Europe's hi-tech firms. Respondents are lukewarm, by contrast, about the efficacy of investing more public money on R&D projects, another plank of the Commission's strategy to boost innovation.

In your view, what are the most important measures European policymakers can take to help improve the competitiveness of Europe's home-grown IT firms? (Top responses)

Increase investment in education to foster the growth of European IT skills	77%
Increase tax incentives for investment in R&D by high-tech firms	63%
Work to improve financing mechanisms for European technology firms	45%
Increase public funding for R&D in high technology	41%

Source: KPMG/Economist Intelligence Unit survey, September 2006

Third on the list is the need for improved financing mechanisms for European technology companies, particularly young firms. To address this problem, the European Commission recently announced measures to help small and medium-size businesses get easier access to external financing when they are starting up. The objective is to triple investment in early-stage firms from €2 billion to €6 billion by 2013. This, it hopes, will help seed a stronger European investment culture.

Professor Dutta observes, however, that more than financing is needed to help Europe's small providers grow. "Access to capital is not a major issue for start-ups," according to Professor Dutta. "The real problem they have is trying to scale up. European firms have difficulties when it comes to taking innovations to market." Entrepreneurial skills are as much in demand as IT skills in helping technology firms grow.

Appendix: Survey results

1. Which of the following best describes your job title?

CIO	8.3%
CTO	4.6%
IT director/ manager	51.4%
Technology director	11.9%
Other, please specify	23.8%

2. What is your company's primary industry?

Aerospace and defence	1.9%
Automotive	0.0%
Chemicals and petrochemicals	0.9%
Construction and real estate	2.8%
Consumer goods	0.9%
Electronics and electrical equipment	0.9%
Energy and natural resources	4.6%
Entertainment, media & publishing	1.9%
Financial services	22.2%
Government/public sector	11.1%
Healthcare, pharmaceuticals and life sciences	7.4%
Information technology	15.7%
Logistics and distribution	1.9%
Manufacturing	0.9%
Professional services	8.3%
Telecommunications	6.5%
Transportation, travel & tourism	6.5%
Other, please specify	5.6%

3. What is your company's global annual revenue in Euros?

€500m or less	36.7%
€500m to €1bn	18.4%
€1bn to €5bn	18.3%
€5bn to €10bn	3.7%
€10bn or more	22.9%

4. How is your company's overall spending on IT likely to change over the next two years?

More than 10% decrease	9%
Up to 10% decrease	19%
No change	16%
Up to 10% increase	38%
More than 10% increase	15%
Don't know	3%

5. How is your company's IT spending likely to change over the next two years in the following categories?

	Substantial increase	Small increase	No change	Small decrease	Substantial decrease
Hardware (computers, servers, peripherals)	9.17%	45.87%	22.94%	19.27%	2.75%
Enterprise software	24.31%	39.25%	27.10%	8.41%	0.93%
Desktop software	6.42%	27.52%	51.38%	11.93%	2.75%
Storage systems	16.51%	44.04%	28.44%	10.09%	0.92%
IT services	14.68%	43.12%	29.36%	10.09%	2.75%
Mobile devices (phones, PDAs)	10.09%	46.79%	34.86%	7.34%	0.92%
Mobile applications	11.11%	37.96%	45.38%	3.70%	1.85%

6. How is your company's IT spending with European suppliers likely to change over the next two years in the following categories?

	Substantial increase	Small increase	No change	Small decrease	Substantial decrease
Hardware (computers, servers, peripherals)	2.73%	29.09%	49.09%	17.27%	1.82%
Enterprise software	10.90%	32.73%	43.64%	10.91%	1.82%
Desktop software	2.83%	16.04%	71.70%	8.49%	0.94%
Storage systems	8.25%	22.94%	61.47%	6.42%	0.92%
IT services	13.08%	38.32%	36.45%	7.48%	4.67%
Mobile devices (phones, PDAs)	7.34%	36.70%	44.96%	9.17%	1.83%
Mobile applications	7.34%	32.11%	53.22%	5.50%	1.83%

7. How would you assess European suppliers of IT hardware, software and services against the following criteria?

Please rate on a scale of 1 to 5, where 1 = Poor and 5 = Superior

	Poor 1	Below Av. 2	Average 3	Above Av. 4	Superior 5
Innovation	0.91%	17.27%	47.27%	32.73%	1.82%
Technical excellence	0.91%	10.00%	45.46%	37.27%	6.36%
Attention to local needs/tastes	0.00%	6.42%	31.19%	47.71%	14.68%
Scope for customisation	0.91%	5.45%	49.09%	40.00%	4.55%
Price competitiveness	3.67%	35.78%	44.04%	14.68%	1.83%
Customer service/product support	2.73%	16.36%	34.55%	40.00%	6.36%

8. In your view, how is the performance of European suppliers changing against these criteria?

	Improving	Deteriorating	No change
Innovation	53.21%	10.09%	36.70%
Technical excellence	41.67%	13.89%	44.44%
Attention to local needs/tastes	38.53%	7.34%	54.13%
Scope for customisation	34.86%	11.01%	54.13%
Price competitiveness	29.36%	33.03%	37.61%
Customer service/product support	29.36%	18.35%	52.29%

9. In your view, what would be the two most effective measures that European software suppliers can take to improve their price competitiveness?

Select two options

Offering on-demand (pay as you go) pricing for applications	48.15%
Relocating parts of the business to lower cost locations	37.04%
Offering revenue-sharing options (where the supplier foregoes an up-front fee for a share of revenue from the software-enabled service)	28.70%
Outsourcing business processes to third parties	25.93%
It is nearly impossible for European suppliers to improve their price competitiveness vis-à-vis North American and Asian suppliers	21.30%
Providing extended contract periods	18.52%
Using cheaper domestic labour	7.41%
Other, please specify	6.48%

10. Please indicate whether you agree with the following statements about the supply of IT hardware, software and services.

	Agree	Disagree	Don't know
We expect to see reductions in the prices of IT over the next two years	67.29%	28.04%	4.67%
We expect to see significant changes over the next two years in how suppliers structure the pricing of software and services	69.45%	15.74%	14.81%
We expect to see substantial global consolidation among IT suppliers over the next two years	52.78%	29.63%	17.59%

11. Please indicate whether you agree with the following statements about IT suppliers in general.

	Agree	Disagree	Don't know
All things being equal, we would prefer to find local or regional suppliers for at least some IT products and services	86.24%	9.17%	4.59%
We are likely to increase our IT spending with suppliers from Asia's emerging markets	31.82%	50.00%	18.18%
We expect to begin or increase the outsourcing of IT services to providers in central and eastern Europe in the next two years	39.09%	47.27%	13.64%
On balance, our experience in using IT suppliers from distant regions has been unsatisfactory	29.36%	39.45%	31.19%
We are happy with global consolidation of IT suppliers	54.55%	28.18%	17.27%

12. In your opinion, which of the following European countries offers the best growth environment for home-grown IT suppliers?

Germany	19.63%
France	8.41%
Italy	0.93%
Spain	7.48%
United Kingdom	28.97%
Ireland	14.95%
Netherlands	4.67%
Belgium	0.00%
Sweden	5.61%
Finland	9.35%

13. In your view, what are the most important measures European policymakers can take to help improve the competitiveness of Europe's home-grown IT firms?

Select up to three

Increase investment in education to foster the growth of European IT skills	77.06%
Increase tax incentives for investment in R&D by high-tech firms	63.30%
Work to improve financing mechanisms for European technology firms	44.95%
Increase public funding for R&D in high technology	41.28%
Strengthen intellectual property laws to discourage IP theft by competitors	15.60%
Raise European tariffs on IT imports	2.75%
Other, please specify	1.83%