

The Thriving European Software Industry



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The Western European packaged software industry will grow substantially in excess of the general economy, reaching over €109 billion in 2005

Application solutions € billion
Growth

Application development and deployment tools € billion
Growth

System infrastructure software € billion
Growth

New forecast, total

Building confidence in Western Europe's software industry

Despite the general economic outlook and the global impact of the events of 11 September 2001, Western Europe's software industry is forecast to grow significantly, from a 2000 level of €56.7 billion to €109.3 billion in 2005. This represents an aggregate yearly growth rate of nearly 14 per cent over the five years, which is dramatically higher than for the economy as a whole – the IMF predicts only 1.2 per cent GDP growth in the euro-zone in 2002, and 2.9 per cent in 2003. The software industry will not only contribute additionally to GDP, employment and tax revenues in Western Europe, but the use of the software will raise overall levels of productivity, efficiency and competitiveness for the region's industry.

In this document we will consider the Western European software industry in terms of technical developments, customer needs and the policy environment that will foster – or delay – its growth.

2000	2001	2002	2003	2004	2005	(00-05) CAGR
26,634	29,563 11%	33,673 13.9%	38,656 14.8%	44,454 15%	50,678 14%	13.7%
13,358	14,761 10.5%	17,004 15.2%	20,150 18.5%	24,461 21.4%	29,971 22.3%	17.5%
16,688	18,007 7.9%	19,844 10.2%	22,324 12.5%	25,271 13.2%	28,658 13.4%	11.4%
56,680	62,331 10%	70,520 13.1%	81,130 15%	94,187 16.1%	109,252 16%	14.0%

Estimates for growth of the Western European packaged software market 2001-2005, categorised by applications, development/deployment and system infrastructure segments. Estimates are based on a 2001 review and are subject to change. USD to EUR conversion: 1.14343, April 2002.
Source: IDC.

Confidence in growth 2001–2005

The Western European packaged software market was worth €56.7 billion in 2000 and directly responsible for around 1.1 million jobs through direct employment, upstream (manufacturing and logistics) and downstream (reselling, training and consultancy) employment. Jobs in the packaged software sector generally earn about twice the Western European average wage and thus generate proportionally greater tax revenues; in 1999 the industry contributed €18 billion in tax revenue, predicted to grow to €32 billion in 2003 (source: Datamonitor). In 1999, each job in the packaged software sector contributed an average €244,000 to the Western European economy, four times as much as a job in financial services and six times as much as one in consumer goods.

Packaged software contributes to both consumers' and companies' welfare, saving the latter money and improving their productivity which in turn generates wider choice and more competitive pricing for consumers. Moreover, because software plays such a key role at all levels of economic activity, software sales are less susceptible to economic fluctuations than other key products.

Jobs in the Western European packaged software sector contribute six times as much to GDP as those in consumer goods

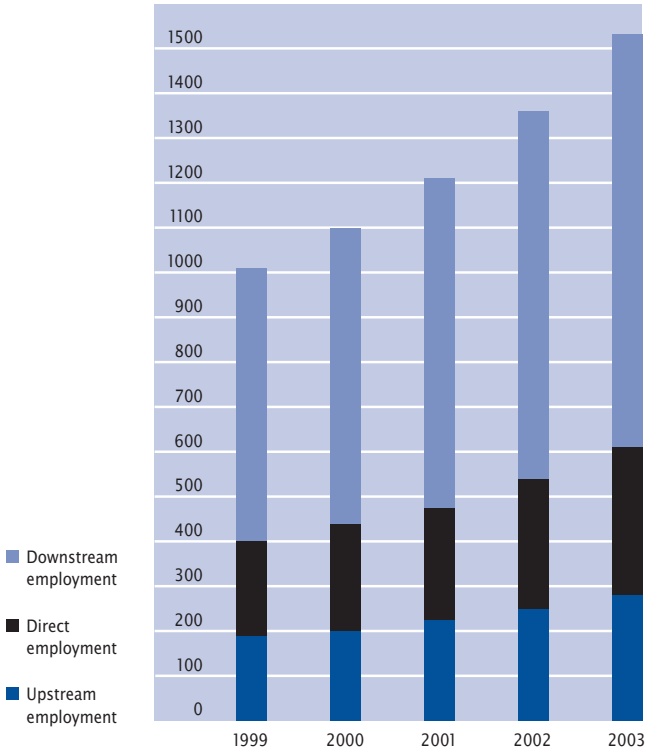
Drivers for software market growth

An important application area for many companies is sales and customer service automation, especially as delivered via the Internet. Customer relationship management (CRM) is seen by many businesses as not only a key tool to reduce the cost of selling to and supporting customers but also to identify and exploit further sales opportunities through intelligent use of customer data.

Integrating communications and processes between customers, employees, partners and suppliers is collectively known as supply-chain management; the Internet is an excellent tool for achieving this too, and e-commerce applications for both business-to-business and business-to-consumer purposes will become significant market drivers by 2004.

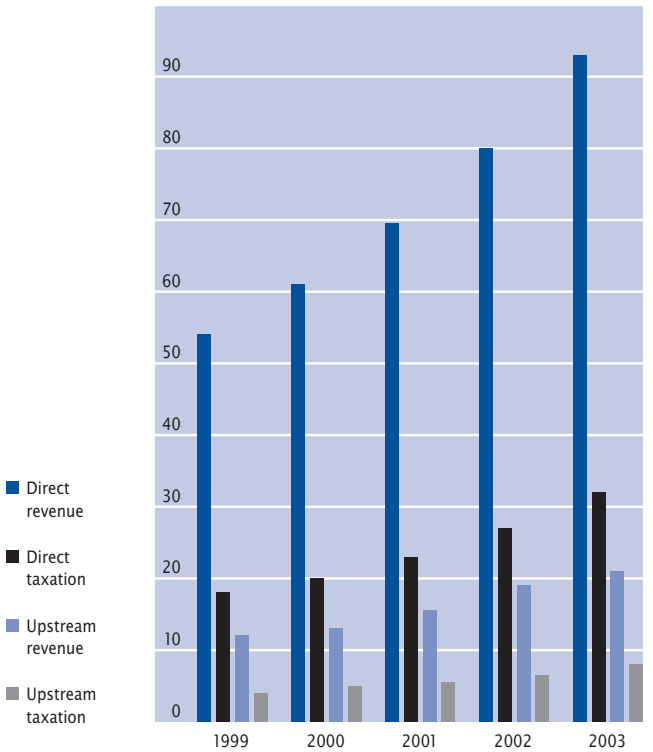
Total employment due to packaged software will grow by 52% between 1999 and 2003. Number of workers (000s)

Source: Datamonitor



Packaged software revenue and taxation contributions to the Western European economy, 1999-2003. €billion

Source: Datamonitor



E-commerce applications will become significant market drivers by 2004

In view of both sporadic terrorist and continuous criminal activity, security of both digital networks and the information contained therein will be a paramount concern. Users' response is to create 'virtual' computing environments in which organisations' key functions can be moved between or dispersed among multiple computers, providing continuity of service even if specific machines are disabled or removed. Substantial development effort and product sales are expected in this area over the period to 2005.

E-Government initiatives at national and EU level to improve services and reduce bureaucracy costs through online capabilities bring even more stringent security and privacy requirements in terms of protecting individuals' data, again driving software development efforts and sales.

Growth in e-commerce for consumer transactions and increasing direct e-trade connection between businesses will require not only integration with existing systems but also new applications, interfaces and information access mechanisms. Each of these trends will have a substantial positive effect on demand for innovative software tools and solutions.

The right environment for software industry growth

The use of packaged software offers both commercial and government organisations a means of increasing productivity, reducing costs and making possible new services, thus increasing competitiveness and fostering economic growth. However, there are a number of factors that can work to obstruct or degrade these goals.

Confidence in intellectual property protection

Software programs are prime examples of intellectual property; the core currency of the Internet is almost exclusively intellectual property. A study by International Planning and Research found that just over a third (34 per cent) of software loaded onto computers in Western Europe in 2000 was pirated (illegally copied), representing a loss of revenue – with consequent loss of tax revenues for governments and employment opportunities – of some €3.4 billion. The threat of piracy and counterfeiting are therefore strong disincentives to software developers.

This must be enacted both through legislation at European level, including ratification of relevant international treaties, and through rigorous and visible enforcement. This will include enforcement of existing copyright law and new legislation as necessary to address the specific issues relating to intellectual property rights in the digital world.

The European Union's Directive on Copyright and the Information Society harmonises most copyright rules throughout the EU, updates copyright law for the Internet, and implements the 1996 World Intellectual Property Organisation (WIPO) Copyright Treaties; member states must now implement the directive into national law.

The threat of piracy and counterfeiting are strong disincentives to software developers

The European Parliament in November 2001 released an Action Plan to tackle the problems of software piracy and counterfeiting; the first draft of a Directive to harmonise civil enforcement measures relating to intellectual property is imminent (as of early April 2002).

Government and other policy-makers should not mandate particular technologies or specific products

Confidence in security and privacy

The ability of the Internet to deliver the benefits discussed earlier depends on the trust that individuals, businesses and governments place in it. The importance of these issues has been demonstrated by consumers many times – a recent survey of 8500 people in 16 countries showed that nearly half were concerned about the possibility of credit card fraud – although less than 1 per cent has experienced it.

The best defence against intrusion into personal privacy is through technology such as commercially supplied encryption products and firewalls. However, one-off technological fixes alone are not sufficient: there needs to be continuous development of underlying security technologies. Government and other policymakers should not mandate particular technologies or specific products to achieve security but should instead promote a level playing field to give users a range of choices.

Privacy matters are best handled by industry self-regulation; the choices of both consumers and businesses should be respected and the marketplace allowed to develop measures that satisfy the demands of both parties.

There must also be legislative and enforcement support – electronic intrusion must be declared a serious crime, with serious consequences for its perpetrators. The EU is looking into ways to improve the security of information networks and laws may shortly be adopted to criminalise network security offences.

Confidence in open trade and e-commerce

International trade is vital to e-commerce and the software industry. E-commerce is expected to radically alter many economic activities and the

associated social environment. Consistent statistical indicators do not yet exist to measure the size, growth and composition of e-commerce, and current estimates for world-wide business-to-business e-commerce vary from €80–195 billion for 1999 and from €1.4–3.7 trillion in 2003. An essential contributing factor to the growth of e-commerce is of course the Internet; it is expected that between 2001 and 2003, Europe will achieve parity with the United States in Internet user numbers.

Tariffs, regulations and other barriers raise costs and can force smaller players out of business which in turn limits competition, reducing choice and quality for all. In contrast, opening up a country to inward investment can provide an infusion of capital and expertise that serves as catalyst for the further development of the local industry.

The EU Council of Ministers has responded enthusiastically to the e-Europe initiative of December 1999 from the Commission. This initiative aims to put Europe level with or in front of other industrialised countries during the coming years, in areas such as computer literacy and take-up of e-commerce by business and individuals.

As Western European trade switches increasingly from the import and export of tangible goods to Internet-based commerce, it is vital to ensure that the same free-trade principles should be enshrined in order to promote growth of e-commerce. Predictions for e-commerce growth such as those given above will only come true if the right legislative framework is there to support them.

Any new trade agreements should be designed to support e-commerce by providing a predictable environment for it within a framework of strengthened international trade law; as the Internet is inherently global, this harmonisation of trade law is particularly crucial to avoid creating havens for illegal activity.

Widespread piracy of software is still the industry's biggest trade barrier. The most effective means of reducing piracy internationally is to enforce the Trade-Related Intellectual Property Rights (TRIPs) Agreement, under which World Trade Organisation members commit to abide by laws that protect intellectual property.

4 **Confident in the future of software industry in Western Europe**

The packaged software industry is set for significant growth in Western Europe over the next three years, despite global economic slowdown. As a central component of the knowledge economy, the industry will not only grow its share of contribution to GDP and employment and generate increased tax returns for governments in the region but its products will also improve the efficiency, productivity and competitiveness of their users and therefore of Western Europe as a whole.

Continuing threats of software piracy and criminal network attacks pose a serious obstacle to this growth. A strengthening of national and international law governing software piracy, network abuse and the founding of a pro-commerce legislative environment to support strong economic growth in the software business will bring the benefits of competition and efficiency to the economies of the region, building confidence in the future of Western Europe as well as its software industry.



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Continuing threats of software piracy and criminal network attacks pose a serious obstacle to the growth of the Western European packaged software industry

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