

Business Services in Germany

ISSUE 2018

Germany is one of Europe's biggest business services markets, with the country recording constant growth over the past decade. The country is home to domestic and international captive services centers and business service provider operations. Optimal infrastructure, high productivity rates and highly qualified personnel make Germany an extremely attractive location for service delivery.

Major European Market

The business services market in Germany is the second largest in EMEA and is expected to grow by more than two percent in the years ahead. The market for business & IT services is predicted to reach a volume of more than EUR 40 billion in 2018. The call center industry also generates turnover of over EUR 21 billion in Germany.

Disruptive Digitalization

The global digitalization trend is not only a disruptive challenge for all industry sectors, it is also a major driver of new solutions and business models in the service industry. Robotic process automation for example, assists in transactional and other standardized processes to make services more cost-effective. Artificial intelligence applications including chatbots can help increase process quality, response times and customer satisfaction. With its leading role in digitalization, Germany offers the appropriate infrastructure and manpower to adapt these new developments into business service operation models. Germany's government has established a number of digital hubs to accelerate the digitalization of the German economy.

Service 4.0

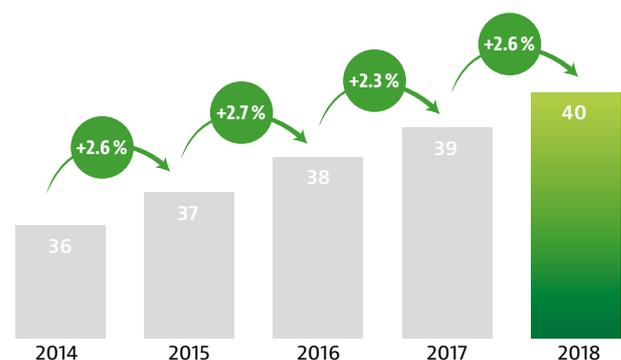
Following the developments in the manufacturing sector, the services sector is adopting the revolutionary production processes in the Internet of Things (IoT) and Industrie 4.0 to deliver services. Cyber-physical systems allow online and physical services to be combined in order to meet the specific

needs of individual consumers. This development will have a major knock-on effect on the service sector, with the new smart service architecture of cyber-physical systems, data services and service platforms creating new business relationships and models that transform existing value chains. As one of the global leaders in IoT and Industrie 4.0, Germany will also be a lead market for Service 4.0.

Attractive Location

A growing number of companies are choosing to locate in Germany as the country increases in attractiveness thanks to moderate wage cost developments and low labor fluctuation rates. International outsourcers are also taking advantage of sites in Germany in order to deliver services and meet the high quality and data security requirements of their German customers. Home to a large and culturally diverse labor pool of highly qualified and motivated people with international work experience and foreign language ability, Germany is an excellent location for pan-European and other international projects.

Business & IT Service Market Volume 2014-2018
in EUR billion



Source: EITO 2017

Front Office Market

Sector Figures

With nearly 7,000 contact centers providing around 250,000 seats and employing around 540,000 people – in captive and vendor organizations – the call center industry has attained considerable significance in Germany with an annual turnover of more than EUR 21 billion in 2016. Approximately 80 percent of centers are in-house, with the remaining 20 percent in the hands of service providers. Over 50 percent of contact center services are active in the financial services, telecommunications and IT sectors.

European Market Access

Nearly 100 million strong, the German-speaking market is the largest in Europe. The market includes not only Germany, but also Austria, most of Switzerland, and parts of northern Italy. These four countries are some of the wealthiest in Europe, with sophisticated infrastructures and strong consumer markets. An investment in a German contact center enables efficient and optimal access to Europe's largest language market. Moreover, many Germans speak at least one foreign language (most often English), offering investors the opportunity to expand their contact center's international reach from a German location.

Germany's Key Advantages

Thanks to increased know-how and years of experience, more and more in-house contact centers are following the trend to provide services on the open market. External service providers have large growth prospects; mainly due to the increasing demand for quality and high value services.

Omnichannel Approach

Digital transformation is directly influencing customer behavior, with customer interaction taking place at a number of touchpoints in the customer journey. The customer journey is accelerating, with the digital customer expecting digital customer service solutions. An omnichannel approach now prevails, with conventional calls and e-mail remaining the main communication channels – social media however should not be underestimated. Service providers have to respond to changing customer expectations whilst simultaneously developing innovative solutions for excellent services at an attractive price. Companies are accordingly inclined to promote channel changes and invest more in automated solutions including AI-facilitated chatbots for total cost reductions – all the while providing the same or even better level of customer service quality.

Service Provider Core Services 2017*

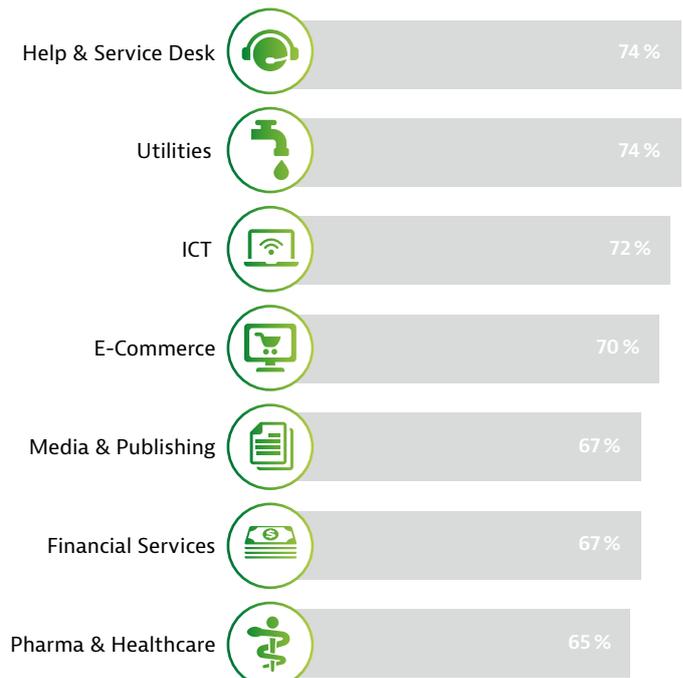
top answers



* multiple responses possible
Source: Call Center Profi 05/2017

Service Provider Core Industry Applications 2017*

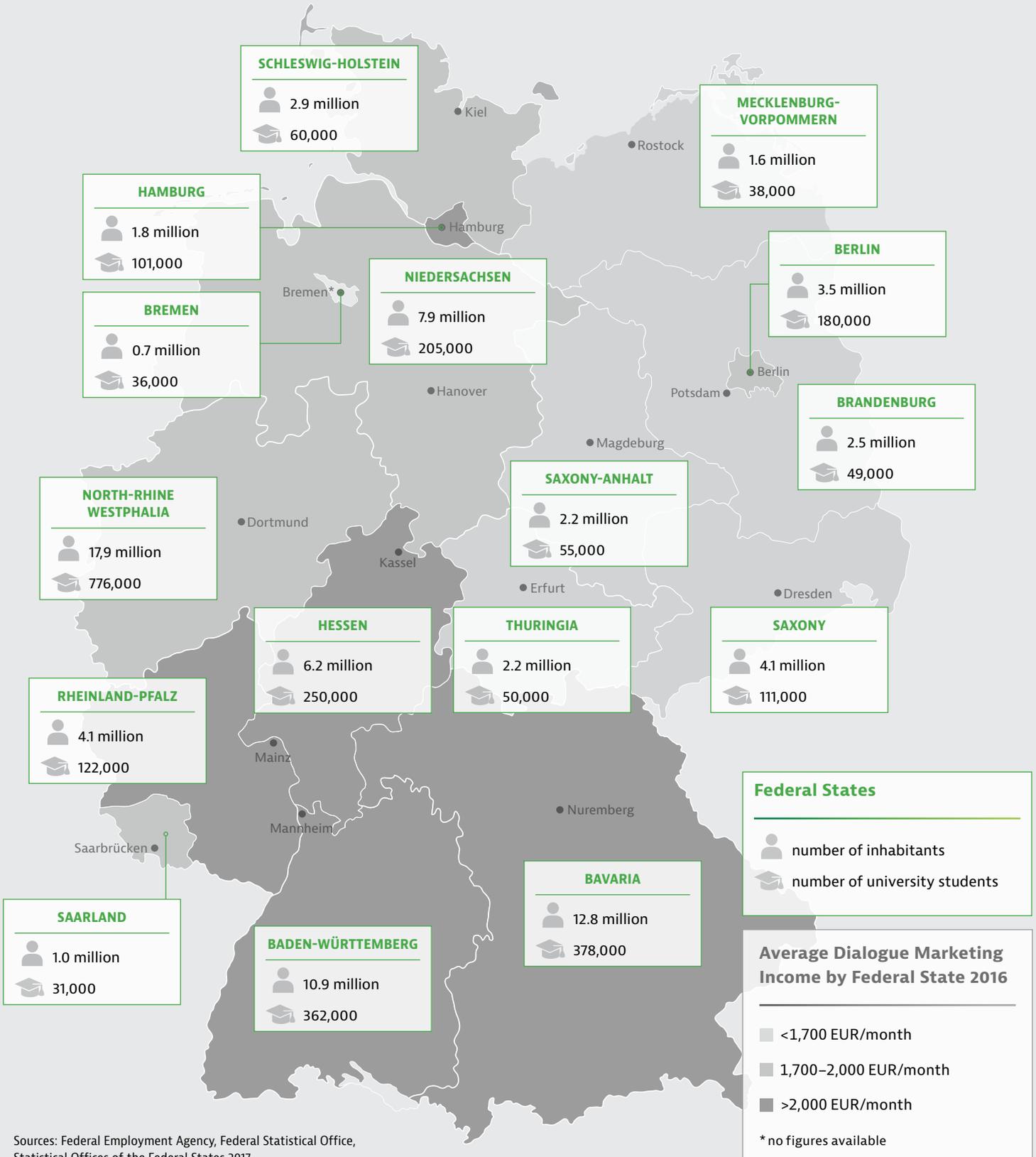
top answers



* multiple responses possible
Source: Call Center Profi 05/2017

Business Service Market Indicators

Germany consists of 16 federal states, is Europe's leading economy and the largest EU member state in terms of both GDP and population. Since German federal law applies throughout the country, no differences exist between the states from a legal perspective. However, regional differences (in terms of population density, purchasing power, cost level, etc.) do exist and influence site selection. This map shows some relevant indicators.



Sources: Federal Employment Agency, Federal Statistical Office, Statistical Offices of the Federal States 2017

Back-Office Market

Sector Figures

Shared service centers (SSCs) and business process outsourcing allow companies to concentrate on their core business areas and run their non-core activities in a professional and effective manner. Most large German companies have installed SSCs in Germany, some of them as part of their global back office network. German global players – including BASF, Bayer, Daimler, Heidelberg Cement, and Merck – run captive SSCs in Germany that cover their international business activities. National and international business service providers are both active in and operate delivery centers within Germany in order to meet their German-speaking clientele’s exacting quality and data sensitivity requirements. Native language competence and intercultural expertise similarly play an important role in site selection. A number of new centers are currently being built in second-tier cities in order to access a sufficiently large labor market while operating in a competitive cost framework. Key development drivers are the ready availability of qualified personnel, stable labor costs and low labor turnover rates.

Market Potential

The DACH region counts as the second largest outsourcing market in Europe today. The ISG Index has identified a contractually fixed traditional outsourcing volume of around EUR 3.22 billion for the year 2016. Only the traditionally strong UK and Ireland markets have minimally higher volume (EUR 3.34 billion), this being due to high public sector outsourcing levels equivalent to half of the domestic market size. Public outsourcing in continental Europe accounts for less than 10 percent of the market. The volume of “as-a-service” markets is consequently growing across Europe.

Business and IT Service Market Growth

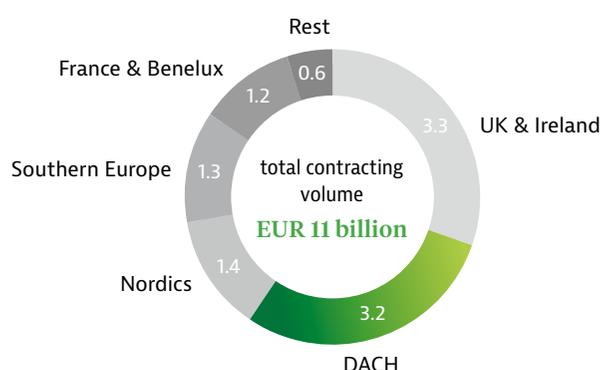
According to EITO, the German market for business and IT services will grow by more than two percent in 2018 and reach a volume of EUR 40 billion. Strong individual segments include Human Resources (HR) and Finance and Accounting (F&A). German business and IT service market growth over the period

German Business and IT Services Market Growth in percent

Sector	2016–2017	2017–2018
Business Consulting & BPO	+4.3	+4.7
Projects	+3.5	+3.0
Outsourcing (excl. BPO)	+1.0	+2.0
Support & Deploy	+0.9	+0.7

Source: EITO 2017

Year-to-Date Outsourcing Volume in EMEA in EUR billion



Source: ISG Index 2016

2016 to 2018 records almost blanket growth, with demand in a number of important market areas. Although the project volume forecast for the period 2017-18 is slightly down on 2016-17 levels (3 percent compared to 3.5 percent), outsourcing (excluding business process optimization) is up almost one percent to two percent, and business consulting and business optimization has risen from 4.3 percent to 4.7 percent.

Strong SME Demand

As well as industrial giants – including Daimler, SAP, Siemens, Bayer, and BASF – the German economy is also home to a thriving Mittelstand of small and medium-sized enterprises (SMEs). Around 3.5 million SMEs employ around 80 percent of the German labor force. These SMEs are innovative, family-owned businesses; often operating from locations both within and outside Germany. They typically have small on-site F&A and HR units, but not of a size that would warrant the establishment of a captive SSC. These companies represent the most significant market potential in terms of non-core process outsourcing.

Competitive Location

Germany meets all of the major requirements of the international sourcing industry and is ready to meet the new demands of digitalization to deliver Service 4.0. Thanks to the presence of a highly qualified workforce, integrated processes can easily be implemented within the centers. Accordingly, the units in Germany achieve a higher level of standardization and operate more efficiently. Labor turnover rates of around five to ten percent are significantly lower than in near- or offshore locations. Labor costs are stable with higher salary levels adequately compensated by more effective workflow systems and increased productivity. Germany can compete with nearshore locations and offers a near limitless German-speaking labor pool; one of the largest advantages for business services delivery in the German market.

Supporting Business Success

Highly Skilled and Flexible Workforce

Germany's attractive labor market (available labor pool, highly qualified staff, technical and language skills, moderate wage growth levels, and low attrition rates) is one of the key drivers for the establishment of business centers in Germany. Germany's dual education system – unique in combining the benefits of classroom-based and on-the-job training over a period of two to three years – is specifically geared to meet industry needs. Approximately 440,000 young professionals successfully take their German Chambers of Commerce and Industry-certified occupational exams annually: two thirds of this number are specially trained in administrative functions.

Internationality

Around 9.1 million foreign nationals live in Germany (more than ten percent of the total population). More than twelve percent of Germany's 2.8 million university students are from abroad. Germany is above the EU average in terms of languages spoken (both in number and quality): More than two thirds of German adults are able to speak at least one foreign language; and almost 30 percent are able to speak two or more foreign languages. Germany ranks above the EU average and has the largest pool of non-native English speakers. Germany's EU membership also guarantees EU citizens with the freedom of movement to work and live within the EU.

Competitive Labor Costs

Germany has gained the labor-cost edge in Europe in recent years, recording one of the lowest labor cost growth rates within the EU. Since 2006, wages have risen in most European countries – at a rate significantly above that of the EU-28 average increase of 2.3 percent. Some countries, particularly those in central and eastern Europe, have experienced a rise of around five percent. Labor turnover rates in Germany are significantly lower than they are in near and offshore locations. The general minimum wage in Germany is EUR 8.84 per hour.

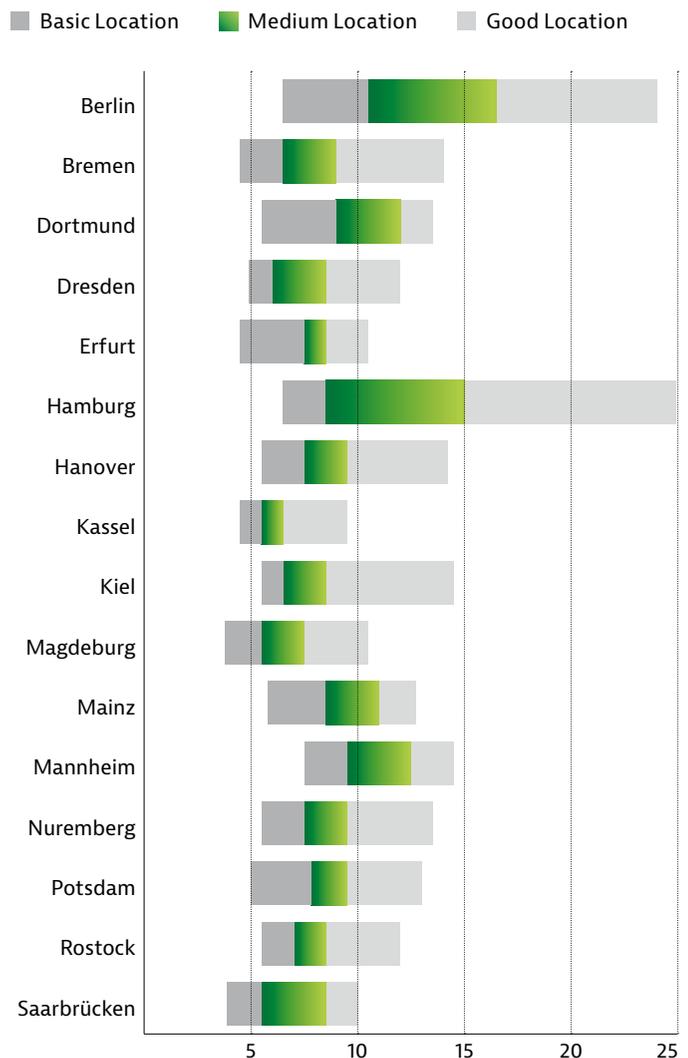
Affordable Real Estate

Highly competitive real estate costs help make Europe-wide services from Germany affordable. Thanks to an average vacancy rate of around eight to nine percent in larger cities, investors usually find a tenant market with negotiable rents and conditions. Rental prices in major cities for quality office space in medium locations start from as little as EUR 5.50 m² a month. A modern and reliable public transport system provides easy access to office locations: 24 hours a day, 365 days a year. With state-of-the-art transportation networks by road and rail, and a dense network of national and international airports, Germany provides access to markets on a truly international scale.

Financing & Incentives in Germany

Incentives programs in Germany are available through different public funding instruments and for different funding purposes. The individual funding requirements may, for example, result from investment projects, research and development activities, personnel recruitment, working capital needs or other specific purposes. The different incentives instruments including grants, loans and guarantees are generally available for all funding purposes and can ordinarily be combined; thus matching the different business activity needs at different company development stages.

Monthly Office Rents in German Cities* in EUR/sqm



*without ancillary costs
Source: Plötz Immobilienführer 2016

OUR SERVICES

About Us

Germany Trade & Invest (GTAI) is the foreign trade and inward investment agency of the Federal Republic of Germany. The organization advises and supports foreign companies planning to expand into the German market and assists German companies seeking to enter foreign markets.

Investment Location Germany

GTAI provides close-to-market information to international companies looking to enter German markets. Our specialist industry teams prepare all of the relevant information essential to business success in Germany. GTAI's comprehensive range of information services includes:

- Market and industry reports
- Market entry analyses
- Business and tax law information
- Business and labor law information
- Funding and financing information

Business Location Services

GTAI supports international companies from market entry to business start-up in Germany. Expert project teams advise and assist in the business establishment phase. GTAI's range of free services includes:

- Legal and tax-related project support
- Funding and financing advisory services
- Site visit organization
- Local partner and network matchmaking
- Public and private partner coordination

All investment-related services are provided entirely free of charge. Our specialist industry teams have hands-on experience in their respective industries and treat all investor enquiries with the utmost confidentiality.

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Notes

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