Talking point

IT in Germany – back on the growth track

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Germany's IT sector is set to grow by around 4 ¼% in 2011. The sector is benefiting from the general economic recovery, its pronounced innovative capacity and its increasing integration into the world market. Going forward, some structural obstacles will need to be overcome, like securing an adequate supply of skilled workers and integrating new fields such as cloud computing and mobile internet into business practices.

Germany is back on the growth track: with gross domestic product having expanded by 3.6% yoy in 2010, Germany is now set to post growth of 2 ½% in 2011. Not only expansionary monetary and fiscal policies and investment catch-up effects but above all the recovery of the world economy and world trade contributed to the extremely robust growth in 2010. Sectors with a large share of export revenues and a pronounced bias towards Asia have benefited in particular. For example, the automobile and chemicals industries were especially in focus in 2010 with their revenues growing at a fast double-digit clip.

Given the backdrop of these booming growth rates, which come partly in reaction to the slump triggered by the economic crisis, Germany's information and communications technology (ICT) sector tends to attract attention only at second glance. This is surprising insofar as the information technology, telecommunications and consumer electronics segments combined now carry sizeable weight: with prospective revenues of EUR 145 bn in 2011 they match the chemicals industry in Germany. Information technology accounts for about half of this figure.

While Germany's IT sector is currently not growing quite as dynamically as the traditional sector heavyweights, it is nonetheless set to report again above-average growth of 4 ¼% in 2011, since Germany's IT companies have also emerged from the economic crisis. Sector representatives are themselves optimistic: according to the sentiment barometer of the Federal Association for Information Technology, Telecommunications and New Media (BITKOM), some 84% of the ICT companies surveyed look for higher revenues in 2011. In fact, in the IT services and software segments the figure is 90%.

The growth of the software companies and IT service providers is enhanced by their innovative strength. According to the Mannheim Innovation Panel these companies spent about 8% of their revenues on innovation projects over the past few years – even during the economic crisis. Thus they are among the most innovative sectors in Germany – only the electrical engineering and vehicle construction industries scored higher in this context. Furthermore, Germany's software companies and IT service providers are adept at positioning themselves in the world market: their exports outstripped the year-earlier level by 16% in 2010, at EUR 12 bn. Exports only generated 26% of revenues; nevertheless, the IT sector is increasingly participating in the global economic recovery. Thus it is keeping up the trend: German exports and imports of patents and licences have leapt over the past two decades. Trade in intangible economic goods has gained in significance. Incidentally, the trend is similar in IT services.

Germany's IT sector has created employment opportunities in recent years. Roughly 600,000 people were employed at software companies, IT service providers and IT hardware makers in 2010 – some 50,000 more than in 2007. This is the good news. The bad news, though, is that with the favourable economic environment companies are finding it increasingly difficult to fill vacant positions with properly qualified candidates. According to BITKOM's sector barometer nearly 60% of the companies are already suffering from a shortage of skilled labour, scarcely less than in 2007/2008. There are no simple solutions to this structural bottleneck, which is also being reflected in rising wages. Depending on their market position and specialisation, the companies will have to take measures such as shifting activities abroad (offshoring), upgrading employee skills or keeping them on the job longer, or integrating foreign labour into projects locally. These steps usually take time or require structural adjustments within the companies.

The IT sector will also need qualified staff in order to address growth topics of the future. These include perennial issues such as IT security and data integrity. Furthermore, several innovation issues are high on customers' agendas for which clear, strategic solutions still have to be developed. These include, for example, cloud computing, which means a paradigm shift in the use of IT resources. Initially, most companies will have to develop criteria for the use of cloud computing and overcome the existing uncertainties on the legal situation, data protection, data integrity and the integration of cloud solutions in existing architecture.

A further experimental field for companies is mobile internet applications. 16% of Germans were already mobile surfers in 2010 – this number is likely to continue zooming skyward with the explosive growth of smartphone and tablet PC sales. For this reason, companies face the question, among others, of how they can best reach their customers in the mobile internet space. They are experimenting with providing services for customers on a mobile basis, or offering location-based services. Another challenge is to integrate mobile devices for employees into company processes. To address these and other urgent issues the creative forces of the sector need to be tapped. Innovative strength and an increasing focus on the export market point to good prospects for the sector in 2011 and 2012.

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