



2016 Top Markets Report **Cloud Computing** Country Case Study

Germany

Although Germany is the 6th ranked market for cloud services, it has serious limitations for U.S. cloud providers. Aside from the established Internet and economic infrastructure, consumer and business demand for cloud services help make Germany a top 10 market for cloud services. While Germany offers great potential, there are limitations to market access, particularly among SMEs, for U.S. providers. Large U.S. vendors who are heavily involved in Germany have considered responding with EU or German only data centers, but that may not be an option for all interested players. Therefore, Germany will remain a challenging market until consumer confidence in U.S. providers improves.

Overall
Rank

6

Research and Markets predicts a compound annual growth rate of Germany's cloud computing market of 32 percent between 2013 and 2018.¹ This places the German market among the global leaders in terms of growth potential for cloud services. The projected expansion is supported by a 2013 Experton Group study predicting an increase in cloud computing spending of nearly \$17 billion between 2012 and 2017 – a rise from current levels of roughly \$3 billion to nearly \$20 billion in projected revenue.² Cloud services are expected to grow from almost \$2 billion to nearly \$12 billion and cloud integration and consulting from \$550 million to almost \$3 billion and cloud infrastructure technology from \$1 billion to more than \$5 billion by 2017.⁴

With a sophisticated economy, Germany's demand for cloud services is tied to advancing digitalization in all areas of personal life and business. Moreover, Germany's existing infrastructure and consumer base are driving demand for cloud services. A study in 2014 revealed that only 26 percent of German companies do not currently use or plan to use cloud services in their operations, which highlights the enormous market potential that Germany's private

sector offers for cloud adoption and an expanding need for diverse cloud services.⁵

Germany's cloud computing market is attractive to domestic, regional and international cloud service providers. Furthermore, the country's status as a mature market means that domestic and foreign cloud providers alike benefit from a refined existing infrastructure.

Competition for IT budgets is particularly difficult among cloud vendors marketing to the German Mittelstand (a term used to describe German SMEs), who usually prefer domestic providers.

Another challenge in the German market is the potential necessity to open a local office to conduct business. This is due to possible consumer concerns regarding cross border data transfers and security outside of Germany. Those without the ability to establish a local office should consider expansion in other Western European markets, such as the United Kingdom.

Further, Germany's government has encouraged and, arguably, effectively implemented an EU or German domestic data infrastructure – without the necessity of legislating it – by relying on pressure from German companies and consumers to store information on cloud servers located domestically. Further, Germany's "no spy decree" mandates that suppliers involved in public procurement must sign a declaration that no confidential information related to "security contracts" will be given to foreign authorities, despite any conflicting legal obligations.

A 2015 poll found that 57% of German companies preferred their data to be processed only in Germany.⁶ The industry and public pressures that led to an increase in localized data creates challenges for cloud providers without the willingness or ability to store information within Germany, which is a particular concern for smaller vendors.

Consumer concerns over compliance by foreign vendors with EU and German laws and regulations are barriers to foreign cloud providers. As early as 2011, a senior Deutsche Telekom official argued on behalf of creating a German or EU cloud (i.e., Schengen cloud) to block access to local data by U.S. authorities. In October 2015, the European Court of Justice ruled that the European Commission made the wrong decision when it granted adequacy to the EU-U.S. Safe Harbor Framework, which had until then enabled and facilitated data flows between the United States and EU members like Germany.

In February 2016, the European Commission and the United States agreed on a new Framework for transatlantic data flows called the EU-U.S. Privacy Shield Framework. This new framework will re-enable digital flows between the United States and EU members, as well as improve commercial oversight and privacy protection.

While large U.S. providers have considered establishing or have established data centers in Germany to process EU or German data, it is not a viable option for all U.S. service providers and should not be encouraged as an alternative to the free flow of cross border data.⁷

A key challenge in reestablishing consumer confidence in the German market is ensuring a successful implementation of the EU-U.S. Privacy Shield Framework that assures German and U.S. businesses and consumers that the Framework

provides an effective mechanism for digital transatlantic flows.

Guidance and Resources for Exporters

The following information is intended to provide guidance and resources for U.S. exporters looking to sell their services in Germany. The information was provided by U.S. Department of Commerce staff located in-country as well as by input from U.S. Department of Commerce industry specialists. As mentioned, the information is only intended to serve as guidance and does not guarantee sales or success in the market.

- Usual buyers of cloud computing services in Germany might include: SMEs and large companies and multinationals or subsidiaries of U.S. firms.
- Preferred business strategies to enter/expand in the market might include: Distribution agreements and opening an office in Germany.
- Common trade barriers to enter/expand in the market and suggested troubleshooting strategies might include: Opening an office is almost a requirement and in country personnel are needed to market services, support sales and establish relationships within the country. The service should be localized legally, linguistically, technically and through processes adaptations.
- Recommendations to bid and navigate government procurement processes: Win commercial contracts first. Build up trust and start with local government entities before moving to doing business with the federal government.
- Trade Show
<http://www.cebit.de/home#>
- Conferences and Events
<http://www.world-of-cloud.de/>
<http://lanyrd.com/topics/cloud/in/germany/>
- Government Procurement Information
<http://ted.europa.eu/TED/main/HomePage.do>
- American Chamber of Commerce in Germany
<http://www.amcham.de/>

Citations

- 1 <http://www.prnewswire.com/news-releases/cloud-computing-market-in-germany-2014-2018-key-vendors-are-amazon-web-services-google-fujitsu-ibm-microsoft-rackspace-and-salesforcecom-282438641.html>
- 2 <http://www.cbi.eu/sites/default/files/study/product-factsheet-cloud-computing-uk-norway-sweden-finland-denmark-netherlands-germany-outsourcing-bpo-ito-2014.pdf>
- 3 Note: All conversions from EU to USD represent exchange rates as of 3/8/2015
- 4 Ibid
- 5 <http://analystpov.com/cloud-computing/cloud-computing-adoption-in-germany-in-2014-24837>
- 6 <http://www.euractiv.com/section/digital/news/germany-to-set-up-bundescloud/>
- 7 <http://www.datacenterdynamics.com/focus/archive/2014/09/microsoft-considers-secure-german-only-cloud>