The Israel Export & International Cooperation Institute
Hi-Tech Division

Israel's Software Industry

Background

Israel has become a leading player in the global software industry. Israeli companies such as Amdocs, Check Point, Comverse, Mercury Interactive, Nice Systems, and VocalTec have developed breakthrough software solutions, giving the industry – and the country – its well-deserved reputation for innovation, creativity, and diversity.

The country has attracted a great deal of attention from global tech leaders. Many companies including HP, IBM, Microsoft, Oracle, and Sun have established operations and manufacturing centers in the country. Due to the success of Israel's software and high-tech industry, the country has earned the reputation as the world's "second Silicon Valley."

Did you know?
In November 2003, *Forbes* magazine voted Amnon Landan, CEO of Mercury Interactive, "Entrepreneur of the Year," describing the company as "one of the hottest software firms in the world."

Did you know?
Dozens of the world's Fortune 500 computer companies have established commercial offices in Israel.

Israeli software companies develop and manufacture a wide variety of software solutions. "In line with global trends, communications, security, and Internet companies lead the local market," according to a UK Trade and Investment (UKTI) report of September 2002. The report also notes that Israel dominates the software-testing field and identifies niche markets as the areas where the country can dominate globally, citing companies like ICQ-Mirabilis (instant messaging) and Ex Libris (library management).
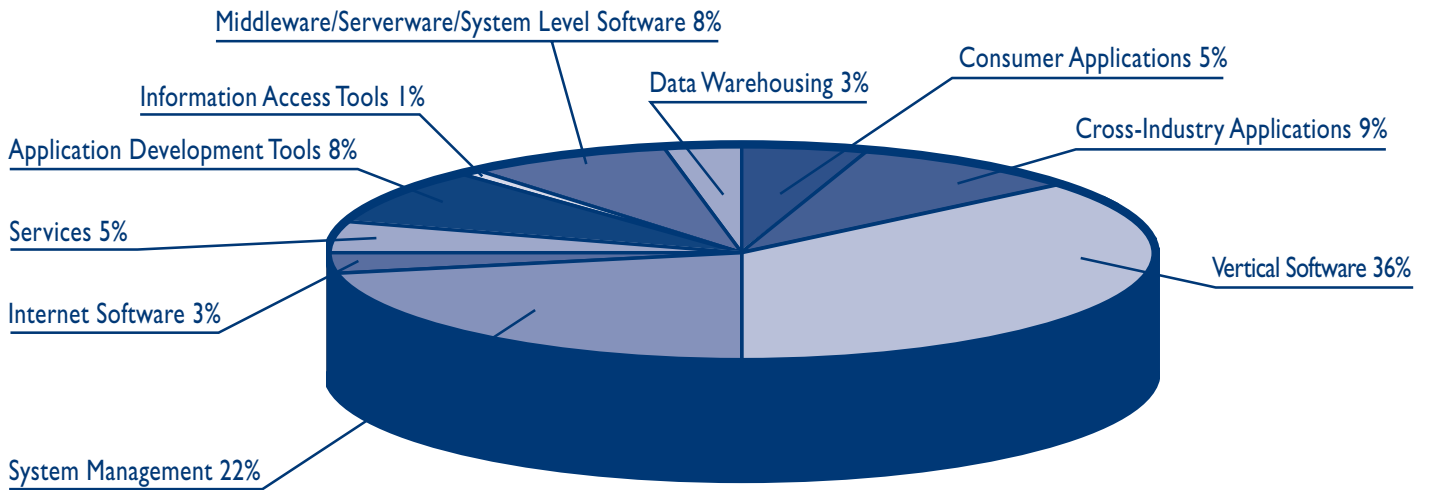
A Growth Industry

The growth of the software industry within the GDP and its exports over the past 20 years is higher than all other traditional and high-tech industries in the country, adding unparalleled value to the Israeli economy as a whole. According to figures released by the Israeli Association of Software Houses, Israel's software exports have increased dramatically: the industry grew by 78.6% from 1998 to 2003. Export sales of software and related technologies are estimated to exceed $2.6 billion in 2003 as compared to $1.5 billion in 1998. Sales for 2004 are expected to approach $4 billion.

Israel's Software Industry by the Numbers (2003)

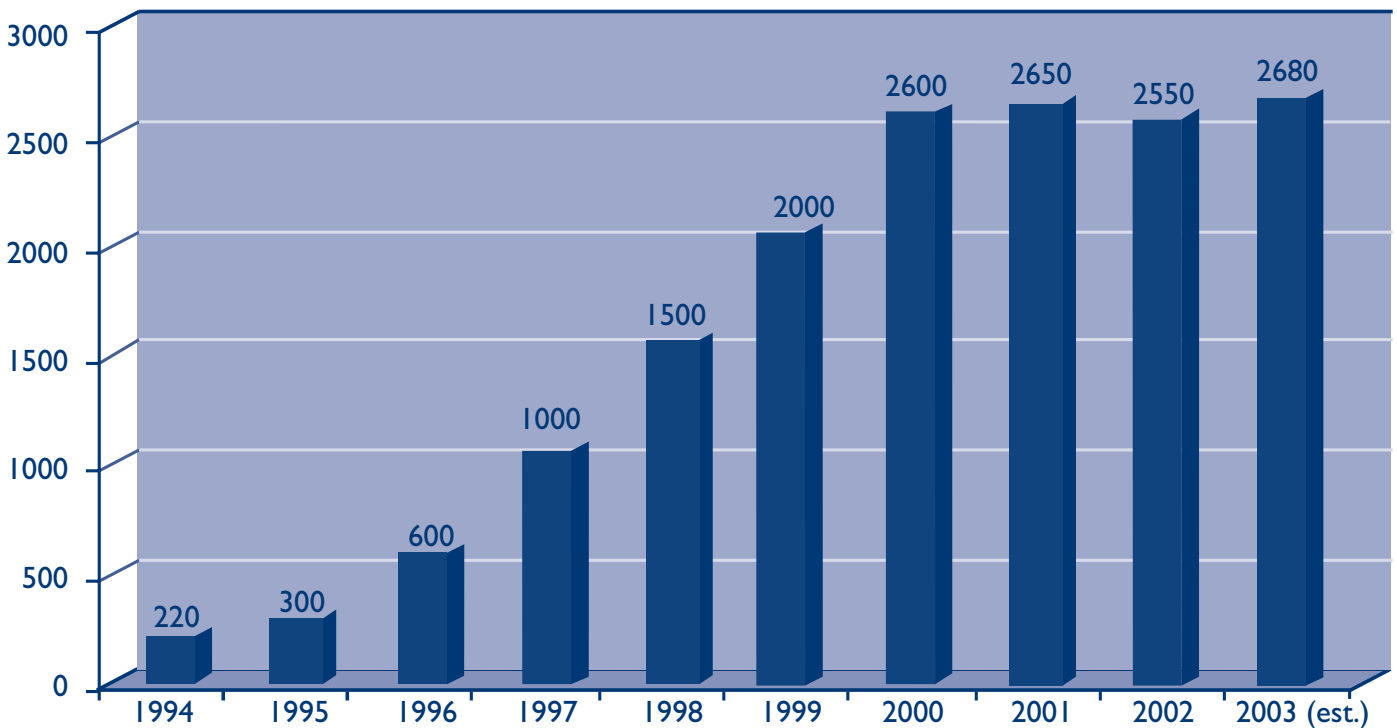|	
Total Sales	$3.58 billion
Total Exports	$2.68 billion
Number of Computer Specialists	13,000

Source: Israeli Association of Software Houses

Israeli Software Industry Exports by Software Application in 2003 ($ millions)

Middleware/Serverware/System Level Software 8%

Information Access Tools 1%

Application Development Tools 8%

Data Warehousing 3%

Consumer Applications 5%

Cross-Industry Applications 9%

Services 5%

Internet Software 3%

Vertical Software 36%

System Management 22%

Source: Israeli Association of Software Houses

Israeli Software Industry Exports by Year ($ millions)

Year	Exports
1994	220
1995	300
1996	600
1997	1000
1998	1500
1999	2000
2000	2600
2001	2650
2002	2550
2003 (est.)	2680

Source: Israeli Association of Software Houses

Why Israel?

Israel's software industry truly symbolizes the country's strength in the knowledge-based economy. Highly skilled human resources coupled with a highly competitive environment and world-class quality standards have transformed Israel into a global powerhouse in information technology (IT) software services and solutions.

The country's high-tech business community includes some 3,000 software houses, an estimated 1,000 start-ups, and more than 200 projects under development in government-funded incubators. After the United States, Israel has the largest number of start-up companies (relative to population) in the world. Major foreign firms have stepped up their merger and acquisition activities in the country. The average direct foreign investment in Israel exceeds $2 billion per year.

A Well-educated, Well-trained Workforce

One of Israel's greatest assets is its people. Characterized by vision, creativity, initiative, and ingenuity, and generally regarded as early adopters and innovators, Israel's workforce is one of the most highly educated in the world.

- Israeli universities and research institutions such as the Technion–Israel Institute of Technology, Hebrew University of Jerusalem, and the Weizmann Institute of Science are world renowned. Israel has the highest number of scientists and engineers per capita: 135:10,000 (135 qualified workers per every 10,000 citizens), almost twice that of America. Israeli universities enroll more than 6,000 first-year students in high-tech related fields.

- Compulsory military service in the Israel Defense Forces (IDF) gives young men and women practical technical experience and shows them the importance of effective teamwork. Many innovative technologies were conceived in the IDF, and some credit its highly trained graduates as spearheading the country's high-tech boom.

- The influx of some 900,000 immigrants from the former Soviet Union in the 1990s included a large percentage of scientists, engineers, and technicians. More than 50% of these immigrants hold university degrees. These professionals have made a great contribution to the success of Israel's software industry.

Government Incentives

Israel's growth into a leading software center has been facilitated, in part, by the initiatives undertaken by the Israeli government. Israel's Office of the Chief Scientist (OCS) of the Ministry of Industry, Trade and Labor is responsible for implementing government policy regarding the support and encouragement of industrial R&D. It is the aim of the OCS to leverage technology in Israel as a means of boosting the economy, supporting innovation and R&D, utilizing Israel's skilled resources, enhancing the knowledge base of Israeli high-tech industries, and promoting cooperation in R&D both nationally and internationally. The government sponsors and supports a number of programs and technological incubators to encourage high-tech entrepreneurship. It has also set up technology parks and implemented software development projects.

These extensive government incentives attract foreign capital investment. Among the benefits are subsidized long-term loans with reduced interest rates, direct grants as a percentage of total investment, R&D financing, and tax discounts and rebates. Israel's investment in R&D is well ahead of most OECD countries, standing at nearly 3.5% of GDP, a higher level of investment compared to other developed countries. Two-thirds of R&D efforts are conducted in the private sector; the rest at universities, government organizations, and other non-profit organizations.

Economic Cooperation

Israel benefits from strong ties with the world's major economic powers and trading blocs. Israel also enjoys a unique combination of free trade agreements with the United States, Europe and the EU, as well as Turkey, Canada, Czech Republic, Slovak Republic, Hungary, Poland, Slovenia, and other EFTA nations. The government of Israel has signed agreements with joint government funds to start, support, and encourage cooperative R&D between Israeli and overseas industries.

Success Stories

Israel's software houses have recorded many notable achievements over the past decade. Amdocs, Check Point, and Mercury Interactive, among others, have risen to become leaders in their respective fields.

Amdocs (www.amdocs.com)
Amdocs (NYSE: DOX) is the world's leading provider of billing and CRM software products and services. The company's innovative billing products and services span the entire customer life cycle including marketing and analytics, sales and ordering, delivery and fulfillment, billing and settlement, and service and support. According to Frost & Sullivan's report *World Communication Billing Software Market Analysis, 2003*, "Amdocs is the undisputed market share leader in global customer care and billing." The company has gained over 35% market share worldwide.

Check Point Software Technologies Ltd. (www.checkpoint.com)
Check Point Software Technologies (Nasdaq: CHKP) is the world leader in securing the Internet. Founded in 1993, Check Point is the recognized market leader of both virtual private networks (VPN) and firewall products. According to IDC, Check Point holds a 65% market share in worldwide enterprise VPN/firewall software. The company's 2002 sales were $427 million. Check Point solutions are sold, integrated, and serviced by a network of 1,900 Check Point partners in 86 countries.

Mercury Interactive (www.mercury.com)
Founded in 1989, Mercury Interactive (Nasdaq: MERC) is the world leader in business technology optimization. The company has grown to become a $400 million company with offices in 26 countries and more than 1,800 employees. Its enterprise testing, production tuning, and performance management products enable customers to optimize business processes and maximize business results. Among Mercury's customers are 75% of the Fortune 500 companies.

About The Israel Export & International Cooperation Institute

The Israel Export & International Cooperation Institute, supported by over 2,600 member firms, private-sector bodies, and the government of Israel, advances business relationships between Israeli exporters and overseas businesses and organizations. By providing a wide range of export-oriented services to Israeli companies and complementary services to the international business community, the Institute helps build successful joint ventures, strategic alliances, and trade partnerships.

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