FINNISH SOFTWARE INDUSTRY 2007

The National Software Industry Survey 2008

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Background of the Survey

National Software Industry Survey 1997-2008

- The most significant study in Finland measuring the development of software industry
  - The first study was conducted in 1997 to show that there is a software product industry in Finland, and it is nationally important or at least that it will be important
- The survey follows the development of software product business on a yearly basis
  - Data is collected on the volume, growth and other key figures of software business
- During the last two years the research has been developed to better meet the purpose of providing information on the rapidly developing software industry
  - In addition to software product companies, also service companies of software industry are studied
  - Each year has one or two themes
    - 2008: Growth and internationalization
    - 2009: Strategy and networking (tentative)
  - Special emphasis on improving the coverage retaining respondents

Sponsors and partners in 2008

In addition to financing partners above, the following parties provided their expertise:

The Key Figures of the Software Product Industry

Finnish Software Product Industry: A Definition

- Software product industry refers to business which is based on selling software products as licenses or services, as well as other services closely related to this software.

- A Finnish company is company that is registered in Finland
  - All affiliates of a Finnish corporation (also abroad) are considered to be activities of a Finnish company.
  - An affiliate of a foreign corporation which is registered in Finland: Affiliates' own activities are considered to be activities of a Finnish company.

- Finnish software product business is software product business of a Finnish company.

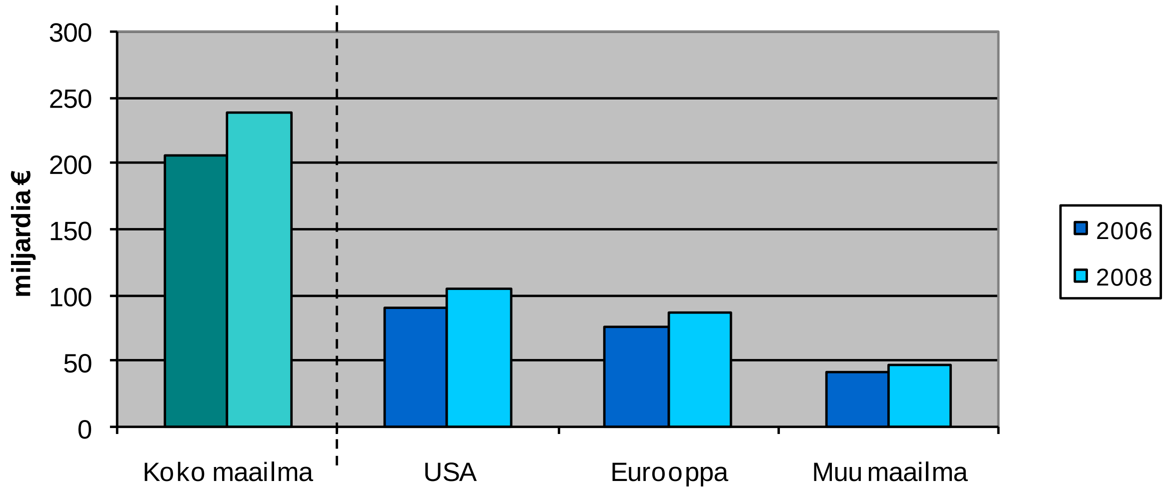
- Software product business is estimated to account for a third of the total revenues[2] of IT services[1].

1 Statistics Findland industry classification code 72

2 Tyrväinen et al. 2004

Global development of software product business in 2006-2008 (EITO2007*)

2006	2008
The global market of software products was 207 billion € and it grew by 7,4% since 2005.	Forecast for the global software product market is 239 billion € and it grows on an average by 7,4 % a year.
The European software product markets accounted for 71,5 billion € (USA: 90 billion €) and it grew by 6,5% (USA: 8,4%) since 2005.	Forecast for the European software product business is 81 billion € (USA: 106 billion) and it will grow on an average 6,5% (USA: 8,4% year)



* European Information Technology Observatory

The Key Results of the Survey

Finnish Software Product Business in 2007

- The industry revenues increased by 8,6% (13% in 2006) and reached 1,52 billion € (1,41 billion € in 2006)
  - International revenues grew by 12% (9,8%) and were 678 million €
  - Domestic revenues grew by 5% (15,3%) and were 840 million €
- The industry employed 14 400 software professionals (13 000). The number of employees increased by 9,4% (5,1%)
- The profitability of the responded companies was 10,4% in 2007 (5,6%)[1].

[1] Mostly explained by firms that did not respond in previous year

Demographics of the Sample

The amount of companies represents 88 % of the total revenues of the whole software industry

The average age of the companies was 9 years

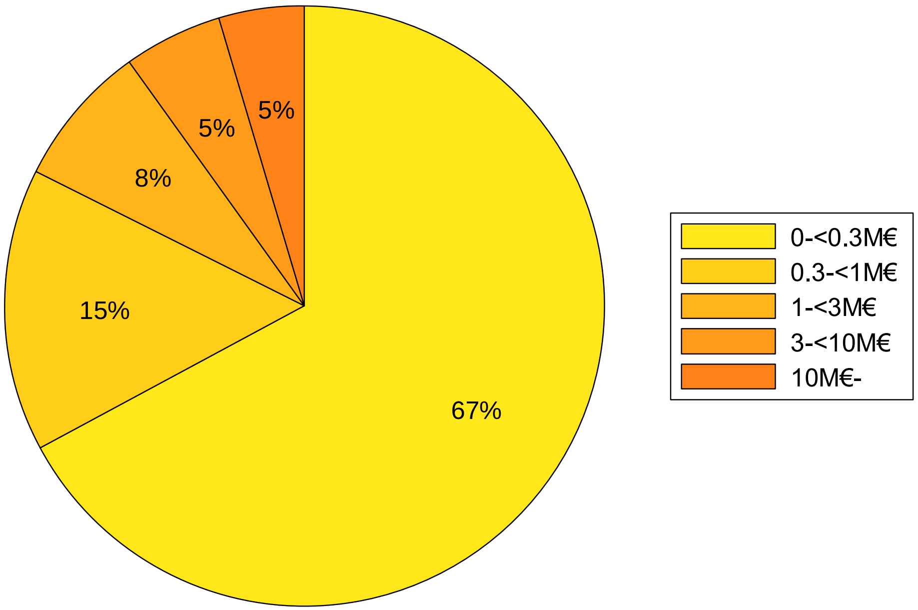
Location: the industry is very concentrated

- Capital area: 54% of the companies, 79% of big companies (revenue of SW product business > 3 M €)

Profitability: average 10,4% (5,6%)

- In 27% of the companies over 15% (22%)
- 12% of the responded companies were unprofitable (17 %)

Responding companies distribution of the software product business

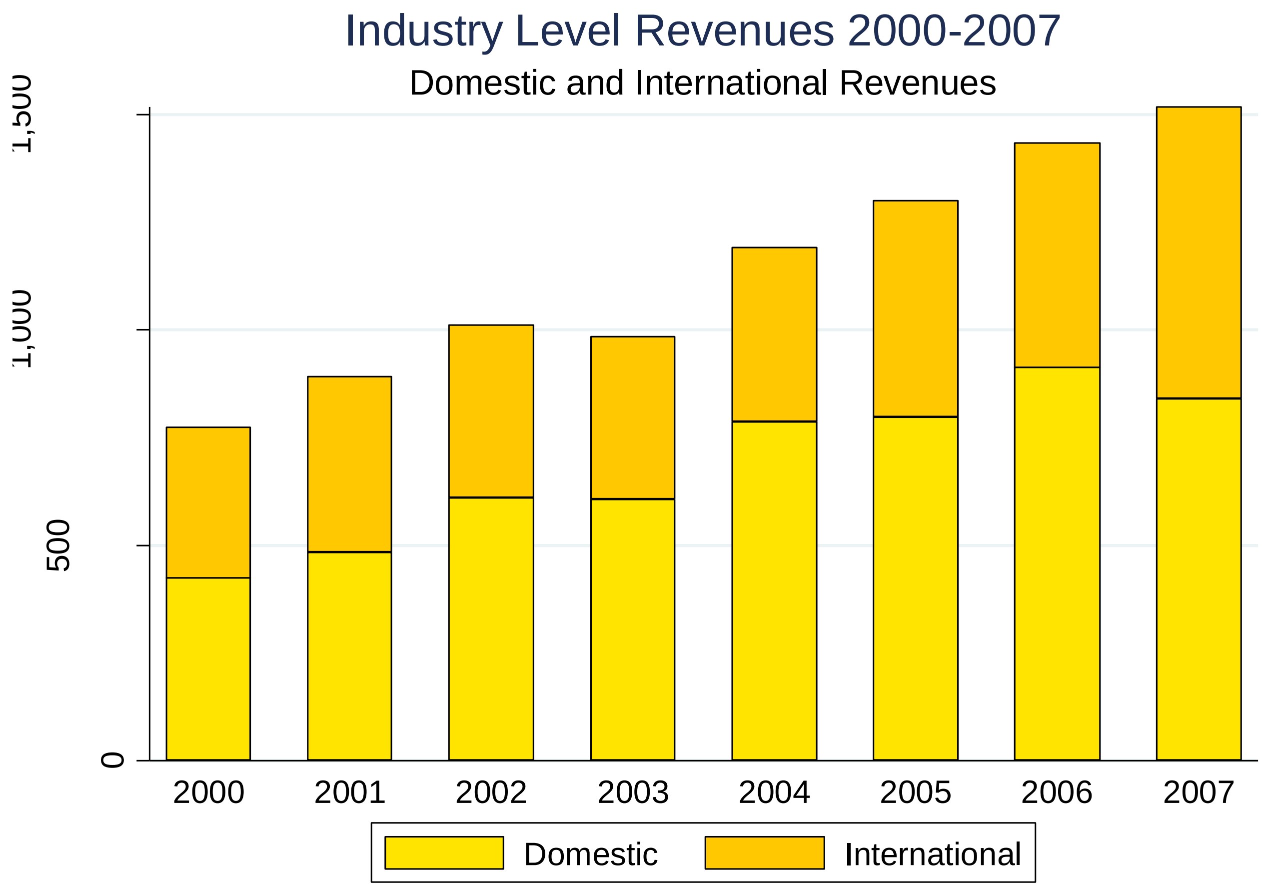


Size: most companies are small or medium-sized

- 71 % of the companies: revenue of own SW product business less than 300 000 €
- Total revenue/total personnel 110 000 € (110 000 €)
- 45% had less than 5 employees (41%)

Development of Software Product Industry in 2000 – 2007*

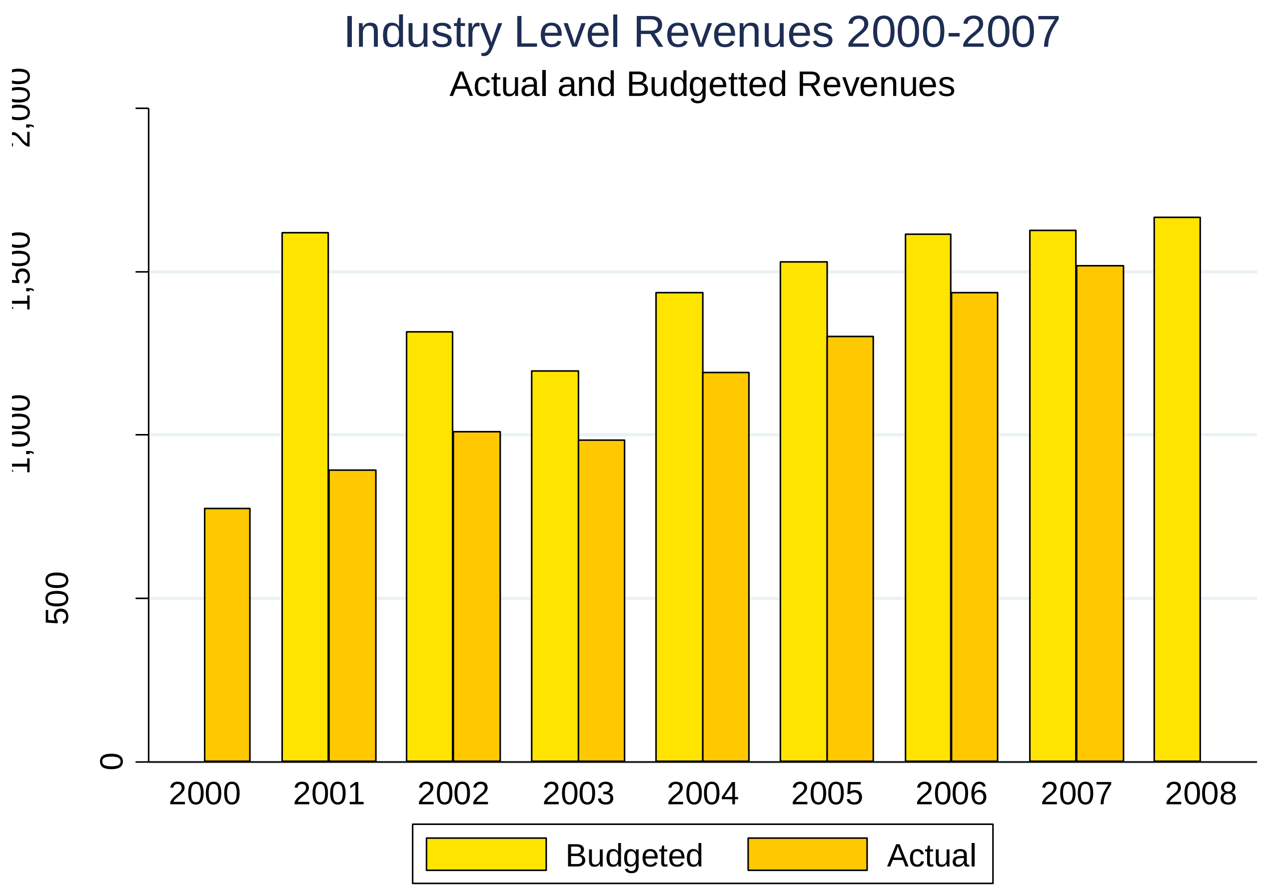
- Revenue of SW product business grew by 8,6% and was 1,52 billion
- International revenue grew by 12%* and was 45% of total revenues of the industry
- The value of domestic business increased by 5%*



* Extrapolated to match industry total amount

Trend for the Development of Revenues in Software Product Industry in 2000-2007*

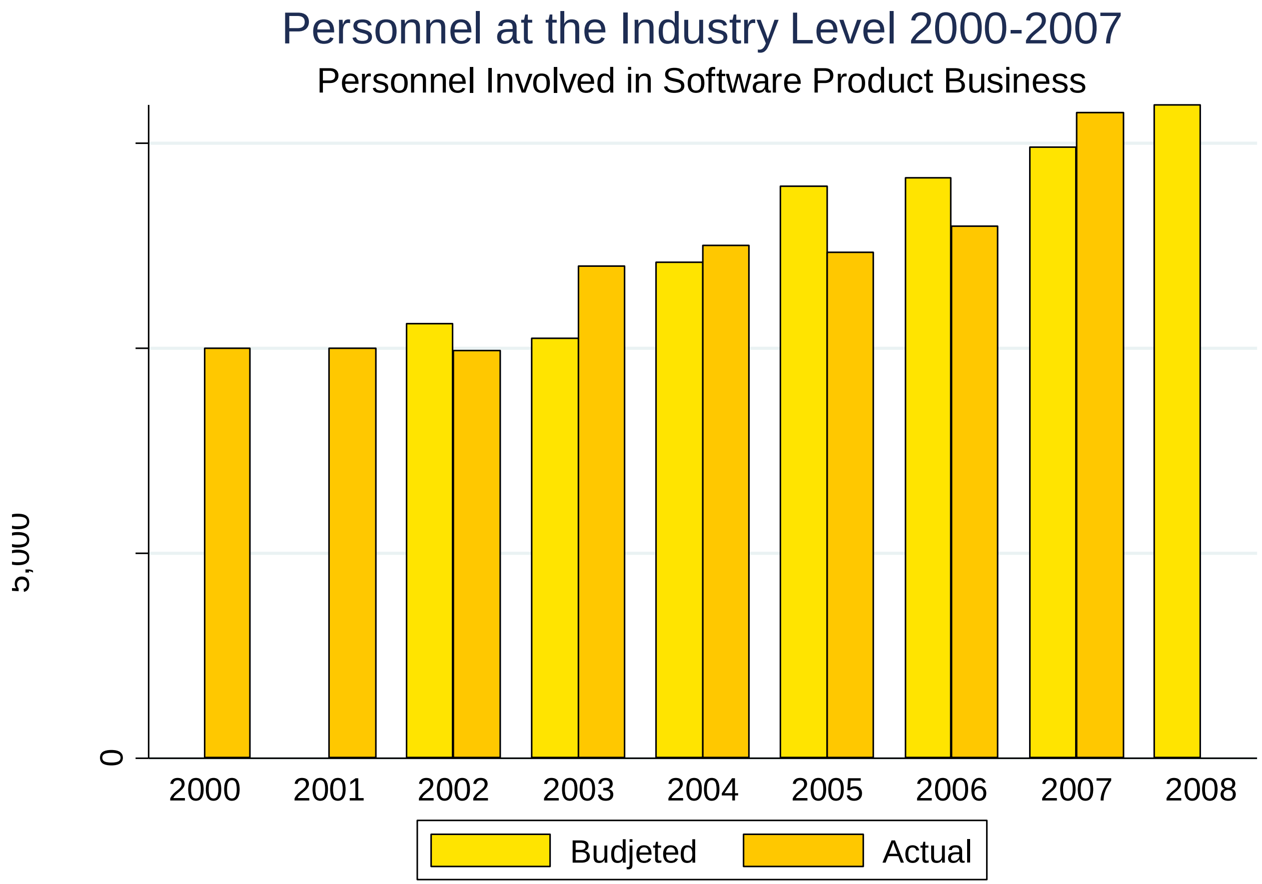
- Firms are expecting growth in revenues, but at a more moderate level than during the previous years
- The budgeted revenues increase for 2008 predicts moderate growth in the future



* Extrapolated to match industry total amount

Personnel in Software Product Industry *

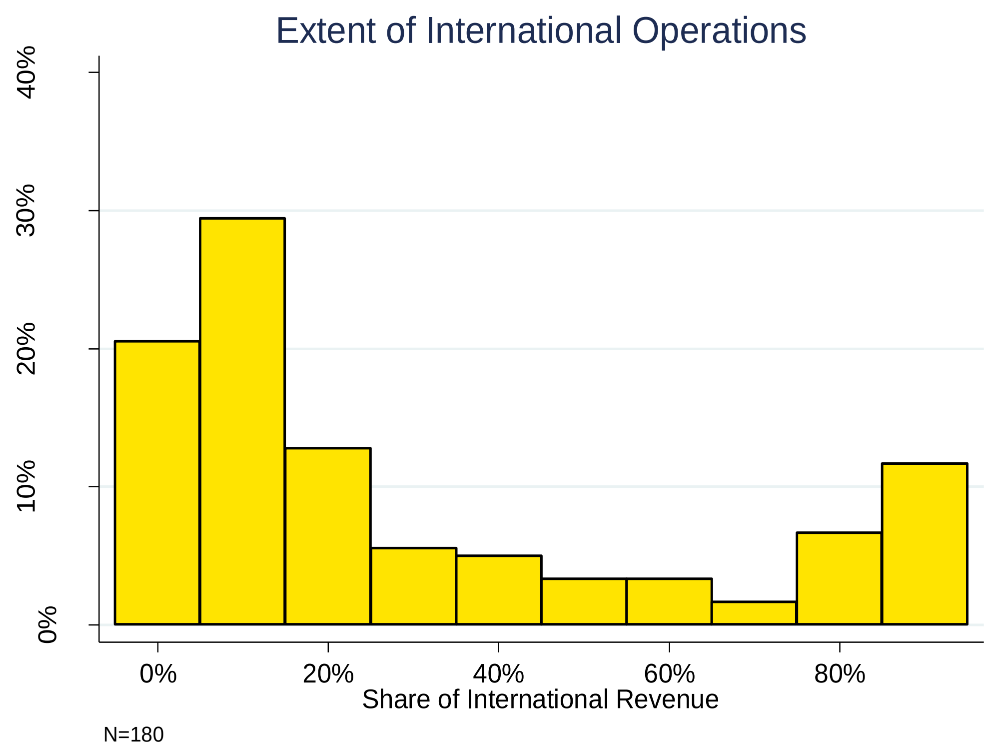
- Personnel in SW product business grew by 9,4%
- The industry is employing approx.14 400 (13 000) persons
- 69% of the personnel is working in SW product companies having revenues over 3 million€



* Extrapolated to match industry total amount

International Operations

- 33**%** of the companies have international revenues (48% in 2006)
- The share of international business in those companies has been almost the same: 32% (33% in 2006)
- Most of the companies had only few activities abroad, but part of the companies were extremely international
- International activities in 8 countries on an average (8,8)
- The most common target countries: Sweden, USA and Germany (the same as in 2002 – 2006)



Ownership of the Firms

N=624

- In 91% of the companies the owners include founders and family members

- 10,9% have a private investor (VC)

- More than 93% are completely Finnish-owned

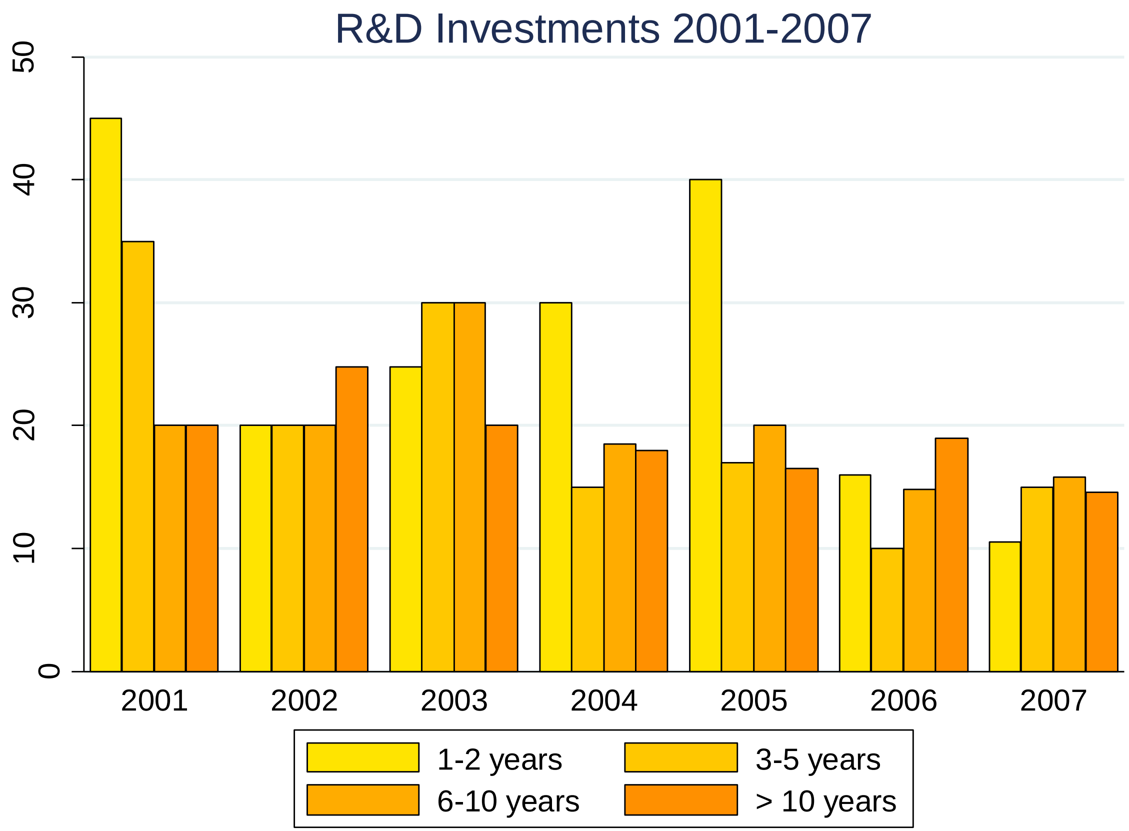
- 35% of the companies reported that they will apply for outside finance during the next two years (36%)

- The most popular funding sources according to the applicants for finance are:
  * Public funding 73 %
  * Venture Capital 63 %
  * Private investors 52 %

Strengths, Challenges and Development Areas

- The most important development areas and challenges (Telephone interviews, N=71)
  1. Product development
     - The companies did not considered product development as a challenge
     - Technological know-how was mentioned as the most important type of knowledge
  2. Marketing and sales
     - The 3rd important challenge, was not seen as a strength
     - If these were mentioned as a challenge, they were generally a mentioned development as a development area
  3. Personnel
     - The 2nd biggest challenge (attracting personnel and keeping the skilled employees in the company)
     - Personnel was considered to be the 4th important strength (the quantity of professionals in relation to the need)
  4. Know-how and productization
     - Know-how was the most important strength, especially technological know-how and knowledge of business were experienced as strong areas
     - Investment in productization would hopefully create a development path from ”projects to products” and lead on to knowledge and products, which can be replicated at low cost.
  5. Internationalization
     - This was not considered to be a top-level challenge (5th important), nor strength (7th important) nor a target for development (5th important)
     - This could also be explained by an early stage of internationalization of the companies

Product Development



- R&D investments have slightly decreased in relation to revenues since 2001
- The median of the investments is 14% (16%) of total revenues of the industry
- The decreasing trend is statistically significant, and needs more attention

* The results can be explained mainly by better scope of small and already established companies

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Conclusions

Current State of the Software Product Industry and Areas for Development

- Current State
  - SW product business seems to have established itself as one of the growing sectors; however, the growth was more moderate in 2007 than previously
  - The industry is expected to grow in 2008, but the growth rate is strongly dependent on the development of economic situation in the future
  - Rapidly growing companies are highly important for the total volumes of the industry while they are effectively compensating for loss of revenue by some of the larger SW product companies in 2007
  - The industry is employing now clearly more people than in previous years (14 400, 13 000 in 2006)
  - R&D investments are slightly decreasing compared to previous years
  - Public financing is still the most popular funding source (73%) before venture capital (63%) and private investors (52%)
- Strategic areas for development
  - Securing the supply of educated labor force for the industry's needs
  - Developing marketing and sales know-how
  - Promotion of networking and exploitation of social capital in the companies
  - Securing know-how, especially technological, also in the future
  - Supporting productization (from projects to products)
  - Further support of internationalization facilitate growth of the industry

Summary

- The growth of Finnish SW product industry continued more moderately than in previous years (8,6%, 13,1% in 2006)
- The industry's impact on employment has clearly increased (growth 9,4%, 5% in 2006)
- R&D, marketing and sales as well as personnel and know-how were considered the most important areas for development of the companies in 2007
- The most significant single challenge, after personnel, sales and marketing, was growth
- It can be possible to increase volume of revenues by increasing the amount of rapidly growing companies (so-called gazelle enterprises) in the industry

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