



Aalto University
School of Science

Teknologia
teollisuus

Finnish IT and software industry

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- Brief overview of the study
- Overview of the Finnish software industry after the recession
- The effects of Nokia's change of software strategy
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The Technology Industry Is Comprised of Five Sub-sectors

Electronics and Electrotechnical Industry

ABB, Elcoteq, Ensto, Nokia, Nokia Siemens Networks, Perlos, Planmeca, Polar Elektro, Suunto, Vacon, Vaisala, VTI Technologies...

Metals Industry

Boliden, Componenta, FNsteel, Kuusakoski, Luvata, Norilsk Nickel, Outokumpu, Outotec, Ovako, Rautaruukki, Sacotec...

Mechanical Engineering

Abloy, Cargotec, Finn-Power, Fiskars, Glaston, Kone, Konecranes, Metso, Normet, Oras, Patria, Pemamek, Ponsse, Stala, STX Finland, Valtra, Wärtsilä...

Information Technology

Affecto, Comptel, Digia, Endero, Enfo, Flanderm F-Secure, Fujitsu Services, IBM, Logica, Microsoft, Tieto...

Consulting Engineering

Citec, Deltamarin, Elomatic, Etteplan, FCG, Finnmap, Granlund, Neste Jacobs, Pöyry, Ramboll, Rejlers, Sito, Sweco, WSP...

The Technology Industry in Finland in 2010

Electronics and Electrotechnical Industry

- Data communications equipment, instruments, electrical machinery
- Turnover 20.3 billion euros
- Personnel 55 000

Mechanical Engineering

- Machinery, metal products, vehicles
- Turnover 25.9 billion euros
- Personnel 125 000

Consulting Engineering

- Expertise for construction industry and infrastructure
- Turnover 4.8 billion euros
- Personnel 43 100

Metals Industry

- Steel products, non-ferrous metals, castings
- Turnover 9.0 billion euros
- Personnel 13 500

Information Technology

- IT services, applications and programming
- Turnover 7.2 billion euros
- Personnel 54 400

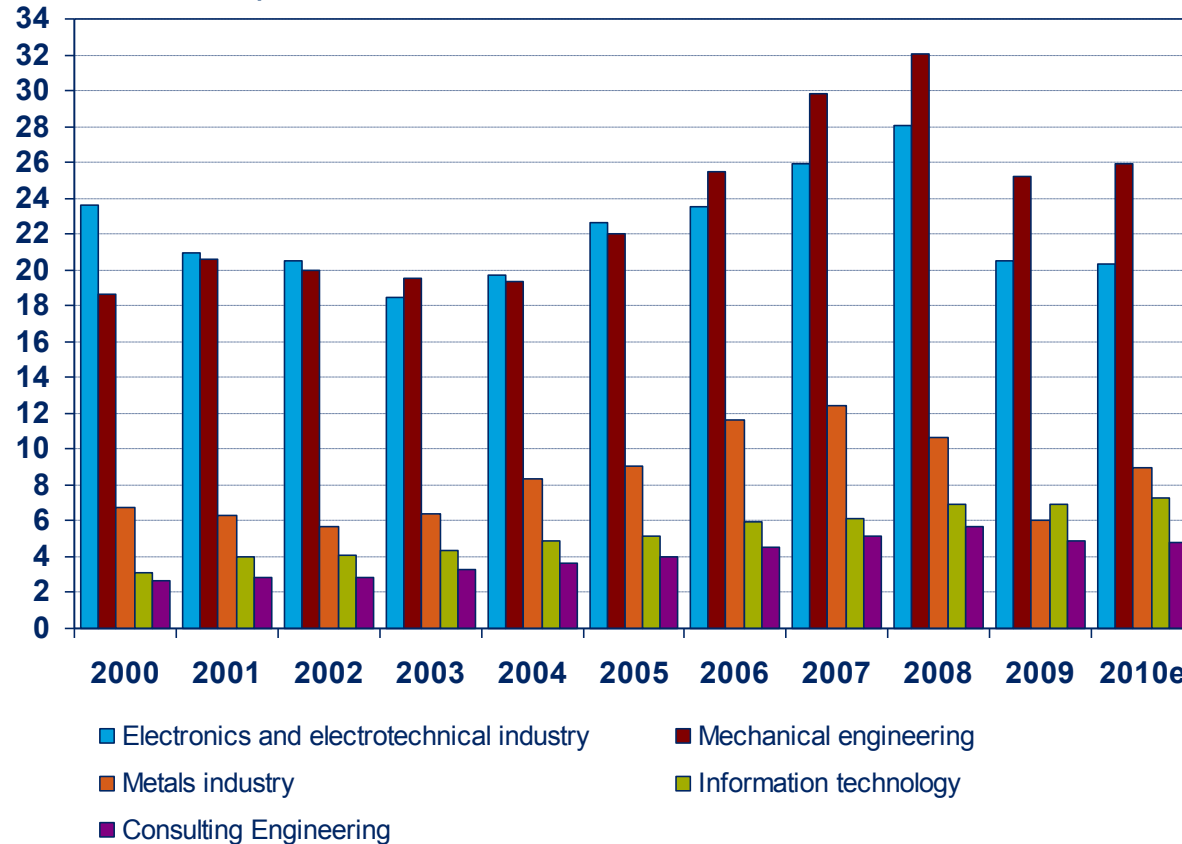
The Technology Industry – the Most Important Sector in Finland

- 60 % of total Finnish exports.
- 80 % of private-sector R&D investment.
- Some 290 000 employed directly in the sector, a good 700 000 employed in total, equalling over one quarter of the entire Finnish labour force.



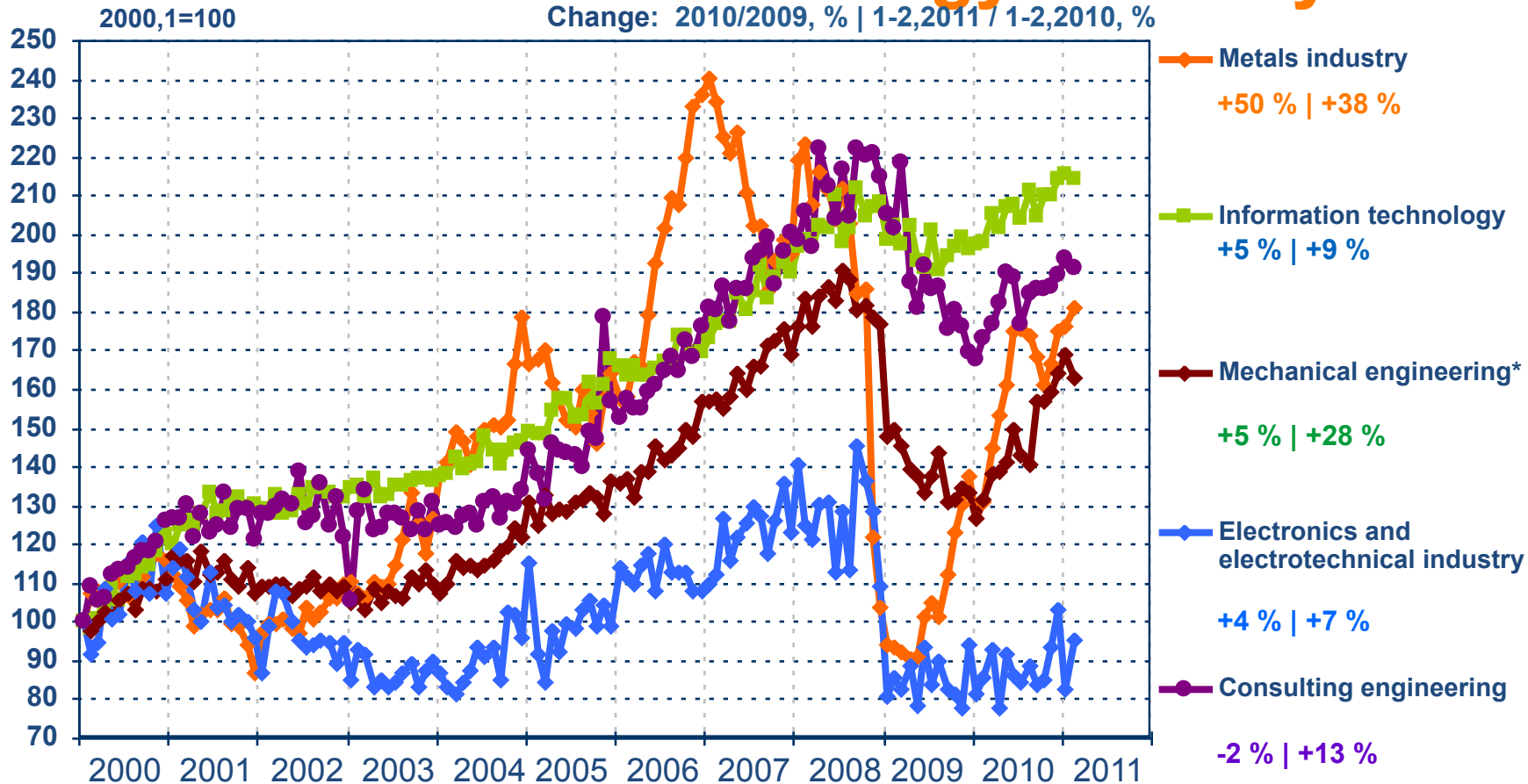
Turnover of the Technology Industry

Billion euros, at current prices



Source: Statistics Finland, The Federation of Finnish Technology Industries

Turnover of the Technology Industry



*) Excl. shipyards. Seasonally adjusted turnover index, last data 2/2011. Share of total turnover in 2009: mechanical engineering 40 %, electronics and electrotechnical industry 32 %, information technology 11 %, metals industry 9 %, consulting engineering 8 %. Source: Statistics Finland

25 Largest IT companies

Rank	Company	Revenue. M euro	Growth	Personnell	Industry
1	Nokia	42 446.0	3.6	129 355	Telecommunications equipment
2	Tieto	1 713.7	0.4	17 097	IT services
3	Telia-Sonera Finland	1 694.0	0.5	4 686	Telecommunications services
4	Elisa	1 463.2	2.3	3 477	Telecommunications services
5	Also Nordic Holding	919.1	3.0	725	Wholesale
6	DNA	690.5	5.9	934	Telecommunications services
7	Hewlett-Packard	504.4	7.2	724	IT equipment and services
8	IBM	455.0	17.0	1 380	IT equipment and services
9	Fujitsu Services	420.2	14.8	2 794	IT services
10	Logica Suomi	394.5	10.4	3 026	IT services
11	Tellabs	312.7	12.1	610	Telecommunications equipment
12	3 Step IT	302.4	37.0	183	IT services
13	Siemens	287.0	-15.1	945	IT equipment
14	Tech Data Finland	266.0	8.1	69	Wholesale
15	Itella Information	259.7	5.1	1 910	IT services
16	Accenture	255.0	-1.8	1 396	IT services
17	Atea Finland	209.3	23.2	321	IT services
18	Osuuskunta KPY	192.4	5.8	1 062	IT services
19	Verkkokauppa.com	173.2	12.5	312	Retailing
20	Eltel Networks	170.8	-7.4	1 127	Telecommunications services
21	Teleste	167.8	18.5	1 215	IT services
22	Elektrobit	161.8	5.2	1 561	Telecommunications equipment
23	Cassidian Finland	149.9	-3.2		Telecommunications equipment
24	L M Ericsson Ab	131.9	-19.7	935	Telecommunications equipment
25	Digia	130.8	8.7	1 508	IT services



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National software industry survey 2011

Sponsors of the 2011 survey



OHJELMISTOYRITTÄJÄT RY



HERMIA



Software Industry Survey

- Run in Finland since 1997
- The longest running software industry survey in the world
- Provides annual overview of the industry
- Changing research themes



Survey in the 2011

- Data collection in spring and early summer
- Covers the whole software industry
 - Product and services firms
 - In 2011, 506 responding companies
 - In 2011, we excluded sole proprietors from the survey
- Three cooperating universities
 - University of Jyväskylä and Cloud software program
 - Fraunhofer institute, survey in Austria and Germany

INTERN SOFTW.

INSTRUCTIONS: Fill the form according to current state of your firm. If responding to a question requires information that is difficult to obtain, please estimate an answer.

ALL YOUR RESPONSES ARE CONFIDENTIAL.

START ANSWERING:

1. Which one of the following options best describes your business? (Please select only one!)

Product firm: Software product firm, Firm that manufactures devices that contain software

Service firm: Firm that delivers software products or other related services, Consulting firm in the software industry or closely related to it

2. Please estimate the following figures for your firm's last fiscal year and this fiscal year.

	Last fiscal year	This fiscal year (forecast)
Revenue	€	€
R&D expenses	€	€
Sales & Marketing expenses	€	€
Profit (before taxes)	€	€
Number of personnel (at end of fiscal year)	persons	persons

3. What would be the ideal size for your firm in five years according to the management team?

Number of personnel: _____ persons

Revenue: _____ €

4. How well do the following statements describe the growth of your firm?

Statement	Strongly disagree	Disagree	Do not agree or disagree	Agree	Strongly agree
Growth is the most important objective of our firm	2	3	4	5	
At the moment, the size of our firm is ideal, and we see no need for strong growth		2	3	4	5
Our management team believe that our firm is or will be an important player in international markets	2	3	4	5	
Our firm has signed international contracts for financing	2	3	4	5	

BUSINESS MODEL

5. How is the revenue of your firm distributed between the following sources (last fiscal year)?

Product name	%
Sales of our own software licenses%
Sales of third party software licenses%
Providing as a service and/or as a license%
Selling devices with embedded software%
Customized software development projects%
Hardware contracts related to software products%
Employment projects related to software products%
Business projects concerning services (e.g. accounting)%
Other services directly related to software%
Advertising or selling content related to software%
Other%
Revenue not directly related to software%

6. To what customer segments do you sell your offerings? (Choose all that apply)

Private businesses (i.e. firms) Public sector (i.e. government) Customers (persons) (retail)

7. What percentage of your revenue comes from the following sources (last fiscal year)?

Revenue obtained through	%
Revenue obtained through multiple or other business operations%
The combined revenue from your three largest customers%
Revenue from new customers obtained during your last fiscal year (percentage)%
Revenue from public sector customers (i.e. government, municipalities)%

8. Please estimate the following about your new customer sales process.

	Under 1,000	1,000 - 5,000	5,000 - 20,000	20,000 - 100,000	Over 100,000
The typical total value of one sales case	€	€	€	€	€
The typical length of your new customer sales process from initial contact to deal	months	months	months	months	months
The typical number of years of one instance of your product/different system	years	years	years	years	years

9. How well do the following statements describe your main offering?

Statement	Strongly disagree	Disagree	Do not agree or disagree	Agree	Strongly agree
We use open source software as a significant part of our product or service	2	3	4	5	
Our offering is a novelty or highly innovative to existing customer segments	2	3	4	5	
Our offering is a significant component in most customers' requirements	2	3	4	5	
Customers are increasingly involved in the development of our offerings	2	3	4	5	
Our firm is involved in the development of our offerings	2	3	4	5	

10. How well do the following statements describe your firm's professional service offering and service experience? (Select one applicable to your firm)

Statement	Strongly disagree	Disagree	Do not agree or disagree	Agree	Strongly agree
The services we provide are typically very complex	2	3	4	5	
Our services are easy to use/learn	2	3	4	5	
Our services are great in terms of content and quality	2	3	4	5	
We have provided excellent service previously	2	3	4	5	
We use flexible (in terms of business) contracts required by our customer	2	3	4	5	
Our service is customer-oriented and meeting those new service requirements in which our customers need	2	3	4	5	
The customer of our services depend strongly on the delivering employees	2	3	4	5	
It is easy for us to communicate with our customer about our services	2	3	4	5	
We find the pricing of services difficult	2	3	4	5	
We can maintain a consistent level of service quality	2	3	4	5	
We can guarantee the volume of our services to our customer	2	3	4	5	

How well do the following statements describe the growth of your firm?

Statement	Strongly disagree	Disagree	Do not agree or disagree	Agree	Strongly agree
Growth is the most important objective of our firm	○	○	○	○	○
At the moment, the size of our firm is ideal, and we see no need for strong growth	○	○	○	○	○
Growing our firm is the most important personal objective for most members of our management team	○	○	○	○	○

Overview of the Finnish software industry after the recession

Finland has placed high on international benchmarks during the recent years

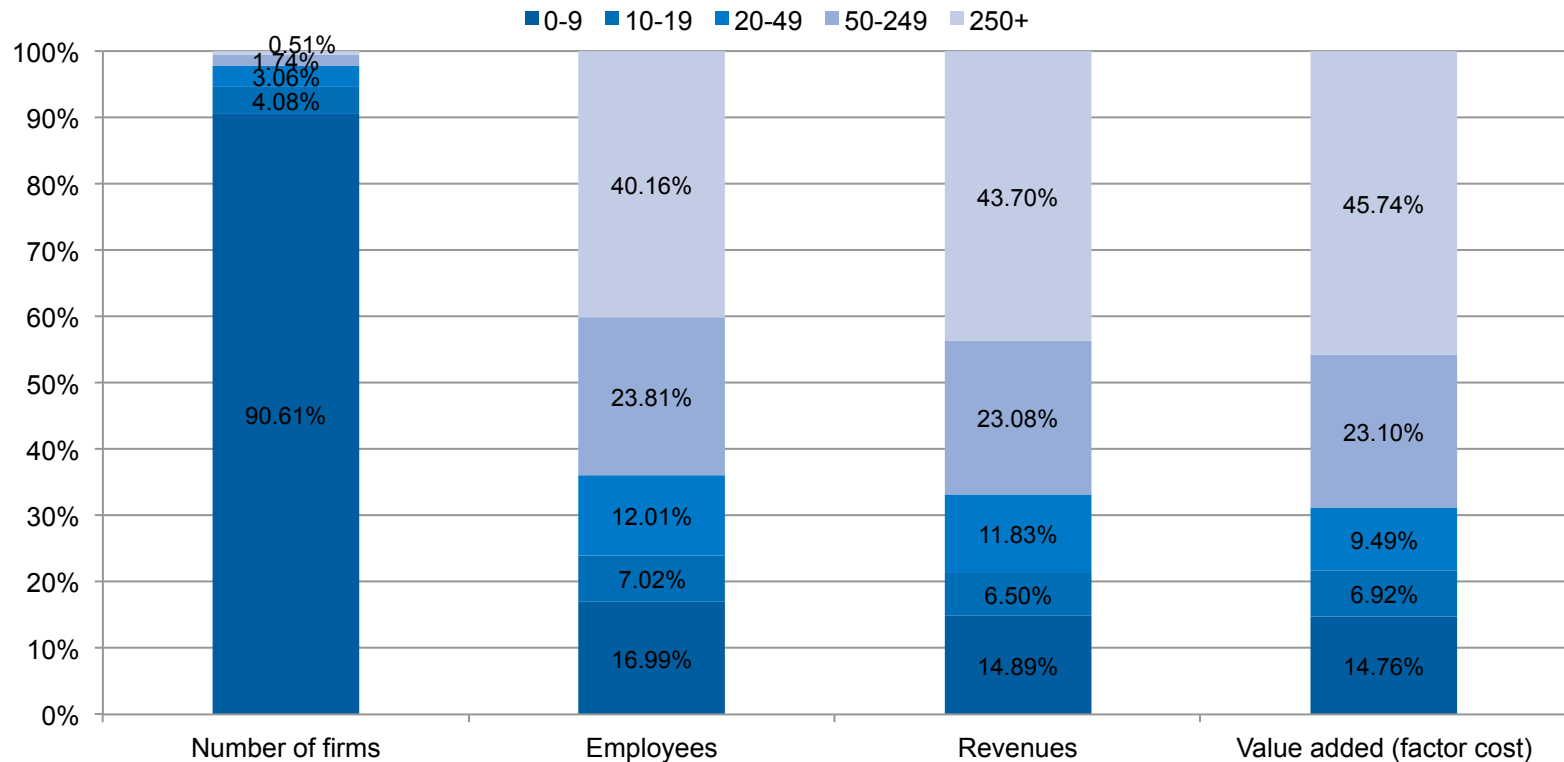
- Finland has recently placed well in international benchmarks on ICT
 - “Finland is one of the innovation leaders in ICT sector in Europe” (Sectoral Innovation Watch)
 - Finland is one of the few “independent” countries with a healthy and self-sustaining IT industry (PAC)
 - Finland ranked 6th in the number of companies in the 200 largest software firms in the world (PWC)
 - 6 Finnish companies in the top 100 European software companies in 2010 (7 in 2009) (Truffle)

IT industry competitiveness index 2009

	Score	Rank
United states	78.9	1
Finland	73.6	2
Sweden	71.5	3
Canada	71.3	4
Netherlan ds	70.7	5
United Kingdom	70.2	6
Australia	68.7	7
Denmark	68.6	8
Singapore	68.2	9
Norway	67.1	10

Source: Economist Intelligence Unit

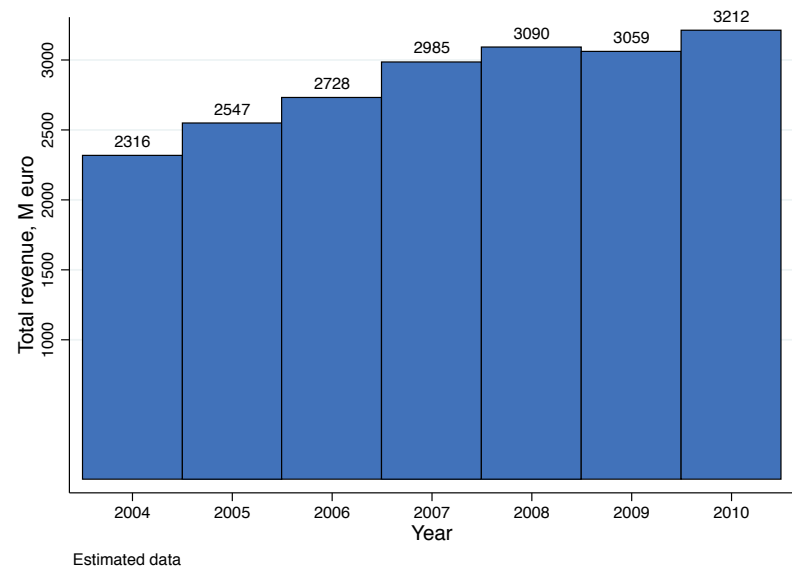
An industry dominated by SMEs by number and large firms by volume



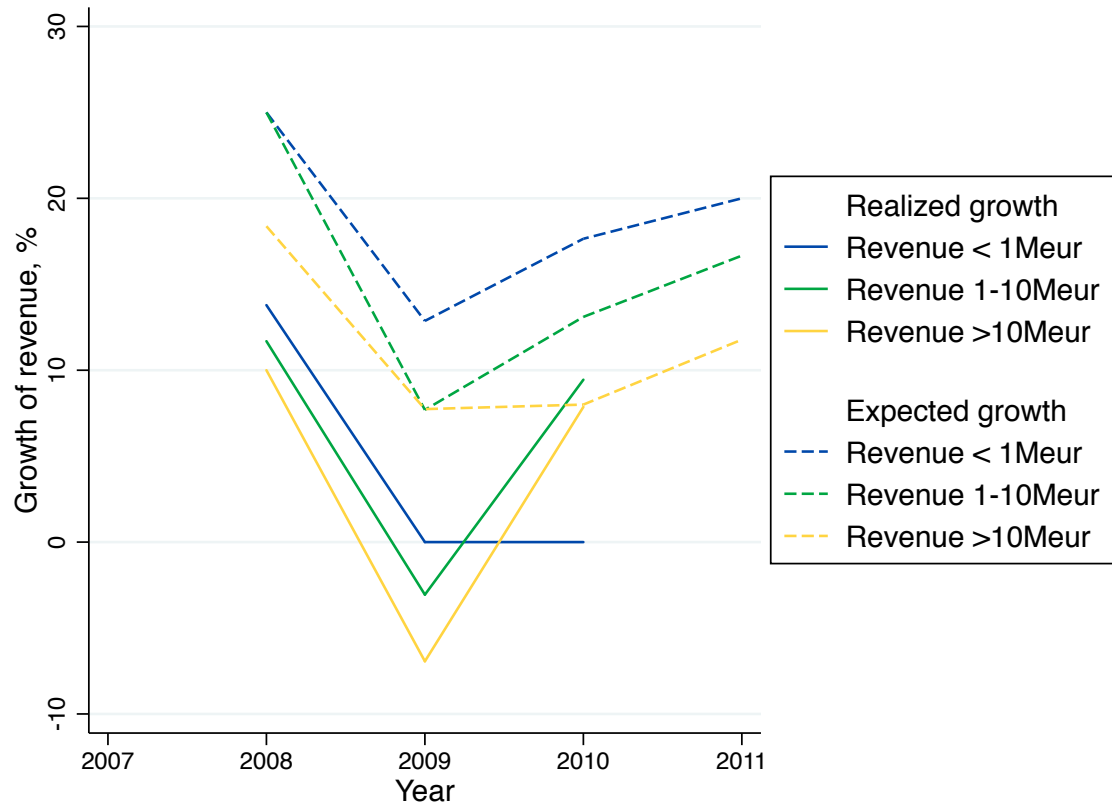
Structure of the Finnish Software and IT Service industry in 2007 based on employee size classes Source: Eurostat

We estimate that the industry grew 5% in 2010

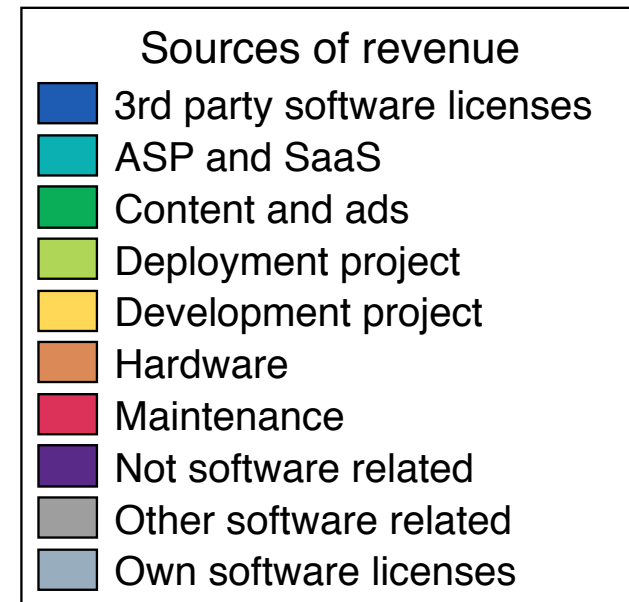
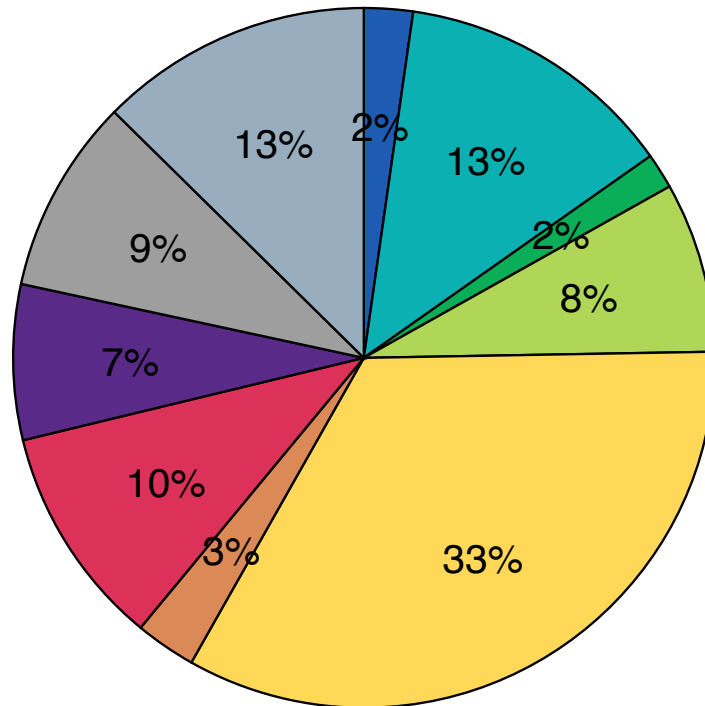
- Amount of software revenue and service revenue directly related to software is estimated to be 3.2B euro
- 2010 was a year of recovery from the recession
- Industry level growth in 2011 difficult to predict because of Nokia
 - Nokia will increase outsourcing of Symbian development with the Accenture deal
 - Current subcontractors will lose some of their business



Firm level growth and growth expectations back on normal levels



Sources of revenue remain stable

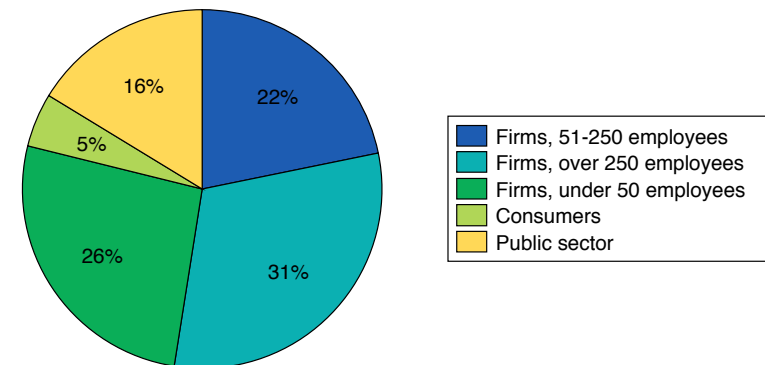


N=491

Finnish software industry is predominantly B2B business

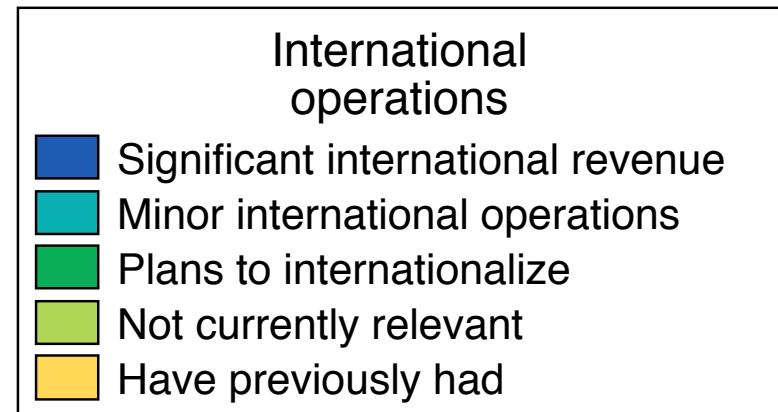
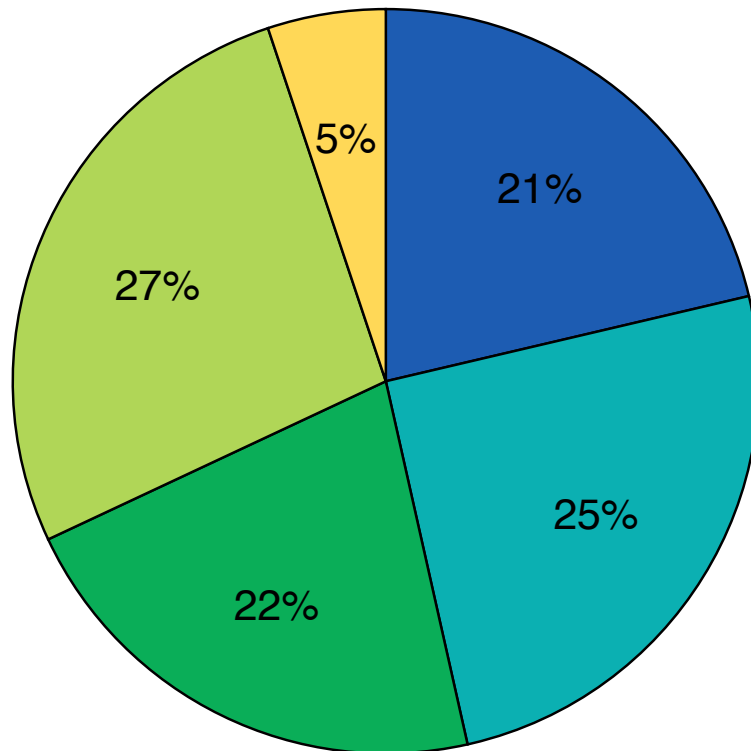
- Mainly B2B business
 - Information systems software
 - Development and deployment services
 - Professional applications
- Some notable consumer businesses
 - Computer games
 - Data security products

Typical customers



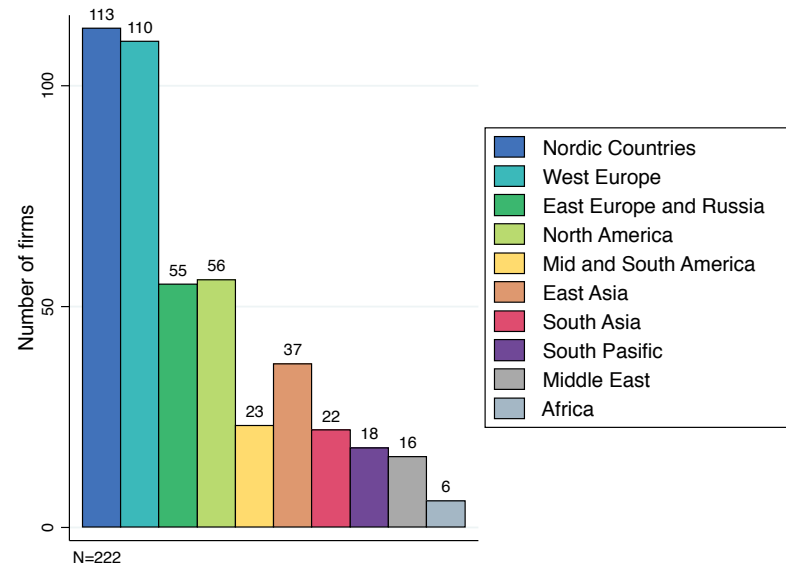
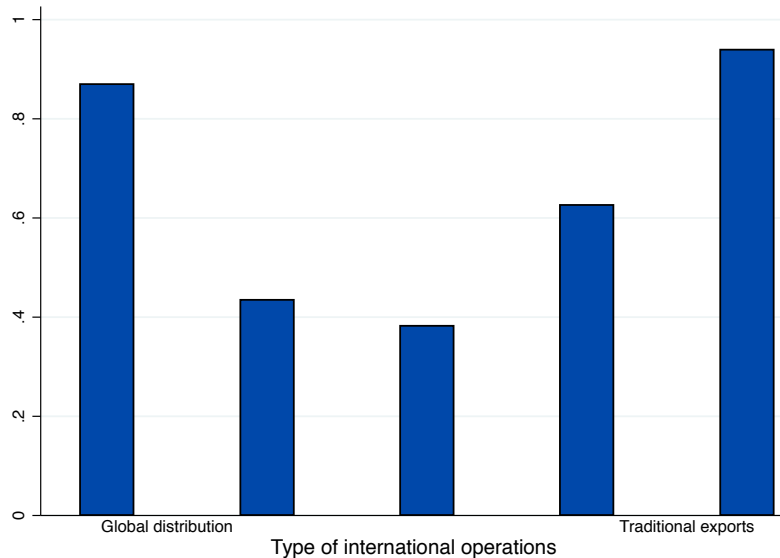
N=481

More than third of the companies have international revenue



N=469

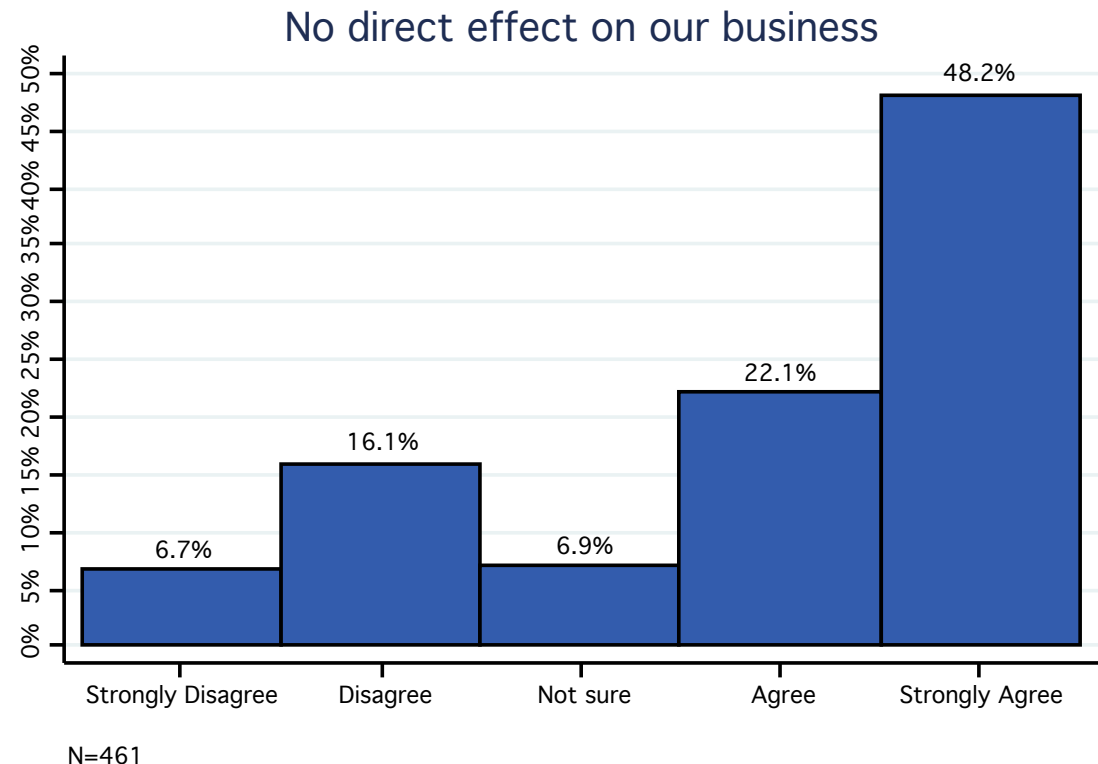
The industry is half and half global business and traditional exports



The effects of Nokia's change of software strategy

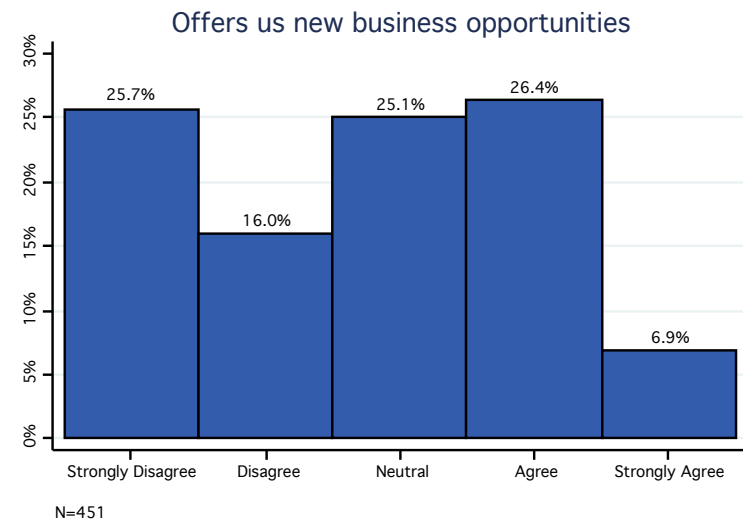
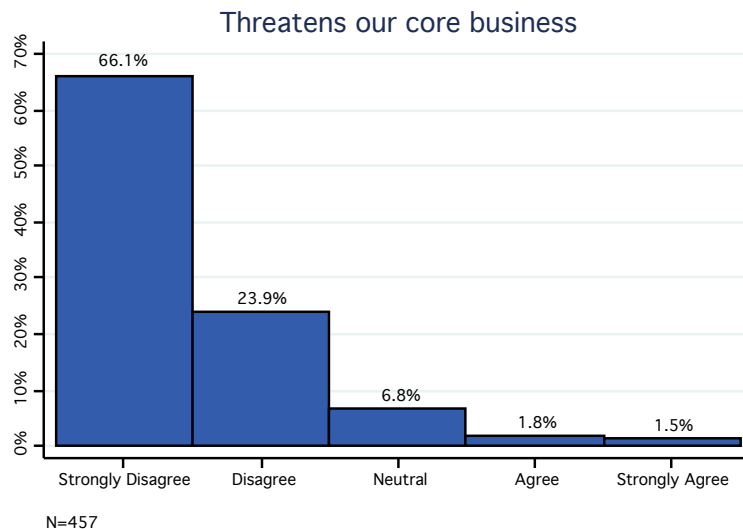
Perceptions about the impact of Nokia's new platform strategy

- Less than one in four (22,8%) expect some direct effect on their business
- However, Nokia's situation does not seem to affect the clear majority of firms



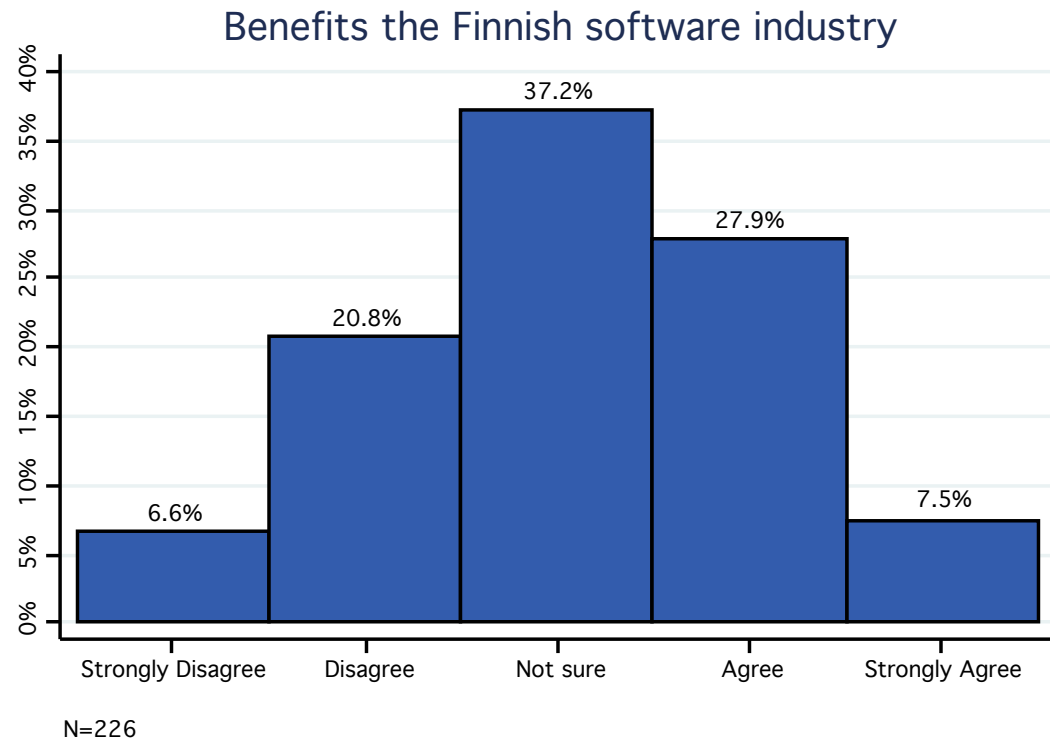
Perceptions about the impact of Nokia's new platform strategy

- Even fewer see that the viability of their core business is threatened (3,3%)
- A third see that the situation creates new business opportunities



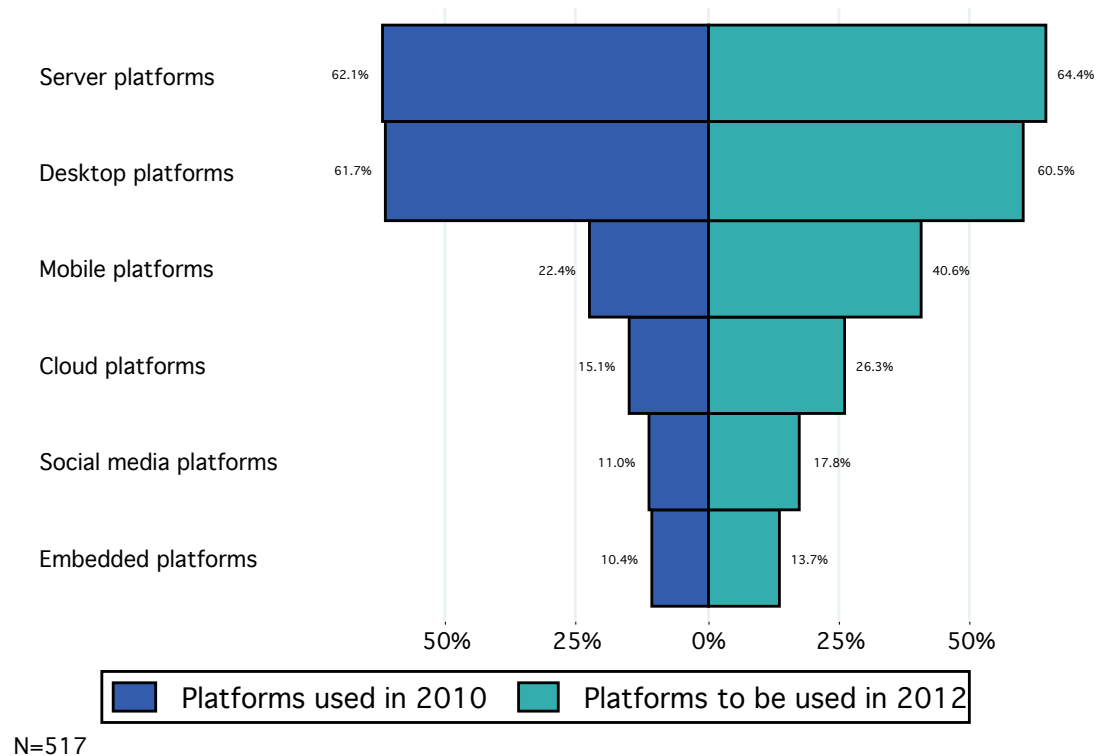
Perceptions about the impact of Nokia's new platform strategy

- A majority find Nokia's strategy change to be beneficial to the Finnish software industry (35.1% vs. 26.4%)
- However most firms (38.6%) expect no change



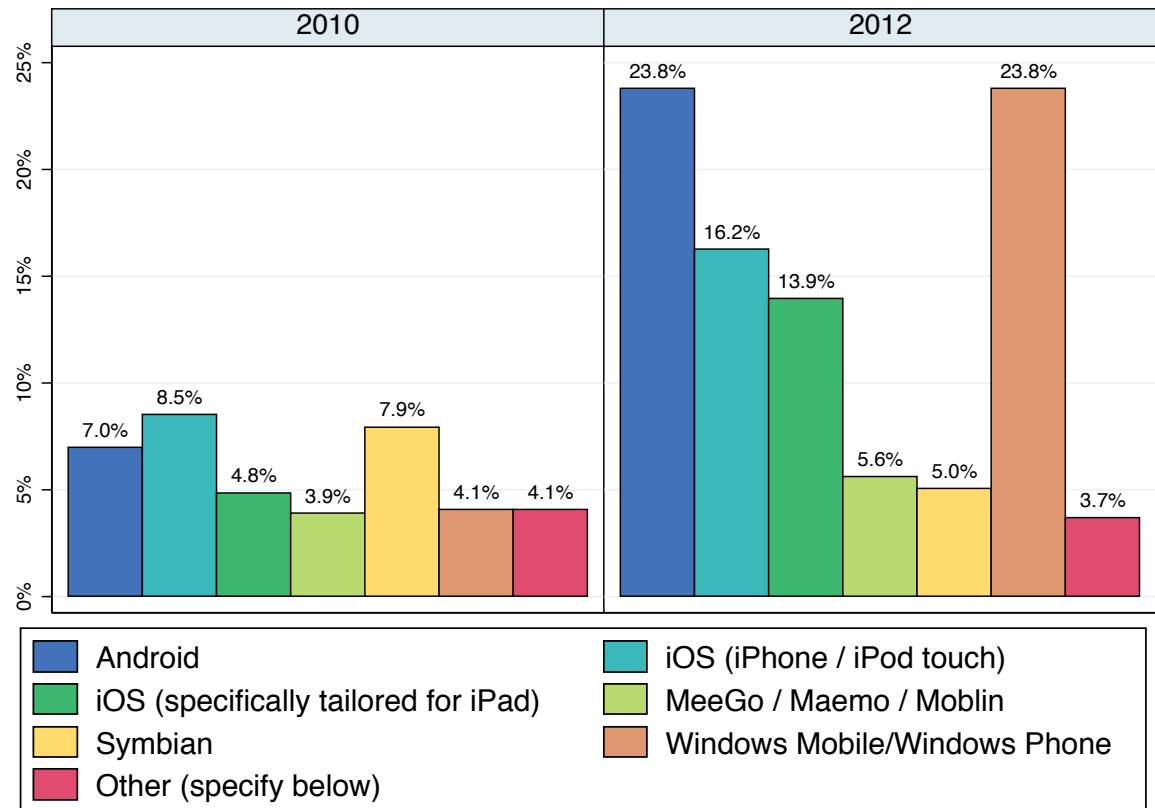
Platforms for which companies developed software for in 2010 and plans for 2012

- Server and desktop platforms have high and steady shares
- The industry is becoming more “mobile” despite Nokia’s hardship:
 - About twice as many companies will develop for mobile platforms by 2012
- Cloud and social media are growing fast but remain at smaller shares



Platforms for which companies developed software for in 2010 and plans for 2012

- Android development to surpass iOS development
- Windows Phone development will be as common as Android development
- Windows Phone will be the largest gainer

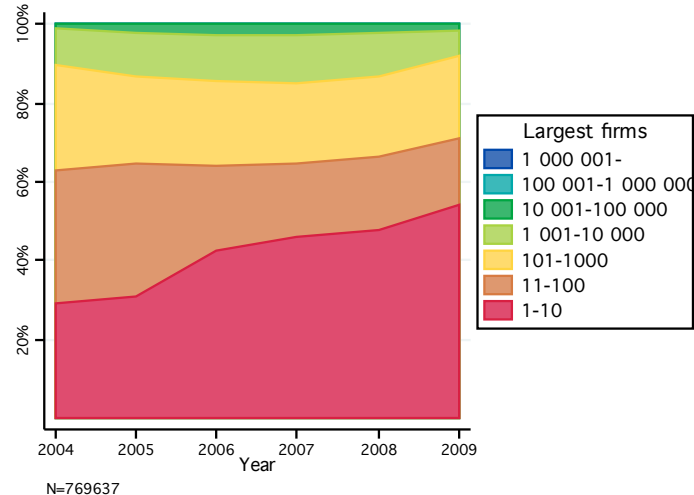
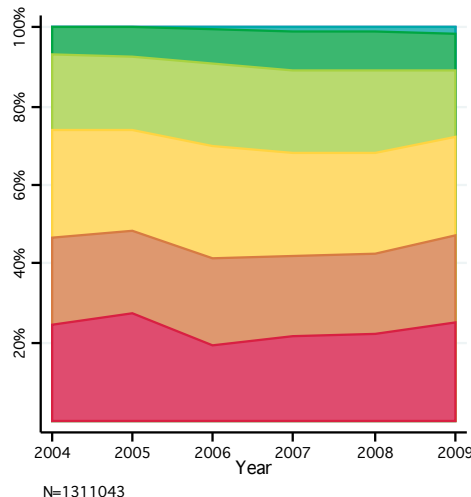


Consolidation and acquisitions

Industry Consolidation

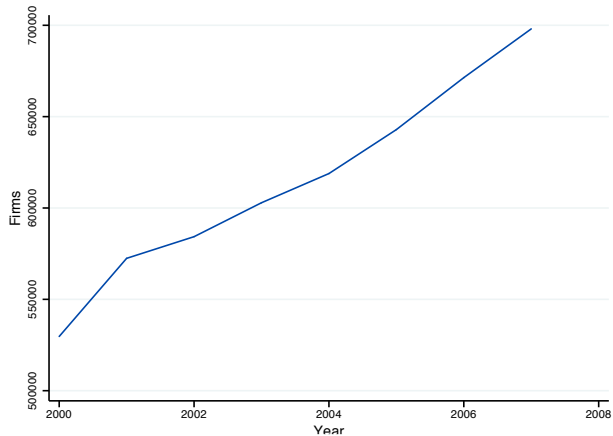
Revenue and Profit distribution

- Revenue distribution has little variation
- Profits have been increasingly accumulating for the largest companies

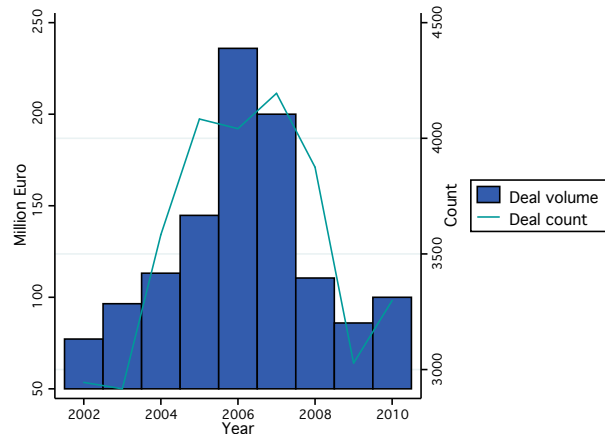


Industry Consolidation

Number of companies and M&A deals

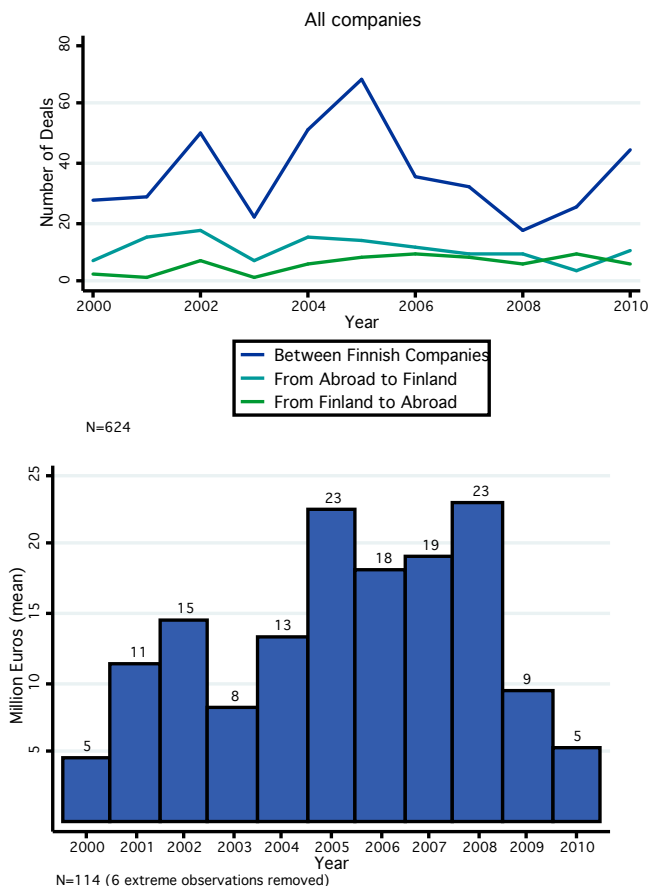


- Number of companies increase steadily
- Deal count and volume has dropped due to recession
- No sign of accelerated consolidation, or “shakeout”



Industry Consolidation

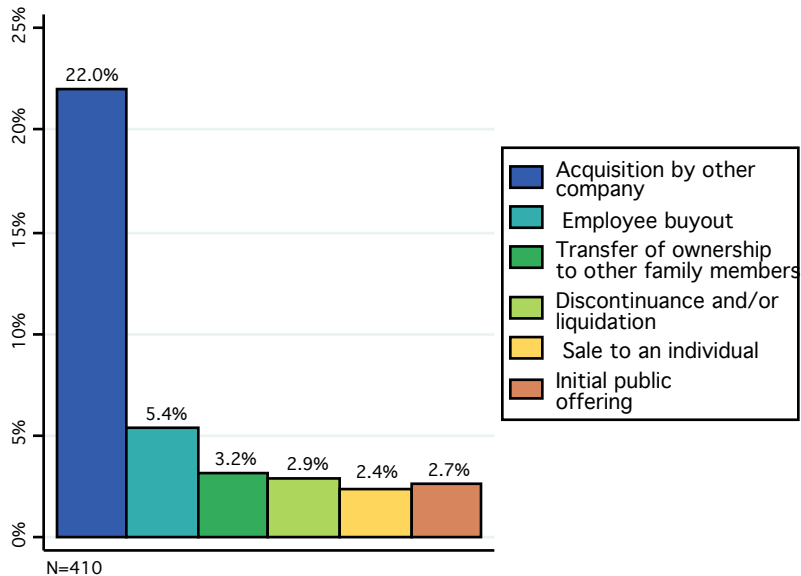
Number and Value of Deals in Finland



- Number of domestic deals peaked in 2005, declined towards 2008
- A rise in number of deals after recession (+45% from 2009-2010)
- Mean value of deals has not recovered after recession
 - Some missing data for the last two years, but the trend is clear

Exiting the Finnish Software Industry

Potential Exit Avenues



- 22 % of surveyed companies would choose trade sale as exit avenue
- Other avenues rated very low
- The same pattern applies for every age class
 - Even mature companies will not choose IPO

Exiting the Finnish Software Industry

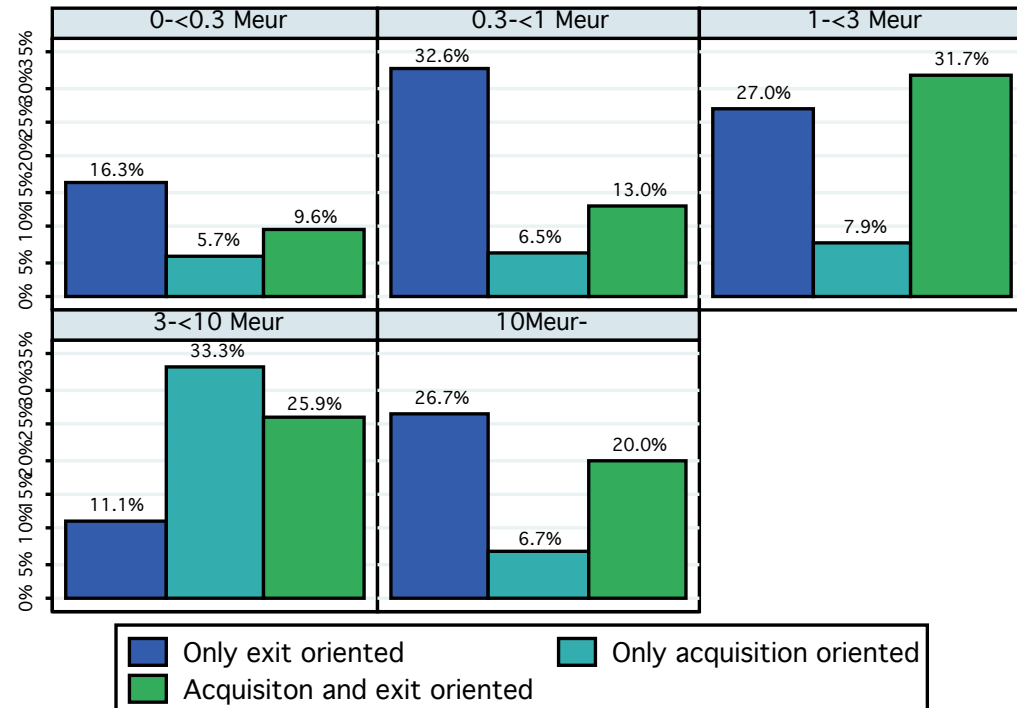
Who is willing to sell or buy?

Willing to sell:

Those willing to grow, but who have trouble finding external financing

Willing to buy:

Those willing to grow, with good revenue



Conclusions

Conclusions

- Finnish software industry is growing again after the recession
 - 5% growth
 - Profitability returned to almost pre-recession levels
- The views about Nokia's strategy change are more positive than negative
 - Most firms think that Nokia's strategy change has little effect on their business and welcome former Nokia employees
- Consolidation of the industry is proceeding steadily
 - Exit opportunities for entrepreneurs
 - Challenge for the Finnish Industry

Contact information

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