SOFTWARE DESIGN & APP DEVELOPMENT FORENSIC REPORT

A guide to running a business in the **Software Design & App Development** sector.

The Creative Industries Innovation Centre (CIIC) supports the business of creative enterprise.

The CIIC is part of the Australian Government's Enterprise Connect program, and is supported by the University of Technology, Sydney.

This Forensic Report summarises the insights drawn from our interactions with this sector.

Overall, the CIIC has worked with more than 1000 creative enterprises (2009-2013).

Talking point

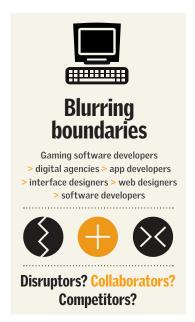
Software design businesses and app developers are fighting for market share – often competing against one another. Is there room for both? Software design businesses face an uncertain future as an influx of app developers enters the market. As the popularity of apps grows, demand for traditional software products wanes.

Software designers are now competing with digital agencies, games developers, business consultants, service companies and even digital behemoths like Google and Microsoft, which are all investing more in software and app development.

Is there room in the market for all these companies, or will some businesses fall by the wayside?

Each group must address specific challenges. Gaming companies are strong in user experience design, but weaker in business modeling. Software designers are equipped with the strongest programming skills, but lack the flexibility of start-up app developers. Digital agencies are developing apps on a fee-for-service basis for corporate clients, yet lack the back-end coding capability of software design firms.

As this Forensic Report reveals, businesses that



are too focused on software and app development
– at the expense of devising a mid to long-term
business strategy – are least likely to win the battle
for market share.

Pressure points

Challenges specifically impacting software design and app businesses:

Computer System Design Services

\$44.2bn
Revenue in 2013/14

\$23bn

47.612

Value-add contribution to the Australian economy (Source IBIS World)

Australian businesses, of which 93% turnover less than \$1m (Source ABS 8165.0 Counts of Australian Businesses June 2011)

Over the coming five years IBISWorld expects industry revenue to grow by an annualised 2.8% to be worth \$50.8 billion in 2018-19.

Fewer barriers to entry

The software industry has been blown open by new online distribution channels, leading to a more fragmented and competitive landscape.

Structural change

Apps, cloud computing and emerging trends like 3D printing are enabling new revenue models, such as Software-as-a-Service (SaaS), which replaces one-off lump payments with ongoing licensing fees.

User experience design

Software designers often focus less on user experience design than games developers and digital agencies, which makes it difficult to compete with the usability and functionality of their products.

Unscalable business models

Many software designers constantly reinvent the wheel at the end of each product cycle, creating products for individual clients from scratch, which

keeps development costs high. Productising IP – or creating scalable products – is a key challenge.

Poor business modelling

Many app developers struggle to select the most suitable business model/s for their product or service offering. Freemium or advertising supported are the models of the day, but new models will continue to evolve. Shifting from one revenue model to another can be complicated; balancing a model's revenue benefits with your clients' appetite for change is a key challenge.

Software integration

Software integration is an opportunity for businesses with heavy back-end coding capabilities, and a challenge for app developers that do not.

Shortage of 'soft' skills

Fierce competition in the marketplace demands stronger sales, customer service, e-commerce, PR and communications skills.



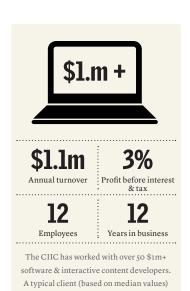




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Steps towards sustainable growth

The CIIC has identified the following steps to help software designers and app developers exploit market opportunities and achieve sustainable growth:



has an annual turnover of \$1.5m, with profit

before interest and tax of 3%. It employs 12

people and has been in operation for 12 years.

Step 1

Write a business strategy

A good business strategy delivers clarity on corporate structure, customers, company vision, product pricing, strengths and weaknesses, and revenue targets. It must be revisited frequently to keep abreast of structural change.

Step 2

Choose the right business model

It is important to choose the right business model for your product or service. The CIIC uses the Business Model Canvas (developed by Alexander Osterwalder and Professor Yves Pigneur) to help companies adapt their business models in line with technological, structural and market change.

Sales, marketing & communications

Technical prowess will only take your business so far: a focused sales and marketing plan is vital for continued profit growth. Consider hiring a sales & marketing manager, or investing in 'soft' skills such as customer service or experience and PR.

Internal processes

Improve efficiency through Customer Relationship Management (CRM), project management and financial management software and processes. Assess the temptation to develop these systems in-house; internal projects can be difficult to manage alongside revenue generating work, and integration between systems and usability is critical. Off-the-shelf systems or engaging an external developer may be a better option.

Step 5

Human resources

Reduce staff turnover by introducing formal performance appraisals and professional development programs. Clearly delineate roles so that tasks don't fall through the cracks. Business leadership coaching can be invaluable.

Step 6

Form strategic alliances

If capital is lacking, alliances or mergers are a good alternative for filling gaps in product or service offerings, increasing margins, or expanding interstate, regionally or internationally. User experience design is a significant weakness amongst software design firms: partnering with other companies, such as gaming studios, is a good way of plugging gaps in skills and capabilities

Diversify or segment into niche markets

Up-sell or cross-sell additional products and services to existing clients and 'vertical' industries. Servicing niche markets (such as education & training; sustainability; resources & mining; government; aged care & health) can also increase profit margins.

Summary

Many business owners in the software design and app development sector are heavily involved in their business, but fail to take enough time to work on their business

Traditional software businesses have enjoyed great success over the past two decades, whereas app developers have begun to proliferate over the past two or three years.

Both groups must keep pace with rapid changes in the digital environment by balancing product development with other aspects of business management. Poor choice of business models, a lack of business planning, and a lack of clarity on corporate structure will otherwise lead to a decline in competitiveness and profits, and even business failure.

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