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 Entrepreneurs' Infrastructure Programme, 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 1,500 creative enterprises (2009-2014).

Talking point

With fewer barriers to entry, software design and app developers face stiff competition. Are overnight success stories a thing of the past?

The software industry has been blown open by online distribution channels, leading to a more fragmented landscape.
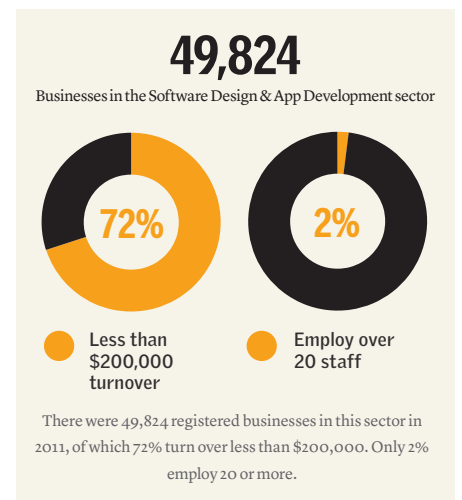
Overnight success stories are increasingly rare. Most software developers spend years developing new wares and launch several releases before a "hit" lands.

Software designers and app developers are now competing with digital agencies, games developers, business consultants, service companies and even digital behemoths like Google and Microsoft.

Success depends on designing software and apps that meet the needs of end users.

Software designers and app developers can therefore benefit from aligning with gaming companies, which are strong in user experience design but weaker in business modeling; or digital agencies, which understand end users 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 build sustainable businesses.

49,824
Businesses in the Software Design & App Development sector

72%

2%

Less than $200,000 turnover

Employ over 20 staff

There were 49,824 registered businesses in this sector in 2011, of which 72% turn over less than $200,000. Only 2% employ 20 or more.

Valuing Australia's Creative Industries 2013, CIIC

Pressure points

Challenges specifically impacting software design and app businesses:

$1,411

Average weekly earnings of specialist creatives working within Software Development and Interactive Content

$1,552

Average weekly earnings of Software Development and Interactive Content professionals embedded within non-creative industries

Valuing Australia's Creative Industries 2013, CIIC

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; offshoring is another important consideration.

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. The ubiquitous growth of mobile platforms means apps must be part of your offering.

User experience design
Software designers tend to be less skilled in 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.
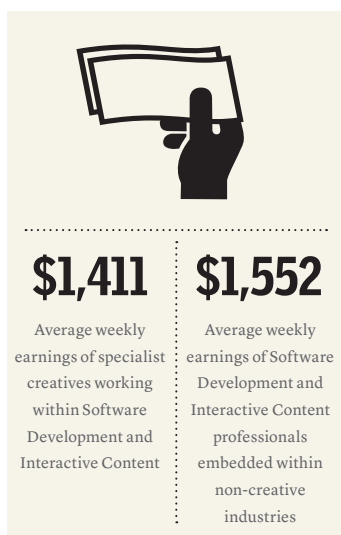
Software integration
Software integration is an opportunity for businesses with heavy back-end coding capabilities, and a challenge for app developers that do not.

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:

Software Design & App Development

$1.52m
Annual turnover

4.06%
Profit before interest & tax

12
Employees

14
Years in business

A typical CIIC client in the Software Design & App Development sector has an annual turnover of $1.52m, with profit before interest & tax of 4.06%. It employs 12 people and has been in business for 14 years. The insights highlighted in this Forensic Report reflect the challenges and opportunities faced by businesses of this size.

Step 1
Choose the right business model
It is important to choose the right business model for your product or service. This model should also address the challenges of globalisation: it may be cheaper to develop aspects of your software or app overseas; however this may not result in a better product. 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.

Step 2
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. It is important to understand channels to market: what is the best way to achieve growth in a cost-effective way?

Step 3
Build it, but they will only come if you understand end users
Understanding the needs of end users means designing software and apps that solve specific problems (as opposed to designing a solution that's looking for a problem). If you don't understand the needs of end users, partner with an agency or gaming studio that does. Strategic alliances or joint ventures are also a good alternative for filling gaps in product or service offerings, increasing margins, or expanding interstate, regionally or internationally.

Step 4
Deliver utility and warranty
When pitching for large contracts, many software and app developers articulate the utility of their products, but fail to provide a plan for ongoing support services. How will your application or software be supported long-term? What level of IT Service Management will you provide? What are your incident management and reporting processes? If you don't demonstrate an awareness of product lifecycles, you risk being blown out of the water by more savvy competitors.

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
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.

Step 7
Be niche, but not myopic
Recognise the interchangability of content for platforms and think outside the industry you may have boxed yourself into. The platform or app you're developing may be helpful to a range of industries. Instead of reinventing the wheel every time you embark on developing a new product, look at ways of re-skinning or adapting what you've already built.

Summary

This Forensic Report reflects the CIIC's work with over 1,500 creative enterprises in Australia. To register for a free Biztro session or an Entrepreneurs' Infrastructure Programme Business Evaluation, visit www.creativeinnovation.net.au

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.

It is important to anticipate what success might entail to ensure your back-end and IT support services are robust enough to cope with high demand. Offering a high level of IT service management can represent a fundamental point of difference, while having sound financial management processes in place can mean the difference between success and failure.

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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