Scottish Technology Industry Survey 2010

Global outlook for Scotland's technology companies

ScotlandIS

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ScotlandIS and 9-20 recruitment would like to thank all those companies and organisations who took part in the Scottish Technology Industry Survey at the beginning of 2010. Over one third more companies responded to the survey than in 2009, underlining the value the industry sees in the survey results.

2009 – A year of mixed fortunes

The survey reflects last year's results, as well as the outlook for 2010. There is no doubt that 2009 provided a complex trading environment for the Scottish software, telecoms and IT services industry. However most businesses appear to have survived the worst of the recession and are looking forward to 2010.

The 2009 results highlight a range of performance across the industry; some firms undoubtedly had a difficult year, with 12% reporting a significant drop in actual sales results against forecast. However, a third of businesses achieved sales close to forecast and a further third reported underlying growth. Most businesses appear to have moved quickly to contain costs as the depth of the recession became apparent. Significantly, profitability was maintained or increased by 66% of our sample.

To understand the makeup of the industry in greater depth the survey included a number of new questions this year. Firstly, we asked those companies developing software products to highlight this with a new "product development" category in the types of business section, and we asked service companies to indicate whether they too are involved in product development. The survey also asked respondents to indicate turnover levels.

Interestingly, companies reported increasing levels of exports both in terms of volume and international markets addressed. The "rest of the UK" continues to be the single biggest "export market" but the steady upward trend evidenced in the survey results since 2007 indicates greater exploitation of overseas export opportunities

Optimism for 2010

Looking forward to the current year, the survey reflects considerable confidence. Overall, just over two thirds of respondents anticipate growth, with a quarter expecting to grow sales by up to 10% and a further quarter forecasting growth of between 11% and 20%; however some 10% anticipate a reduction in sales volumes.

Notwithstanding the growth forecasts, the survey's optimism "barometer" suggests that businesses are only too aware of the fragile nature of the recovery, and this is underlined by the recruitment forecasts which although much better than last year are not yet back to pre credit crunch levels.

Polly Purvis
Executive Director

ScotlandIS

Employment and Skills Commentary

We can certainly see now that the optimism which prompted the increase in activity and demand in the ICT market during the latter half of 2009 is continuing into 2010. The sector is getting back to its usual vibrant self and its clear those in the industry are feeling much more positive and enthused about the upcoming year which is a refreshing change from 2009.

Where should you be focusing your commercial efforts?

Perhaps unsurprisingly, with the extremely tough year seen by the financial services sector in 2009 respondents see this area as one of those most likely to make serious headway in 2010. For the third year in a row energy & utilities was also pinpointed as one to look out for with the public sector perhaps worryingly in the current circumstances once again identified as the most relied upon market among participants. Overall the outlook has been very encouraging though with almost five times more respondents predicting an increase in the demand for technology in the various markets than those expecting a decrease.

Another very positive sign has been the increase in exporting and overseas expansion seen within the sector. These figures are continuing to demonstrate a gradual increase year on year which is great to see as it shows the industry is slowly moving away from a total reliance on the domestic market.

New influences driving the skillset demand

Perhaps the most surprising finding from this year's survey was the sudden increase in the demand for staff with a fusion of both marketing and technology skills.

This subject has been bubbling under the surface for quite some time but it seems the events of last year have accelerated the demand for these types of candidates. Many companies have been forced to stand back and look for more effective ways of operating and with the cheaper cost of implementing Web 2.0 functionality this appears to have been the major focus of the majority.

The impact of this strategic change has also influenced the development of several other new role profiles. Candidates in fields such as web development are seeing their positions change slightly with many employers now looking for developers to be less 'product-centric' and more 'customer-centric'.

Application development skills such as Java and .Net with SQL backend continue to be highly sought after and the demand for these skills remained constant throughout the recession. However those candidates who have worked in an agile or scrum methodology will now have the edge over those familiar with the more traditional development environments.

And last but not least, it's great to see the demand is once again there for IT graduates. With 26% of companies responding predicting a substantial increase in graduate recruitment this could go some way to replenish Scotland's technology skill base; thereby creating the talent of tomorrow.

Wendy McDougall
Managing Director

Our Respondents

More Scottish technology leaders than ever before responded to the 2010 survey. Primarily completed by CEO's and Managing Directors across the industry each provided a variety of information about their businesses including the location of their company headquarters, company size, year of formation, sources of capital and their particular areas of expertise.
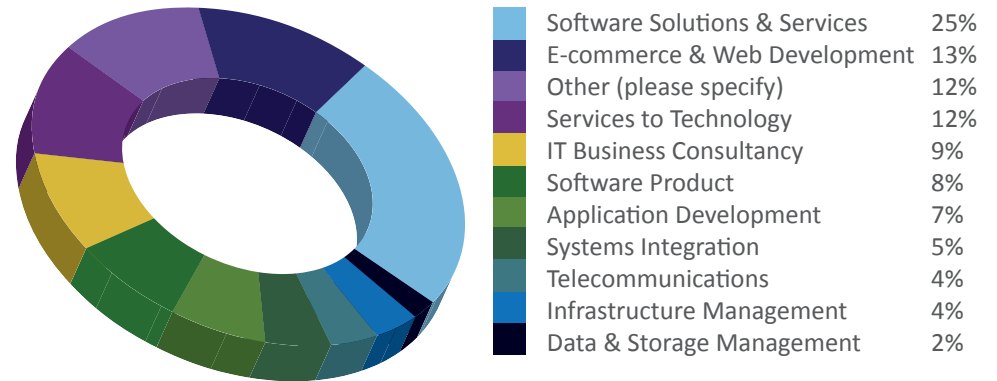
Further information regarding the development of software products was included this year to gain a better understanding of respondents and their specific business activities.

Primary Business Area

Separating the software telecomms and IT industry into subsectors is always challenging, as so many businesses undertake a broad range of activities. We therefore asked respondents to select the closest category.

The four largest categories are Software Solutions & Services (25%), E-commerce & Web Development (13%), IT Business Consultancy (9%) and Services to Technology (12%).

Software Solutions & Services	25%
E-commerce & Web Development	13%
Other (please specify)	12%
Services to Technology	12%
IT Business Consultancy	9%
Software Product	8%
Application Development	7%
Systems Integration	5%
Telecommunications	4%
Infrastructure Management	4%
Data & Storage Management	2%

Product Development

This year we asked those respondents who indicated their main business is software and IT services whether they are also involved in product development.

Just over 40% confirmed they do have products under development. The majority of these are primarily software solutions and services businesses, followed by application development businesses.

Software Solutions & Services	66%
Application Development	18%
Systems Integration	3%
IT Business Consultancy	3%
Other	10%

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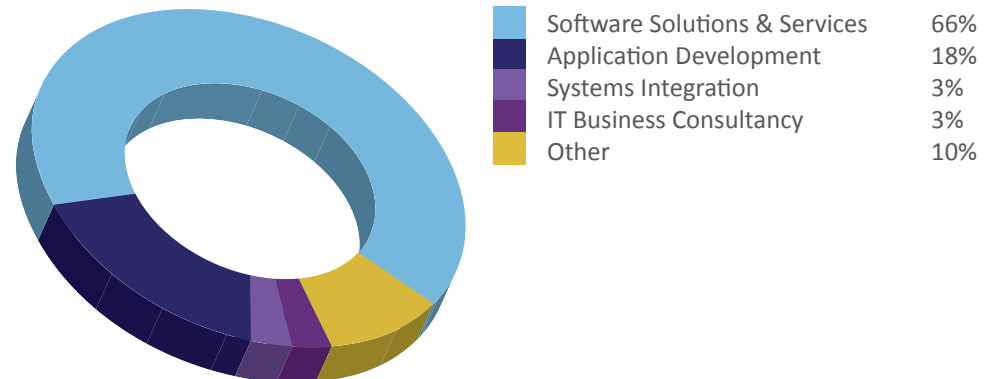
Company Size by Employment

Survey respondents are broadly representative of the wider industry, and reflect its shape as regards the distribution of employment.

Small and medium sized companies (SME's) form the vast majority of our respondents (72%), with just over half having less than 35 employees.

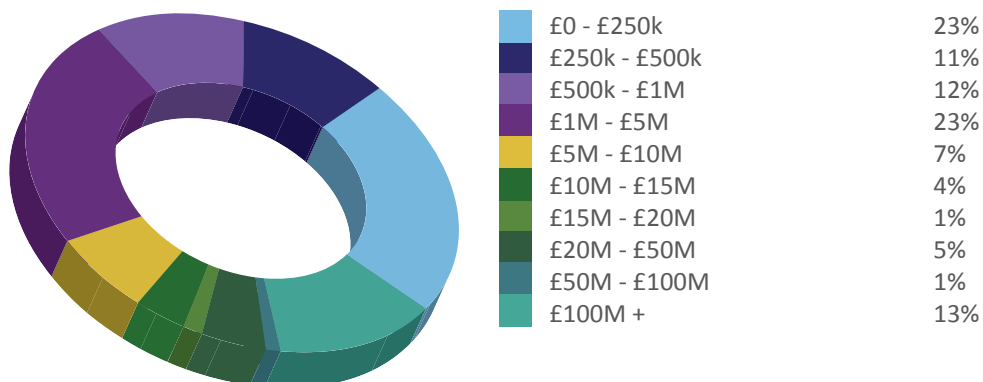Large and very large companies make up the remaining 28% of respondents.

1 - 10 employees	33%
11 - 35 employees	24%
36 - 65 employees	9%
66 - 200 employees	6%
200 - 500 employees	6%
500 - 1000 employees	4%
1000 + employees	18%
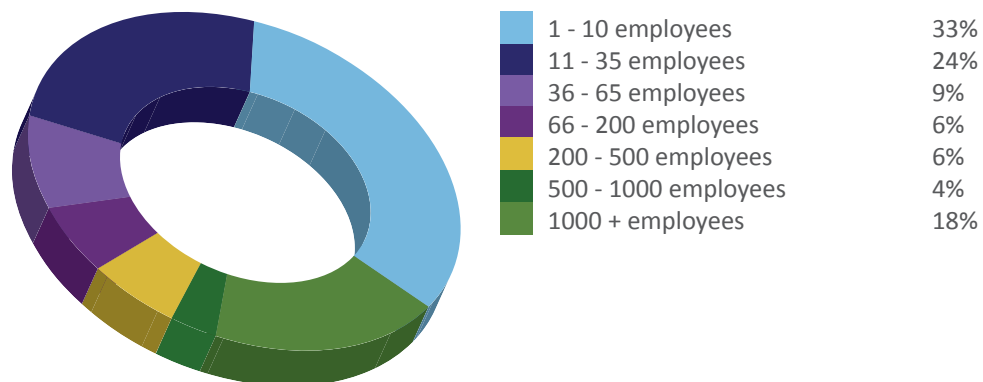
Company Size by Turnover

This year respondents were asked to indicate turnover levels.

The two biggest groupings are companies with turnover in the one to five million pound range, and those with turnover less than £250,000.

Businesses turning over less than £1m account for 46% of all respondents.

£0 - £250k	23%
£250k - £500k	11%
£500k - £1M	12%
£1M - £5M	23%
£5M - £10M	7%
£10M - £15M	4%
£15M - £20M	1%
£20M - £50M	5%
£50M - £100M	1%
£100M +	13%

Location of Company Headquarters

81% of this years respondents have their headquarters in Scotland with 69% located in the Central Belt. This reflects the distribution of the wider industry.

A detailed breakdown of respondents' company headquarters location is shown opposite:

Aberdeen & Grampian	7%
Ayrshire	0%
Borders, Dumfries & Galloway	2%
Edinburgh & Lothians	28%
Forth Valley	3%
Fife & Tayside	8%
Highlands & Islands	3%
Glasgow & Greater Glasgow	30%
UK outwith Scotland	13%
EU headquartered	2%
US headquartered	4%
Other	0%
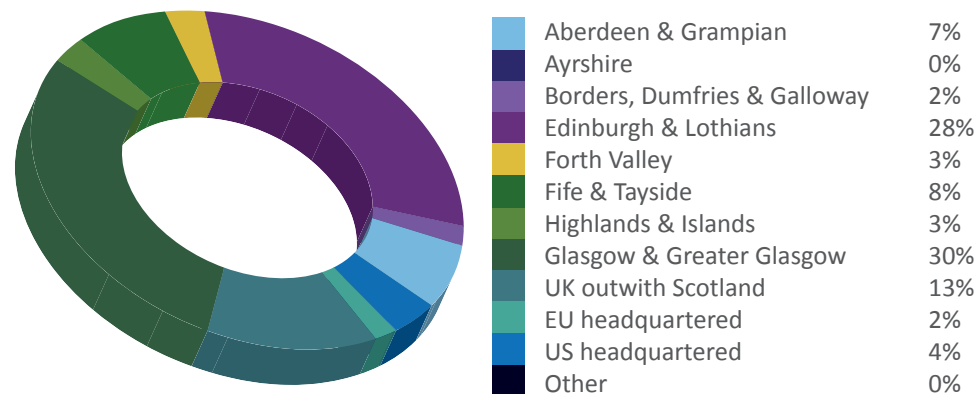
Year Company was Formed

A dynamic young industry, Scotland's ICT sector benefits from a high rate of start- ups.

Over 70% of our sample companies have been in business for less than 20 years, and 20% were formed in the last five years.

Two thirds of companies formed before 1983 are very large organisations.

Before 1983	18%
1983 - 1987	5%
1988 - 1994	16%
1995 - 1999	18%
2000 - 2001	14%
2002 - 2003	10%
2004 - 2005	9%
2006 - 2009	10%

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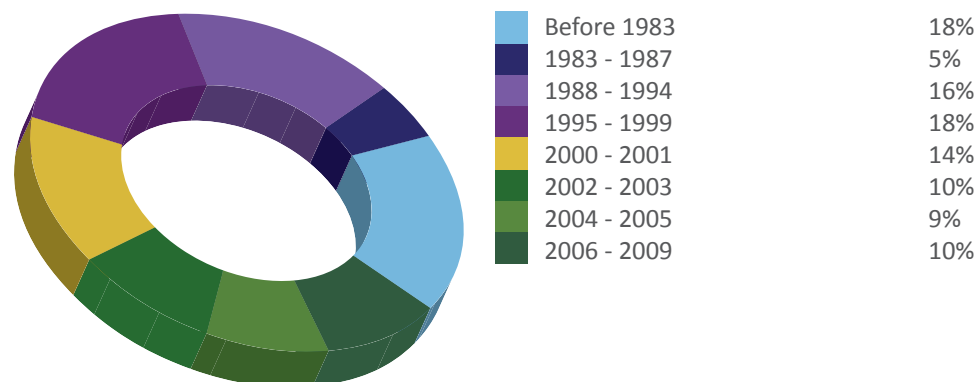
Respondents were asked how their businesses are funded. Over half are funded from founders capital, with the vast majority of these being smaller companies (under 65 employees).

In addition, 15% are funded by a mix of angel or VC funding. Product companies generally need external funding, as do those planning significant growth.

Chart: % of respondents by source of funding

- Founders capital & retained profits
- Mix of Business Angel/ Bank/Loan funding
- Mainly Venture Capital
- Unlisted PLC
- Quoted Company
- Alternative Investment market (AIM)
- Other

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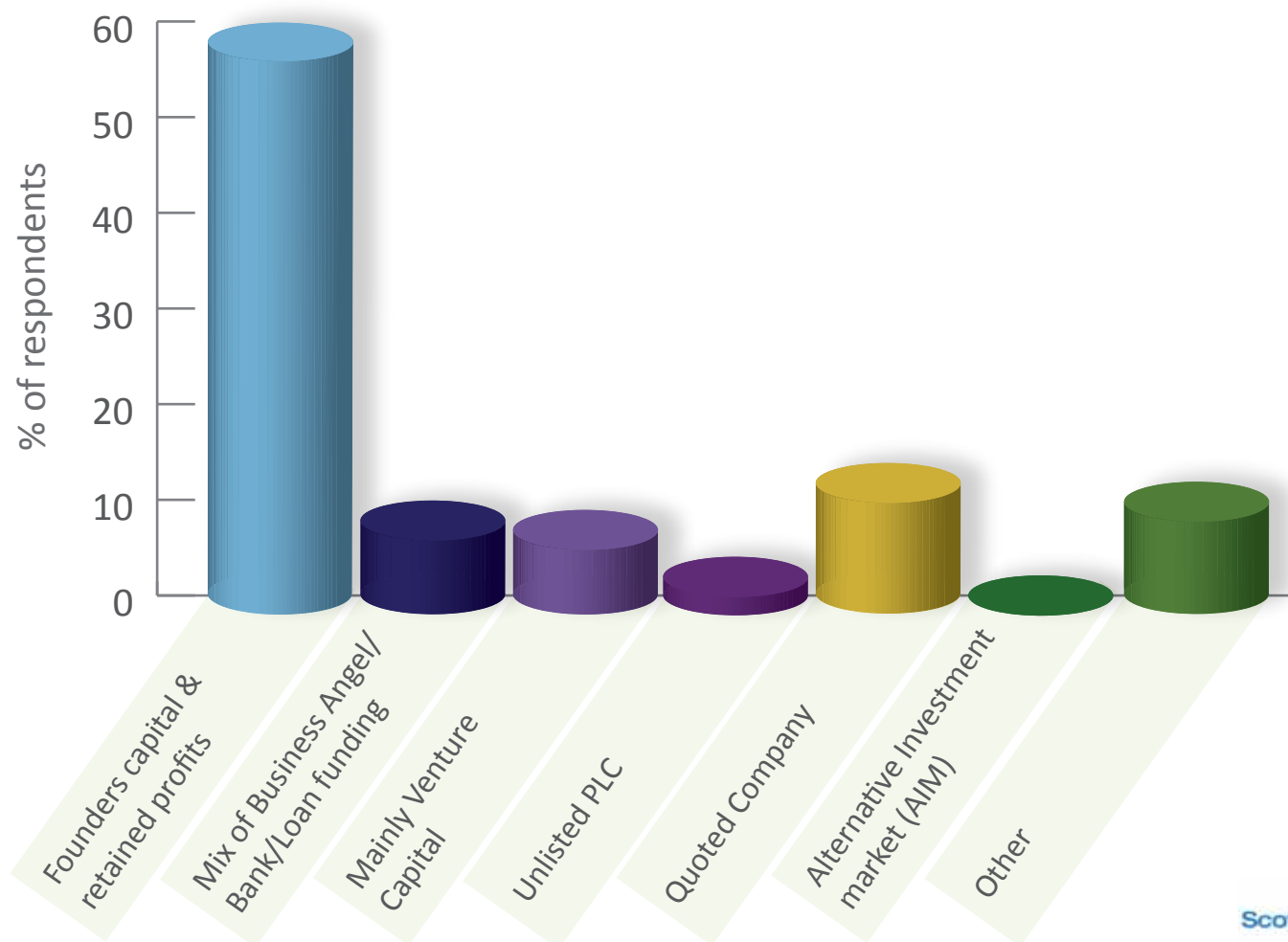
Flexibility is the key - agility and a willingness to find opportunities at every level and in every niche of your specialist area.

Cameron Leask   Escrivo Internet Consulting   Managing Director

Be bold! Our experience is there is business out there, you just need to be clear what the need is and make sure you deliver what solves the customer's problem.

Tommy Cook   Calnex Solutions Ltd   CEO

Reflections

on

2009

Notwithstanding the economic recession, last year's survey reflected cautious optimism at the beginning of 2009 with many businesses indicating confidence in their ability to maintain business volumes or generate modest growth. Energy, Professional Services and the Public Sector were all seen as markets offering increasing opportunity, with Financial Services and Construction expected to be particularly challenging.

This year's survey shows how accurate these predictions proved to be, with respondents reporting actual results against forecast, in terms of sales, profitability, and main markets.

2009 Sales Compared With 2008

Unsurprisingly 2009 was a year of varied fortunes for the industry. Whereas 2008 predominantly reflected continuing growth, 2009 results were much more mixed. Whilst 55% of respondents reported an increase in sales compared to 2008, 32% saw sales fall and 12.5% reported static sales.

Like last year's survey, growth was seen across the whole spectrum of company size but those reporting sales increases greater than 50% were predominantly smaller companies (under 65 employees).

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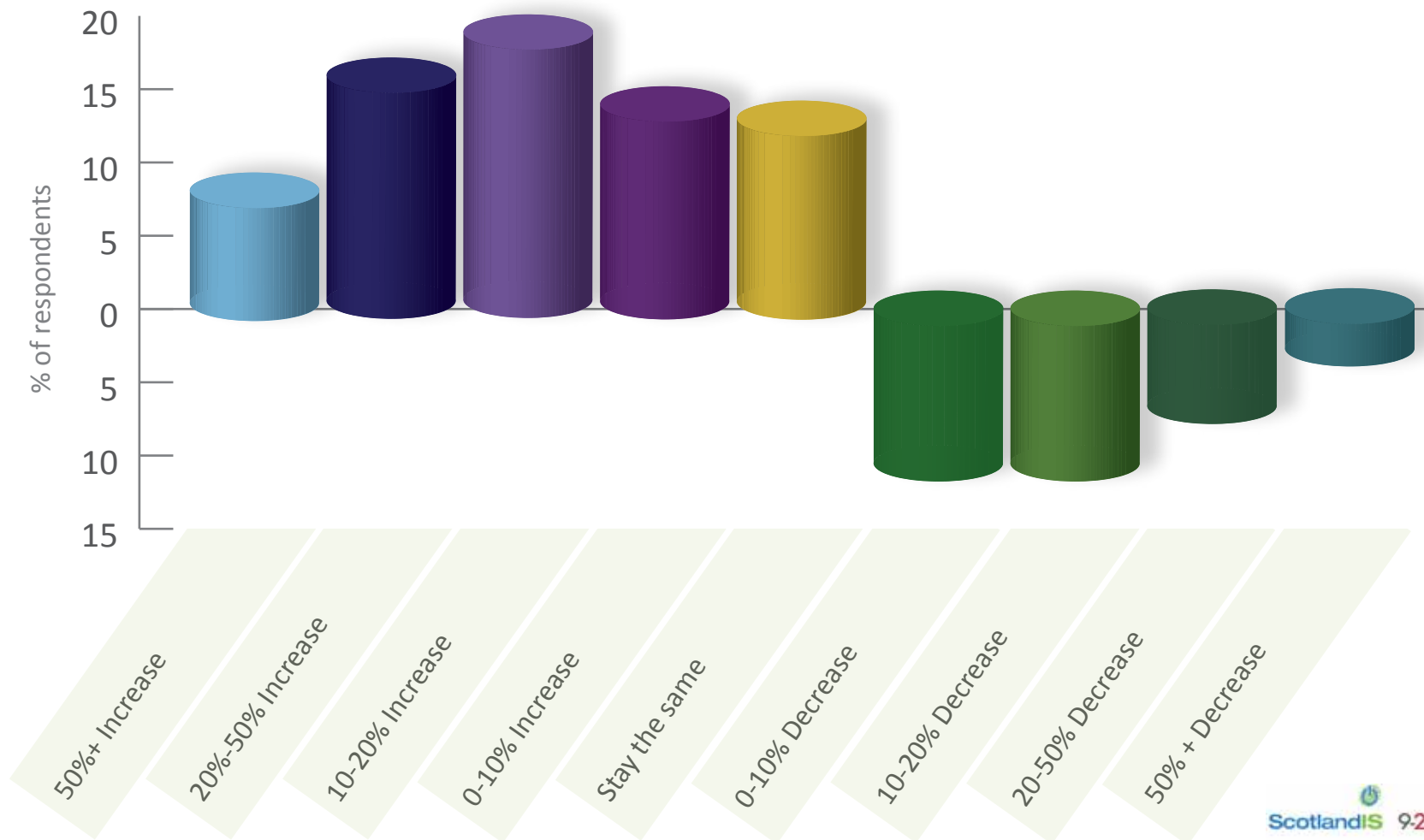
Actual Sales Compared to Forecast

Respondents were asked how their actual sales for 2009 turned out compared to their forecasts at the start of the year.

78% reported actuals close to budget, which includes 30% reporting their results were much the same as forecast, and 28% indicating sales were slightly less than they had planned.

One in five were at the extremes, reporting a significant difference from their original forecasts.
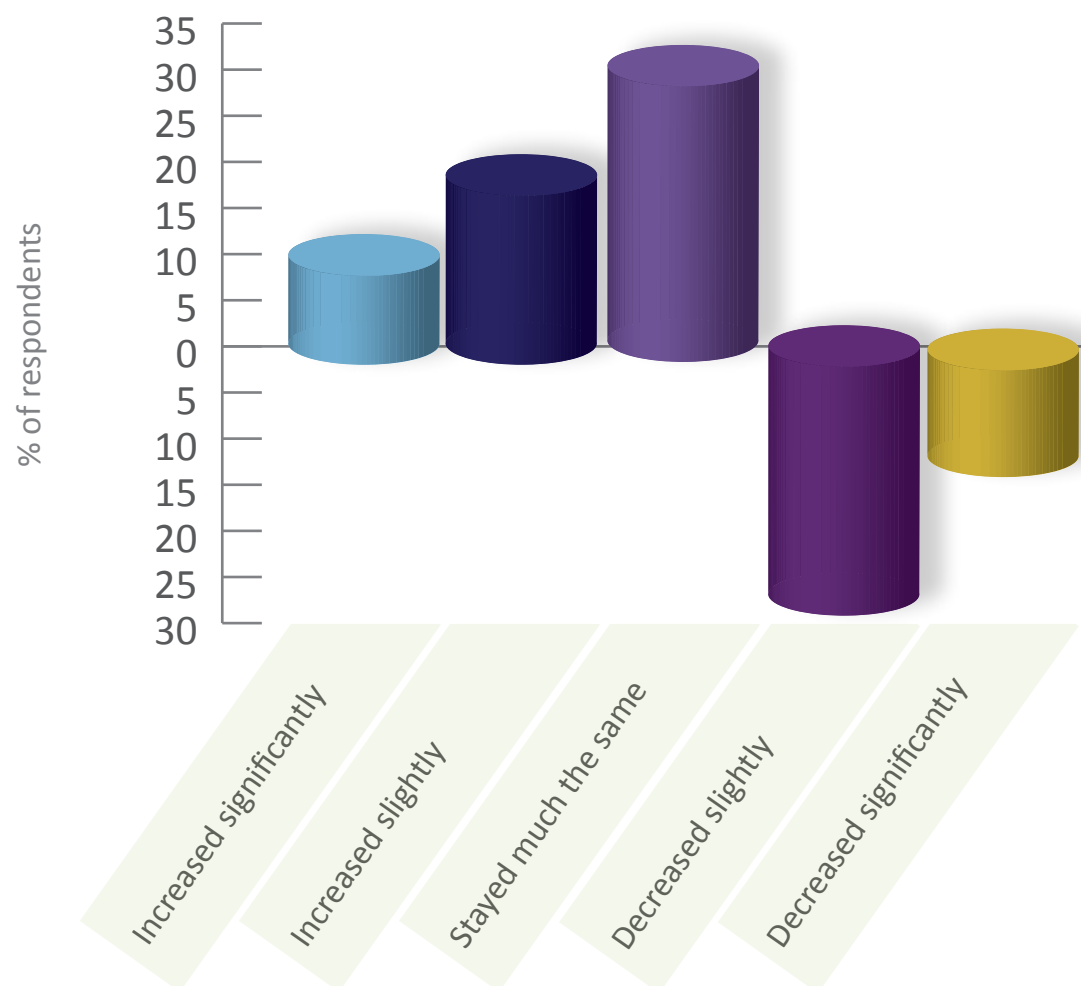
Profitability

Profit margins came under greater pressure in 2009 than 2008 with 41% of respondents reporting increased margins (68%) and 25% (13%) reporting that profit margins had been maintained.

Significantly the number reporting reduced margins increased from 14% to 34%.

These results seem independent of company size.
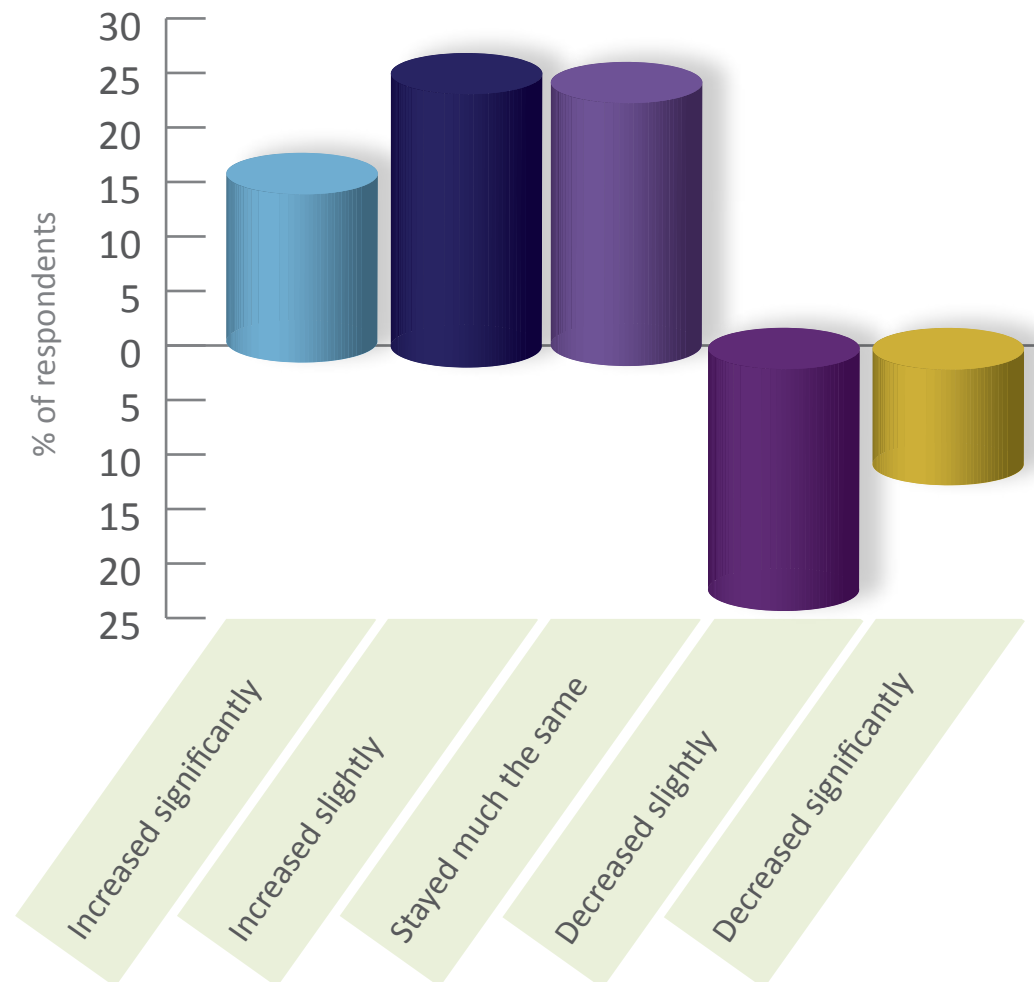
Geographic Markets

The Scottish ICT industry has traditionally serviced a wide range of geographic markets, but with a heavy reliance on the home markets in Scotland and the rest of the UK. However exports are increasing with a steady expansion into overseas markets as evidenced in the year on year increase over the last few years.

The graph below compares 2010 results with 2009, illustrating the increasing numbers of companies reporting exports.

Legend:
- 2009
- 2010

X-axis: Rest of the UK, Europe, America, Asia, Rest of the World
Y-axis: % of respondents (0–80)
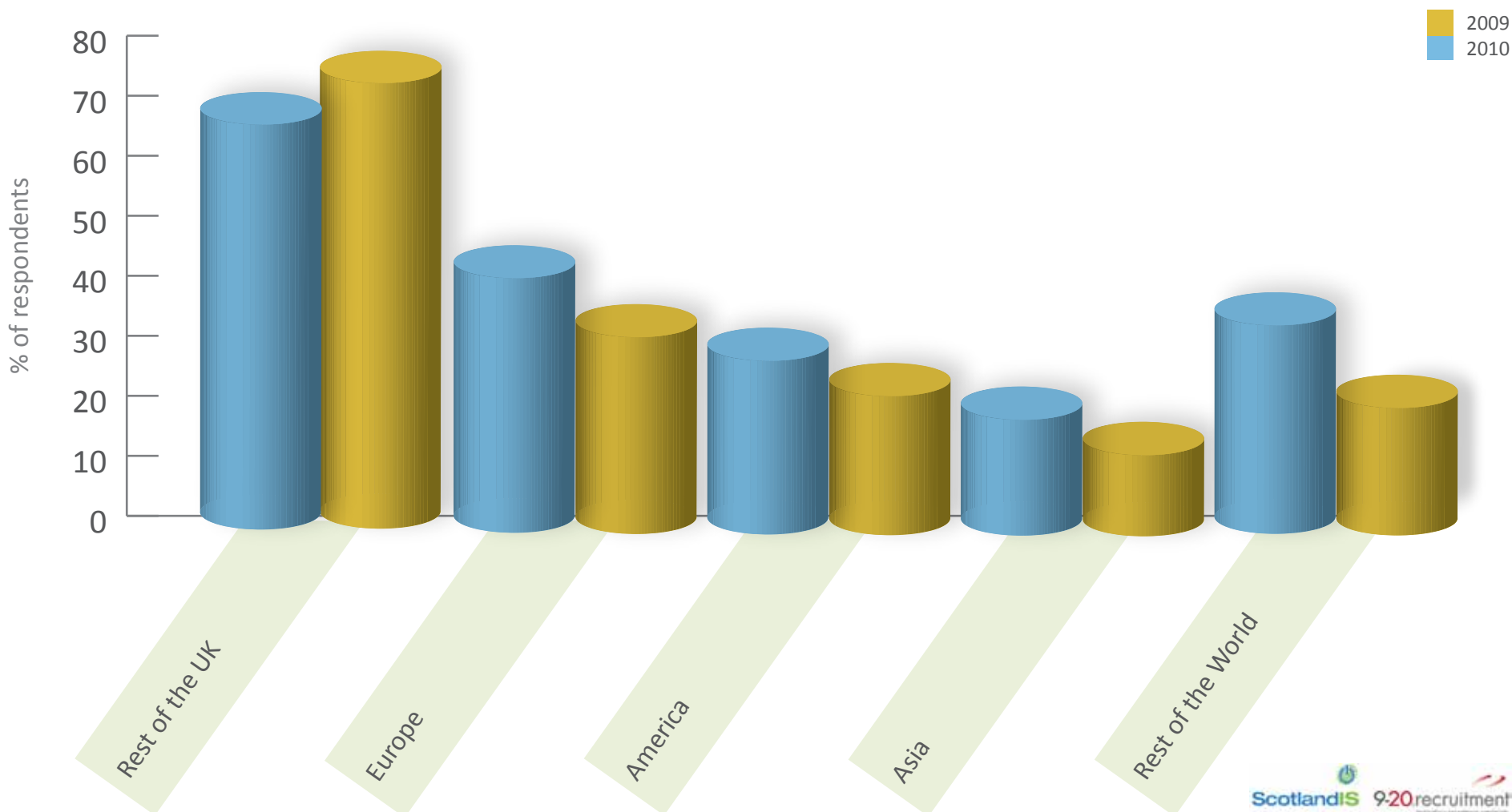
Geographic Markets

Almost 80% of respondents have some business in the rest of the UK - the first "export" market for many.

Europe is an increasingly important market for over one third of businesses and nearly 30% of respondents are now doing business in the United States, up from 25% in 2008.

The following graph shows the spread of geographic markets respondents supply.
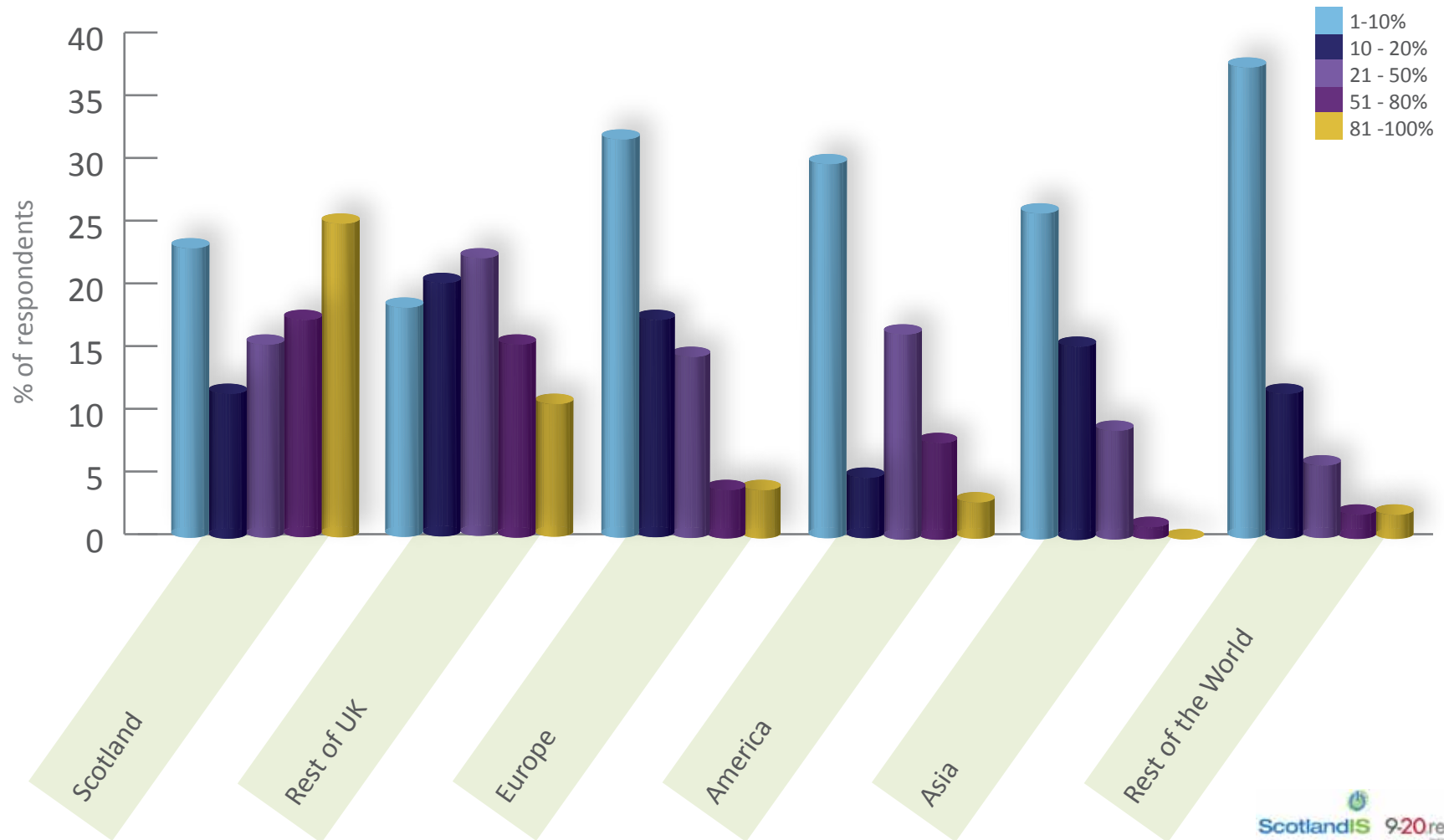
It's not all about the technology, it's all about having the right people.

David Carrick   Memex   CEO

For companies in the services industry, be more client focused then ever. Understand the challenges your clients are facing and react sympathetically. Relationships have always driven business but good relationships over the next 2 years will be more important than ever before.

Dave Kelly   SDLC Solutions   Director

Current Market
and
Financial Challenges

Set against the background of the worldwide collapse in financial markets, last year's survey asked respondents to indicate how this was affecting their businesses in terms of cashflow and access to finance.

To measure whether these factors had changed over the intervening twelve months the 2010 survey again sought respondents' views on these issues.

Cashflow

Last year, as the economy slowed respondents were asked how this was impacting cashflow. 2009 was a difficult year cash wise for some industries so this year's survey asked how cashflow compared to 2008.

The responses to this question are very much in line with the previous year, with the number of those reporting 'little change' and 'somewhat more difficult' remaining fairly steady. The 'substantially more difficult' category has eased and slightly more respondents report cash flow being 'substantially easier'.
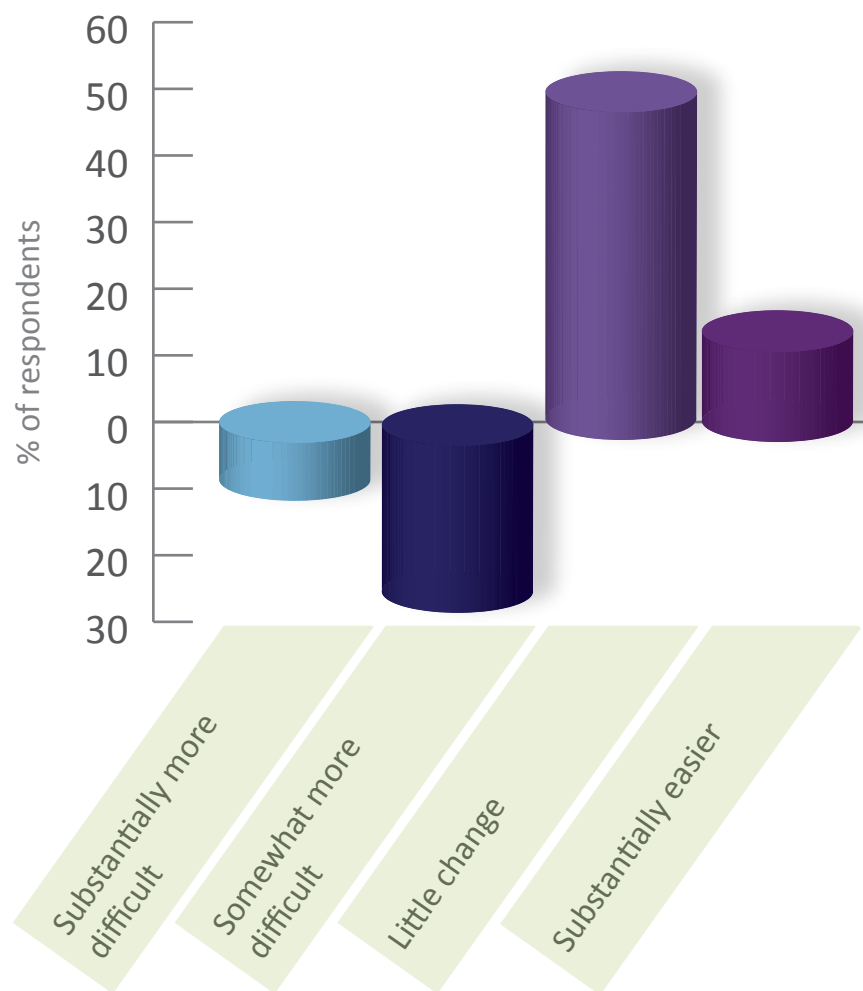
Banking Relationships

We asked respondents to comment on how supportive they were finding their bank at the time of this year's survey.

Whilst the majority (59%) reported they had experienced no change, one in five found them unsupportive with a number highlighting real concerns in their additional comments.

◼	Very Supportive	10%
◼	Somewhat Supportive	11%
◼	No Change	59%
◼	Not Very Supportive	12%
◼	Very Unsupportive	8%
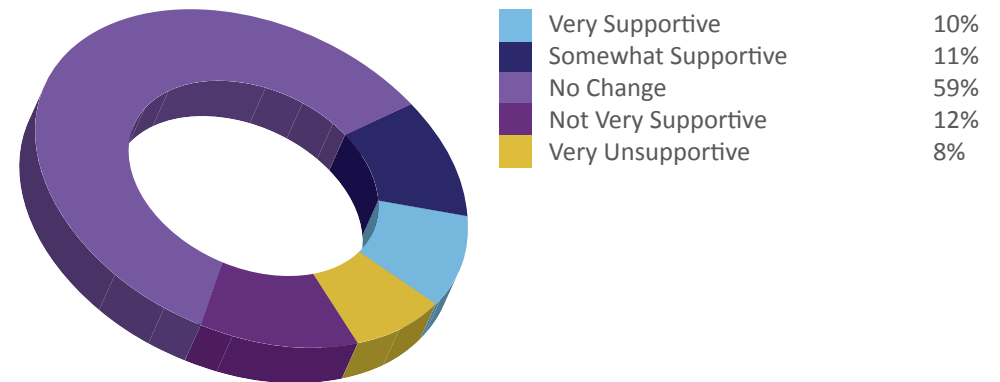
Sources of Additional Finance

Respondents were asked how they would source additional finance during 2010. 47% indicated they are unlikely to need additional facilities.

Of those that might look for further finance, 37% indicated they would seek retail bank funding; overdraft facilities (23%) and medium term loans (14%).

A further 40% would choose either private investment (27%) or venture capital (16%).

◼	Overdraft	23%
◼	Medium Term Loan	14%
◼	Invoice Factoring	3%
◼	Private Investment	27%
◼	Grant Funding	16%
◼	Venture Capital	16%
◼	Market Listing	1%

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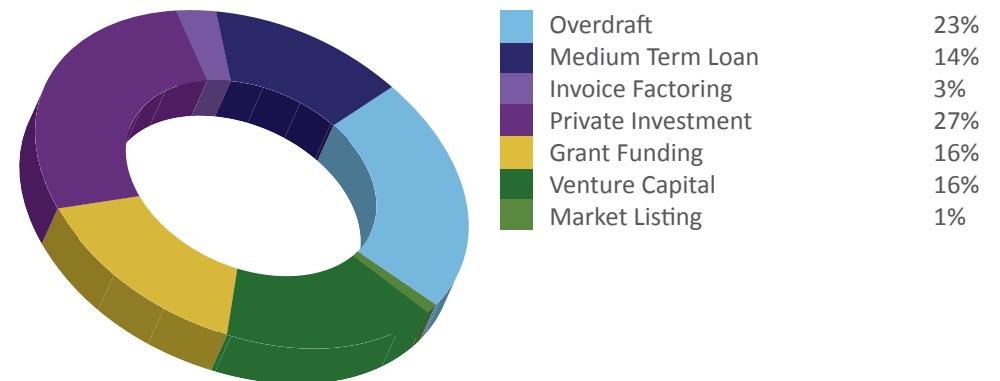
Keep control of costs and never forget the bottom line. Turnover is vanity, profit is sanity but cash is reality. Keep interest levels up - interesting projects and new challenges. Never forget that people want to do a good job - let them.

Peter Burtwistle   SYSNET   Director

The companies we see improving their financial position fastest are those exploiting international distribution channels to drive revenue growth. Overseas sales territories can be counter-cyclical and buffer the effects of our recession. I would encourage companies to look to export markets and learn from those who already have successful operations overseas.

David Farquhar   2in10 Limited   CEO

Outlook

for

2010

Respondents were asked to look to the year ahead and provide their insight on what they expect to be the most important sales aspects in 2010.

For the second consecutive year the ICT industry in Scotland contrasts with other economic indicators by demonstrating optimism regarding the year ahead. 72% of respondents are optimistic or very optimistic about the outlook for 2010, compared with just 44% in 2009.

Sales Forecast for 2010

Survey respondents are predominantly positive about sales prospects for 2010, with over two thirds predicting sales will improve on 2009 levels.

Approximately 25% of small or very small businesses (i.e. those employing less than 35 employees) are very optimistic about 2010, forecasting sales will increase by more than 20%.
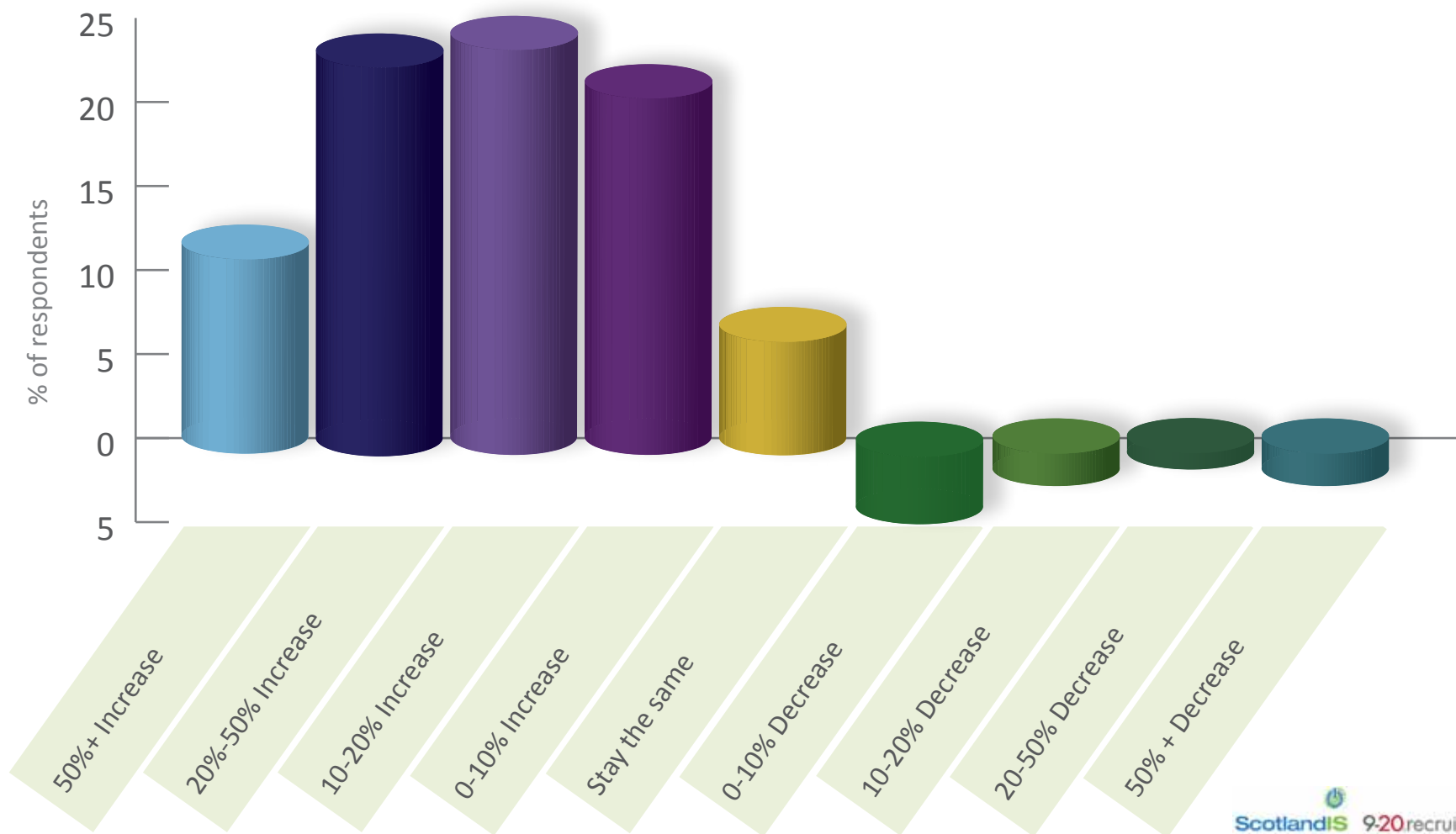
Outlook for 2010

Respondents were asked for their views on the outlook for 2010. The graph shows these compared to the 2009 responses, illustrating increasing optimism in the industry.

Nonetheless, over a quarter of respondents anticipate little improvement, underlining the fragile nature of the recovery.
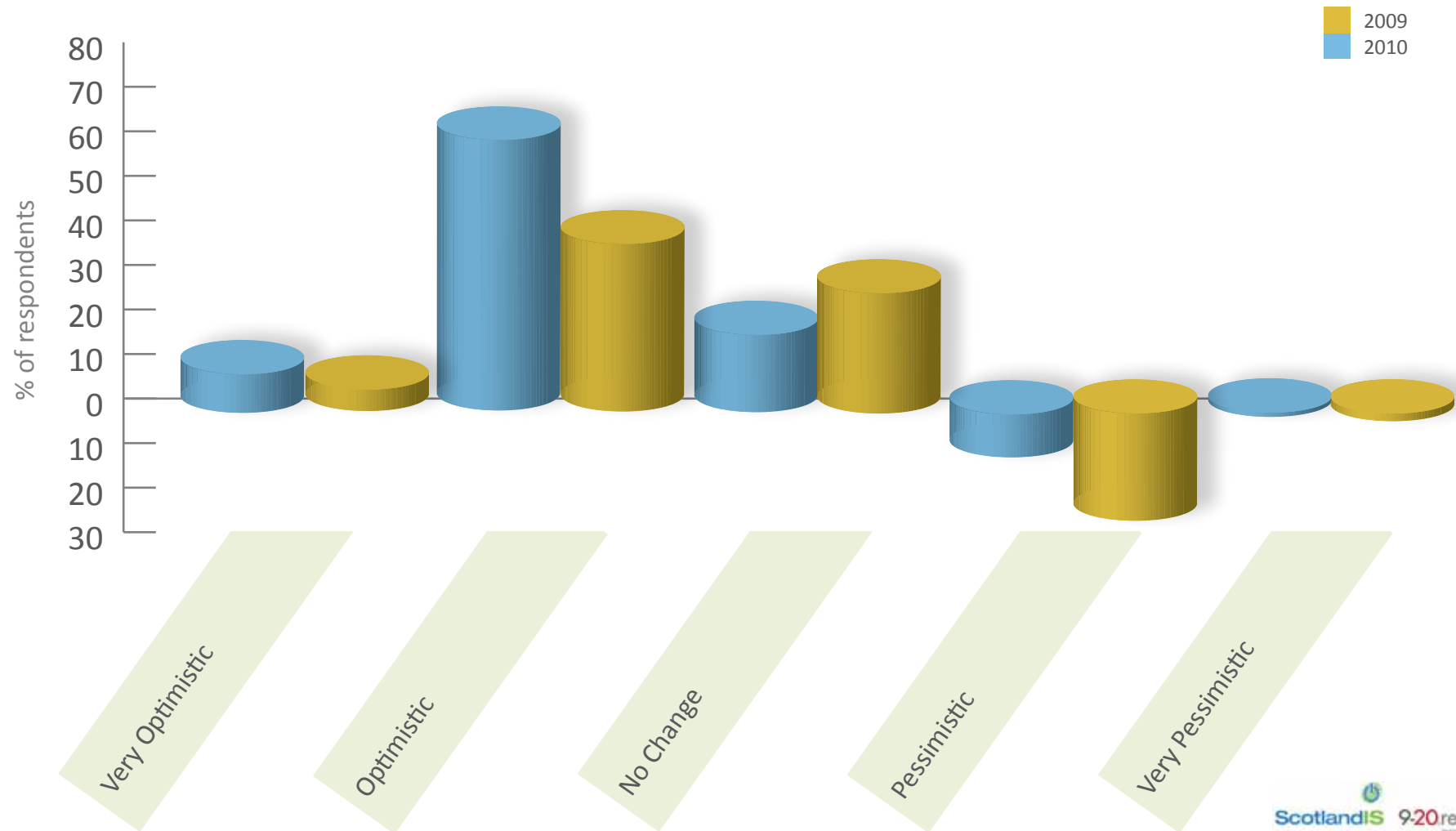
Main Customer Base by Company Size

Last year's survey indicated that respondents saw the SME market to be of increasing importance. It's interesting to see the readjustment during 2009, with large and very large companies re-emphasised as priority markets.
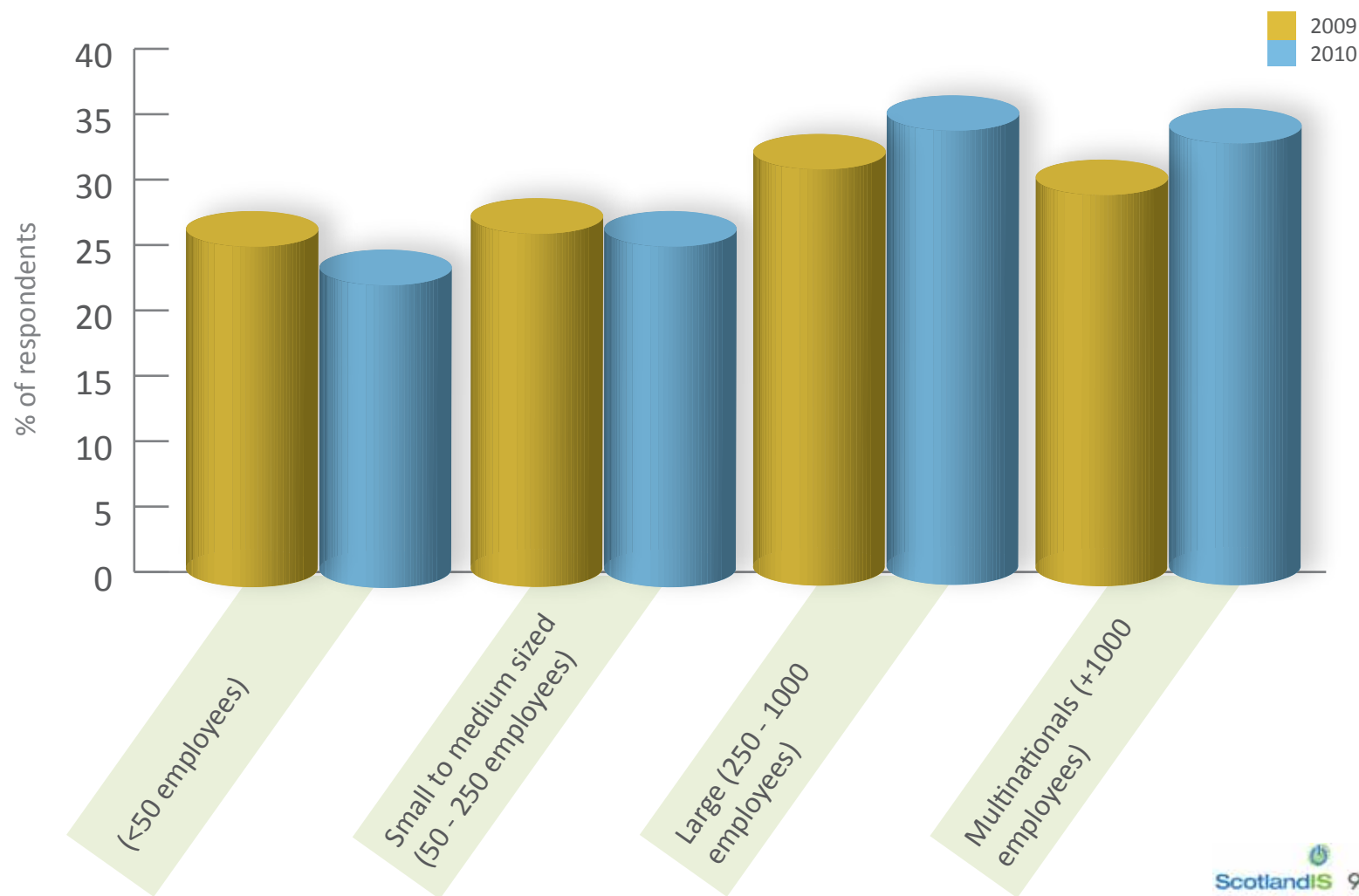
Key Markets

Encouragingly, Scotland's ICT industry continues to embrace a wide variety of sectors, which helps to protect against any major variations in one particular sector.

The Public Sector continues to be serviced by the highest percentage of respondents (15%) with Financial Services (13%) and Energy and Utilities (10%) following close behind.
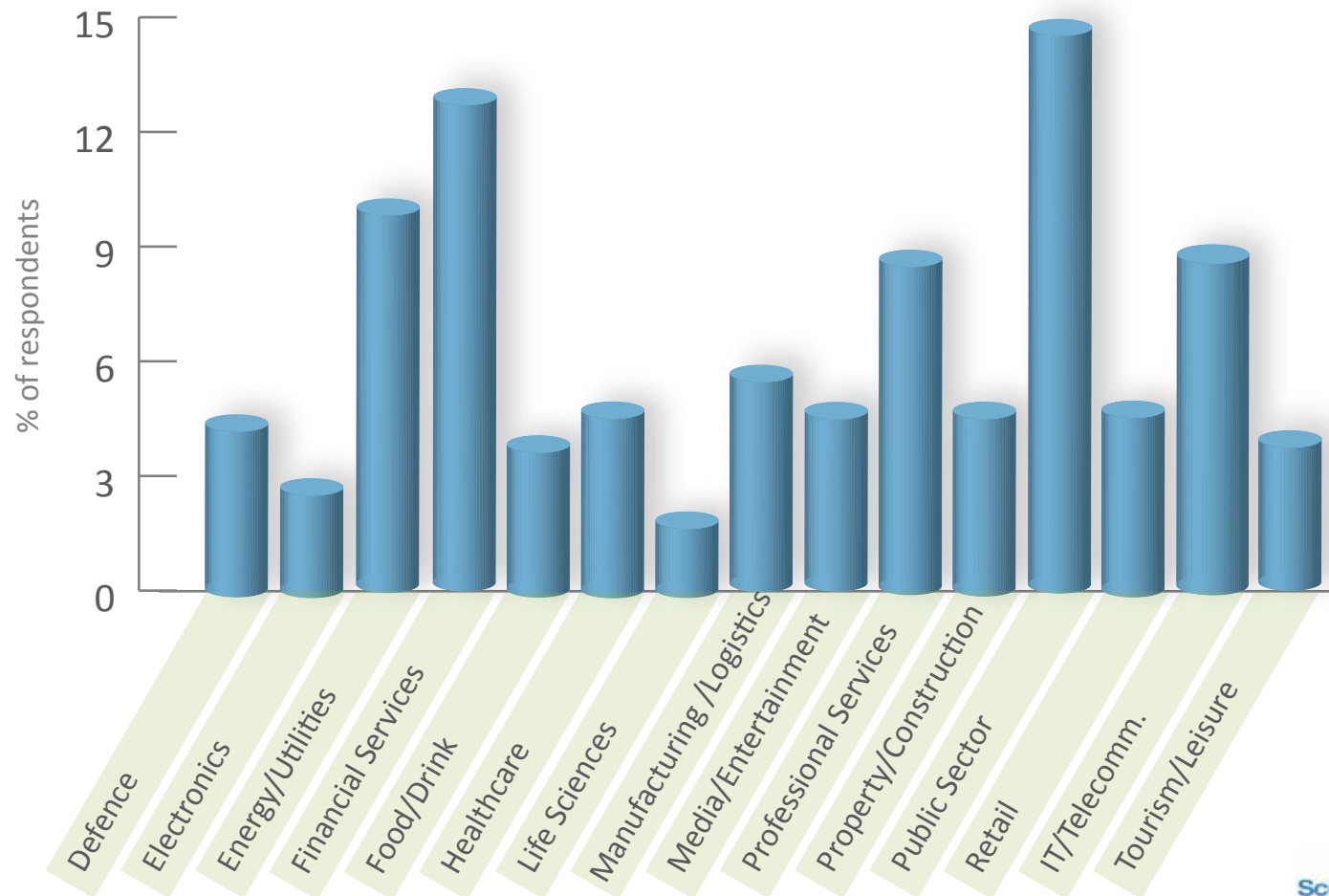
Market Forecasts

This year's survey indicates that Financial Services is now edging away from the slump of 2009, as along with Energy & Utilities and IT & Telecommunication the sector is acknowledged as one of those most likely to see an increase in activity in 2010.

As in 2009, a number of respondents report the Public Sector as one of their major markets; however the spending cuts expected later in the year do appear to be denting the confidence of many.

Legend:
- Expected increase in 2010
- Expected decrease in 2010

Y-axis: % of respondents (0–40)

X-axis categories: Defence, Electronics, Energy/Utilities, Financial Services, Food/Drink, Healthcare, Life Sciences, Manufacturing/Logistics, Media/Entertainment, Professional Services, Property/Construction, Public Sector, Retail, IT/Telecomm., Tourism/Leisure
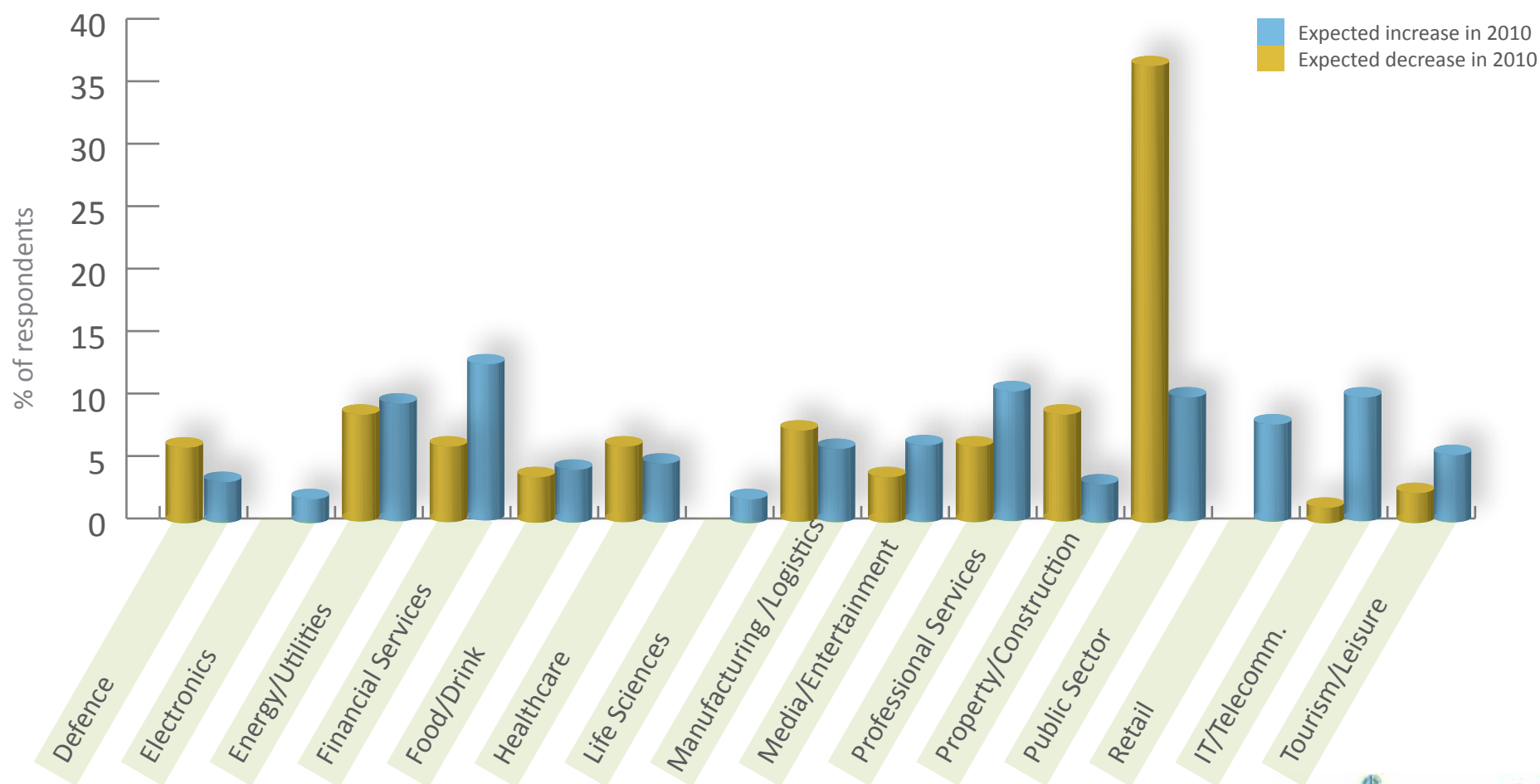
Engage with the business and understand what their objectives are for 2010 and help them understand what IT has to contribute in helping them meet their objectives.

Martin Twohig   Barclays Wealth   Head of Infrastructure

Strengthen data profiling of target organisations as the basis of all good sales and marketing.

Eamonn Doyle   Bloxx Ltd   CEO

People
and
Skills

Respondents were asked for their views on employee numbers and how they would expect these to vary throughout the year, as well as which skill sets they anticipated having the greatest demand for.

In contrast to many other industries, the majority of companies in the sector (63%) have indicated that they are expecting to hire more people during the year which is a significant increase on the previous year's figure of 47%.

Change to Employee Numbers

With a cautious approach to recruitment last year 44% stated there would be no change to employee numbers but fortunately this theme doesn't look to be continuing into 2010 with only 31% indicating that current staff numbers will remain the same.

63% of respondents are also predicting some form of increase in staff numbers in 2010 with only a few of the larger organisations expecting a loss of more than 20 staff.

However a much larger number of participants (80%) expect to see an increase in sales in 2010 which does raise the question of just how these companies plan to achieve this growth.

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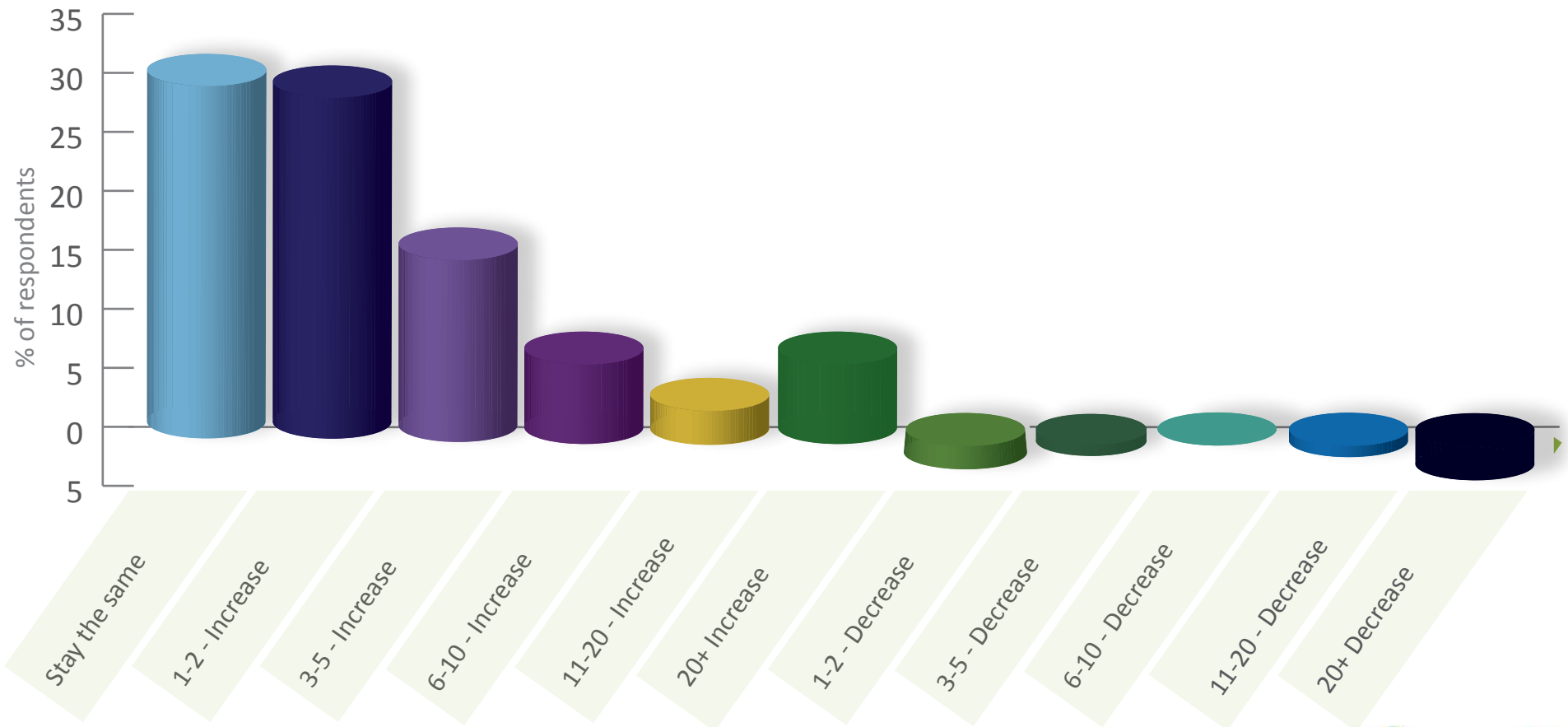
Greatest Demand in 2010

Repeating last year's results, Software & Web Development together with Sales & Marketing positions are the most in demand with 32% and 27% of the votes respectively.

In each of these areas permanent employees rather than contractors are the preferred option for almost double the number of survey respondents.

Software & Web Development	32%
Infrastructure Support	19%
Project Business Consultancy	22%
Sales & Marketing	27%
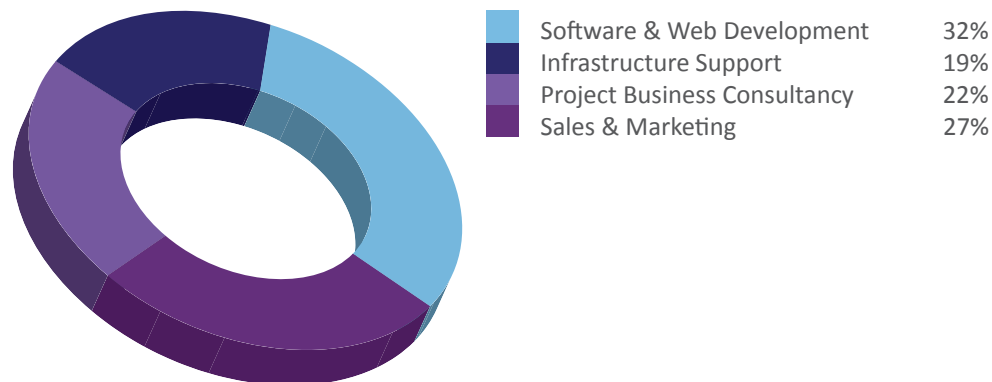
The Level of Jobs in Demand

There is a major change in prospects for graduates with 26% of companies forecasting this as the area of greatest demand, in sharp contrast to last year's forecast.

Operatives are once again most in demand in staffing terms, with opportunities for Senior Management and Executives forecast to be very scarce in 2010.

Graduates (18K-23K)	26%
Operatives (23K-35K)	45%
Operational Management (35k-45k)	17%
Middle Management (45k-60k)	6%
Senior Management (60k+)	4%
Non executives	2%

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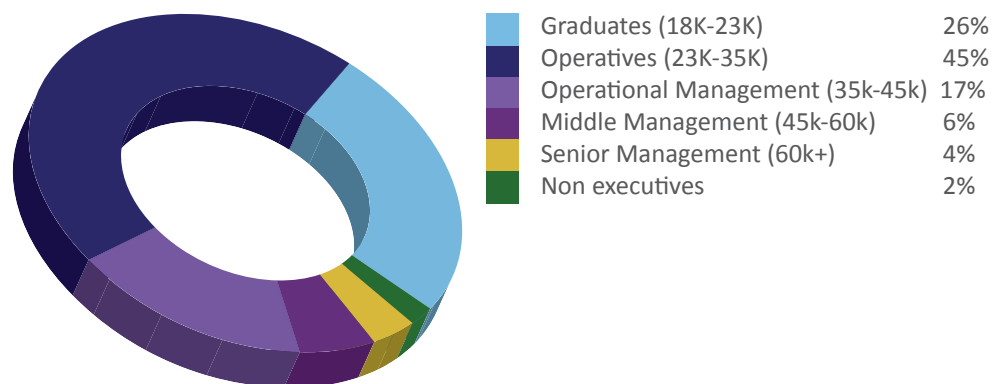
Top Technical Skills

Probably one of the most notable changes from last year is the surprise newcomer to the list of top skills in demand; Web 2.0 Marketing. As companies continue to move away from the more traditional offline marketing methods these types of skills are proving to be the most popular choice for those looking to recruit, with 17% citing these skill sets.

Like 2009, Project Management and Business Analysis skills will also be in high demand in 2010.

1	Web2.0 Marketing
2	.NET
3	Java
4	Project Lifecycle
5	Sharepoint
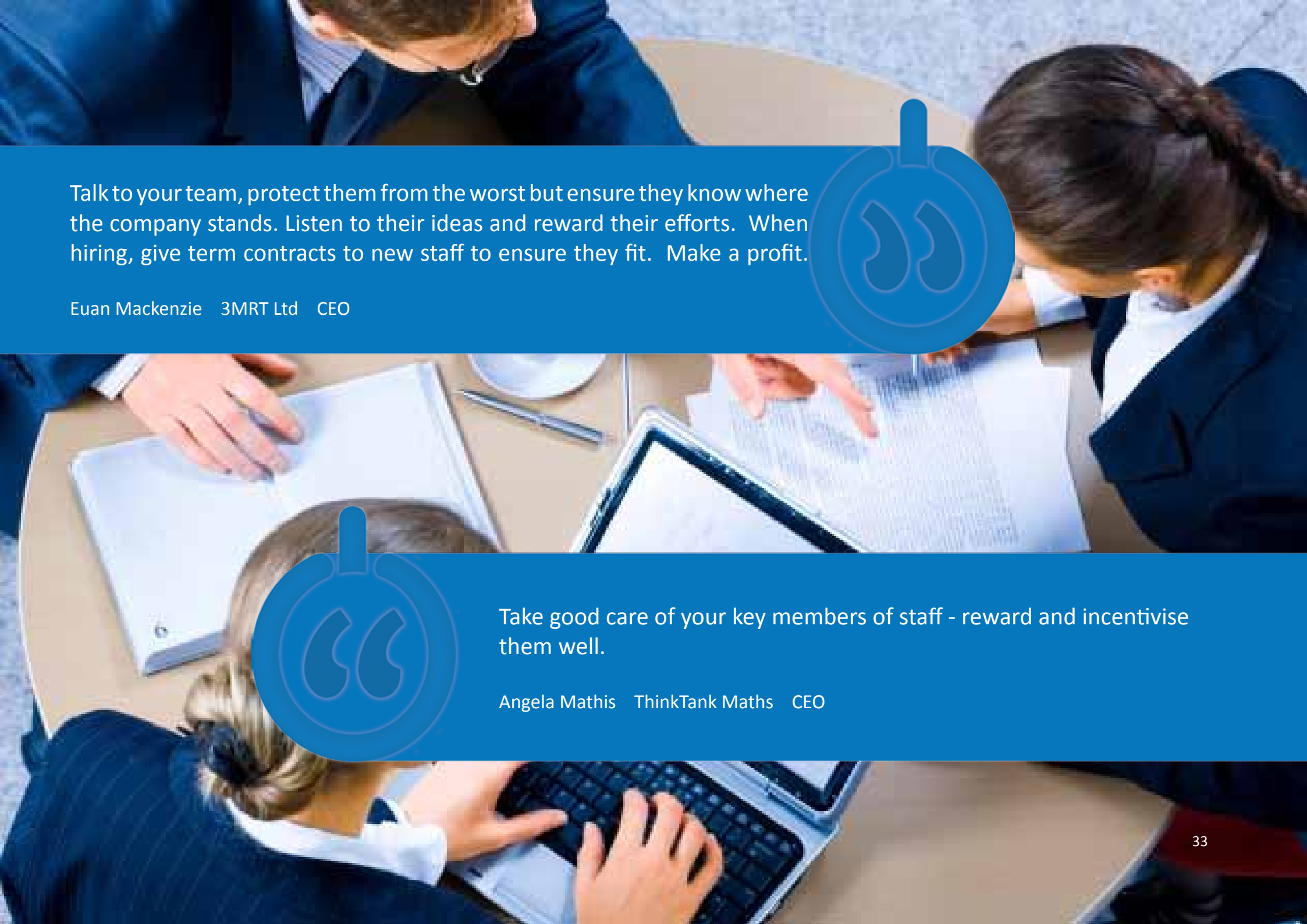
Top Commercial Skills

Sales and more specifically 'New Business Development' are the most required of the desired commercial/business skills amongst 27% of respondents. A more detailed breakdown of the specific sales skills is shown opposite.

Following close behind was Marketing which received 15% of the votes. Due to the new hybrid of Technical/Marketing skills now required in many of these roles this skill also features in the list of the technical skills in demand.

Somewhat of a surprise however was the feature of Executive Finance skills which are now sought after by 5% of organisations.
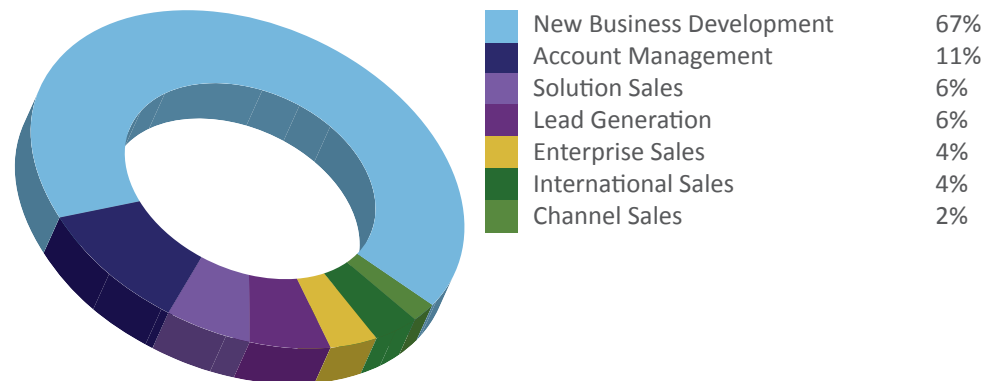
New Business Development	67%
Account Management	11%
Solution Sales	6%
Lead Generation	6%
Enterprise Sales	4%
International Sales	4%
Channel Sales	2%

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Talk to your team, protect them from the worst but ensure they know where the company stands. Listen to their ideas and reward their efforts. When hiring, give term contracts to new staff to ensure they fit. Make a profit.

Euan Mackenzie   3MRT Ltd   CEO

Take good care of your key members of staff - reward and incentivise them well.

Angela Mathis   ThinkTank Maths   CEO

Acknowledgements