

# SCOTTISH TECHNOLOGY INDUSTRY SURVEY 2013



# SCOTTISH TECHNOLOGY INDUSTRY SURVEY 2013



BE BOLD, BE DIFFERENT, THINK OF WHAT WILL  
HELP THE CUSTOMER SUCCEED, & DON'T LET  
YOUR TEAMS BUILD TECH FOR ITS OWN SAKE.



Aydin Kurt Elli // Pulsant

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ScotlandIS and 9-20 recruitment would like to thank everyone who took part in this year's Scottish Technology Industry Survey for their invaluable input, providing feedback on performance in 2012, and their forecasts for 2013.

## Introduction

The Scottish Technology Industry Survey provides a barometer of the health of the digital technologies industry. We've decided again this year to analyse the survey results with separate sections focussed around smaller, mid-sized and larger companies and use infographics to convey some of the results. A detailed analysis of the employment and skills outlook and an overview of the industry is also included.

The digital technologies industry includes a wide range of software, web, telecommunications, and IT businesses, and is a major contributor to growth in the Scottish economy, contributing over £4bn to GVA. Digital technologies underpin innovation and productivity improvements in all aspects of business, and more than 100,000 people work in digital technology roles.

Over one thousand businesses are involved in the Scottish industry, delivering products and services to end markets as diverse as health, energy, aviation, financial services and the public sector.

This year's survey was carried out by ScotlandIS in January 2013. The survey analysis was undertaken by ScotlandIS, with expert commentary from 9-20 recruitment on skills and recruitment. At ScotlandIS, we're very grateful to 9-20 recruitment for their continued support for the survey.

We very much hope that this survey report provides you with valuable insights into the Scottish industry. Please do contact the ScotlandIS team should you have any questions about the survey or would like further information.

**Polly Purvis** // Executive Director, ScotlandIS

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Industry Growth and Optimism

- 71% of those surveyed are optimistic or very optimistic about the outlook for the year ahead.
- 67% of respondents reported a rise in turnover during 2012.
- The vast majority of companies (80%) expect sales to grow in 2013 and only 8% expect sales to decline.
- Mid-sized businesses (65–500 employees) are the most optimistic about sales growth, with four out of five expecting to increase sales by more than 10% in 2013.
- Very large companies tend to be more cautious, with half expecting little or only limited growth.

International Opportunities

Respondents are increasingly moving into export markets. Over the last three years we have seen a steady increase in the percentage of companies advising they are selling internationally:

	ALREADY EXPORTING	PLANNING TO EXPORT
2011	39%	20%
2012	44%	14%
2013	53%	13%

FORGET SELLING, ITS YESTERYEAR –  
FOCUS ON HELPING THE PROSPECT BUY!

Donald McIver // Gael

Employment Growth

- 70% of companies plan to increase headcount this year.
- Demand for graduates continues to be strong, with 58% of respondents indicating they will be looking for graduates, but more experienced developers are the most in demand. (60% of respondents plan to recruit operatives).

Note: A detailed analysis of the demand for skills and other employment factors is covered in the Employment and Skills commentary on Page 22.

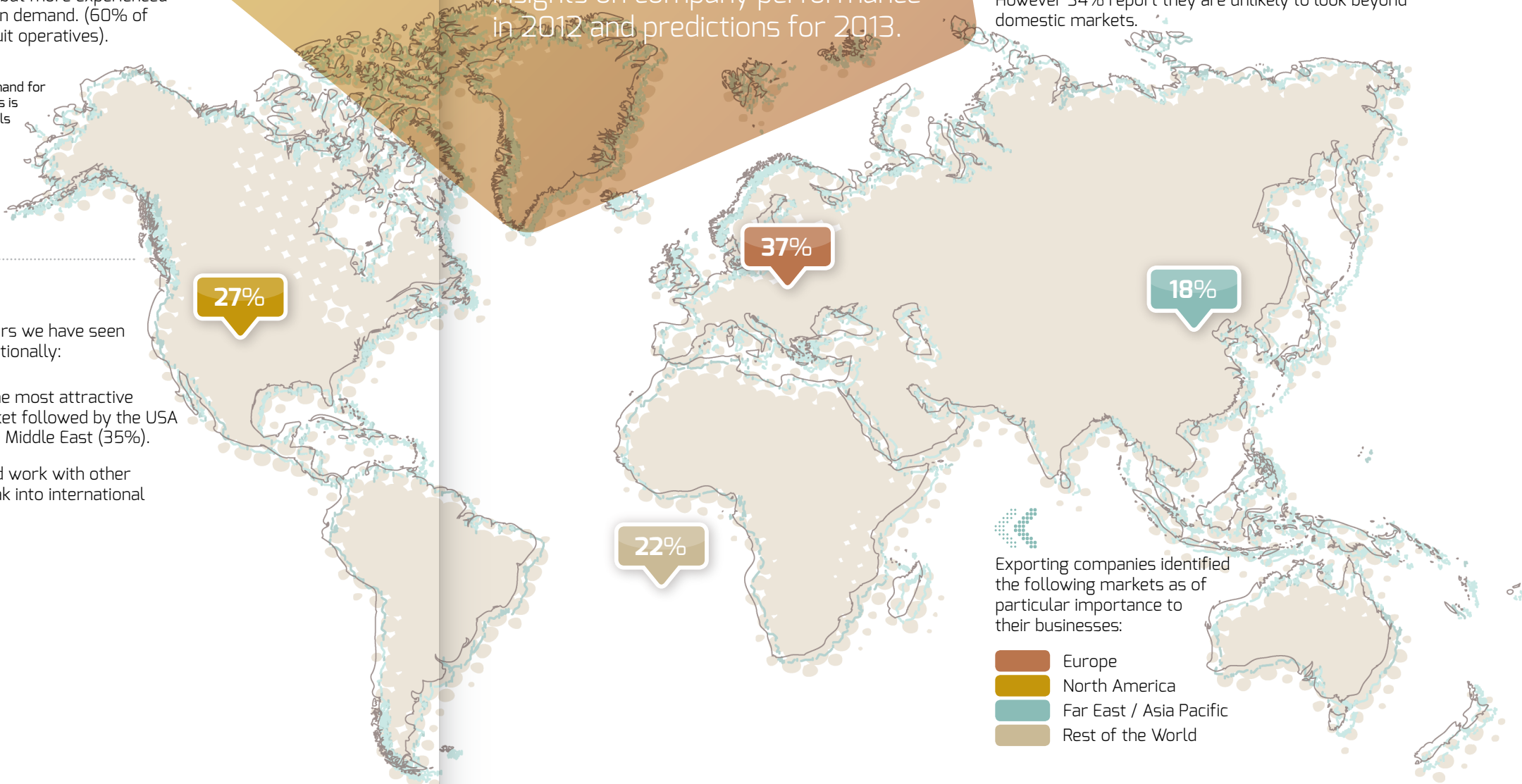
Europe (66%) is seen as the most attractive prospective overseas market followed by the USA and Canada, (58%) and the Middle East (35%).

90% of respondents would work with other Scottish companies to break into international markets.

The Scottish Technology Industry Survey provides an annual health check for the digital technologies industry. This year’s report provides insights on company performance in 2012 and predictions for 2013.

International Ambitions

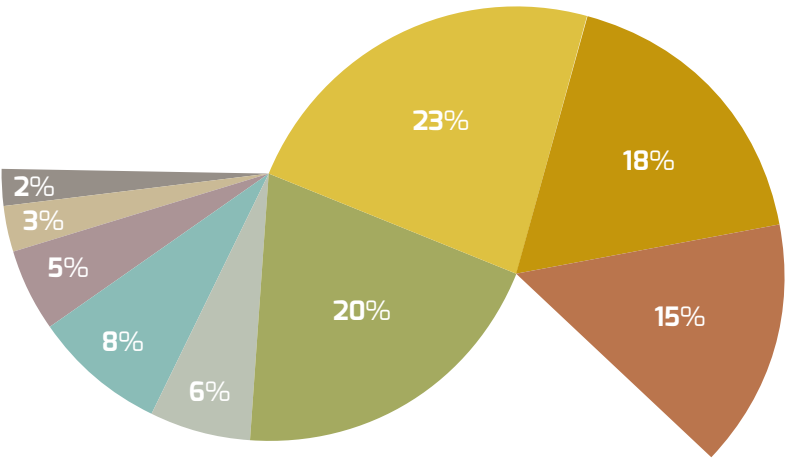
There appears to be an increasing interest in international markets amongst our respondents. With 53% of our sample reporting they are already exporting and a further 13% not yet exporting but planning to, two thirds of companies see international markets as a key element of their business. However 34% report they are unlikely to look beyond domestic markets.



### Sales Levels Compared to 2011

2012 was another good year for the industry with 67% of respondents reporting growth in sales, up from 60% in 2011, and a further 15% maintaining sales at 2011 levels.

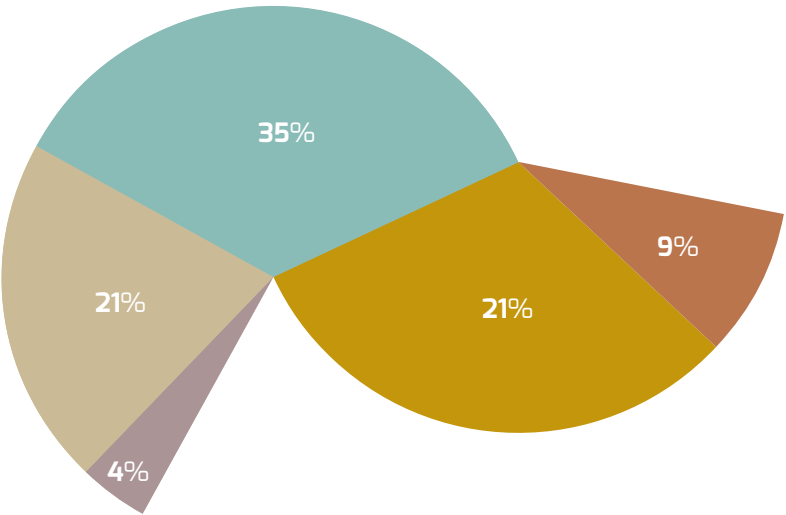
- Stay the Same
- 0-10% Increase
- 10-20% Increase
- 20-50% Increase
- 50%+ Increase
- 0-10% Decrease
- 10-20% Decrease
- 20-50% Decrease
- 50%+ Decrease



### Profit Margins

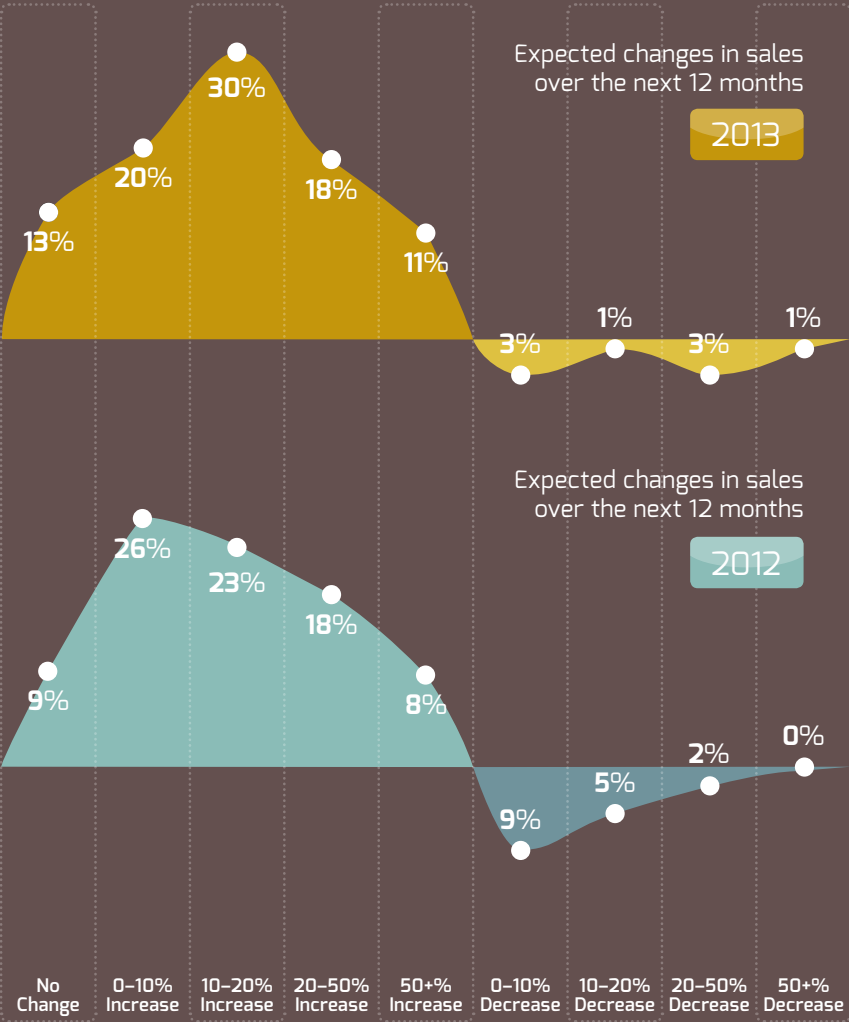
Profit margins continued to show a mixed picture. Whilst 40% of respondents report increasing margins, 35% maintained their margins at 2011 levels, and 25% reported having to ease margins.

- Increased Significantly
- Increased Slightly
- Stayed Much the Same
- Decreased Slightly
- Decreased Significantly



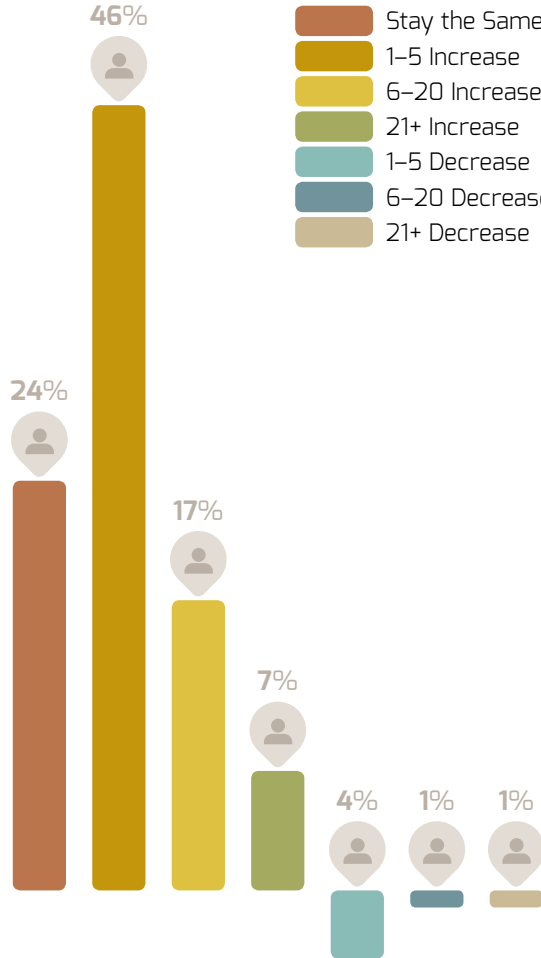
### Expected Changes in Sales

Companies in the industry are ambitious for 2013 with almost 80% expecting to increase sales (up from 75% in 2012). The number of companies expecting sales to fall in the coming year has dropped from 16% in 2012, to 8% in 2013.



### Change in Employee Numbers

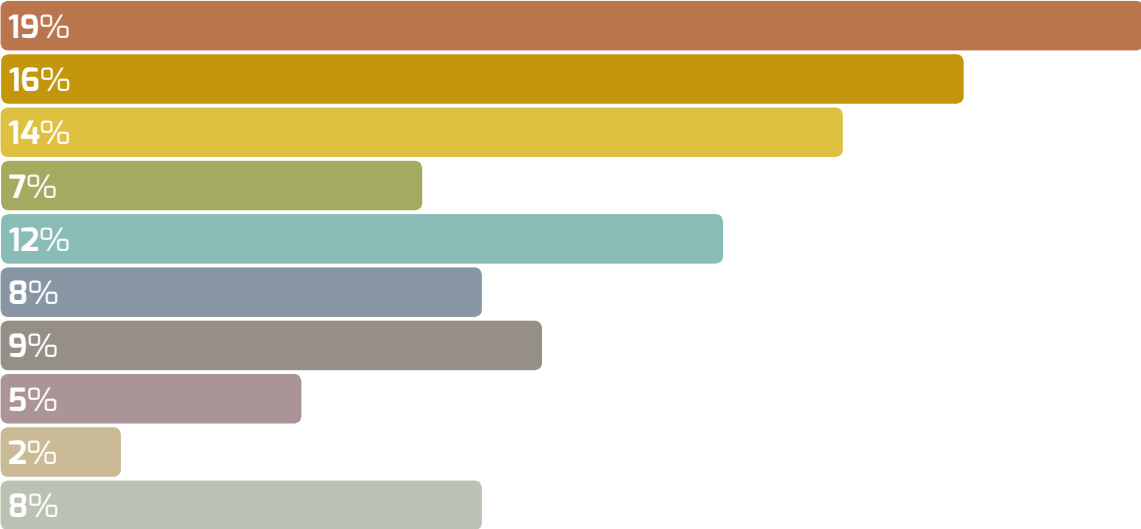
70% of respondents expect to take on more staff during the year, an increase of 10% on last year. With most other companies expecting to maintain current staffing levels this underlines continuing demand for skills. Commercial and business skills (72%) and software and web development (67%) are the key skill sets in demand.



The Scottish Digital Technologies Industry incorporates a diverse range of sectors including software, telecommunications, IT services and digital agencies. There is an increasing focus on building software products, up from 12.4% in 2012 to 16% in 2013; this is particularly the case amongst smaller companies.

Main Areas of Business

- Software Solutions and Services
- Software Product
- e-Commerce and Web Development
- IT Business Consultancy
- Services to Technology
- Infrastructure & Network Management
- Systems Integration
- Application Development
- Telecommunications
- All Other Responses



DO THE BASICS WELL. BE THOROUGH. DEAL STRAIGHT.

Alan Arnott // alanarnott.net



Headquarters Locations

The Scottish Digital Technologies Industry incorporates a diverse range of sectors including software, telecommunications, IT services, and digital agencies.

An increasing number of businesses consider themselves to be software product companies, up from 7% (2011) to 12.4% (2012) to 16% (2013). This is particularly true amongst smaller companies.

Companies in the industry employ over 70,000 people, and are spread across the geography of Scotland, with particular concentrations in the Edinburgh, Glasgow and Aberdeen areas.

- Aberdeen & Grampian
- Borders, Dumfries & Galloway
- Edinburgh & Lothian
- Forth Valley
- Fife & Tayside
- Highlands & Islands
- Glasgow, Lanarkshire, Renfrewshire
- UK outwith Scotland
- Other EU Headquartered
- Rest of the World







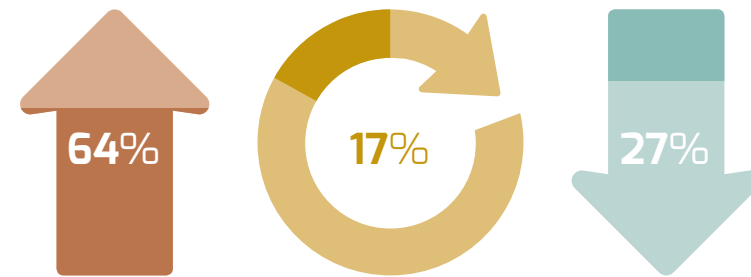
## Benchmark 1: Smaller Companies

1-35 Employees

Predominantly engaged in software development and services, web and e-commerce, smaller companies form the vast majority of our respondents. 60% of these are micro businesses with turnover of less than half a million pounds. They tend to be younger companies with the vast majority formed in the last fifteen years and 35% since 2006. Funding mainly comes from founders' capital and retained profits. (80% of businesses).

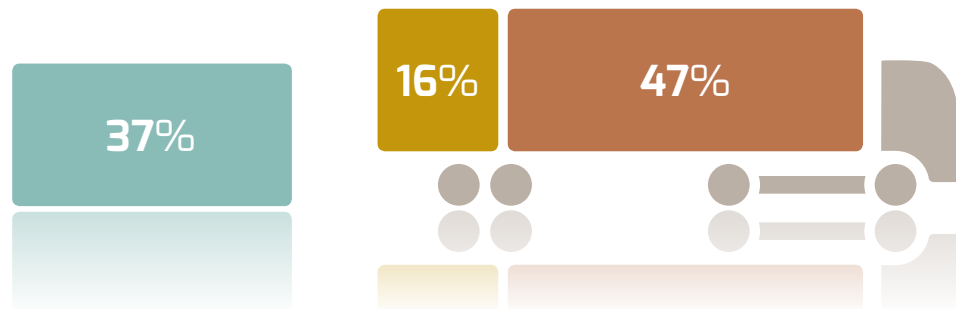
### Reflections on 2012

2012 was generally a good year for most smaller companies. Over 63% reported increased sales, whilst 17% maintained sales at 2011 levels. Most companies were able to maintain or increase profit margins, although 27% saw margins squeezed.



### International Sales

47% of smaller companies are already exporting and a further 16% are planning to do so. 37% of smaller companies advised that they don't currently export and are unlikely to do so.



### Financial Environment

Whilst 42% of smaller companies do not anticipate the need for additional finance during the year, respondents are likely to seek additional finance from private investors (eg business angels) (25%), bank finance (15%) or grant funding (13%). Significantly whilst one in eight businesses report cash flow to be substantially more difficult than a year ago, overall cash flow pressures seemed to have eased with two thirds reporting cash flow easier or little changed.



### People and Skills

Two thirds of smaller companies expect to take on additional staff during the course of 2013, with most others expecting to maintain headcount at current levels.

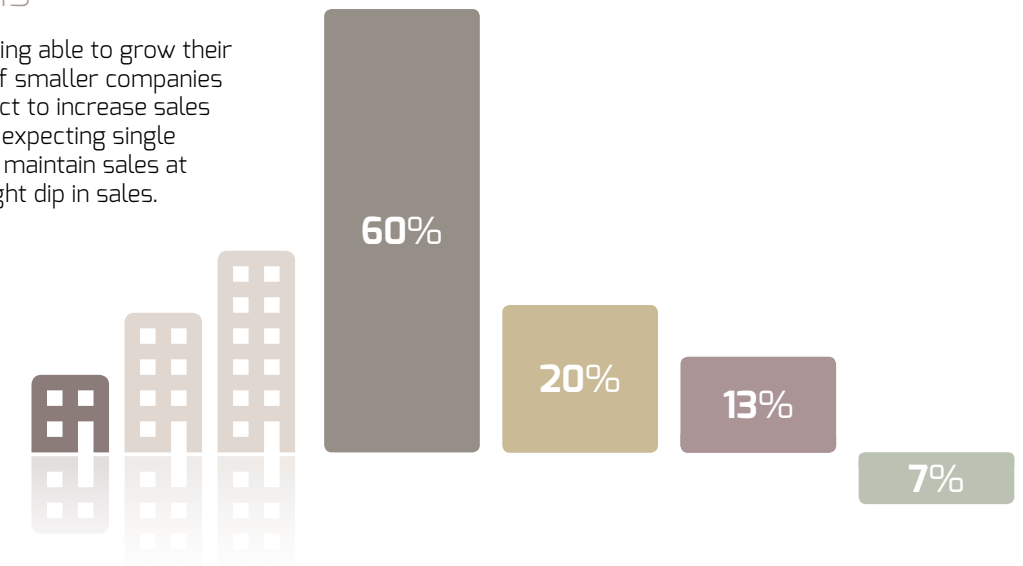
Strong software and web skills top the technical skills in demand, closely followed by mobile development skills, Java and content creation. Sales, digital marketing and project management are the top three commercial skill sets in demand.



### Looking Forward to 2013

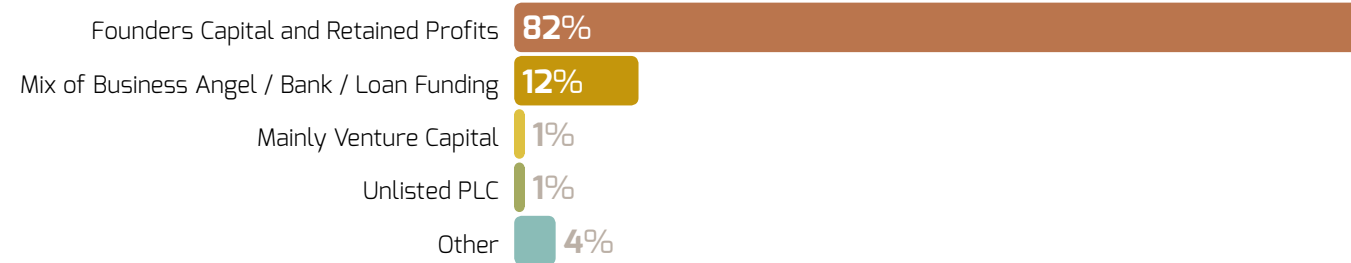
Smaller companies are confident of being able to grow their business during 2013 with four fifths of smaller companies forecasting increased sales. 60% expect to increase sales by more than 10% with a further 20% expecting single figure growth. 13% anticipate they will maintain sales at current levels, with 7% expecting a slight dip in sales.

- 10%+ Increase
- 1-9% Increase
- Stay the Same
- Decrease

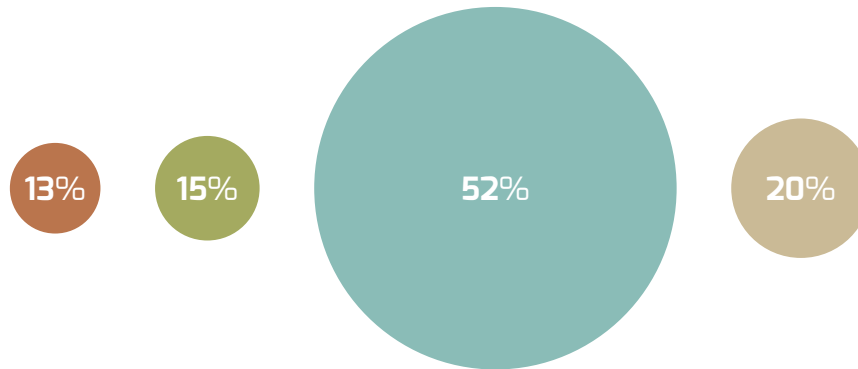
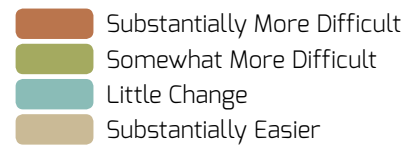




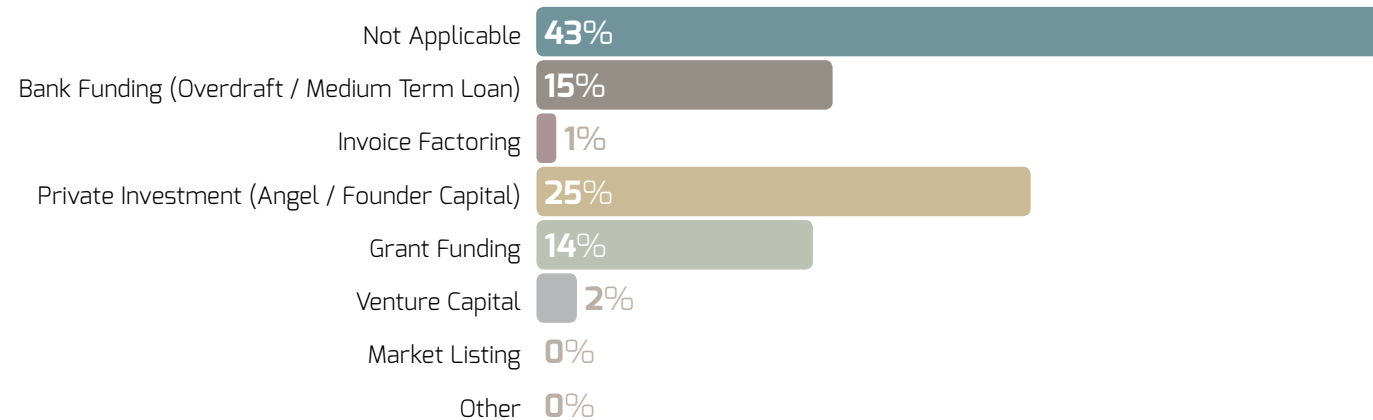
## Funding Model



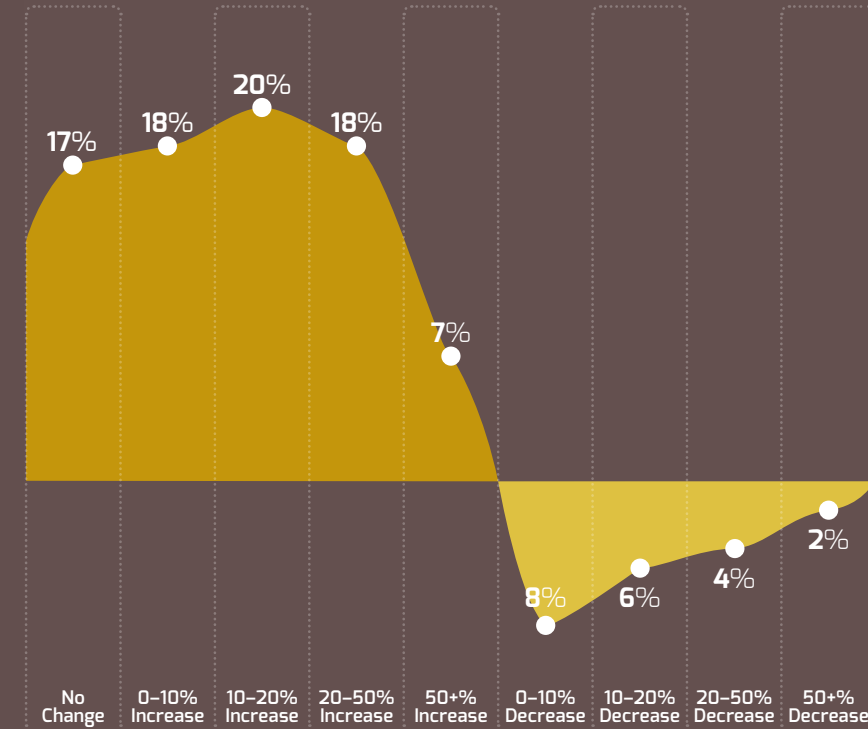
## Cash Flow Compared to Last Year



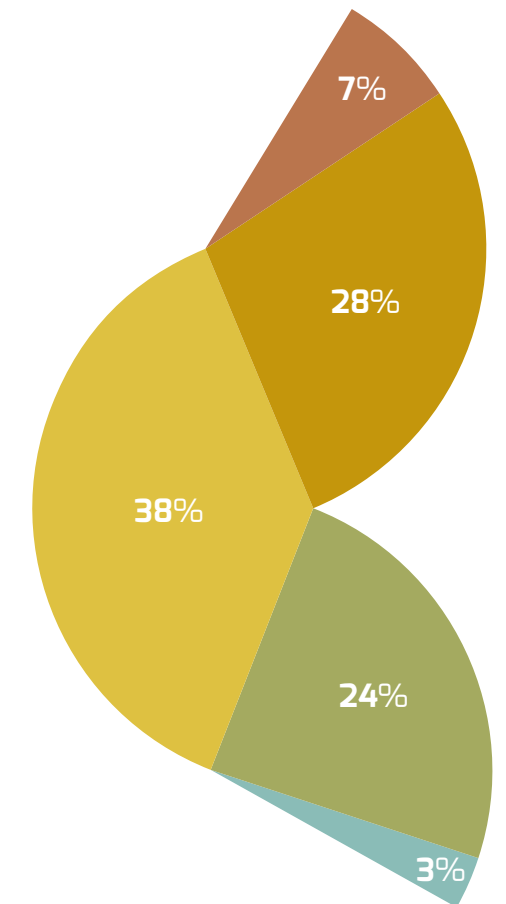
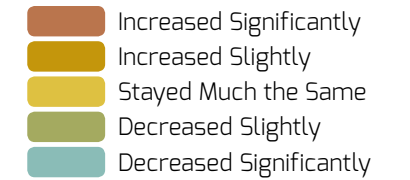
## Source of Additional Finance



## 2012 Sales Compared to 2011 Sales



## Actuals Compared to Budget



FOCUS ON INNOVATION AND  
EXCELLENCE IN SERVICE DELIVERY.



Susan Chadwick // Edge Testing



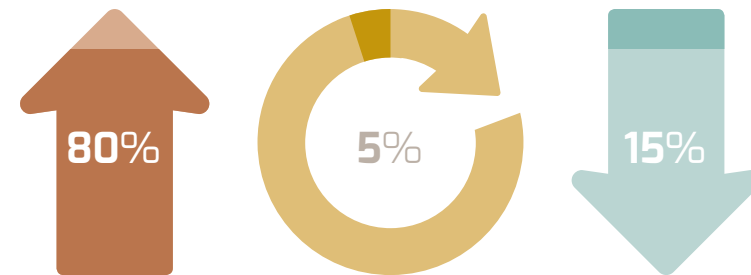
## Benchmark 2: Mid-sized Companies

36-500 Employees

Mid-sized companies are mainly involved in software product, software solutions and services and infrastructure and network management. These businesses employ between 36 and 500 employees and form 18% of the survey total. Turnover ranges from £1 to £100 million. They are predominantly Scottish-based and owned and most have been established for more than ten years. Mid-sized companies are primarily funded through a combination of founder's capital and retained profits, although 18% have angel or venture capital investment.

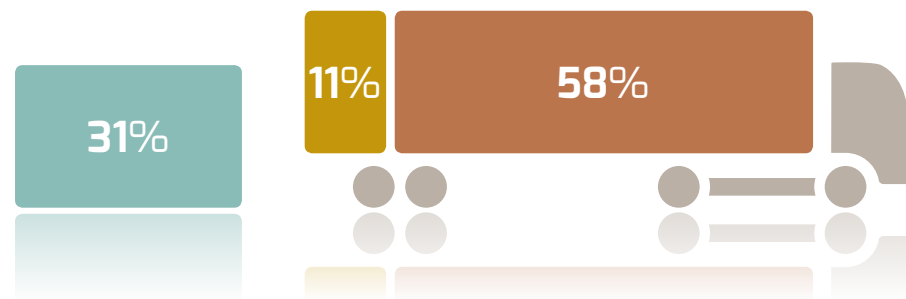
### Reflections on 2012

Mid-sized companies had an excellent 2012. Four out of five increased sales, with 35% increasing sales by 10-20% and a further 31% by between 20 and 50%. Most maintained or slightly improved profit margins but 15% reported slightly reduced margins.



### International Sales

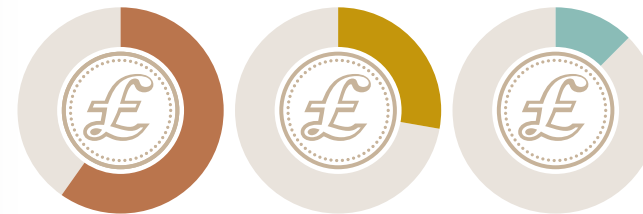
58% of mid-sized companies are already exporting and a further 11% are planning to do so. 31% of smaller companies advised that they don't currently export and are unlikely to do so.



### Financial Environment

Most mid-sized companies appear comfortable that they have the working capital to fuel their planned growth with **58%** reporting they won't need access to additional finance during 2013. **27%** would approach their banks for additional finance whilst **12%** would raise further private investment.

Overall mid-sized companies report little change in cash flow with if anything a slight easing from last year.



### People and Skills

Demand for skills is strong amongst mid-sized companies with a substantial 89% planning to take on additional staff during the course of the year. **23%** expect to increase headcount by between 1 and 5 people, a further **54%** are looking for between 6 and 20 new staff, and **12%** are seeking more than 20 additional staff during the course of 2013.

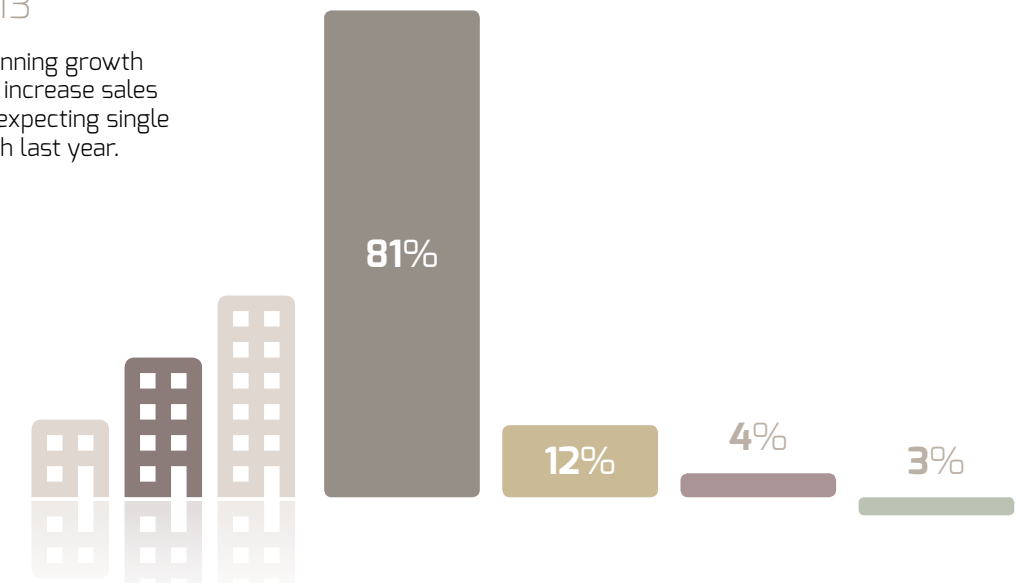
Mid-size companies identified software development followed by mobile and open source, as the key technical skills they are seeking. On the commercial side pre-sales, and product marketing were highlighted as the top skills in demand.



### Looking Forward to 2013

Nearly all mid-sized companies are planning growth during 2013 – just over 80% expect to increase sales by more than 10% with a further 16% expecting single figure growth or sales levels in line with last year.

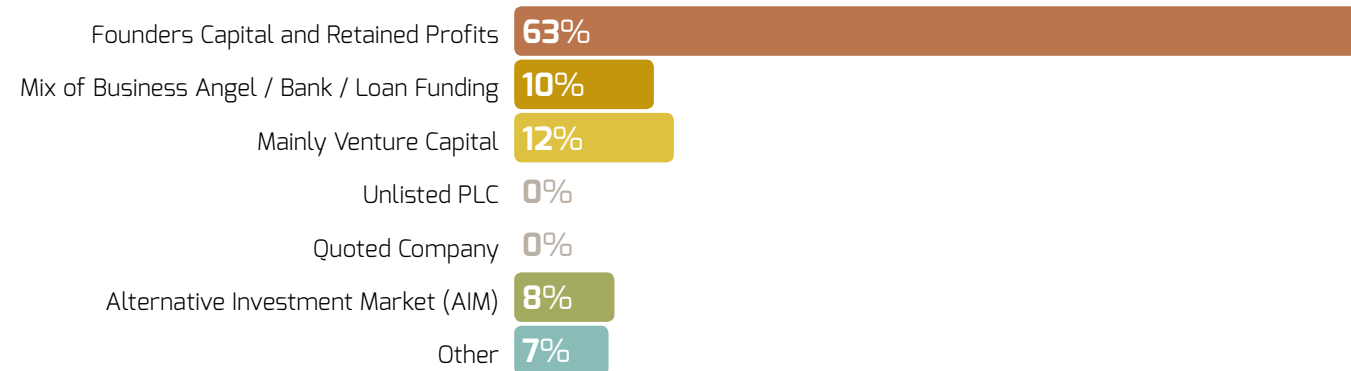
- 10%+ Increase
- 1-9% Increase
- Stay the Same
- Decrease







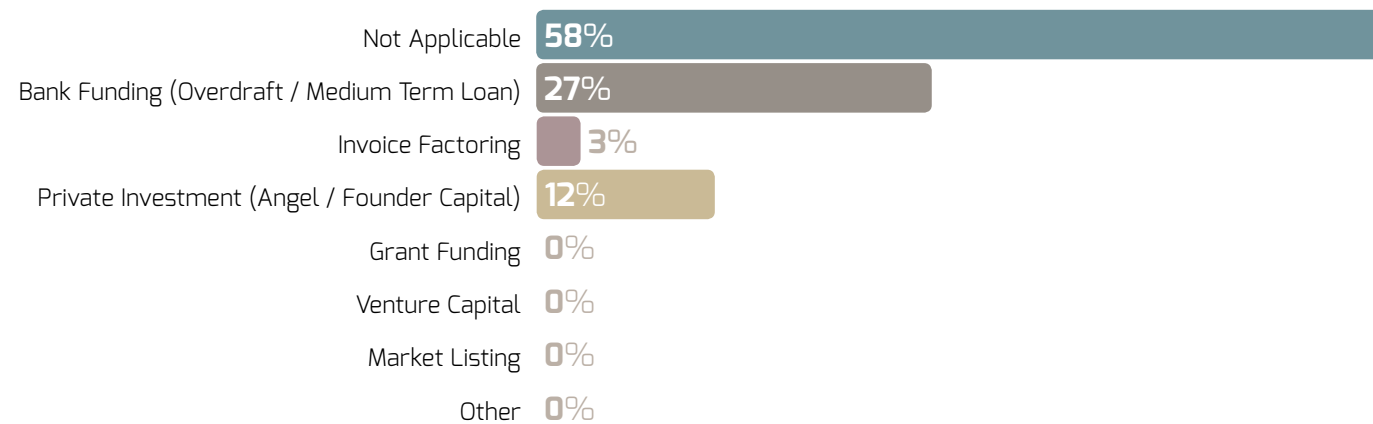
## Funding Models



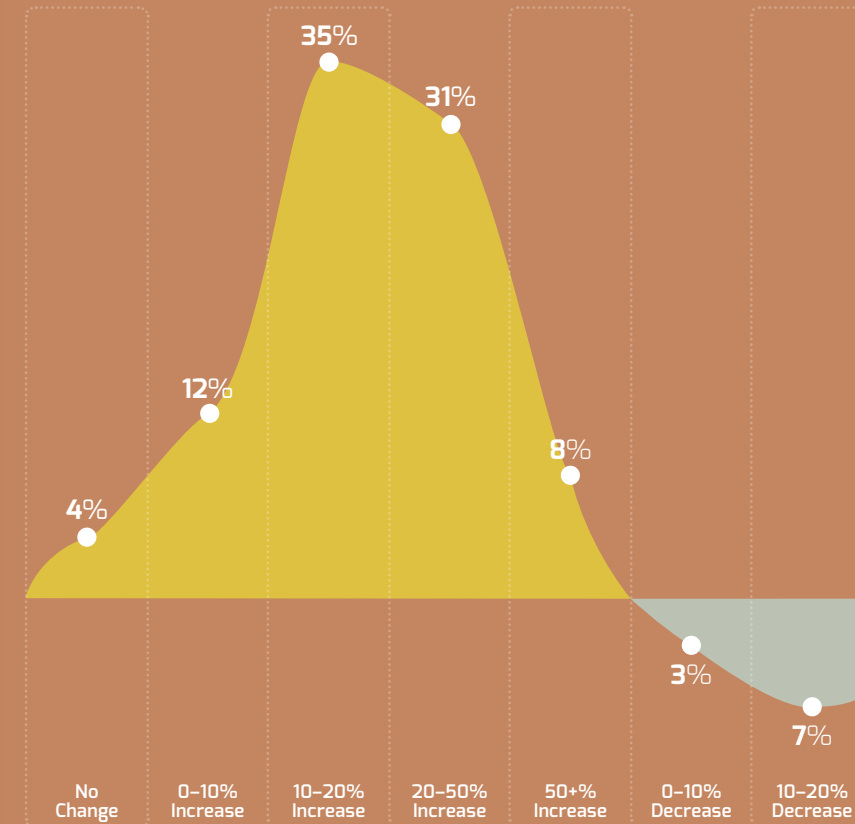
## Cash Flow Compared to Last Year



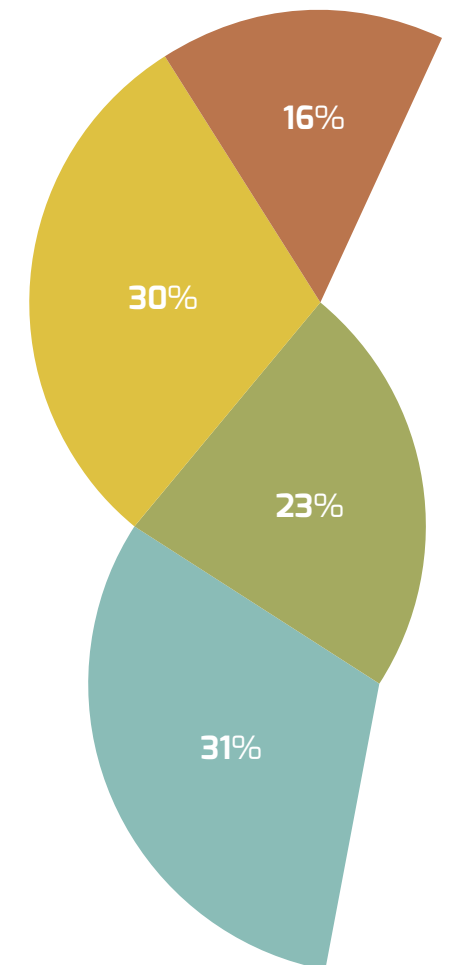
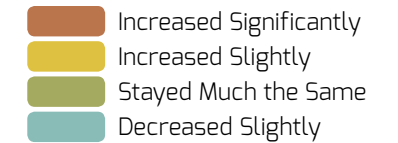
## Source of Additional Finance



## 2012 Sales Compared to 2011 Sales



## Actuals Compared to Budget



BE PREPARED TO NEGOTIATE ON EVERY ASPECT OF THE BUSINESS.



Joan Hill // Interactive Intelligence



## Benchmark 3: Larger Companies

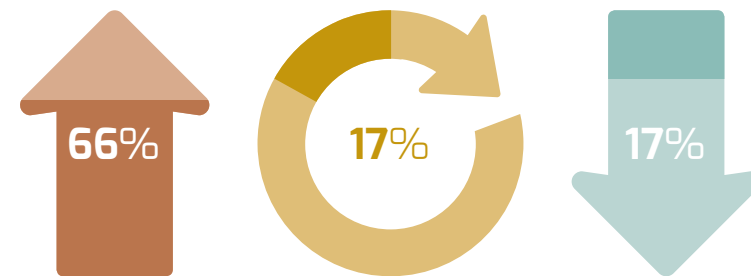
500-1000 Employees

Our larger company respondents are primarily involved in systems integration, and software solutions and services. Over three quarters have a turnover of £50m+. They tend to be well established companies with the majority formed over 15 years ago and 60% formed before 1983. Many are quoted companies but one in five is VC funded.

### Reflections on 2012

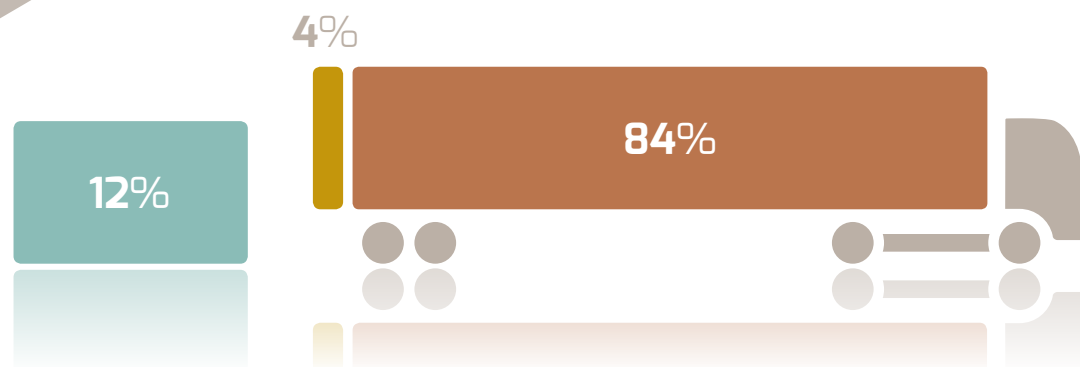
Larger companies generally report good results for 2012. Two thirds increased sales with 39% increasing sales by more than 10% and a further 26% achieving single figure growth. 18% of larger companies maintained sales at 2011 levels, but 17% reported a slight reduction in sales, from the previous year.

Most large companies reported profit margins as staying much the same as in 2011, although 27% indicated margins had come under slight or substantial pressure.



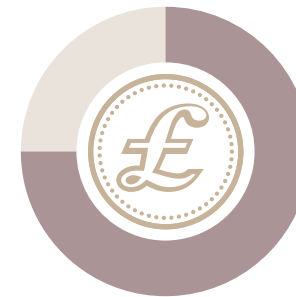
### International Sales

84% of larger companies are already exporting and a further 4% are planning to do so. However 12% of respondents reported that they don't currently export and are unlikely to do so.



### Financial Environment

**Three quarters** of larger companies do not anticipate needing additional finance in 2013. Those that do would use the capital markets to raise further funds. Generally larger companies report cash flow as being steady or slightly more difficult.



### People and Skills

Demand for skills amongst larger companies provides a complex picture. Whilst **32%** report they will be increasing headcount by more than 20 additional staff, **26%** expect to reduce staffing slightly, and a further **21%** plan to maintain staffing at current levels. **One in five** larger companies indicate they will slightly increase their staff numbers, taking on between one and 20 new staff.

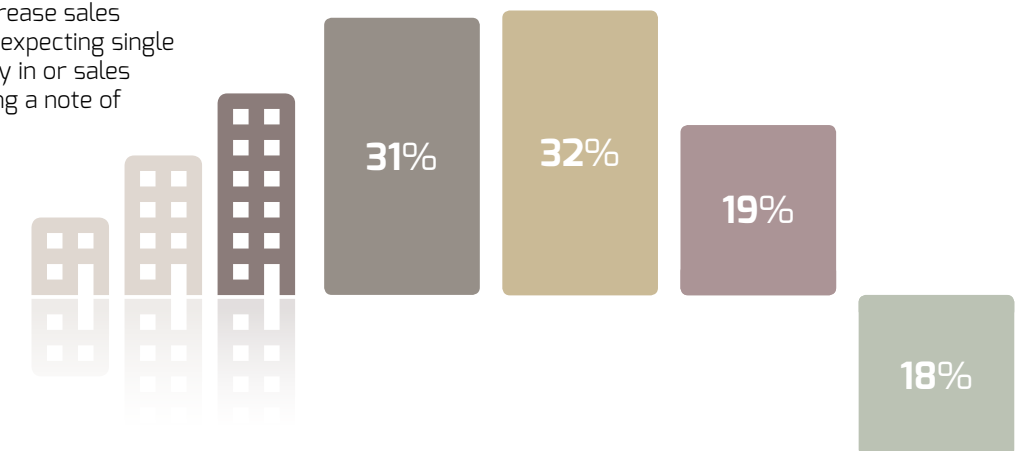
Larger companies highlighted .net, SharePoint and enterprise level development skills, as being key skill sets they need. On the commercial side leadership skills came through strongly.



### Looking Forward to 2013

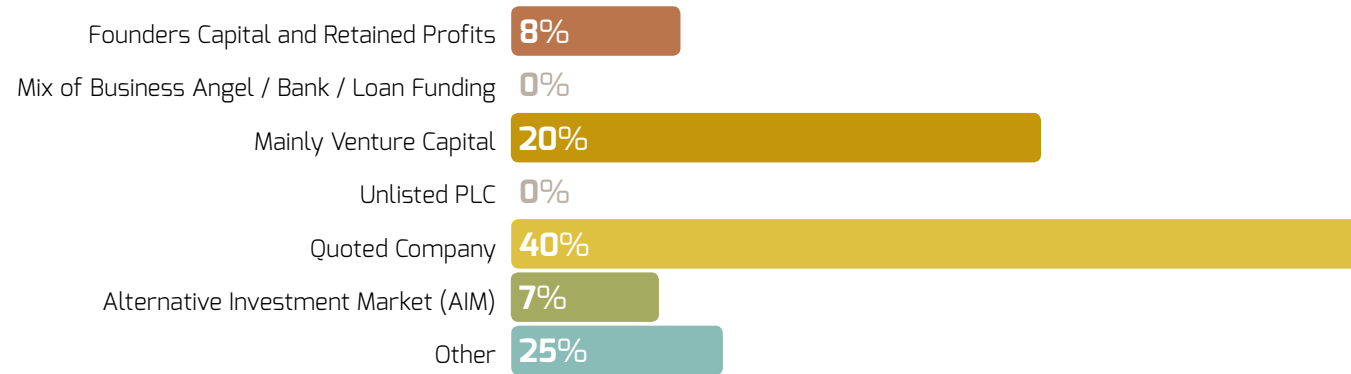
Over half (63%) the larger companies are planning growth during 2013. 31% expect to increase sales by more than 10% with a further 32% expecting single figure growth. 19% expect sales to stay in or sales levels in line with last year, but providing a note of caution 18% expect sales to reduce.

- 10%+ Increase
- 1-9% Increase
- Stay the Same
- Decrease

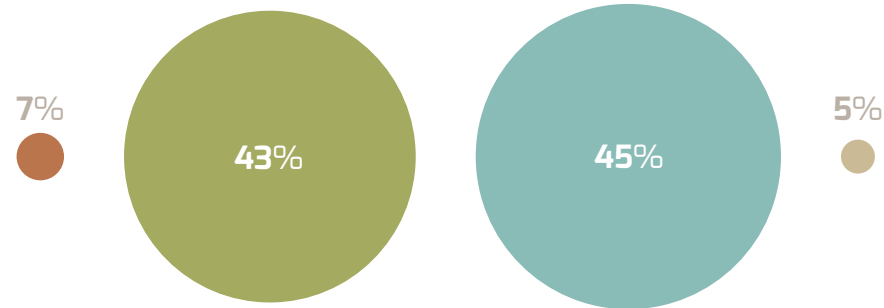
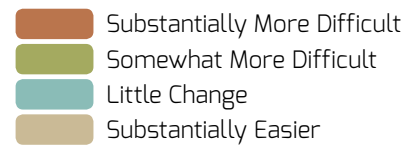




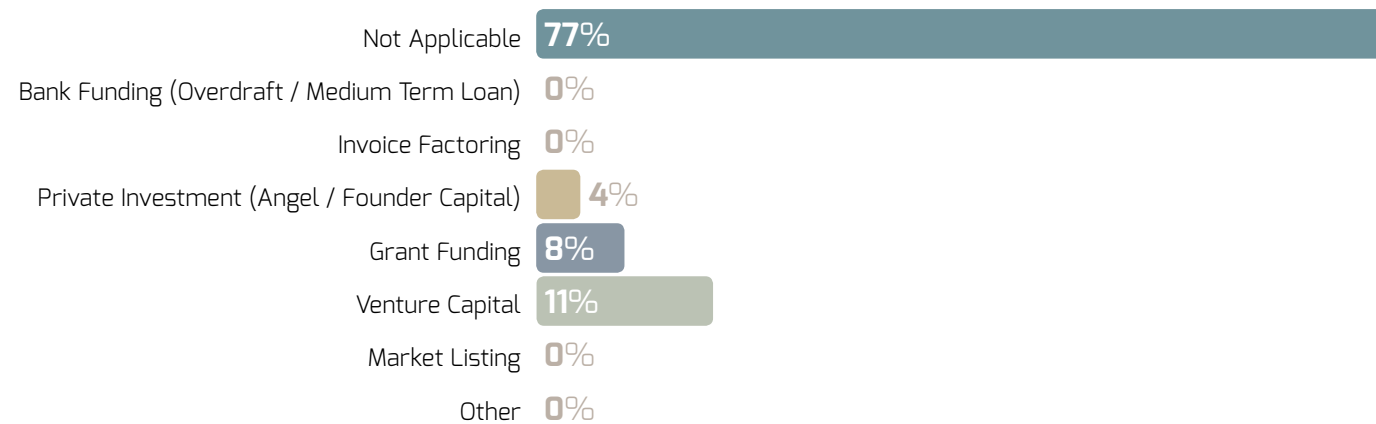
## Funding Models



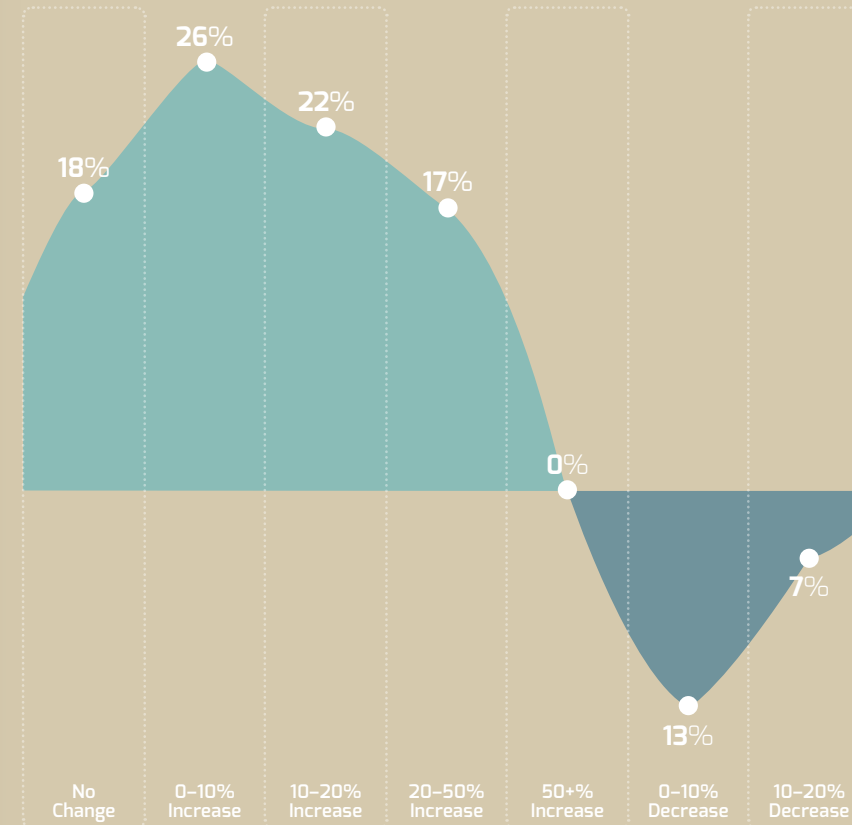
## Cash Flow Compared to Last Year



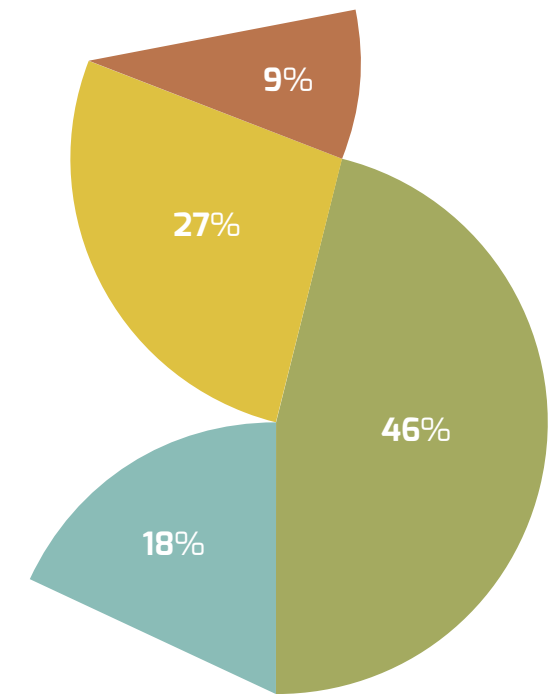
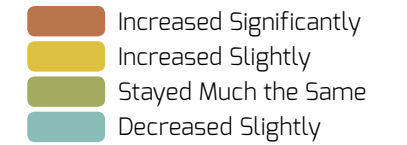
## Source of Additional Finance



## 2012 Sales Compared to 2011 Sales



## Actuals Compared to Budget



CONTROL RISK. STAY FOCUSED.  
KEEP ON TOP OF CASH.

John Innes // Amor Group

## Job vacancies up but skills crisis threatens growth of Scotland's booming digital technologies

Talented candidates looking for new opportunities should look to the SME and mid-sized companies as this is where the action lies. It appears that the corporate markets are still feeling the pinch and therefore plan for a year of consolidation or even a slight decline in employee numbers. However, the mid-sized markets are pushing forward with demand for mobile and C#/Java development, as well as product and content marketing skill sets.

Drawing on observations from this year's respondents, the companies that invested in their product offerings and export channels over the last couple of years are the companies pushing for growth. Therefore those investing in new talent now, will push their companies forward while others plateau (or even decline). The level of roles currently in demand is at the operative level, around £23–35k.

Wendy McDougall // Managing Director, 9-20 recruitment

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@920recruitment

www.9-20recruitment.com

TODAY'S SURVEY RESULTS AND INDUSTRY FINDINGS REINFORCE THE MESSAGE THAT COMES BACK AGAIN AND AGAIN FROM OUR MEMBERS. THEY ARE GOING FOR GROWTH AND THERE IS SIGNIFICANT PENT UP DEMAND FOR SKILLED PEOPLE IN THE DIGITAL TECHNOLOGY INDUSTRIES.

THERE'S AN INCREASING BUZZ ABOUT THE INDUSTRY AS BUSINESS AND GOVERNMENT TRANSFORM THEIR OPERATIONS THROUGH THE SMART APPLICATION OF TECHNOLOGY. WE'RE SEEING INCREASING CONFIDENCE ACROSS THE INDUSTRY, FROM START-UPS TO THE GROWING NUMBER OF SCOTTISH DIGITAL TECHNOLOGY BUSINESSES CARVING OUT EXPORT MARKETS AROUND THE WORLD.

Polly Purvis // Executive Director, ScotlandIS

THE SURVEY RESULTS ARE GREAT NEWS FOR THE HUNDREDS OF NEWLY QUALIFIED GRADUATES WHO WILL BE HITTING THE MARKET IN THE SUMMER. THE CHALLENGE IS KEEPING THE TALENT COMING THROUGH THE PIPELINE FROM UNIVERSITIES AND COLLEGES TO KEEP UP WITH THE DEMAND FOR SKILLED WORKERS IN THE DIGITAL TECHNOLOGY INDUSTRIES.

Wendy McDougall // Managing Director, 9-20 recruitment

## Most sought after skills



Those with software and web development skills are the most sought after at 58% (67% last year), just ahead of commercial and business skills at 53% (72% last year) and project management skills at 49%.

## Most in demand category of staff



Operatives topped the category of staff most in demand this year at 60% up from 47% last year. Graduates are just slightly behind this at 58% this year (having been top at 52% last year).

## Demand to increase headcount



The number of respondents planning to increase headcount this year is 70% (63.5% last year).

THE SCOTLANDIS ANNUAL SURVEY CONFIRMS WHAT AMOR HAS SAID IN THE PAST, NAMELY, THE SOFTWARE INDUSTRY IN SCOTLAND IS CRYING OUT FOR SUITABLY QUALIFIED GRADUATES, GROWTH IN OUR INDUSTRY IS BEING RESTRICTED, AND SCOTLAND IS LOSING OUT TO OTHER COUNTRIES. IT IS UNACCEPTABLE IN THE MIDST OF A WORLD-WIDE DIGITAL REVOLUTION THAT SCOTLAND DOESN'T HAVE ENOUGH TALENTED GRADUATES TO EXPLOIT FANTASTIC GLOBAL OPPORTUNITIES. IN ORDER TO BE SUCCESSFUL, SCOTLAND NEEDS MORE QUALIFIED GRADUATES, WE NEED TO ENCOURAGE AND PROVIDE THE OPPORTUNITIES FOR THE NEXT GENERATION OF STUDENTS TO BE PART OF SUCH A SUCCESSFUL INDUSTRY.

Alastair O'Brien // Public Sector Director of Amor Group and Deputy Chair of ScotlandIS

## About ScotlandIS

- ScotlandIS represents the digital technology industries, including software, telecommunications, IT and digital media businesses.
- ScotlandIS members vary from internationally recognised exporters to very small startups and cover a wide range of skills and markets.
- Scotland's software, IT and communications businesses employ more than 70,000 people and currently generate approximately £4 billion: around 5% of Scotland's GDP.
- ScotlandIS promotes the industry and lobbies government and policy makers on issues of importance to the sector.
- ScotlandIS stimulates networking and partnerships between member organisations, providing networking, training and best-practice exchange meetings, seminars and workshops.
- ScotlandIS provides practical support to help members trade, for example, by providing access to industry experts and disseminating market intelligence.
- ScotlandIS works in partnership with e-skills UK (the sector skills council for ICT), government and academia to create and retain the skills and infrastructure required to support the knowledge economy.

STARTUPS LIKE OURS ARE HAVING A CHALLENGING TIME FINDING QUALIFIED SOFTWARE DEVELOPERS. STARTUPS NEED TO FOCUS ON A LEAN DEVELOPMENT ENVIRONMENT SO WE CAN PROTOTYPE CHEAPLY AND GET TO MARKET FAST. THE SKILLS NEEDED IN THE LEAN DEVELOPMENT ENVIRONMENT SUCH AS RUBY CODING ARE IN PARTICULARLY SHORT SUPPLY.

Steven Drost // CEO of Stipso

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## Contact



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