



Australia

Annual Report 2007

Local Software Economy Initiative



Microsoft®

Welcome

*Partnerships are central to creating
national software economies
and advancing economic growth*

Today more than ever, Australia is operating in an economy in which knowledge, rather than quantity of labour, and technology, is the main productivity facilitator underpinning sustainable economic growth.

The effective management of information, heightened collaboration and the necessary incentives for investment in innovation will become tomorrow's competitive differentiators and the basis for future economic prosperity.

The Information and Communications Technology industry (ICT) is uniquely positioned to enable businesses across sectors to improve productivity and drive innovation. ICT already influences such diverse issues as climate change and resource management right through to empowering small business and providing customer relationship management opportunities in the financial services sector.

We understand that Microsoft Australia is just one player in the ICT industry, which is why we support the contributions of the many small and medium-sized businesses locally. We are working both directly and indirectly with more than 14,000 independent Australian technology businesses that are developing or selling technology solutions on Microsoft platforms.

This partnership is assisting these companies to innovate and generate their own intellectual property (IP) and we estimate that for every \$1 Microsoft generates in revenue, the Australian businesses who develop related IP or distribute our products receive \$8.

We are also working with local independent software vendors (ISVs) through the Australia.NET project, which strives to promote local economic development by:

- Building a collaborative industry around our .NET technology;
- Promoting the capabilities of local ISVs; and
- Collaborating with government and local industry on future projects to support and grow the local software economy.

Collectively, the state-based and the Aus.NET clusters have more than 550 member organisations employing 6,100 .NET specialists currently working on thousands of projects worth more than half a billion dollars.

We are part of a vibrant and exciting industry, and Microsoft Australia is looking forward to continuing our work with business, education and government to grow the Australian economy and foster the next generation of ICT professionals.

Tracey Fellows
Managing Director
Microsoft Australia



Thinking Globally, Acting Locally

In today's markets, intellect and imagination are the raw materials of sustained economic growth. And nowhere are they powering growth faster than in the industries that generate ICT. This ICT sector is crucial to Australia's economy. A community of more than 20,000 businesses employs 145,000 people and generates an annual income of more than A\$24.3 billion.

Microsoft is a relatively small part of this ICT sector, but our success is absolutely dependent upon it. We rely on the vitality and creativity of the thousands of independent Australian software developers, systems integrators, resellers and consultants that deliver Microsoft technology effectively to our customers.

Because we work in a world of entrepreneurial inter-dependence, Microsoft wants to make sure that the ICT environment is as healthy as possible. Consequently, we have developed an integrated 'Local Software Economy' (LSE) initiative. We are partnering with local policymakers, industry leaders, educators and other stakeholders to encourage and facilitate local technological development. Our objective: to see the ICT ecosystem thrive.

This corporate mission is not just good citizenship. It is a sound investment. When ICT can capitalise readily on intellect and imagination, we live in a world of compound innovation. And everyone gains.

Industry Clusters

The ICT market place is a challenging space for small companies. There is no escape from competition – the market is truly, brutally global. Even with innovative products and technical acumen, their size can make it difficult for small companies to secure funding, arrange collaborations, and connect with prospective customers – particularly if those customers are overseas.

But there is a proven equalizer: industry clusters.

A cluster is a geographical concentration of companies who share a common market. It spurs competitive advantage by facilitating co-operative product development, joint marketing, information networking and innovation sharing.

Clearly, the easier that companies can talk to each other, the more that members of a cluster can exploit each others' experience and expertise. That's where 'Web Services' and Microsoft's .NET software come in. 'Web Services' are internet-based software systems that enable customers to share data across different hardware platforms and operating systems, irrespective of how those systems were originally built, or what they were built for.

Microsoft's .NET products – based on our .NET Framework operating system – include servers, development tools and applications. Everything a business needs to develop and deploy a Web Services solution.

In Australia, Microsoft is helping to build clusters of ICT businesses using its Web Services technology. Australia.NET is a collective of regional, state-based clusters founded in partnership with local industry stakeholders and state governments. Targeted at specific business communities, .NET has become a communications catalyst for ICT clusters across Australia.





Success Stories

Invest Locally, Expand Globally.

There is a story common to small technology companies: a niche product that dazzles the local customer, but stays hidden from the global market because the company lacks the enterprise to take it there. Establishing business plans, marketing strategies, and finance partners generates a frustrating cycle of trial and error for inexperienced entrepreneurs. nSynergy – a Melbourne-based software company – demonstrates how a small company can use clusters to break through to major markets.

Their innovative web-based product allowed both corporate legal departments and external law firms to secure on-line access to legal documentation. Real-time collaboration between customer and client dramatically

increased the efficiency of the legal process. But nSynergy wanted to expand beyond their familiar market.

By leveraging their contacts in Victoria.NET, nSynergy was able to bid for major contracts normally captured by much larger companies. As a result, they were able to land enough business to open branch offices in Sydney, London and New York. In fact, local software developers now fulfill work generated by these overseas offices.

“As a new company, membership of Victoria.NET helped us create an important network of distributors and clients,” says Director of Business Development, Karl Redenbach. “And our association with the industry cluster also assures our clients that we are using the latest technology.”

Worldwide Licensing Deal for Training

Clusters are about communication: genuine two-way communication. Readify, a founding member of Victoria.NET, sells technical consulting and training exclusively around .NET, XML Web Services, and other enterprise technologies. Victoria.NET helped them find new customers, but it also helped customers find them. One of those customers was Microsoft.

Spotting a new business opportunity, Readify had begun developing training courses on how to use Microsoft’s .NET development platform. Involvement with Victoria.NET brought Readify to the attention of Microsoft. And spotting an opportunity of our own, Microsoft enlisted their help developing training courses.

The end result was a worldwide licensing deal between the two companies for a series of training courses on .NET technology. Says Readify CEO Graeme Armstrong, “Our involvement with the cluster didn’t just make us more aware of commercial opportunities in the global market; it brought that market directly to our door.”

Sustainable Specialisation: Interview with Eddie Geller

Industrial clusters are organised independently of Microsoft by senior executives in the ICT industry. After three months, the NSW.NET cluster boasted 57 member organisations, 1200 projects and 892 specialists. Eddie Geller is chairman and CEO of UniqueWorld.

Q: What actually takes place in a cluster?

A: It depends; commercial partnerships are very varied. They can be as simple as one company finding the resources it needs to supplement its .NET solutions. They can resemble huge consortia.

Q: What’s the biggest that has emerged so far?

A: One of the biggest is something we are putting together right now. The London Olympics are a massive opportunity and NSW companies have credibility because of the Sydney Olympics. But our members are far too small to bid for specific contracts, like event management, or the ticketing software. But with backing from Austrade, we are putting together consortia bids that will stand a real chance.



Q: How is the NSW.NET cluster likely to develop in the next six months?

A: We want to do something a bit different from the other states. We will grow very fast, but we are going to be specialised. Up until now, .NET companies have tended to work across the board. We think the future is vertical. We want to segment according to industry, so that potential customers have a natural contact point in the cluster according to their industry, rather than having to go all the way through Microsoft.

Q: Will cluster companies naturally fall into industry categories?

A: I think so, increasingly. Customers want clients to know their business, they don't want to have to explain how they work. As the .NET space grows, that market imperative will drive specialisation.

Q: What will the cluster deliver to its members in the coming year?

A: I think we will start to see the cluster deliver very valuable access – to grants and venture capital. At the

minute, if there are huge funds floating about looking for opportunities, then a single .NET is not going to set off a ping on their radar. But an organised cluster will show up and can attract capital because they will be a safer bet.

Q: What's Microsoft's relevance to the NSW.NET cluster?

A: We have two Microsoft people on our Board. That makes it much easier for our members to engage with Microsoft. Which is important. Their R&D budget is huge and so there is a huge range of commercial opportunities. Actually, clusters are very much about small businesses getting to know each other, but Microsoft is the catalyst that helps them to react off each other.

Getting to Know You

.NET clusters are about new opportunities. That means getting to know new faces. But even hardened ICT professionals still meet the old-fashioned way. Borrowing from the 'Progressive Barn Dance' technique, cluster facilitator Martin Lack's Queensland.NET events are sociable affairs. "When we hold our meetings, we get the dark shirts to form an outer circle facing in, and the light shirts to form an inner circle facing out.

Then we give them three minutes each-way intensive pitching. We ring a bell, then they all move on."

Does it work? "The technique is actually very successful because it gets people communicating about what they are really interested in," according to Lack. When the guest Microsoft staff take the floor, it's as much about them hearing what's going on in the .NET community, as them telling the community what's going on in Microsoft. The technique isn't deterring the .NET die-hards. Membership has doubled in a year.

Big Government

Big business is daunting enough for small ICT companies; but it's nothing compared to big government. In Canberra, bidding for Federal Government work can require membership on dedicated panels and the ability to accept liability on major engagements. The required insurances are often expensive and, while the Federal Government provides assistance on how to engage with agencies, it can be expensive to help understand and manage legal agreements.

"Small companies love a Multinational Partner, because it allows them to box above their weight."

David Sajfar
ISV – Industry Development Manager
Microsoft Australia



In addition, bidding for Government contracts can be a slow and frustrating process which is both resource and logistically intensive. This is because Government has high governance standards for both procurement and contract management.

Collaboration helps, because it allows big companies – who have the capability and resources – to bid for enterprise-level engagements while acting as sponsors for small companies – who have specialist capabilities – to avoid the risk of engaging individually. But it's not just a matter of access. According to Canberra.NET manager Ellen Meinhart, collaboration between large corporate organisations and SMEs is just as important because it establishes trust between partner companies. SMEs gain confidence that they won't lose control of their business, and their sponsor companies gain confidence they won't lose control of their contracts. Canberra.NET currently boasts 409 specialists and 180 projects.



“The collaboration between MNCs and local industry – especially micro and small companies – is crucial to helping local industry participate in the national and global economies.”

Sheryle Moon
CEO

Australian Information Industry Association

In Closing

The most obvious aspect of the Australian ICT industry is that it is dominated by small and medium-sized enterprises (SMEs). It's a very broad-based pyramid, and no matter where you cut it, it's a very lonely place to do business. While SMEs are good at innovating, the biggest challenge is that not enough people know about them or their products.

When new companies join a cluster, the first thing we do is to set up profiles: “Who are you; what do you do; what have you got; what experts do you have; what's the economic value of your current opportunities?” All this data is aggregated onto a scorecard, so that big institutions can see the cluster's size. And when you demonstrate your size, you become a voice: an industry voice; a policy voice; and a voice that Microsoft wants to hear.

For example, NSW.NET can tell us how many potential employees they will likely need, and what skills they must have. Microsoft can feed this back to academia so that they can encourage the right volume of students to train in the skills the market wants. So clusters help connect demand and supply in the ICT skills labor market.

Then there's policy. Government invests billions into industry development each year. Based on the size of its contribution to the Australian economy, ICT should be receiving a much greater proportion of available development funds. Small ICT doesn't know how to ask for its fair share. Clusters generate the data and commercial mass to make a case the government will listen to.

And it's important for Microsoft to hear that voice for our commercial interests. We need to be able to size the industry so we can direct our investments efficiently.

Ultimately, though, there is an urgent economic need for a co-operative approach to ICT development. Intellectual property (IP) is the ICT asset of the future. Australia can either be a landlord of IP, or a tenant. Currently, Australia is an IP tenant. Its ICT industry is service-led: ICT skills are sold by time, adapting and implementing other people's software. Competition for raw ICT skills is relentless because these jobs can be done here or in India. But if ICT energy can be directed into generating software IP, then the Australian ICT industry will gain international competitive advantage.

Commercial software is one of the easiest and quickest paths to creating IP. Australian ICT is moving in that direction, it needs to take its products to the next level of commercialisation. Clusters are the device which allows small companies to gain critical commercial mass – sufficient to have a presence on the world stage. Once there, they can start to capitalise on their IP. Clusters are propelling Australian companies up the ICT food chain.

Where will our clusters be in a year's time? We don't know. We have no idea. It will depend on the challenges they face. But we know that their direction is growth-driven, and to get there they will have to grow into commercial software IP. Because that's where the Australian ICT has most to offer in world markets.

David Sajfar

ISV - Industry Development Manager

Microsoft Australia

Just the Facts*



Multi-national companies such as Microsoft comprise more than half the Australian ICT industry in terms of employment.

Employment

- **Total ICT Jobs:** Using the broadest definition of ICT workers, the Centre of Innovative Industry Economic Research estimates that there are 502,000 people engaged in the ICT industry. That's 5.5% of the total number of Australians employed.
- **Technology's Impact on GDP:** According to ABS, ICT accounts for 4.6 % of GDP. This rises to 6% if you include in-house software development.
- **Total Job Market:** There are 10 million workers in Australia and half a million of these workers are employed in the ICT industry. This means that 1 in 20 workers are employed in the ICT industry.
- **Software's Influence on Job Growth:** According to a March 2006 government report, the ICT industry contributed to some 85% of productivity growth in the manufacturing sector and up to 78% in the services sector over the last two decades.
- **Technology and Productivity:** According to Commonwealth research in the service industry sector, between 59% and 79% of productivity growth can be attributed to technological factors. That's roughly twice the proportion attributable to institutional reform.
- **IT Spending Growth:** In 2007, the estimated spend in Australia is expected to reach \$55 billion and is forecast to reach over \$60 billion in 2008.

*Source: Australian Information Industry Association (AIIA), 2007.