

Software

SECTION 12 SOFTWARE

INDUSTRY REVENUES

Revenues of the UK software and computer services industry as a whole stand at £21bn. The Confederation of Information Communication Industries estimates that £8.7bn of this will apply to software rather than other computer services, some £1.2bn of which is covered by the interactive leisure software chapter.

UK MARKET SIZE

The UK market is currently worth £8.5bn for software excluding services, and is growing at an annual rate of around 15%. The £0.7bn market for interactive leisure software ought to be deducted in order to avoid double counting.

Except for a slump in the early 90s due to uncertainty about technological change, this sector has seen double digit growth since the early 80s.

BALANCE OF TRADE

Data is not currently collected in a form which allows flows of trade in software to be reliably assessed. In any event, much of the trade in software would be "invisible", being increasingly delivered on-line.

The international software and computer services market was worth £258bn in 1997, of which Western Europe represented about 30% of the total and the US 45%.¹

EMPLOYMENT

ONS calculate that 272,000 were employed in computer services in 1997. This includes software but we are unable to disaggregate the figures.

INDUSTRY STRUCTURE

There are in the region of 50,000 businesses in this sector operating in the UK,² 40% of them having revenues of less than £50,000. Only 1,400 firms have revenues of more than £1m.³

In 1985, the top 10 UK owned companies accounted for 66% of UK revenue. In 1995, the top 10 accounted for only 14% of UK revenue.⁴

45% of all companies employ ten or fewer staff.⁵ These SMEs tend to be staffed by individuals who are technically very adept but who in many cases do not possess the management and business skills necessary to make the business more profitable.

In recent years foreign companies have been buying UK businesses as a means of growth.

A stock exchange index for IT was created in January 1998, since when there has been a rise in the index of 50-60%.

INTERNATIONAL CRITICAL ACCLAIM

This is difficult to measure but the UK is a strong provider in niche sectors, with selected UK companies dominating particular sectors. For example Nysis has a 40% share of the global banking software market.

SECONDARY ECONOMIC IMPACT

Software continues to be a key driver of growth and competitiveness across industry as a whole.

The IT industry has spawned a number of peripheral industries including consulting, training and recruitment which fall within the computer services sector. Revenues from consultancy reached £700m in 1997, and is predicted to rise to over £1bn by 2001. Training and recruitment services have experienced something of a boom due in large part to the current skills shortage in the industry. The top ten IT staff agencies witnessed 56% growth in 1997.⁶

¹ Source Holway 1998

² Source ONS

³ Source Business Monitor 1997

⁴ Source CSSA

⁵ Source ONS

⁶ Source Holway 1998

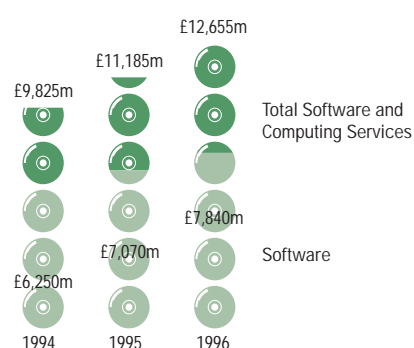
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POTENTIAL FOR GROWTH

UK Software Services Market, 1994-1996 £m

	1994	1995	1996	1995 Growth	1996 Growth
System Software	875	870	840	-0.6%	-3.4%
Contract/Bespoke	1,360	1,655	1,970	+21.7%	+19%
Fixed Price	120	125	130	+4.2%	+4.0%
Systems Integration	875	1,050	1,210	+20.0%	+15.2%
Software Products	2,110	2,370	2,590	+12.3%	+9.3%
Turnkey Solutions	910	1,000	1,100	+9.9%	+10.0%
Total Software	6,250	7,070	7,840	+13.1%	+10.0%
Total Software and Computing Services including system software and manufacturers hardware maintenance	9,825	11,185	12,655	+13.8%	+13.1%

UK Software Services Market, 1994-1996



The system software industry is seeing diminishing revenues due to the shift from proprietary software to off the shelf products. However, the services side of the sector is growing at rates in excess of 20%.⁷

Bespoke and management applications are experiencing strong growth due to the shift towards contract staff and long term contracts with high revenues.

The growth of outsourcing and the trend towards contract staff has implications for the IT training industry and the subsequent development of the computing services and software industries.

The UK is experiencing a skills shortage: poaching of highly trained staff is prolific. Current programmes such as addressing the Millennium Bug and preparing for EMU are eating into the skills base. Moreover, the range of skills required is changing rapidly.

The biggest growth area will be Value Added Services or information service providers, which it has been estimated will experience a CAGR of 28%.⁷

Overseas markets may provide a fast track to growth in an otherwise increasingly competitive domestic market, but SMEs often lack the experience, skills and finance they need to take these opportunities.

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GROWING THE SECTOR – POINTS FOR CONSIDERATION

Although growth is picking up, there are major trends affecting the individual components of the industry, as well as some key issues across the board:

- the importance of introducing children to IT at an early stage, to generate computer literacy and new creative talent
- training to address the shortage of relevant skills in the workforce
- the long-term impact of the growth of the Information Society
- the opportunities posed by convergence of technologies and liberalisation of communications
- the impact of increased global competition, particularly on price
- the move towards packaged software and networks, a market increasingly dominated by the US
- supporting exports, particularly by SMEs
- the challenge of constant innovation