Market Measures

2011

The annual survey of Kiwi tech companies sales and marketing

CONCENTRATE
marketing for hi-tech companies

SWAY.TECH

pwc

Executive Summary

BACK TO BASICS FOR TOP TECH FIRMS

A back to basics approach to sales and marketing is suggested by the latest study into sales and marketing by New Zealand technology exporters. Our highest performing firms succeed by focussing on fewer markets than their peers and applying marketing basics, according to the 2011 Market Measures study.

The study reveals that in the headlong rush into export markets, Kiwi tech entrepreneurs too often miss some marketing fundamentals. Companies that focus on a select number of markets with a select number of products, use partners to sell and support these offerings, and tell their story using aggressive old and new school promotional tactics, are the ones that are associated with the highest growth.

Who participated?

158 companies completed the third annual Market Measures survey, across software product development, IT design, consulting and development services, electronic devices and equipment (76% of respondents).

Auckland, Canterbury and Wellington were the most common locations (94% of respondents), and companies included start-ups through to established companies.

Turnover and age statistics suggest we continue to struggle with building international technology businesses of scale and substance. Only 15% of companies earn over $10 million with a long tail of under $1 million (38%).

What's changed?

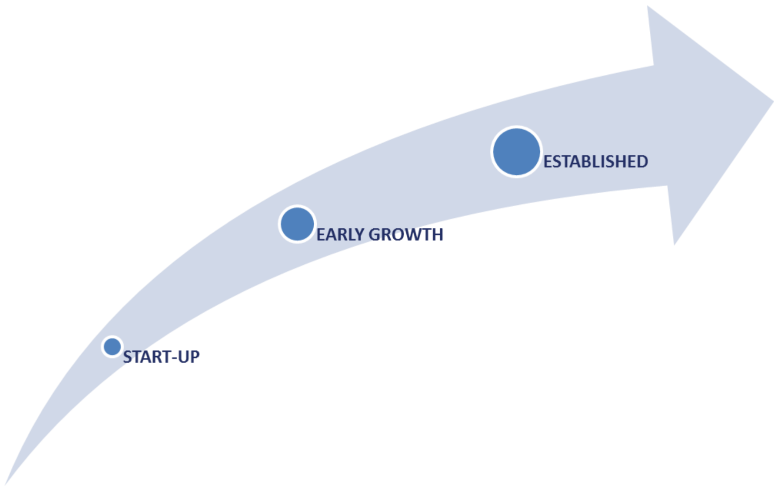
Growth and export focus is back on the increase after a recession slowdown in 2010, although companies have cut back on sales and marketing spend[1].

	2009	2010	2011
TURNOVER GROWTH	58%	40%	48%
COMPANIES EXPORTING	72%	77%	85%
SALES & MARKETING SPEND	39%	40%	30%

[1] Sales and marketing spend includes sales and marketing staff expense, and non-staff marketing expense.

Does company lifecycle matter?

In this year's study, respondents self-categorised themselves into one of three categories of company lifecycle, and data was analysed on that basis.



The main insights from these stages:

- Start-ups are good at product development, but struggle to attract capital.
- Early growth companies excel at attracting staff, but are constrained by a lack of cash.
- Established companies tend to be strong at managing their finances, but are still seeking staff and additional capital.
- Pricing confidence increased as companies matured, with only 2% of start-ups commanding a premium price positioning, as opposed to early growth (10%) and established companies (22%).
- All companies are heavily export oriented, targeting Australia, USA and the UK, with start-ups slightly more likely to sell into Asia.
- All companies tend to focus on sales support type promotion (events, collateral, web) with start-ups more likely to use social media.

A land of missed opportunity

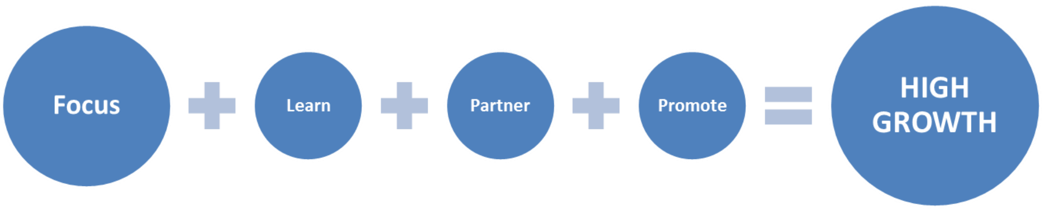
Tech firms surveyed typically reflected four significant constraints to realising the market potential of their innovations:

1. Finding sufficient capital and appropriate staff.
2. Over-reliance on selling directly with an in-market presence, rather than using channels.
3. Rate their commercialisation capability around marketing as weak, especially promotion, and sales.
4. Focus on tough, slow markets such as health and community services, utilities and government administration and defence.

The ‘magic’ formula: focus & intensity

The survey provides some insights into what sales and marketing factors really make a difference.

By correlating a range of sales and marketing variables respondents supplied information about, against rates of growth, the survey revealed a simple formula for success:



The fastest growing companies displayed these attributes:

1. FOCUS: sold a lower number of core products into a lower number of sectors.
2. LEARN: understand their market, rating themselves strongly on the ability to research and learn key aspects of their target markets.
3. PARTNER: are effectively using channel partners to sell and support their products.
4. PROMOTE: are actively promoting their business, particularly public relations, direct marketing and social media.

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Foreword

FROM CONCENTRATE & SWAYTECH

New Zealand is an ideas factory, but too many of our innovations fall off the production line and break on the factory floor. Getting more of them out of the factory door relies to some degree on us increasing our capabilities in marketing and selling our hi-tech goods to the world.

We hope that the insights contained in this study make some contribution to building this capability, and further realising the potential of our great industry.

Owen Scott
Managing Director
Concentrate Limited

Bob Pinchin
Managing Director
Swaytech Limited

FROM PwC

The third annual Market Measures survey again broadens our understanding of the importance of effective sales and marketing activity, particularly in companies that are challenged for cash and capital.

The key learning's - knowing your vertical, focusing your efforts and partnering up as you go into new markets - gives good guidance to emerging businesses about how they can achieve their vision of success.

If businesses continue to learn from others who have 'been there and done that,' New Zealand's technology businesses will grow quickly and be more successful in going global.

Owen Gibson
Partner
PwC New Zealand

Scott Kerse
Partner
PwC New Zealand

The Strategic Implications

HI-TECH NEW ZEALAND: LAND OF MISSED OPPORTUNITY?

New Zealand technology companies are performing well but are missing the opportunity to grow faster and build significant scale, according to the results of the 2011 Market Measures survey.

Turnover growth was up on 2010 (48% vs. 40%), with even established companies recording 21% growth on average. Underlying this solid growth story are some significant factors for the hi-tech sector, which need to be addresses if it's to realise its enormous potential as an earner of foreign exchange.

Tech firms typically reflected four significant constraints to maximising their market opportunities:

Money and people

A lack of capital and difficulties in finding appropriate staff are major constraints to growth. For companies in the start-up phase capital was cited as the biggest restriction on expansion. For early growth firms capital was also the largest barrier to growth, followed by staff, while established tech companies identified staff and then capital as their biggest barriers.

Lack of channels to market

A continuation of the 2010 picture showed respondents tend to be battling it alone out in world markets, exporting very early in their lifecycle using an in-market sales presence, with only a minority using distribution channels.

Weak commercialisation skills

Another theme that has consistently emerged over the three Market Measures studies is relatively weak skills around taking products to market. Respondents feel they are strong at designing and developing products, especially those in the start-up phase, as well as being strong on people management. Established companies rate themselves highly on financial skills. While marketing, promotion and selling, rate as the weakest areas of commercialisation capability.

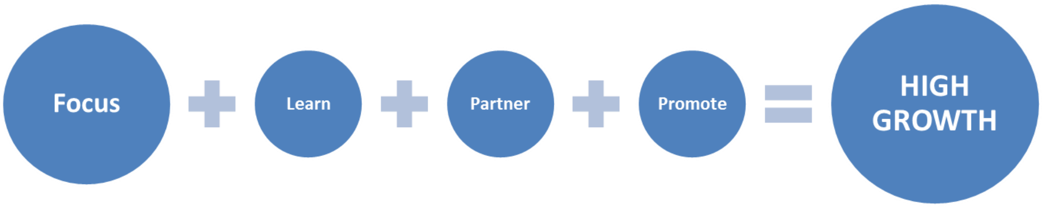
Choosing tough markets

The study shows that Kiwi tech firms tend to focus on slow moving, risk-averse industry sectors. Health and community services, utilities and government administration and defence are the most common sectors respondents are focussing on. Agriculture, the sector most closely aligned with the New Zealand country brand, came a distant 10th overall, with only 4% of start-up companies selling high tech products into this market.

A SIMPLE FORMULA FOR SUCCESS: FOCUS & INTENSITY

Taking Kiwi technology products to the world is tough, relentless and risky. Success is due as much to hard work and guts as it is to smart strategy and innovation. However the survey does give some insights into what sales and marketing factors really make a difference i.e. what the formula for success looks like.

A number of sales and marketing variables were correlated against rate of growth, providing a fascinating picture of what activities are mostly likely to be associated with high growth. The 'magic' formula to growing technology companies, according to the survey results, is this:



1. FOCUS: Focus, focus and more focus

Companies that grew the fastest were much more likely to have a lower number of core products and services, sold into a lower number of industries than the average (25% less products and 35% less industries). With this focus they can achieve more intensity with their sales and marketing activity, build brand awareness and generate leads more efficiently.

2. LEARN: Know your market

Market understanding was another key. Companies that rated themselves strongly on the ability to research and learn key aspects of their target markets, tended to have higher growth figures. Clarity around the markets in which they operate, gives them the ability to develop more effective penetration strategies.

3. PARTNER: Don't go alone

Interestingly, given the minority of respondents used distribution channels, high growth was associated with using a partner in both local and export markets. Firms able to set up and manage an effective channel can reach and service customers more effectively than those battling it alone.

4. PROMOTE: Any promotion is good promotion

Any promotion is good promotion, almost. From the survey it is clear firms need to promote to grow. All promotional activities tend to be associated with good growth, with a couple of particularly effective areas:

- Spending on public relations and direct calling programmes (e.g. telemarketing).
- Using social media effectively, especially having a blog and using social professional networks (such as LinkedIn).

Survey Results

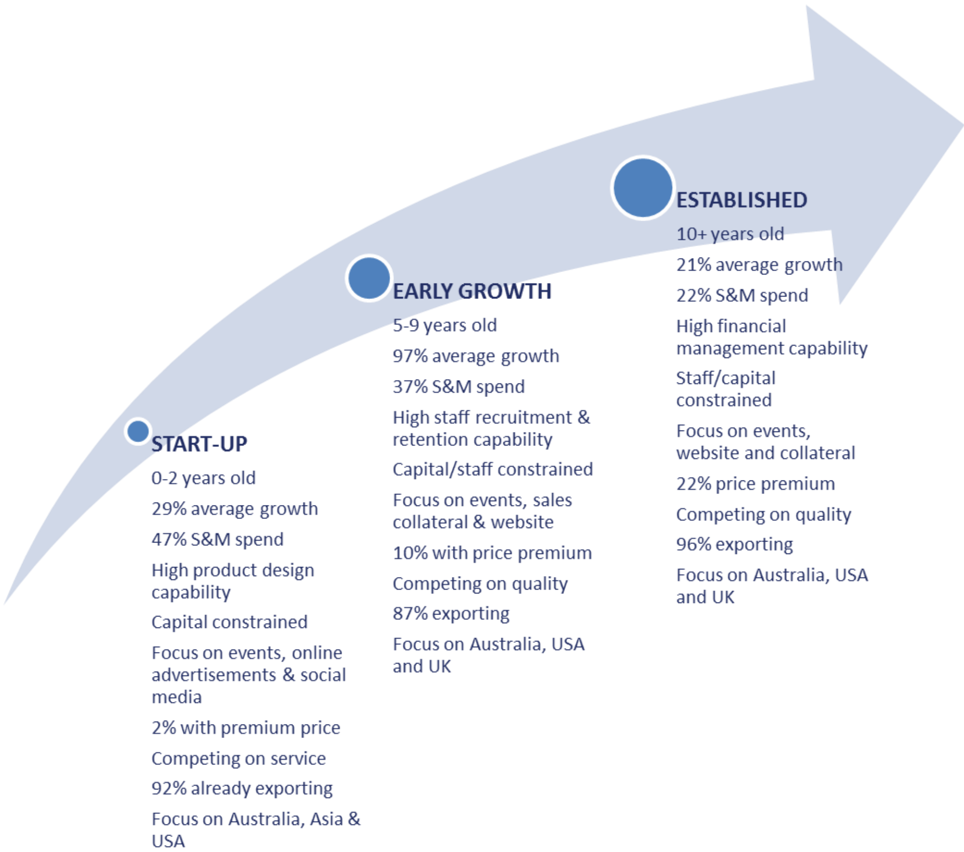
INTRODUCTION

The results were compiled from an online survey conducted in mid-2011. It built on the survey conducted 12 months earlier, testing the same issues but also exploring some new areas.

158 companies participated in the study, the largest number being from Auckland, followed by Christchurch and then Wellington. They were most likely to be software companies, IT services providers, or producers of electronics. A significant number (49%) of software companies had a Software-as-a-Service (SaaS) offering.

83% of respondents sold business to business, and tended to focus on the health and community services, electricity, gas and water supply, communication services, and government administration and defence sectors.

New for 2011, respondents self-rated as either 'start-up', 'early growth' or 'established', providing an interesting insight into the challenges and opportunities at each stage of a tech companies lifecycle. The lifecycle picture:



CAPABILITY ISSUES: SKILLS, PEOPLE AND MONEY

Weak commercialisation capability

While ranking themselves strongly on their ability to design and develop products, firms feel sales and marketing is their weakest area of capability. The findings reinforce the perception that New Zealand is blessed with innovators, but lacks a solid core of commercialisation experts.

Top three capabilities

A. Start-up companies: product design, product development and manufacturing, recruitment and retention of staff.

B. Early growth companies: recruitment and retention of staff, product design, product development and manufacturing.

C. Established companies: managing finances, product development and manufacturing, product design.

The bottom three capabilities (common across all lifecycles) were marketing and promotion, protection of intellectual property and selling.

The money or the people

Attracting sufficient capital and suitable staff emerge as the two key constraints to tech company growth, although the picture changes over time. Capital diminishes in importance over time as concerns over staff become more critical.

The three biggest constraints to growth were:

1. Start-up companies: capital
2. Early growth companies: capital and staff
3. Established companies: staff and capital

COMPANY GROWTH: We're back! Tech growth increases

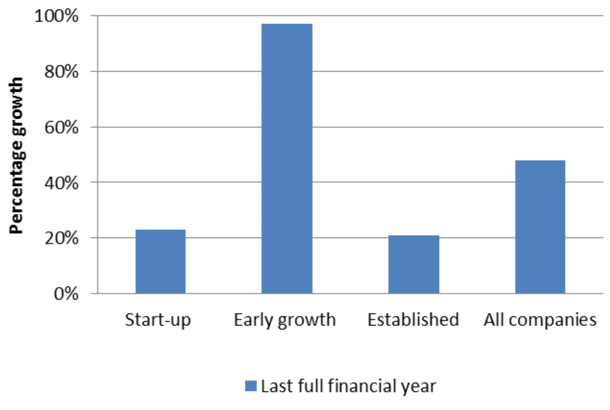
Hi-tech is a high risk, high return sector, but growth had softened from 2009 to 2010 in the midst of the global financial crisis. In 2011 it is on the way up again.

	2009	2010	2011
TURNOVER GROWTH	58%	40%	48%

Turnover growth was 8% up on the 2010 study figure of 40%.

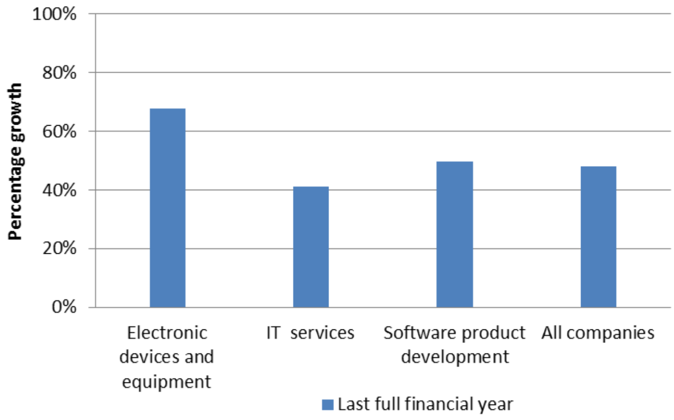
Turnover growth – by growth stage

Growth was up on previous year (48% vs. 40% last survey). There was steady growth for established companies (21%) and huge growth for early growth companies (97%).



Turnover growth – by company type

Electronic devices and equipment companies experienced almost double (83%) the growth that software companies and, the greatest growth occurred for companies around 3-4 years of age.



EXPORTING: Going offshore early

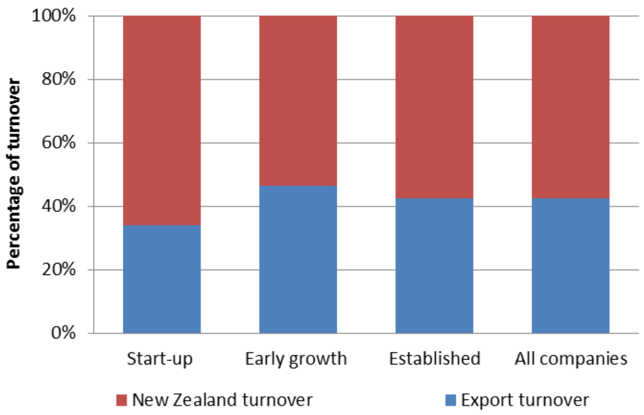
Overall, 84.8% of companies are currently exporting, up on 77% in 2010. Companies at every stage are exporting (63.6% start-up, 93.5% early growth, 84.0% established).

COMPANIES EXPORTING 72% 77% 85%

Kiwi tech companies go offshore very early, with 64% of start-ups selling in export markets, shattering the myth that companies tend to build capability and resources in New Zealand first.

Export turnover - by growth stage

Overall 42.6% of respondents' turnover is from export markets.



Mother England unfashionable, Asia on rise

Tech exporters focus most of their attention on Australia, but the USA was clearly the second most important export market.

Start-ups had a different mix, with a greater likelihood to penetrate non-traditional tech markets like Asia, reflecting the growing number of tech savvy consumers in those countries.

Top four export markets – by growth stage

Top four export countries	Start-up	Early growth	Established	All companies
Australia	31%	32%	54%	44%
United States of America	11%	29%	20%	22%
United Kingdom		20%	10%	13%
Western Europe (excl. UK, Russia)		8%	4%	5%
Southern Asia (India, Indonesia, Singapore, Thailand)	17%			
Eastern Asia (Korea, Taiwan; excl. Japan & China)	7%			

CHANNELS TO MARKET: We're too shy

High growth is associated with partnering, but not enough exporters are using channels to get their products to offshore markets. Only 16% were selling indirectly, and where they did partner, 84% kept their own brand visible and on average offered a margin to resellers of 31%.

The 2010 Market Measures survey painted a picture of brave pioneers, out there selling in international markets alone. 2011's results reinforce this picture.

Channels to market

While companies use resellers, distributors or sales agents offshore, a significant proportion of companies sell direct (60% direct to off shore markets). It's likely the tech industry overall will achieve greater growth and scale if firms place greater emphasis on developing effective channels.

Margins

Distributor margins remain relatively constant domestically and offshore.

Channel margin	All companies
Within New Zealand	31.20%
Export markets	30.90%

Role of channel partner

The top three reasons companies engaged with a distributer are:

1. Local market knowledge
2. Market contacts and prospects
3. Selling

Partners are more likely to perform all these roles with start-up companies and growth companies are more likely to have partners managing in-market promotion.

Staff in market

We asked if companies have staff in-market. A high proportion of respondents, even those in start-up mode, are investing in people on the ground, reflecting the over-reliance on a direct sales model.

54% of exporters have staff in market. The main roles are sales and sales support, followed by installation and training, and customer support. Only 4% have product development in export markets.

PRICING AND POSITIONING: 'Cheap but good' pricing prevails

It's no surprise that Kiwi tech exporters are facing huge competition. 62% fought niche international companies, 41% large multinationals and 26% local businesses in their export market. This was consistent across lifecycles.

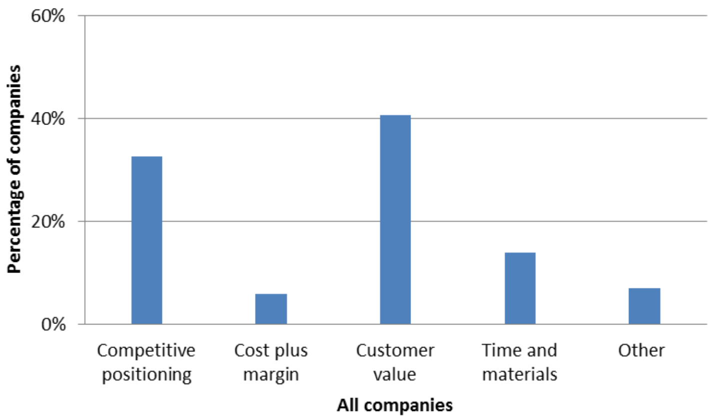
They had a mix of approaches to pricing models, but the one-off purchase transactions were most common:

- One-time charge 50%
- Monthly subscription 23%
- Annual subscription 15%

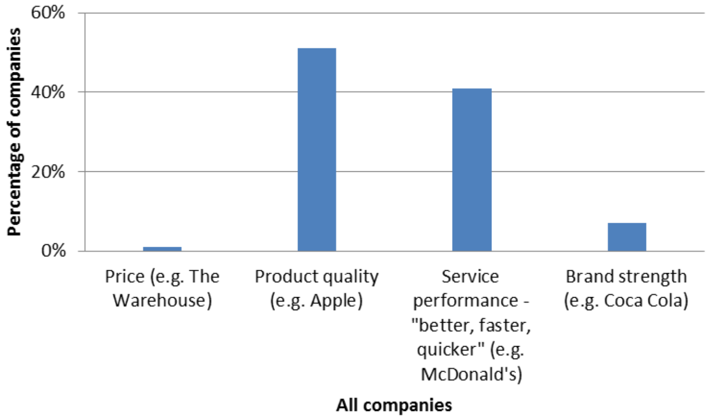
Growth companies are more likely to have one-time charge (54.3%) or monthly subscription (22.9%) and less likely to have annual subscription (5.7%)

Pricing strategy

The majority of respondents said they calculate their pricing based on either customer value (i.e. financial benefit of value they were delivering) or positioning against competitors.

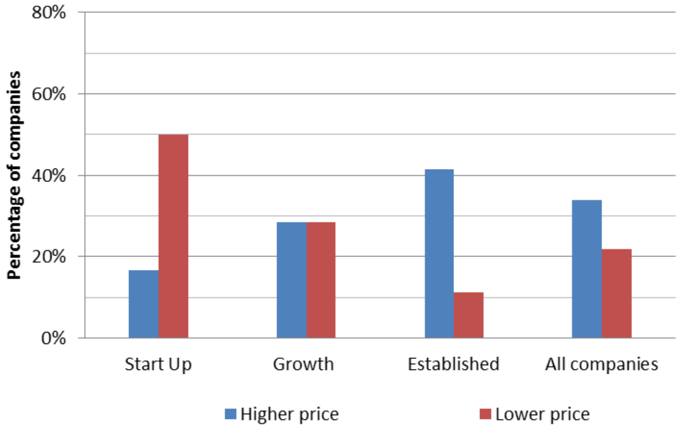


Price positioning to their target markets is largely based on product quality and service, consistent with the value-based approach to pricing strategy.



Price rises as confidence grows

Given this value-based strategy, more premium pricing would be expected. However overall only 34.0% attracted premium price and 22.0% were lower than others. For start-ups this even more accentuated.



It is clear relative price increases as confidence grows: 50% of start-ups priced lower than competition, 29% of early growth and only 11% of established companies.

EXPENDITURE AND EFFECTIVENESS: It's not what we're spending, it's how we're spending

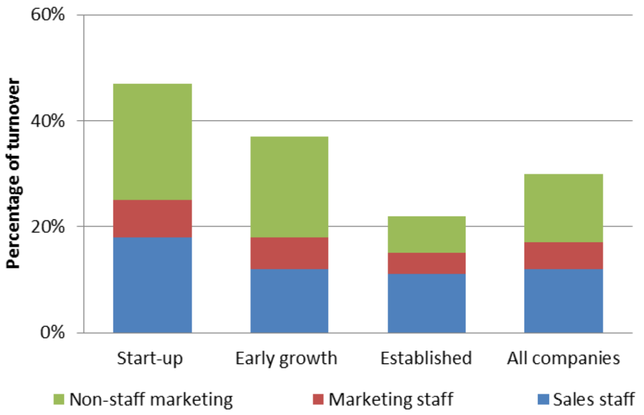
Expenditure on sales and marketing[2] declined in the surveyed period, 30% this year against 40% in 2010. Predictably this was lower on average for established companies (22%) than for growth companies (37%).

	2009	2010	2011
SALES & MARKETING SPEND	39%	40%	30%

Sales and marketing expenditure as proportion of turnover – by growth stage

The ratio of sales staff expenditure to marketing staff expenditure is constant across start-ups to established (2.00 to 2.75).

Growth companies have a higher proportion of non-staff marketing expense (e.g. promotion) vs. staff related expense (sales and marketing). This is notable given aggressive promotion to a targeted market correlates with high growth.



[2] Sales and marketing expenditure includes sales and marketing staff expense, and non-staff marketing expense.

Sales and marketing effectiveness

Respondents rated selecting markets, developing value propositions and closing sales as the key areas of sales and marketing where they are most effective. As in previous studies, these reflect the traditional Kiwi tech approach of taking a 'door to door' sales approach, slugging it out prospect by prospect with an armoury of sales skills.

More strategic approaches, where it is possible to move a large number of prospective customers through a sales cycle, didn't figure. Channel partner relationships, promotion and market entry strategy were the weakest.

Companies rating of their sales and marketing activity	Ranking
Selecting priority markets	1
Developing value propositions	2
Closing sales	3
Pricing strategy	4
Gaining leads	5
Analysing competitors	6
Researching & understanding markets	7
Developing market entry strategy	8
Promotional activity (e.g. PR, advertising, events)	9
Channel/partner relationships	10

Promotional spend vs. effectiveness

In terms of what they perceive to be the most effective promotional activities: website, collateral, and industry events rated highest. Advertising, sponsorship and telemarketing rated lowest.

Highest promotional spend is on industry events, website and collateral. The least was invested in telemarketing, sponsorship and product reviews.

Firms again showed a tendency to focus on selling and supporting sales transactions with their promotional activity, rather than taking a more strategic view of using promotion to warm-up and move a target market en-masse through a buying process.

Start-ups appear to be more social media savvy, spending mostly on industry events, social media and online advertising, but little on product reviews, PR and sponsorship. Growth companies invested in industry events, collateral and their website, eschewing product reviews, sponsorship and advertising.

Promotional spend vs. effectiveness	Effectiveness Ranking	Promotional spend ranking	Promotional spend
Website	1	2	12.6%
Creating collateral	2	3	12.3%
Attending industry events	3	1	36.0%
Regular customer communications	4	5	5.2%
Publicity	5	9	4.0%
Direct mail or direct email	6	8	4.4%
Social media	7	7	4.9%
Product reviews	8	13	1.0%
Online advertising	9	4	6.8%
Telemarketing	10	10	2.9%
Sponsorship	11	11	2.6%
Advertising	12	6	5.0%
Other	13	12	2.3%

Market research in last 12 months

In terms of market research, the top three areas overall are competitor analysis, market pricing, and utilising the internet. Brand awareness, exit options and promotional channels were bottom.

Growth companies tend to research market characteristics and established companies gauged customer satisfaction. There was a lack of measurement around other important indicators of marketing effectiveness, particularly gauging shifts in brand awareness.

Market research in last 12 months	All companies
Competitors	67%
Market pricing	56%
Utilising the internet	54%
Market characteristics	51%
Customer satisfaction	48%
Customers	48%
Channel opportunities	40%
Promotional channels	33%
Exit options	27%
Awareness of your brand	23%
None	6%
Other	3%

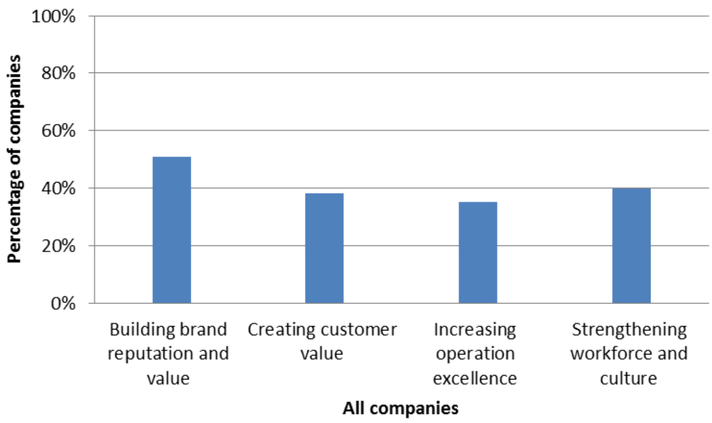
GETTING SOCIAL: Social media effectiveness

This is a new section in Market Measures, reflecting the incredible growth of social media as a marketing tool, and how ideal it is for typically small but nimble tech exporters. We decided it was important to gather some data on how Kiwi firms are using social media and what they find to be effective.

Use of social media is a fast growing area in the promotional toolkit of technology marketers. Effective use of these tools also correlated strongly with high growth.

Social media effectiveness

Respondents feel social media enables them to build brand value, strengthen workforce culture, create customer value and improve operational excellence. For start-ups, the most intense users of social media, brand building aspect was seen as particularly crucial.



Social media activities

Social professional networks (such as LinkedIn), other social networking (such as Facebook and Twitter) and online events were rated as the most effective social media tools. Virtual worlds, social Q&A and wikis were seen as providing the lowest return on investment.

Firms successfully using social media tended to be strong in the other 'formula for success' elements i.e. they focussed on a clear target market, really understood that segment, and were willing to invest in a range of promotional activities.

Social media activities

Companies rating of their social media activity	Ranking
Social professional networks (e.g. LinkedIn)	**1**
Other social networking (e.g. Facebook, Twitter)	**2**
Events (e.g. Meetup)	**3**
Blogs (e.g. Wordpress)	**4**
Media sharing (e.g. YouTube)	**5**
Presentation sharing (e.g. SlideShare)	**6**
Wikis (e.g. Wikipedia)	**7**
Social Q&A (e.g. Askville or Answers.com)	**8**
Other	**9**
Virtual worlds/reality (e.g. Second Life)	**10**

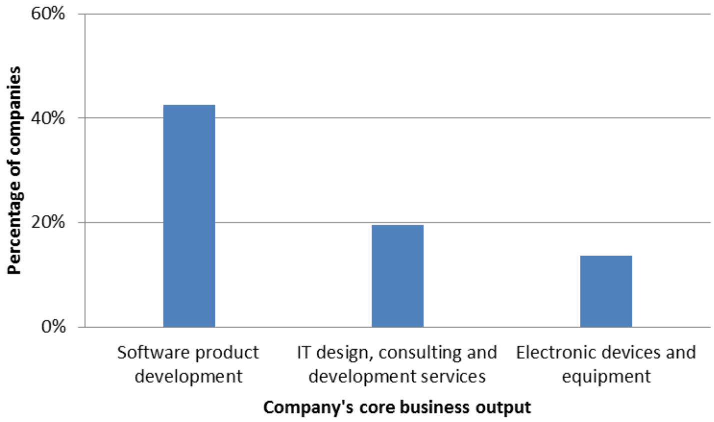
DEMOGRAPHICS

Sample size in the 2011 Market Measures study was 9% larger than 2010, and broadly reflected the demographics of the sector overall.

In many ways these figures encapsulate the core issue New Zealand's technology sector. The age profile of the businesses are not matched by a similar revenue picture, and respondents rated themselves as "established businesses" even though given their revenues they had achieved relatively limited market penetration. Our technology firms may be durable but don't grow significantly over time.

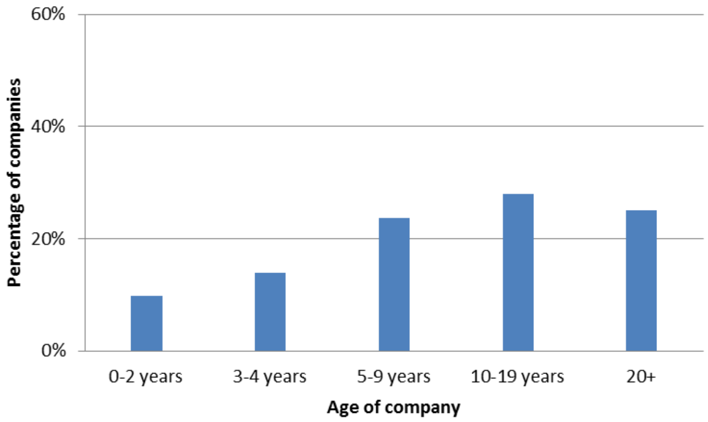
We're great at coming up with innovative products, but struggle to build international technology businesses of scale and substance.

Software, services and electronics



Main centres typically

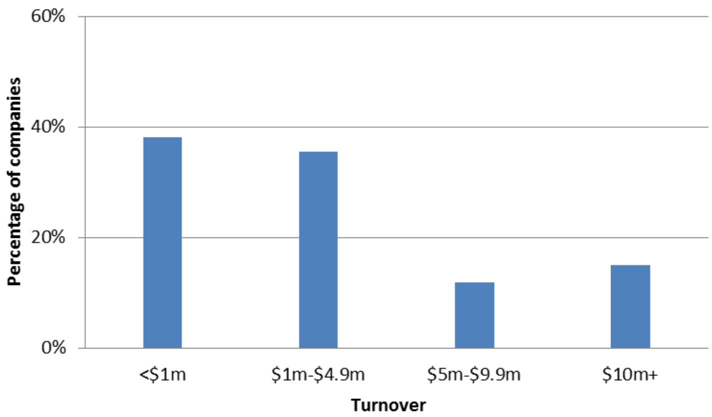
Age of business



Age of business - by growth stage

Age of company	Start-up company	Early growth company	Established company	Total
0-2 years	65%	6%	0%	10%
3-4 years	18%	28%	3%	14%
5-9 years	12%	40%	15%	24%
10-19 years	6%	21%	39%	28%
20-49 years	0%	6%	42%	24%
50+ years	0%	0%	1%	1%
	100%	**100%**	**100%**	**100%**

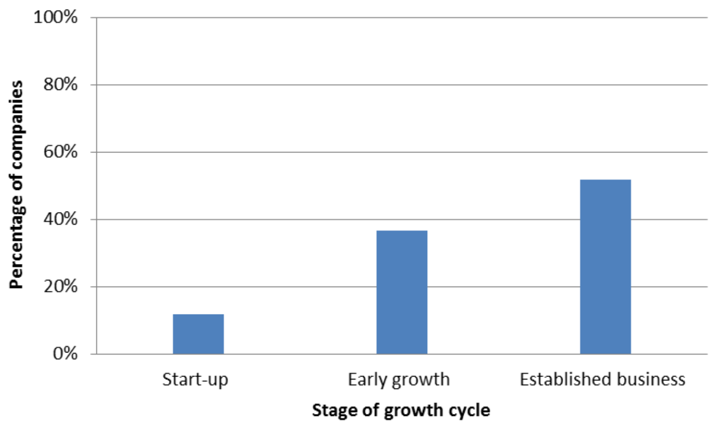
Representative spread of size



Representative spread of size – by growth stage

Turnover	Start-up company	Early growth company	Established company	Total
Less than $1m	93%	46%	19%	38%
$1m - $4.9m	0%	44%	39%	35%
$5m - $9.9m	0%	8%	18%	12%
$10 - $19.9m	7%	0%	5%	4%
$20m - $49.9m	0%	0%	9%	5%
$50m - $99.9m	0%	0%	5%	3%
$100m - $249.9m	0%	3%	2%	2%
$250m+	0%	0%	4%	2%
	100%	**100%**	**100%**	**100%**

Stage of growth



ABOUT CONCENTRATE

Concentrate is a marketing consultancy that helps Kiwi technology companies develop strategies for finding and penetrating profitable market opportunities.

Using our industry experience and a set of proven tools we deliver market clarity for technology companies - practical, actionable insights into their marketing challenges.

www.concentrate.co.nz

ABOUT SWAYTECH

Swaytech is a marketing and communications practice dedicated to unlocking the innovation and growth potential of B2B focused companies.

We believe good marketing should support and enable your team to deliver on its sales targets and ultimately your business strategy. We offer a full range of marketing services in-house including strategy development, PR, print and web design, brand development, event management and great coffee.

www.swaytech.co.nz

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