

## Market Profile For Information & Communications Technology in Australia

### 1.0 MARKET STRUCTURE <sup>1</sup>

#### 1.1 Market Size

The Australian ICT sector is the 13<sup>th</sup> largest ICT market in the world and a significant contributor to the Australian economy.

According to the Australian Bureau of Statistics (ABS), total income for all ICT industries in 2004-05 was A\$103.4 billion, of which almost three quarters was attributable to the combined wholesale trade (\$40.3 billion) and telecommunication services (\$35.8 billion) industry groups.<sup>2</sup>

ICT industry profile:

- in 2004-05, total revenue in Australia from the production of ICT goods and services was \$54.4 billion
- 60 percent of this revenue was from telecommunications services
- of the total ICT income of \$103.4 billion, ICT specialist firms accounted for 89.1 percent.

#### 1.2 Growth Rate

The ICT industry is one of the fastest growing and innovative sectors in the Australian economy with a sustained average annual growth rate approaching 12 percent. This is more than 2.5 times the average growth rate of the Australian economy as a whole.

Key issues for the ICT sector that may impact on future growth include:

- recruitment and retention of skilled staff
- managing wage expectations
- training and development of graduates and recruits.

---

<sup>1</sup> While every effort is made to ensure the accuracy of the information contained herein, New Zealand Trade and Enterprise, its officers, employees and agents accept no liability for any errors or omissions or any opinion expressed, and no responsibility is accepted with respect to the standing of any firms, companies or individuals mentioned. New Zealand Trade and Enterprise reserves the right to reuse any general market information contained in its reports.

<sup>2</sup> All the figures in this profile are in Australian dollars.

In August 2006, the ABS Labour Force Survey reported that there were approximately 371,150 people employed in ICT-related positions across the economy. This consisted of approximately 253,850 people in direct ICT roles (including IT managers, computing professionals and computing support technicians) and 117,300 in 'engineering and trades'. Nearly 92 percent of these people were employed full-time.

People under 30 make up 27.7 percent of all ICT employees. Most are computing support technicians, electronic and office equipment tradespersons, and computing professionals.

### **1.3 Number of businesses in the sector**

In mid 2006 there were 25,600 ICT businesses. Of these, 94 percent were considered to be ICT specialist businesses.

Of these ICT specialist businesses, 77 percent were in the computer consultancy services industry, 8 percent in computer wholesaling and 4 percent in the telecommunication services. The remaining 11 percent were spread across the other industries surveyed.

Australia has more than 2,500 locally owned and operated ICT companies. Small businesses (those employing fewer than 20 people) make up 95 percent (24,400) of all ICT businesses in Australia.

The 188 ICT specialist businesses employing 100 staff or more account for less than 1 percent of all ICT specialist businesses in Australia, yet these large businesses contribute 55 percent of employment and 72 percent of total income.

About 55 percent of Australia's ICT companies offer consulting, bespoke software development and managed services. There are 650 software product companies with more than five employees and annual revenue of more than \$1 million operating in Australia, while there are 152 hardware product companies of the same size. There are more than 150 ICT companies listed on the Australian Stock Exchange.

### **1.4 Industry Trade Balance and FDI**

Australia's total ICT goods exports in 2005-06 remained relatively steady at \$2.17 billion, declining 1.8 per cent from the previous year. There was an 18 percent decrease in the value of exports to New Zealand – Australia's largest ICT export market.

Imports of ICT goods approached \$17 billion in 2005-06. This compares to \$15.5 billion in 2004-05 and mainly comprised computer and communications hardware, equipment, cables and other computer parts, and consumables (81 percent).

In 2004 there were 138 foreign direct investment (FDI) projects within the Australian ICT industry. This represents the largest share of FDI projects across all industries (27 percent).

## **1.5 Research & Development**

Expenditure by the Australian private sector significantly outweighs public sector expenditure on ICT research and development (R&D). In 2004-05 business accounted for 81 percent of total ICT R&D expenditure. The Australian Government accounted for 5 percent and the higher education sector 14 percent.

ICT is a significant component of private sector R&D. It accounted for between 36 and 43 percent of annual private sector R&D expenditure over the last three years.

Organisations outside the ICT business sector are responsible for more than half of all ICT R&D expenditure. This ICT R&D is conducted to achieve business goals outside the ICT business sector. For instance, ICT R&D accounts for 98 percent of the finance and insurance sector's R&D expenditure and is focused on the development of commercial services.

## **1.6 Government use of ICT**

The federal government ICT market continued to grow strongly in 2006/07 financial year, despite a significant downturn in spending within the Department of Defence, according to government ICT market researcher Intermedium.

The market grew by around 6 percent during the 2006/07 financial year, a growth rate similar to that recorded the previous year.

While the total value of ICT contracts reported by federal government agencies increased, the number of ICT contracts fell by approximately 15 percent during the 2006/07 financial year.

As a result, the average value of contracts rose to more than \$256,000 in 2006/07, compared with \$185,000 the previous year.

There was also a drop in the number of suppliers who secured federal ICT contracts, from around 2,200 in 2005/06 to just over 1,800 in 2006/07.

The core principle underpinning Australian Government procurement is value for money. The Government does not believe it is in the Australian ICT industry's long term interests to be given subsidies through preferential access to government procurement.

However, the Government is working to facilitate access by small to medium sized enterprises (SMEs) to its ICT procurement market. The Commonwealth Procurement Guidelines require government purchasing officers to ensure that SMEs have an appropriate opportunity to compete for business. Department of Finance and Administration data indicates that 60 percent of contracts gazetted by agencies in 2001-02 were with SMEs, representing 25 percent by value. SMEs also capture work as subcontractors.

## **1.7 Private Sector Expenditure on Computer Software**

According to the ABS during the 2006 December quarter, total fixed capital expenditure by the private sector on computer software increased by 1.4 percent to \$2.5 billion (seasonally adjusted). This increased the value of fixed capital expenditure for the 2006 calendar year to \$9.6 billion, a rise of 6.5 percent over the figure for the year to December 2005.

Over the last five years private sector fixed capital expenditure on computer software has increased at an annualised rate of 7.2 percent - the slowest five-year period of growth since the ABS started keeping records on software expenditure in 1985.

IBIS World has estimated that private sector fixed capital expenditure on computer software reached a total of \$9.8 billion for the 2006-07 financial year and will rise by a further 5.3 percent to around \$10.4 billion in 2007-08. IBIS World believes that annual growth in private sector fixed capital expenditure on computer software will stabilise over the outlook period at an average growth rate of around 5 percent per annum. It further predicts that annual fixed capital expenditure by the private sector on computer software will rise to a total of \$13.2 billion by 2012-13.

## **1.8 Internet Connections**

At the end of the March quarter 2007, there were 6,429,000 internet subscribers in Australia, according to the ABS. This is approximately 202,000 or 3.2 percent higher than the total number of subscribers at the end of September 2006.

The number of Internet Service Providers (ISPs) fell by 110 to 467 over 2006. The volume of data downloaded continues to rise and at the end of March 2007 totalled 42,079 million megabytes. This figure has grown exponentially over the last five years, in which time download volumes have increased 23 fold.

## **1.9 ICT as an Enabler**

### **1.9.1 Health sector**

Australia's health industry is enormous. According to the Australian Institute of Health and Welfare health expenditure totalled \$87 billion in 2005-06, 9 percent of Australia's gross domestic product (GDP). As a whole, the health industry represents the biggest slice of economic activity in the country.

ICT spending in the Australian health market was estimated to be \$2.1 billion in 2007, or approximately 2.4 percent of total health expenditure, and is growing at an average rate of 15 percent annually.

Australia is among the most progressive countries in the e-Health sector. This has facilitated significant advancements through the development and application of products and services in areas such as management software, telemedicine and online data services.

The Australian health industry faces significant challenges which include:

- a geographically dispersed population
- continuing pressure on health and aged care funding
- efficient use of resources
- increased focus on quality and safety
- growing consumer demands for 24/7 services.

ICT has been, and will continue to be, used to help overcome these challenges.

### 1.9.2 Finance sector

The Australian financial sector is one of the largest users of ICT in Australia. The use of ICT, and the Internet in particular, has had a substantial influence on the finance sector and has reshaped competition. Product and process innovation, and redefining strategy are among the main issues credit institutions have been dealing with in recent years. Strategic alliances and co-operative agreements between banks on production and distribution have also taken place.

Financial institutions tend to adopt the most advanced technological solutions and use them to improve the quality of service for their customers. Hence customer relationships management (CRM) is the most prominent solution in terms of future uptake by the banks.

### 1.9.3 Education

Up-to-date statistics for the Australian e-learning market are difficult to find. However, IDC estimated that the market was worth \$86 million in 2006.

E-learning providers consist primarily of large corporates and universities. Australian state governments are the major funders of the education sector and their policies and provision of infrastructure, particularly broadband, are influential in the development of e-education applications. Schools are well advanced with the integration of ICT and e-learning into their curricula.

The Australian Federal Government has also provided \$60 million over the eight years from 2001-01 to 2008-09 to support the development of a body of online curriculum content as part of the Backing Australia's Ability package. Online courses are being provided more widely in the tertiary sector. Some Vocational Education and Training (VET) courses are delivered completely online, though limitations in the bandwidth, particularly in regional areas, limit the quality and type of courses delivered.

In universities, ICT is central to research as well as online teaching of domestic and international students. International education is a major export industry for Australia, with economic benefits estimated at more than \$4 billion per year including fees paid to institutions and expenditure on goods. This sector in particular represents a significant growth opportunity.

#### 1.9.4 Defence

Defence is both a leading purchaser of ICT and, through its Defence Science and Technology Organisation (DSTO), is one of the leading innovators in Australian ICT. Total defence expenditure is estimated to be worth \$19.9 billion in 2007-08 and is forecast to rise by \$3.1 billion over the period to 2010-11.

Electronics and ICT technology are used increasingly in defence equipment and the control of operations, progressively becoming the backbone of a modern defence and security force. The Defence White Paper (2000) nominated the following capabilities as essential for Australian industry in support of the Australian Defence Force:

- combat and systems software and support
- data management and signal processing
- command, control and communication systems
- systems integration
- repair, maintenance and upgrades of weapons systems
- provision of services to support the peacetime and operational requirements of the Australian Defence Forces.

#### 1.9.5 Transport and logistics

Recent advances in transport and logistics include:

- compliance and accreditation systems - electronic-based vehicle checking solutions, designed to ensure compliance with statutory and other requirements, will replace paper-based systems
- fleet and load management systems - fleet management packages are being used overseas to monitor vehicle and driver behaviour and provide communication between driver and base. Driver performance issues are of interest both to governments and private industry
- the use of e-business applications has enhanced customer expectations of reliable delivery, and there is now greater emphasis on tracing and tracking loads
- information leveraging systems - these are systems that apply operational information to predict demand. Logistics service operators, for example, can use the trace and track, as well as other features, to forecast demand for suppliers and customers
- transport and traffic management systems – the need for traffic management has only recently become a recognised issue worldwide. Australia has realised the need

to manage traffic and make better use of existing road infrastructure and is now an exporter of traffic management (TM) systems.

### 1.9.6 Mining and resources sector

Sales of computer services to the mining industry were estimated to be worth \$565 million in 2004-05, up from \$534 in 2003-04. Software developed for the mining industry is a particular strength, with over 60 percent of the world's mining operations utilising software developed by Australian companies.

The mining industry is making large profits and becoming increasingly more efficient by using developments in technology.

Australia's mining technology services sector is a world leader in providing innovative and highly technical products and services to both the domestic minerals industry and, increasingly, to the global minerals industry.

## 2.0 COMPETITIVE ENVIRONMENT

### 2.1 Major Players in the Market

As an international marketplace, Australia has a significant number of local and international ICT providers in the market. There is a wide variety of ICT companies listed on the Australian Stock Exchange. These include:

- more than 85 software and services companies
- 36 technology hardware and equipment manufacturers and suppliers
- 3 semiconductor and semiconductor equipment suppliers
- 26 diversified telecommunication services, and
- 5 wireless telecommunications services companies.

Most of the leading international ICT companies have operations in Australia including BenQ, CSC, IBM, Marconi, Motorola, Microsoft, Nokia, Panasonic, SAP, SingTel Optus, Oracle-Peoplesoft, NCR, and Sun Microsystems.

Underneath locally listed companies and multinational corporations is a plethora of small privately owned companies competing for the ICT dollar. More than 50 percent of ICT specialist businesses operate in New South Wales (NSW) and Victoria.

### 2.2 Market Entry Strategies

New Zealand ICT software and services do not have a strong reputation in Australia, even though New Zealand is well represented by a number of companies in Australia, such as AAPT, Datacom and Jade Software

It is not hard to see why so many companies choose Australia as their first international market. It has five times the population of New Zealand and a similar culture, but there are significant differences compared to New Zealand. In preparation for doing business in Australia it is important to understand how to structure your business, the market differences, tax and legal implications and regulations. If in doubt seek expert advice.

## **2.3 Using Distribution Channels**

Differences in business culture, segment definitions, market size and market expectations all add to the mix of making the New Zealand ICT channel different to that of Australia as well as Europe, the United States and Asia.

The Australian ICT channel comprises over 5,000 diverse organisations. These organisations offer a range of different competencies to a potential New Zealand software exporter.

Organisation types include distributors (wholesalers), and resellers. Resellers are split into two main groupings – those that focus on selling products ('volume movers'), and those focusing on services ('value providers'). These have different capabilities, and may be more or less relevant as potential partners depending on the type of product you have, and the clients you seek to sell it to.

## **2.4 Distributor Partnerships**

If your product is relatively low-priced and high-volume in nature (i.e. shrink-wrapped software) you should consider dealing directly with a distributor.

- There are 569 distributors in the Australian ICT channel and around three-quarters of these are in NSW and Victoria.
- Distributors generally have the infrastructure to warehouse and deliver products across Australia.
- They offer a single point of contact with a large number of Australian resellers, meaning you aren't required to spend time and money establishing relationships with multiple resellers.
- A negative impact of a distributor relationship is you will receive a smaller portion of the end-user sales price as both the distributor and any associated resellers will take a percentage of sales.

## **2.5 Reseller Partnerships**

If your product is relatively complex and requires interaction and discussion with clients during the sales and implementation process, a reseller arrangement is likely to more appropriate.

Resellers have a range of competencies, and your selection will be influenced by their ability to sell and support your product. Factors that need to be considered include:

- whether they have a focus, or sufficient experience, in the vertical markets (e.g. banking, healthcare) your product is targeted to
- the number, competency and experience of their technical staff
- the number, competency and experience of their sales staff
- the size of their customer base and their market presence
- the margin they expect to receive for each sale
- other products they sell (are these complementary or competitive?)
- their location.

You will need to be clear in your own mind about the relative importance of these characteristics to your chances of success. For example, the reseller offering the best margin may not be the best option for you – they may also sell competing products, have insufficient vertical market experience or be too stretched to properly sell, and support, your product offering. It is recommended that you compile a checklist of the characteristics of the ideal partner prior to conducting any discussions.

A complete characteristic checklist for selecting a distributor or agent can be found in Appendix D of the *Guide to Exporting to Australia* at: [www.marketnewzealand.com/howto-guides](http://www.marketnewzealand.com/howto-guides)

In addition you could also ask your NZTE Client Manager or the Business Services Team to provide you with a free copy of the three volume report: The Australian ICT Channel Guide.

The guide has been specifically written for anyone considering exporting technology products or services to Australia. It provides an overview of the commercial expectations and preferences of executives within the Australian ICT channel.

## **3.0 REGULATORY OVERVIEW**

### **3.1 Duties/Taxes**

Under CER, goods manufactured in New Zealand, or goods with over 50 percent value added in New Zealand, are not liable to tariffs and duties. They are, however, still liable for local taxes. In Australia the goods and services tax (GST) is set at a 10 percent and is charged on all goods and services 'in operation' in Australia.

In regard to exports from New Zealand, GST is payable at point of importation, usually by the importer. Only the company that pays the GST can claim it back. Additional information on GST in Australia is available from New Zealand Trade and Enterprise client managers or directly from the Sydney office.

There have been some questions raised as to the GST payable on carrier media bearing software. In simple terms, the customs value (determining the GST payable) of imported

carrier media (i.e., CD-ROMs, disks, tapes and other similar items) includes the value of the software or material contained within the media. Further information on this issue can be obtained from New Zealand Trade and Enterprise or the Australian Taxation office on +61 2 6275 5611.

## 4.0 RECOMMENDED STRATEGIES

New Zealand's proximity and relative similarity to the Australian market makes it one of the most attractive export markets for ICT companies. Along with the benefits, there are expectations that must be met for successful market entry and development.

New Zealand ICT companies entering the Australian market need to have a clear long-term strategy for marketing to, and supporting, the market. If a sales and marketing presence has not been established, regular visits are necessary to show commitment to the market. Such contact can be costly but is beneficial to maintaining credibility. NZTE recommends that companies visit the market no less than every six to eight weeks.

Companies must also consider how they will support partners and clients in Australia, as this is a major issue within the market. Many New Zealand firms have found it beneficial to provide easy access phone and fax lines such as 1800 numbers, as well as email, to overcome these support concerns.

Once exporting, staying in the market will require either an effective presence in-market or a strong relationship with a local partner. NZTE can provide targeted market intelligence and partnering opportunities to meet the needs of ICT companies looking to enter or expand operations in Australia.

The following is a list of some of the issues that need to be taken into account by companies looking to enter the Australian market:

- plan for the Australian market carefully and think long term – it may take longer than you think to secure customers
- know your market – don't assume because your product or service was successful in New Zealand it will be in Australia; understand that there are subtle differences between the states and how they do business – Australia is not one market
- have a unique selling proposition – it is critical to success
- expect tougher competition. Don't take it personally – Australians like to win and are very competitive in business
- understand the importance of developing strong networks in Australia – face to face time is important with Australian clients
- don't expect to just 'wing it' – Australia is a sophisticated market and you need to plan and do your due diligence to succeed.

## 5.0 MARKET RESOURCES & CONTACTS

### 5.1 Associations

**Australian Direct Marketing Association (ADMA)** represents over 500 Australian organisations involved in information-based marketing - [www.adma.com.au](http://www.adma.com.au)

**Australian Computer Society (ACS)** is the professional body representing ICT professionals - [www.acs.org.au](http://www.acs.org.au)

**Australian Electrical and Electronic Manufacturers Association (AEEMA)** represents Australia's ICT, electronics and electrical manufacturing industries - [www.aeema.asn.au](http://www.aeema.asn.au)

**Australian Electronic Business Network (AUSe.NET)** is a national, not-for-profit organisation that encourages small business awareness and adoption of electronic commerce - [www.ecommerceadvantage.com.au/ausenet.htm](http://www.ecommerceadvantage.com.au/ausenet.htm)

**Australian Information Industry Association (AIIA)** represents the ICT industry in policy issues and encourages productivity among its members - [www.aiia.com.au](http://www.aiia.com.au)

**Internet Industry Association (IIA)** provides policy input to government and advocacy on a range of business and regulatory issues - [www.iiia.net.au](http://www.iiia.net.au)

**Australian Interactive Media Industry Association (AIMIA)** represents Australian creators and developers of digital media - [www.aimia.com.au](http://www.aimia.com.au)

**Communication Alliance** (incorporating the former Australian Communications Industry Forum and the Service Providers Association) provides a national and unified forum for the Australian communications industry - [www.commsalliance.com.au](http://www.commsalliance.com.au)

**Engineers Australia** is the national forum for the advancement of engineering and the professional development of members - [www.engineersaustralia.org.au](http://www.engineersaustralia.org.au)

**Standards Australia** is the peak, non-government standards body in Australia and promotes excellence through the Australian Design Awards - [www.standards.org.au](http://www.standards.org.au)

### 5.2 Government

**Australian Bureau of Statistics** – [www.abs.gov.au](http://www.abs.gov.au)

**Australian Government Online.** Government strategy and online services – [www.ogo.gov.au](http://www.ogo.gov.au)

**Australian Taxation Office** – [www.ato.gov.au](http://www.ato.gov.au)

**Commonwealth Scientific Industrial Research Organisation - IT Division**  
Commonwealth Government research and development department – [www.csiro.com.au](http://www.csiro.com.au)

**Department of Broadband, Communication and the Digital Economy -**  
[www.dbcde.gov.au](http://www.dbcde.gov.au)

Prepared by: New Zealand Trade and Enterprise, Sydney  
December 2007