Why business lets down great technology

For Australian software companies, the pitfalls are many, the successes few.

Story Mark Jones

John William Adams is a rare breed among Australian software company bosses. As chief executive of privately owned financial and enterprise resource planning software company SapphireOne, he has guided the Bondi Beach company through 19 years of self-funded growth, competing against technology industry titans like SAP and Oracle.

SapphireOne has a growing number of customers that typically boast gross revenue of $100 million a year. But despite his success, Adams does not always see the technology world through rose-coloured glasses.

Executives like him have long been aware of the difficulties facing home-grown companies. Australian technology buyers are fast adopters but notoriously sceptical; the country's geographical isolation can inhibit international growth, and many argue the right economic incentives are not in place to stimulate start-up company investments.

Adams argues that years of pro-German software policies by the German government helped SAP become an international financial software powerhouse with a market value approaching $US53 billion ($76.5 billion) on the Nasdaq. "We don't get that kind of loyalty here," he says. "We see ourselves as being colonial, we can't produce our own products."

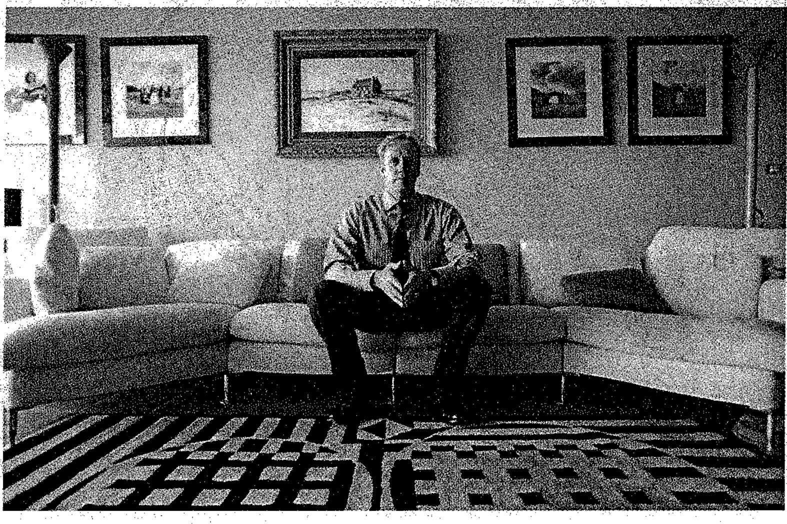
That's a widely held and much debated view. Australia has no shortage of emerging software companies; it's simply a question of how many survive.

The point is best illustrated by the Australian Information Industry Association's Software Showcase, held this week at the CeBIT Australia trade show in Sydney's Darling Harbour. The showcase is evidence of Australian innovation, with up to 150 new and emerging technology companies touting their wares.

Yet how many of those companies will survive long enough to become stand-alone exhibitors on CeBIT's main floor?

Australian start-ups know all too well that the path to success lies overseas, particularly in the United States and Europe. It's a path increasingly littered with the debris of Australian software companies in liquidation.

Over the past year alone, the list includes iNETstore Corporation, Didasko Limited and Foursticks, an Adelaide-based network software and management company. Despite winning a string of industry awards, including the 2003 AIIA iAward for Telecommunications Implementation and 'Rising Star' in the Australian Deloitte Fast 50 Technology Program 2002, Foursticks went into liquidation in April, reportedly after the loss of a large overseas contract and cash flow problems.



A diamond in the rough: SapphireOne CEO John William Adams. **Photo** Andrew Quilty

Foursticks' fortunes illustrate what many industry watchers describe as a worrying trend, in which Australia's notable engineering talent is not equally matched by management excellence capable of taking local start-ups to the world stage.

"SMEs have got difficulties. A shortage of money and a shortage of time," says Neville Roach, outgoing chairman of National ICT Australia.

According to Roach, start-up technology companies don't spend enough time developing financial and management skills. "They are learning as they go," he says.

Roach offers two solutions: consider booming new markets like India where less-complicated tax structures promise an easier road for emerging companies, and more government intervention.

If the Australian government would mandate that large technology deals include a nominal percentage of service delivery by emerging firms, the industry would get a much needed shot in the arm, he argues.

"Sub-contracting is one of the biggest things SMEs can do," Roach says.

While venture capitalists and industry executives are enthusiastic about the federal government's venture capital review, David Merson, founder in 1979 of $200 million Queensland-based software exporter Mincom, is cautious about government intervention.

"I don't think the industry is going to prosper if it thinks the government is going to solve all its problems," Merson says. He argues the government should limit its intervention to stimulating investment through the tax system.

Merson, who last week received the AIIA's highest accolade for contributions to the technology industry, says the country has always battled to turn its innovation skills into profitable global concerns.

"Certainly there has been an improvement in the understanding of the need for business skills as well as technology skills.

"Technology is pretty easy to invent, but building a viable company and business model is pretty hard to do," Merson says.

"We tend to think that once you invent a good piece of technology, half the battle is over. It's not, that's just a ticket to get you into the game."

Merson's sentiments were echoed by Minister for Communications, Information Technology and the Arts, Senator Helen Coonan, at this week's AIIA iAwards ceremony. Senator Coonan says she believes the wide-ranging venture capital review will stimulate growth, but says the government will be more effective focusing its attention on how technology can improve health and education.

"To give you an indication of the emerging opportunity for the sector, expenditure on ICT in health is estimated at between $1.6 billion and $2 billion per annum," she says.

In many ways, Senator Coonan's approach to integrating technology into mainstream political issues will be a tough pill to swallow for an industry that for many years has been preoccupied with its own importance. Senator Coonan notes a report prepared by the NSW State Chamber of Commerce and Unisys called *Getting a Grip on IT*, which accused the ICT industry of failing to adequately explain the benefits of technology to business and government.

Fortunately, not all of Australia's software companies are looking for something to blame.

BinaryThing doesn't mind the government's hands-off approach because it has always viewed the world as its oyster.

"Our objective from day one was to be a global company. We never looked at what we do as specifically Australian," says BinaryThing CEO Karl De Abrew.

While De Abrew says the company's Australian heritage was a strength, "Australia wasn't from an early stage the best place to be selling our software."

BinaryThing operates a collection of software development, services, internet distribution and content businesses that serve the Adobe Acrobat and PDF-user community. The company has more than 80 staff in California, Melbourne, Taipei and Beijing.

BinaryThing's chief operating officer, Sam Chandler, says the US market is "very hungry for new technology" and as such could not be ignored. About 80 per cent of the $US5 million to $US10 million in revenue Chandler forecasts for the 2005/6 year will come from the US and European markets. "Less than 5 per cent of our revenue is from Australia," Chandler says.

BinaryThing's secret is years of self-funded growth, long-term thinking and hard work.

"We've tried to be fairly modest with our expenditure throughout all of our business operations," says De Abrew. "You have to be in it for the long haul. Really, you are looking at a five to 10-year window. I don't think there's anyone in a senior role in our business who's not had a period of working 20 hours a day."

De Abrew adds: "It's more like a marathon than a sprint. People will drop out. You just need to be the last man standing."

And to all that you can add outright ambition. BinaryThing is looking to bite the hand that's fed it for so long, leveraging its base of PDF users to take on Adobe directly with a competing product.

In order to achieve that goal, De Abrew says the company has gone out and secured venture capital and private equity funding to support its pitch for the big time.

"We very much recognise the need to have access to that rich source of capital, but we don't want to dip into that too early," De Abrew says.

And so the business of building a software company comes down to the level of risk directors are prepared to shoulder.

If US markets are the goal, De Abrew asserts Australian entrepreneurs typically don't spend the money required to establish a decent local presence.

To that point, the Australian Computer Society's vice-president Philip Argy says venture capitalists need to reverse a conservative stance towards technology investment.

"The biggest issue is risk-averse venture capital in Australia. They call it vulture capital half jokingly, but it really is. They screw you to pieces," Argy says.

The good news, according to Merson, is that the scales are now weighted in favour of SMEs, a market size ideally suited to start-up software companies.

"The big boom in terms of corporates putting in large enterprise solutions is reaching saturation. The focus is moving down to the SME sector," he says.

Companies are increasingly looking for ways to connect with communities of customers and partners. The big opportunity, Merson believes, is to develop products for specific industry segments such as health, government, education and financial services. Software companies have traditionally built software that uniformly addresses finance, human resources and customer relationship problems regardless of industry sector.

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