

**SOFTWARE AND  
TECHNOLOGY SECTOR  
INSIGHT**

2015





## FOREWORD

In its efforts to understand how it can serve Malta's software and technology sector, TradeMalta has carried out a preliminary survey on the key issues affecting local businesses in internationalisation.

Through this exercise TradeMalta has identified the key specialisations of this community base, which

international markets this community is working to target and how, and obstacles to internationalisation. With this information in hand, TradeMalta will be in a position to tailor its support services to benefit the technology community's overseas ventures with greater impact and effectiveness. This brief report describes the key insights that came out of this exercise.

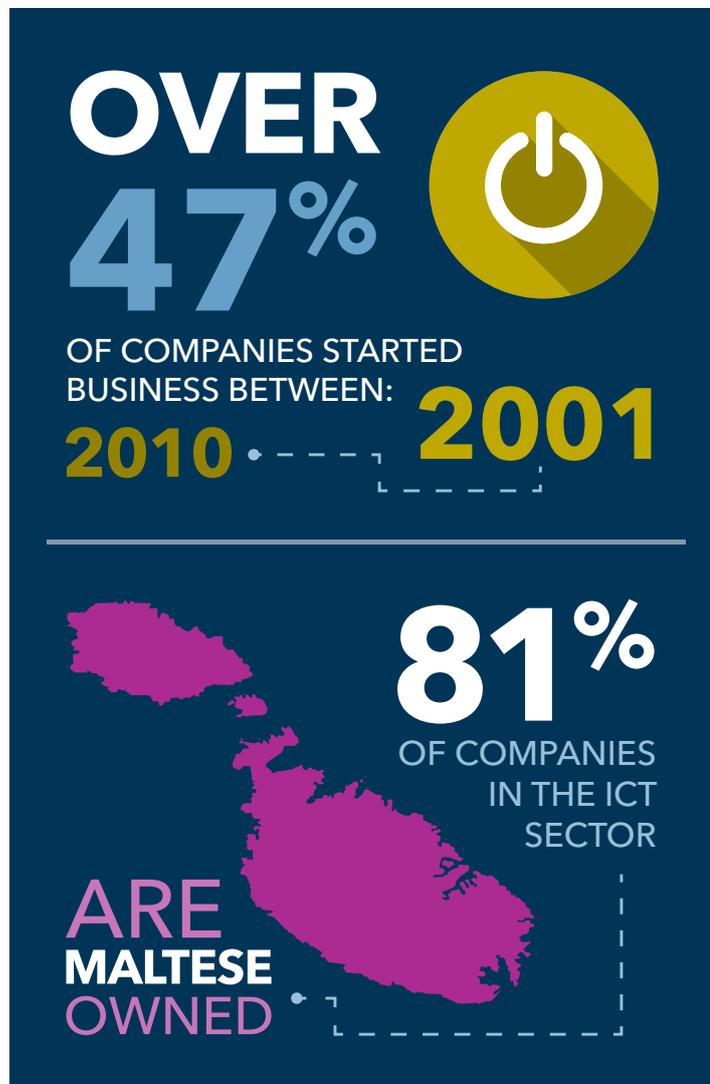
## OVERVIEW

In the third quarter of 2015, 27 software and technology firms in Malta responded to a questionnaire on their internationalisation and growth strategies. Most are exporters. The sample included micro, small and medium-sized businesses. The majority of the companies under study are Maltese-owned. Fourteen companies are engaged in exports to varying degrees. Two are totally export-focused.

Four of the companies in the study are 25 years old or older; 9 were established between 1991 and 2000; 12 between 2001 and 2010. Only one company was established after 2011. Of these, 22 are wholly Maltese-owned, two non-Maltese owned, and 3 have mixed ownership.

Ten companies have a diversified portfolio, reaching out to clients with both bespoke software and products and applications. Eight are engaged in customized software solutions while a further eight marketed products and applications. The sectors of interest and specialization varied from airports, automotive, transport and logistics and e-government, to postal and courier, retail malls, sales and distribution and user experience. Other firms were engaged in software for financial services.

Five of the companies in the survey are micro firms with fewer than 10 employees; 11 are small firms employing up to 50 persons and



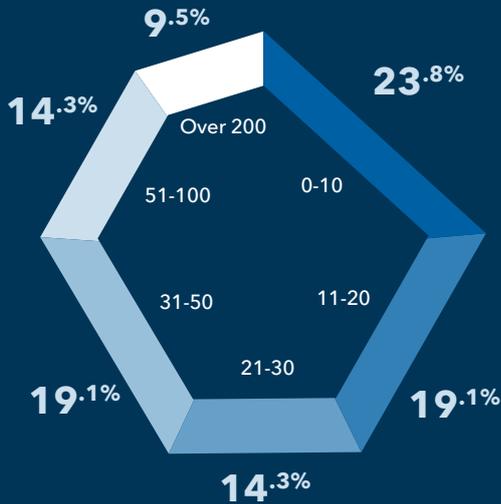
five are medium-sized companies of which 2 employ over 200 employees. When asked about their projections for 2016, companies employing up to 20 staff said that they will grow from five to seven. Companies employing between 20 and 100 will grow to 11. One company expects to grow to employ more than 100 employees.

In 2014, 11 of the 27 companies realized turnover of up to €1 million; 10 companies between €1 million and

### WHAT ICT COMPANIES SELL



### CURRENT NUMBER OF EMPLOYEES



### ANNUAL TURNOVER OF COMPANIES IN 2014 (IN EUROS)



### PERCENTAGE OF EXPORT REVENUE TO TOTAL REVENUE



€5 million; two firms have revenues of over €10 million. Projected annual turnover for 2016 will cause a slight shift in these brackets. Nine companies will realize turnover of less than €1 million; 11 companies will report up to €5 million in turnover, while one will surpass €5 million. By the end of 2015, two companies will realize revenues of more than €15 million.

Of the 17 companies which divulged the percentage of export revenue, only one was engaged predominantly in the domestic market while another two are completely non-Malta focused. Eight companies saw between 60% to 99% of their revenues derived from exports; 20 of 23 companies indicate their export revenue will increase over the next 12 months.

11 of 22 respondents say their export efforts targeted a specific country, 7 one particular region and 4 a specific sector.

## BARRIERS TO EXPORT

Identifying new customers, agents and distributors is often a major challenge for half of the respondents. Access to finance is sometimes problematic for 7 of the 19 companies that replied, while identifying foreign business opportunities is often challenging for 9 of 20 companies.

Capacity issues are sometimes and often a barrier to export for 13 of 20 responding companies. Management time often presents an obstacle to six of the 19 companies. Research into markets and countries is often and always an issue for 12 of the 19 companies, while regulations and red tape are often and always a barrier to export for 9 of the 20 companies that responded.

6 out of 20 companies say the availability of skilled staff and managers is often and always a problem where internationalisation is concerned. Price competitiveness is only sometimes a hindrance to the export efforts of 9 of the 20 companies. One company cited difficulties in obtaining

*[Research into markets and countries is often and always an issue for 12 of the 19 companies]*

Malta work permits for foreign nationals as a major barrier to its internationalisation efforts.

## BARRIERS TO EXPORT

### MAJOR CHALLENGES

Identifying customers, agents and distributors

### OFTEN CHALLENGING

- Identifying foreign business opportunities
- Management time
- research into markets and countries
- Regulations and red tape
- Availability of skilled staff and managers
- Difficulty in obtaining Malta work permits

### SOMETIMES PROBLEMATIC

- Access to finance
- Capacity issues
- Price competitiveness

## FINANCING

Less than half of the respondents were willing to divulge information on the main hindrances to their financing efforts. Of these, most do not appear to have difficulties in raising capital with only three indicating they were sometimes and often not in a position to borrow.

However, three companies always find meeting lenders' collateral requirements challenging. Access to financial assistance is sometimes, often and always poor for eight companies. Six companies say banks often and always shy away from providing lending facilities to them.

### THE MOST IMPORTANT MARKETS THAT ICT COMPANIES EXPORT TO



### THE COUNTRIES COMPANIES ARE PLANNING TO EXPORT TO OVER THE NEXT 24 MONTHS



Software and technology exporters currently do business primarily in the United Kingdom, the US and Italy. When asked about their target markets in the foreseeable future, the same markets are mentioned with some additional target markets mentioned such as Germany.

## ASSISTANCE TO ENCOURAGE INTERNATIONALISATION

13 of 21 companies consider assistance with travel expenses to meet customers and agents outside Malta very important. Similarly, 11 of 19 companies require support with networking with potential partners. Just under half consider assistance with hosting customers and agents in Malta as crucial.

10 of the 21 respondents consider exhibiting or attending trade events

***[13 of the 21 companies consider assistance with travel expenses to meet customers and agents outside Malta very important]***

moderately important. The same sentiment is expressed in relation to

participation in TradeMalta missions by 6 of the 20 companies. 8 of the 19 companies believe assistance in marketing planning and training to be moderately important. 9 of the 18 companies consider assistance with conducting research and development important or very important. 6 of the 19 companies find assistance to develop marketing material moderately important while 7 of the 19 believe assistance with language translation to be moderately important.

Two companies cite marketing expenses and networking support, assistance with part-financing of marketing initiatives, and publication and circulation of marketing material as very important.

## WHAT COMPANIES FIND USEFUL

Expertise, market insight, mentoring and easier access to financing are high on software companies' wish list. One company expresses interest in success stories and guidance from a mentor with success in internationalization. Another calls for consultative meetings with companies already operating the Middle East for idea-sharing sessions, while a third expresses interest in country-specific expertise.

Cutting through red tape and complexity surrounding European Union funding schemes and work permits is a priority for one company as the required resources are inaccessible to small companies.

Direct, sustained investment in digital marketing by TradeMalta would greatly benefit ICT companies according to one respondent.

## KEY FINDINGS

7 of the 17 respondent companies derive up to 50% of revenues from exports. With 24 micro and small firms under study about exports, this indicates that size does not inhibit ICT firms from doing business outside Malta. Additionally, the study provides evidence that this industry is healthy and growing steadily with increased headcount and revenue projections for the short term.

Firms' internationalisation efforts appear to be focused if not cautious: half target a specific country in their strategies with only seven of the 22 targeting a wide region. Unsurprisingly, Western and Eastern Europe, the Middle East and North Africa remain the firm favourite markets for Malta companies to do business in, although there is an indication that North America is also a region of interest. Others

zero in on particular sectors which, however, indicate a diversification in focus for Maltese firms.

The bureaucracy surrounding work permits for non-Maltese nationals remains an issue for some firms in Malta, a long-standing challenge which the business community and the authorities will need to broach for reasonable collaboration.

Identifying overseas business opportunities, customers, agents and distributors is a major issue for respondents. Where previously companies preferred to approach markets through trade missions or traditional forms of assistance, it appears they now largely prefer specific assistance with introductions, hosting, mentoring and guidance, and support with marketing.



The development of e-government in Malta during the first decade of the new century as well as the proliferation of Web technologies in general may have had a significant influence on the number of companies being established between 2001 and 2010.

The companies consulted employ an average of 26 people - this points towards the imperative that they internationalise to justify staffing overheads. Seven firms

realize a turnover of between €2 million and €5 million, an indication of relatively healthy activity for companies of this size.

The specialisation in specific verticals is also evident, pointing to an industry that is continuing to move from generalist provision of bespoke software to focus on particular sectors. This could correlate with firms valuing assistance to travel to meet customers and agents the most.

## FIELDWORK

The fieldwork was conducted by TradeMalta staff using a sample containing 45 software and technology companies in Malta representing various sizes and horizontal specializations. The companies were sourced from TradeMalta's database, which was originally compiled by Malta Enterprise.

The sample excluded remote gaming and telecommunications companies.

## FURTHER INFORMATION

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