

Scaling for Success

Insights into go-to-market
and partnership strategies
of Australian software firms

PRODUCED BY



SPONSORED BY



Microsoft

Scaling for success

How Australian software firms grow and prosper

Australia is abuzz with innovators commercialising their intellectual property, but they face challenges to expand at home and abroad, according to research into 150 Aussie firms analysed by **Steven Kiernan** and **Oscar Trimboli**

Australian software builders are taking two distinct growth strategies: either going global from day one, including product design and channels to market, or cementing themselves at home first and then letting customers take them global. That is one of the key findings of CRN's research into more than 150 Australian independent software vendors (ISVs).

Both approaches are valid, yet the evidence is clear that companies which start global – the strategy of vendors such as Atlassian, Envato, Infomedia and Wise Tech Global – are achieving faster growth across every continent on the planet.

It could be that the strength of the Australian economy over the past 25 years has created weak export muscles for many Aussie software developers. Despite the massive growth of markets such as China and India, nearly 60 percent of the ISVs that took part in our survey receive less than 20 percent of their revenues from exports. Almost a quarter have no overseas revenue whatsoever.

CRN undertook this research to get a better understanding of the challenges and opportunities faced by startups and established software business alike. The respondents represented an extraordinarily diverse range of applications, from consumer, enterprise and

telecommunications carriers, and use cases, including accounting, aviation, entertainment, payment processing, loyalty, payroll, security and waste management. They exemplify Australian innovation that is both broad and horizontal in their applications.

Equally there were deep industry-specific organisations creating complex applications, anything from mining yield management mapping to CRM for insurance to military ERP, biometric verification and logistics execution for international supply chains. The research is a great showcase of the businesses creating the jobs in Australia and beyond for the skills required in the 21st century.

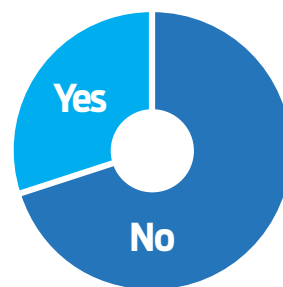
Young and old

Respondents came in all shapes and sizes, ages and experiences. A slight majority (53 percent) were formed in the past 10 years. The overseas focus of respondents was bimodal with 56 percent of organisations generating less than 20 percent of their revenue from overseas, including 23 percent with zero focus on export income. Only 17 percent generated 70 percent of revenue or more overseas.

This suggests there are two types of ISVs: those designed from the beginning as globally orientated and those designed from day one to succeed domestically, then aim for overseas markets.

LANGUAGE

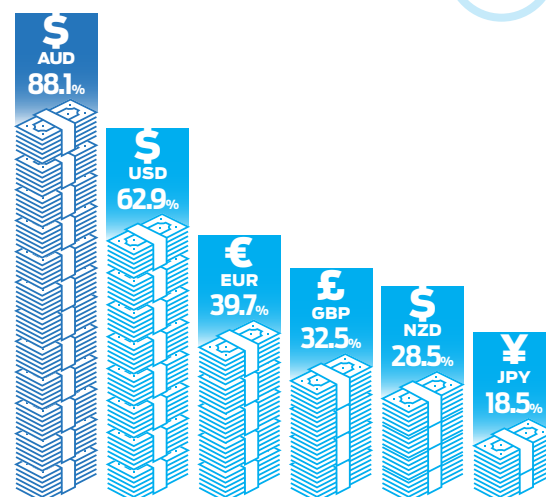
Is your product available in languages other than English?



No (English only)	70.2%
Yes	29.8%

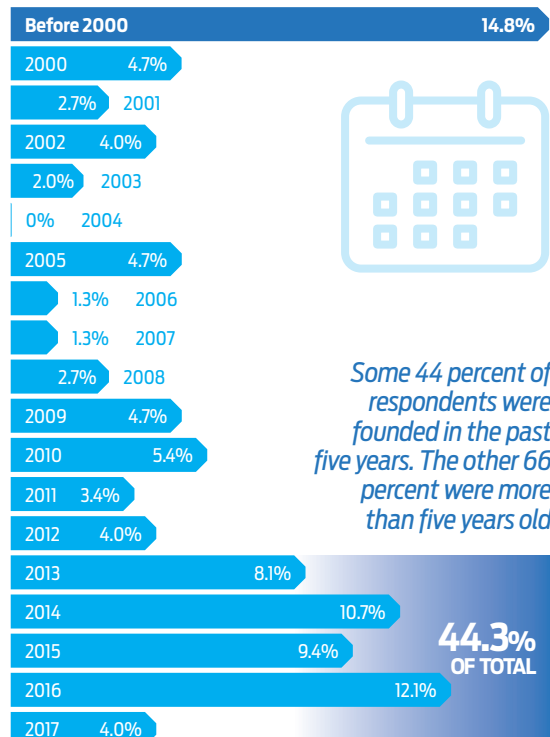
CURRENCY

What currencies does your product accept?



ESTABLISHED

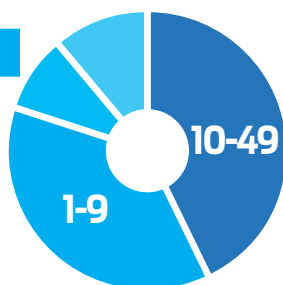
What year was your company established?



Some 44 percent of respondents were founded in the past five years. The other 66 percent were more than five years old

HEADCOUNT

How many staff do you employ?



1-9	37.0%
10-49	43.0%
50-99	9.0%
100+	11.0%

As a benchmark to export success, mature, publicly listed Australian ISVs such as Atlassian, Computershare, Infomedia and Wise Tech Global, respectively, earn 90 percent, 82 percent, 67 percent and 52 percent of revenues from the Americas and EMEA.

Start global

Envato, which won the 2018 CRN Impact Award for 'Exporting Innovation', has customers in more than 100 countries and has been global in its strategy from conception. OrionVM, which was a finalist in the 'Exporting Innovation' category, relocated its headquarters from Australia to the US early in its development to access the North American market sooner. Both have been global from day one.

On the flipside, REA Group and MYOB both sought domestic success first then focused overseas with 6 percent and 18 percent of

their respective revenues from outside of Australia.

One managing director who took part in our research, whose five-year-old Sydney-based company provides compliance technology, said: "The UK, Canada and the US have similar culture and legal systems to Australia. These will be our target markets in 2019-20."

If the research indicates a lack of export focus among many Australian ISVs, this is reinforced in terms of product development. Only 30 percent of respondents had created products in a language other than English. A minority had a 'global-first' mindset in design and go to market. That's not necessarily a bad thing; there are many strong examples of businesses with a mindset of 'get it right at home before you go global.'

The managing director of an ISV that provides business software for mid-sized clients told us: "We are

From the sponsor

The cloud services market continues to grow ahead of all projections, but independent software vendors (ISVs) face challenges reaching this market. Fast-paced digital transformation requires ISVs to find new ways to promote, sell, and deploy cloud solutions.

Overcome the challenges by partnering with Ingram Micro Cloud. By choosing the right distribution partner, ISVs can successfully lead their business into the cloud and reach new markets. As the largest technology distributor in the world, Ingram Micro connects industry-leading cloud vendors and ISVs with global and local markets to generate demand for new solutions, deliver automated cloud services, and manage and support users on ISVs behalf.

- Gain worldwide exposure with a market-proven platform

- Focus on innovation and leave the operational details to Ingram Micro Cloud
- Leverage APS technology to increase scale

Start selling top cloud services today

Cloud Marketplace: Start buying and selling into the world's largest marketplace of category-leading digital services, and experience unparalleled channel and GTM support, and an infinite cloud ecosystem.

CloudBlue: Automate and monetize the entire lifecycle of digital and XaaS commerce with the end-to-end cloud platform that empowers any business model, anywhere, with greater control and flexibility.

Request more information:
www.ingrammicrocloud.com/request-info

INGRAM MICRO

Scaling for success

How Australian software firms grow and prosper

happy where we are in Australia, New Zealand and the South Pacific – there's huge scope here.”

On the other end of the age scale, the director of a one-year-old Sydney startup that specialises in identity verification technology, said: “We would like to deploy in New Zealand and USA once we succeed in Australia.”

Overseas opportunities

With the Australian economy ranked 11th in the world, the opportunities at home are large. But even greater are the opportunities abroad. Many headlines and speeches are dedicated to exporting to the US, the UK, China and India, yet the world's top 10 economies also include countries such as Germany, Japan,

France, Brazil, Italy and Canada. These latter six economies received minimal mention among our survey participants, despite the massive export opportunities.

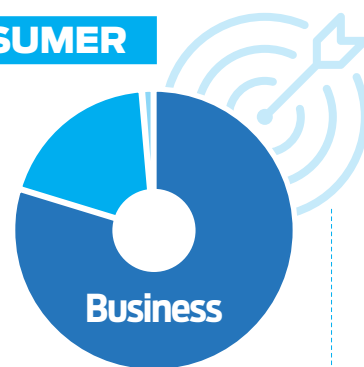
Local ISVs prefer the path of least resistance, which means seeking markets with the smallest differences in language, culture, government regulations and the way of doing business. But this bias toward similar markets means there are many untapped opportunities where savvy software developers could find limited competition.

The majority of developers are following the money with a focus on business-to-business selling models and application development. Some 79 percent of organisations that took part in our research targeted B2B

B2B VS CONSUMER

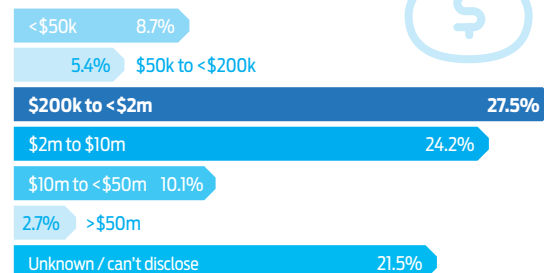
What is your target market?

Business	79.9%
Both	18.8%
Consumer	1.3%



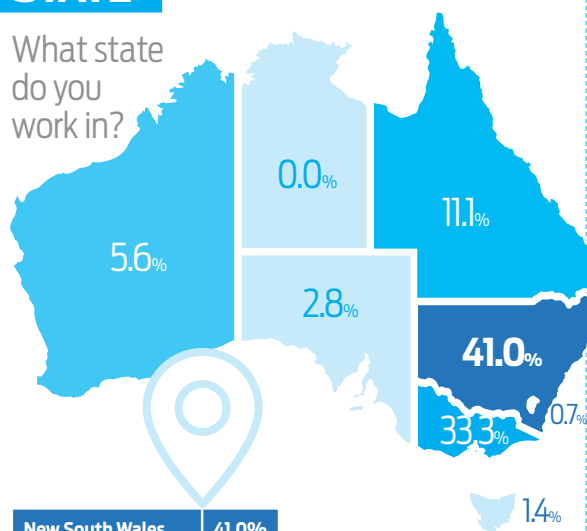
CURRENT REVENUE

What is your annual turnover?



STATE

What state do you work in?



New South Wales	41.0%	South Australia	2.8%
Victoria	33.3%	Tasmania	1.4%
Queensland	11.1%	ACT	0.7%
Western Australia	5.6%	Northern Territory	0.0%
Outside Australia	4.2%		

From the sponsor

As the world evolves to be more digital, Microsoft recognises that every organisation is a software company and that the success of Microsoft is led by our partners' success.

Australia is a strategic market for Microsoft with innovative ISVs leading digital transformation, not just at home but globally. It is incumbent on organisations such as Microsoft, Ingram Micro and CRN to use our unique platforms to help ISVs grow, to support development of new offerings and to help them land in new markets.

Microsoft has put never-seen-before levels of investment into Australia. Just this year the 'ScaleUp' program in Sydney launched for qualified start-ups; 'Protected' certification was awarded

to our cloud services; and new Azure regions were launched in Canberra, enabling our partners to service government and other regulated industries from the cloud.

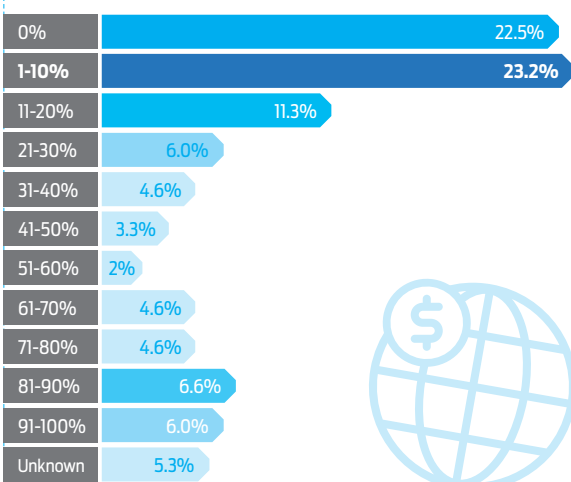
The Microsoft Partner Network (MPN) supports ISVs on their journey from building, selling and executing go-to-market strategy through tailored support and resources.

Microsoft is also committed to surfacing the latest potential opportunities for our partners, such as artificial intelligence to solve problems at scale and differentiate. Whether or not they have a background in this fast-emerging field, Microsoft supports through tools, training and collaboration.



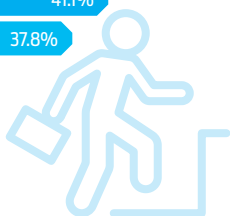
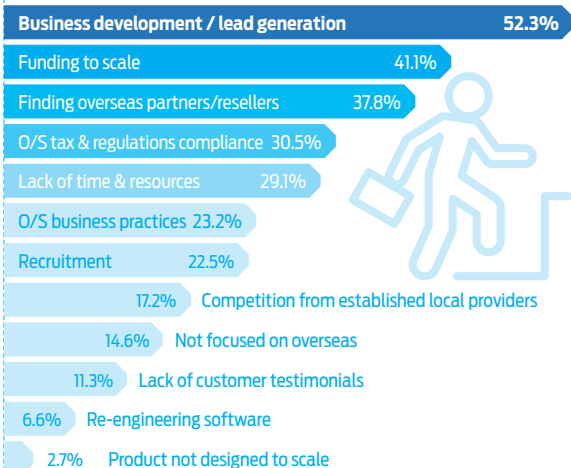
REVENUE FROM OUTSIDE AUSTRALIA

How much of your revenue comes from outside of Australia?



GLOBAL CHALLENGES

What are the biggest hurdles to overseas expansion?



DIRECT VS CHANNEL

Overall, is your strategy to be more of direct sales business or a channel business?



scenarios, with 19 percent both B2B and consumer, and just 1 percent focused solely on consumers.

The respondents' industry focus mirrored the Australian domestic economy. There was a large focus on banking, insurance and financial services. This seems disconnected from the GDP composition of North American markets (the top export focus among respondents) where the Fortune 500 has automotive, industrial, oil, mining, technology and financial services as the major components of technology spend.

The biggest struggles to overseas expansion include having a clear export strategy, funding to assist in international expansion and finding the right distribution and reseller partners in their target markets.

Unlike traditional industries in Australia, there is no industry voice asking for Australian government assistance through export programs or R&D tax allowances to get to international customers.

Tread carefully

Many Australian ISVs seems to take a cautious, conservative approach to international expansion. Some raised issues about the size of investments required to create overseas footprints, as well as the timeframe for expansion. Many would benefit if they received more support from existing technology alliance partners, such as Amazon Web Services, Microsoft, Salesforce, IBM, Google and Oracle.

These global technology vendors are capable of assisting with prescriptive programs to assist with country-specific expansion rather than generic global strategies and introductions. Yet less than 10 percent of the survey respondents told us they had a clearly defined plan with their platform and alliance partner to support growth. Simple suggestions that could make a world of difference to help ISVs export would include hosting export-oriented partners

Scaling for success

How Australian software firms grow and prosper

- at global conferences with specific follow-up strategies.

"We have traded globally for 10 years, however, international expansion requires research, investment and patience," said the CEO of a Sydney-based company whose platform provides B2B sales orchestration.

The co-founder of a Sydney-based ISV that develops cloud business management software told us that going global takes "time, money, resources but the most important thing is to ensure we have the right systems, processes in place and get it right in Australia so then we have a template we can use from one country to the next".

The World Bank is forecasting Asian growth to be double that of North America and Europe by 2020, yet the ISVs that took part in this research were focused on North America as their top export market with Europe next on the list: many ISVs are anxious about the differences in political landscape and business customs in Asia, and foresee faster returns in Western markets. But given Australia's diverse, multicultural local workforce and strong connections to Asia, as well as

time zone advantage, this could be a missed opportunity for many ISVs.

The message is clear: organisations that designed their products and go-to-market to be global from day one enjoy higher revenues, higher export income and higher growth rates than those that don't. The global developer mindset creates a significant difference in the types of employees you can attract and retain, the sort of customers who will grow with your business and ultimately a valuation premium for the company.

Indirect business

CRN's core audience is the IT channel, and our research included significant focus on partnership strategies. There was an even spread between respondents who had appointed resellers (51 percent) and those that hadn't (49 percent).

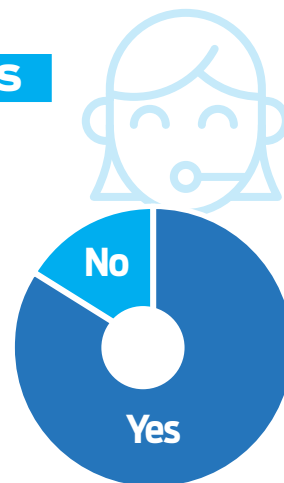
Although 77 percent of respondents had an API strategy for their product development, there was weak focus on distribution development across marketplace strategies and reseller investments. Some 57 percent of respondents told us they had included channel sales in their product development

DIRECT SALES

Do you sell directly to customers?

Including online sales and traditional sales methods, such as in person or over the phone

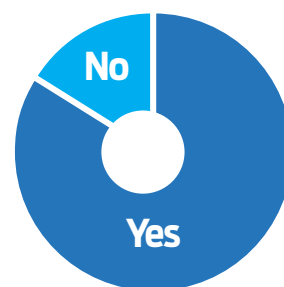
Yes	84.1%
No	15.9%



TAX & REGULATIONS

Is your product available to comply with taxation arrangements or financial regulations other than Australian?

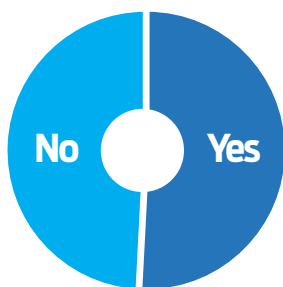
Yes	53.0%
No (Australia only)	25.2%
N/A	21.9%



RESELLERS

Have you appointed any resellers?

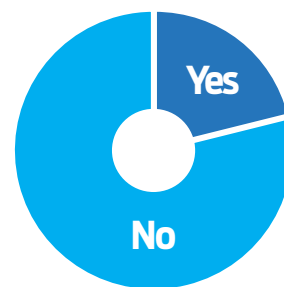
Yes	51.0%
No	49.0%



DISTRIBUTORS

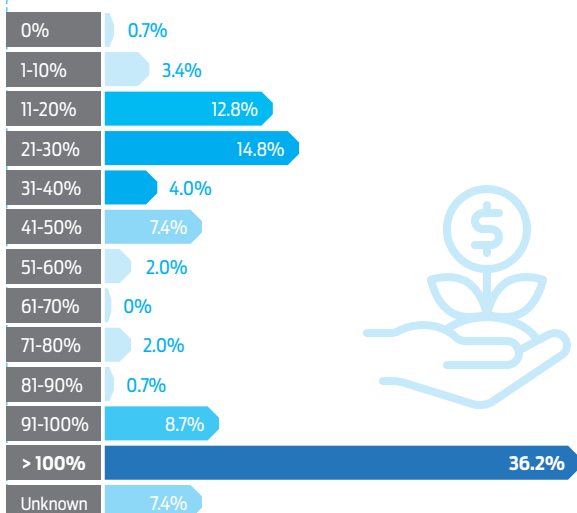
Have you appointed any distributors?

Yes	21.2%
No	78.8%



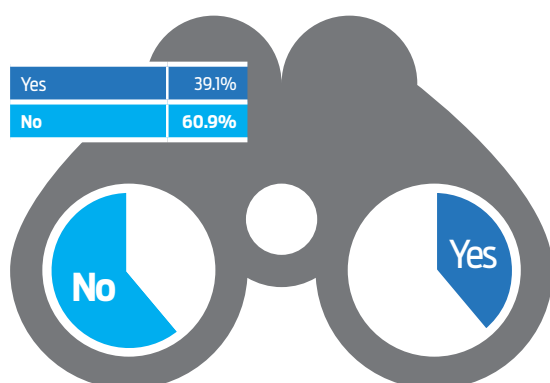
REVENUE GROWTH

How are you looking to grow your business in the next 12 months?



PARTNER TEAM

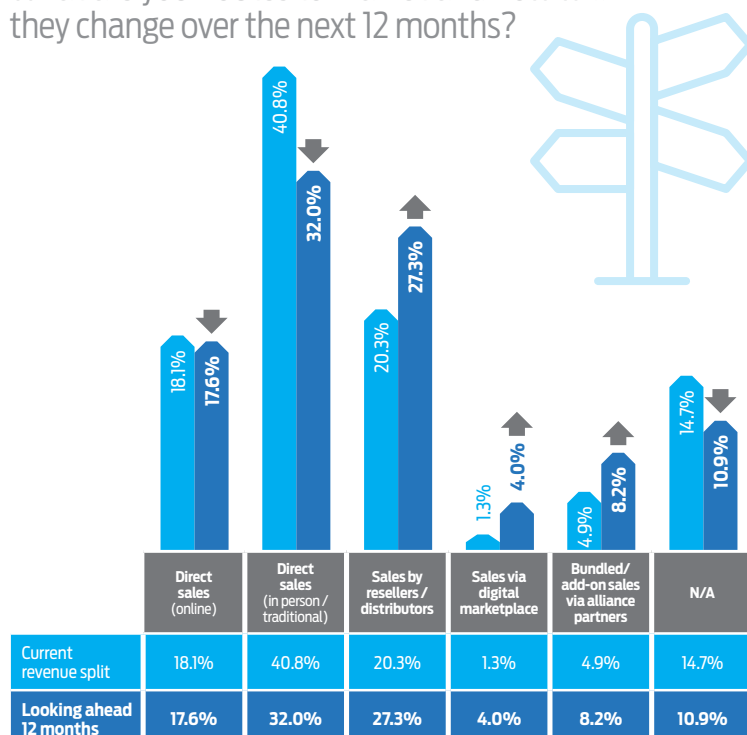
Do you have any dedicated employees focused on channel?



Sample responses: Our CEO | We are channel only so all employees | Partner manager and partner administrator | Shared role currently – planning to have dedicated with next capital raise | Trialling this model in the UK with team of two

GO-TO-MARKET FORECAST

What are your routes to market and how will they change over the next 12 months?



roadmaps, but only 33 percent said their product was available in online marketplaces.

Software companies that have thus far avoided resellers and distributors might want to rethink their strategy, especially if they are also targeting international expansion. There was a significant difference in business performance between those respondents with resellers and those without.

Respondents that had appointed resellers were more closely aligned to a global-first mindset: a third of these got more than 50 percent of their revenues from export markets. Compare that with the ISVs who

had *not* appointed resellers: only 16 percent were achieving export revenue of more than 50 percent.

Of the respondents who had appointed resellers, half of them forecast export growth of more than 50 percent. Among the respondents *without* resellers, only a third are expecting this level of export growth.

The message is clear: if you want to expand globally you need to invest in resellers and a channel to market to ensure sustainable growth.

Among the overall group, there was limited maturity around channel investments. Some 62 percent of respondents offer training to their resellers, 51 percent

Scaling for success

How Australian software firms grow and prosper

- offer marketing support and 47 percent offer preferred pricing.

Outside of this research, lead generation is consistently the number one request resellers make of their vendors, yet it ranked a lowly fourth among our respondents, with just 34 percent including it as part of their partner program.

Partner programs

If we again split the data into ISVs with resellers versus those without, we see ISVs with a reseller strategy prioritised channel investments at twice the rate of those without. They offered resellers training at 88 percent compared with 35 percent, preferred pricing at 59 percent versus 34 percent, and lead-gen at 48 percent versus 19 percent.

You might assume that older software companies are more likely to have a channel strategy - think again. The age of the business had little material effect on reseller strategy. The average age of a business with resellers was 10.8 years, compared with 9.6 years for those without resellers.

Revenue was a critical measure of channel success. Nearly half of all respondents with resellers also had revenue over \$2 million. Among ISVs with no resellers, less than 30 percent had crossed the \$2 million threshold.

An even smaller subset of the respondents had looked beyond a one-tier channel model and appointed a distributor. The number of tiers in an ISV's distribution model was strongly related to higher revenue growth and export mix.

Only 21 percent had a two-tier distribution model. Many organisations are partnering across complex ecosystems including outsourcers, telecommunications carriers, OEMs as well as distributors.

Reinforcing the direct sales orientation, most respondents (61 percent) are investing more in long-term direct sales models than channel lead models.

"Normally distributors do not have the technical skills to sell our product," said the founder of a company focused around AI-based analytics for video.

The director of a young startup also focused on video technology put it succinctly: "We won't have distributors: it's a SaaS product."

This comment encapsulates the work distributors need to do with ISVs in terms of educating the market and value add of distributors for a subset of the ISV community. If Microsoft, SAP, Oracle and many other SaaS providers are using channel partners through distribution, the opportunity for distributors is vast.

Diverse paths

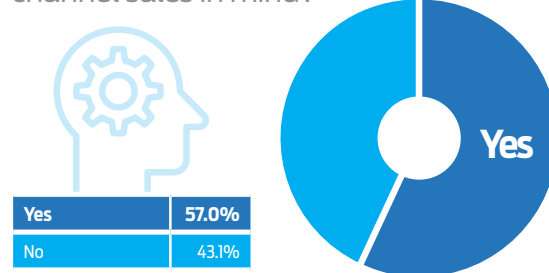
What is a channel to market? ISVs partner with a vast range of organisations, including their customers, telecommunications carriers, outsourcers, OEMs, other software companies, professional services firms, third-party online marketplaces and even government organisations.

How you get to market isn't as simple or obvious as distributors and resellers anymore. The software companies in our research partnered with the likes Amazon Web Services, AT&T, BT, Cisco, Deloitte, DXC, IBM, Juniper, Leica, Microsoft, NTT, not-for-profits, Oracle, Pitney Bowes and Salesforce. Developers have a huge ecosystem of potential channels to market.

Some of the more interesting responses where selling to global organisations in Australia and using internal referrals through the

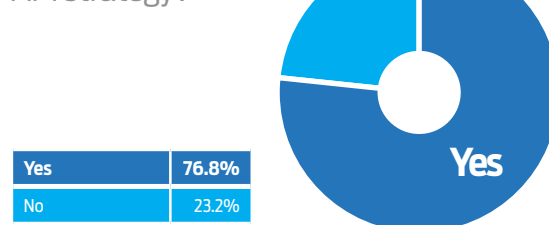
DESIGNED FOR CHANNEL

Did you design your product with channel sales in mind?



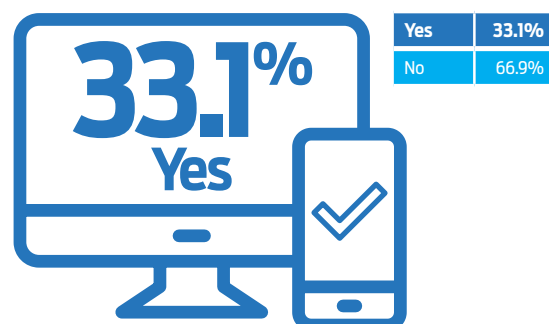
API STRATEGY

Do you have an API strategy?



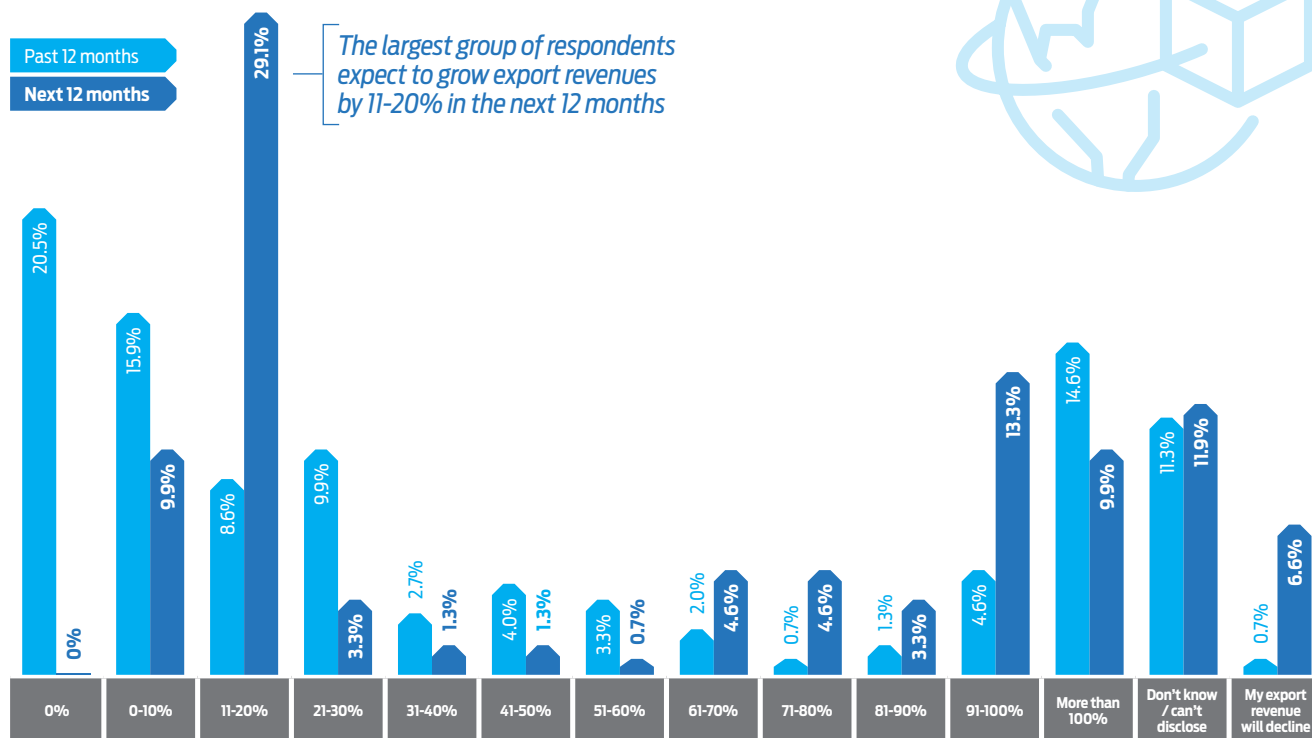
ONLINE MARKETPLACES

Is your product available on third-party marketplaces or app stores?



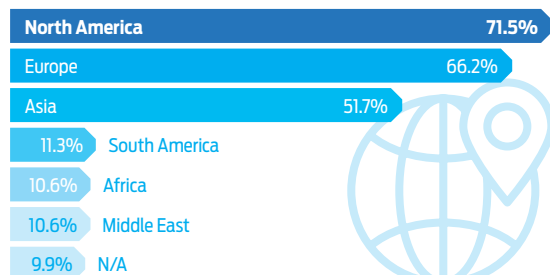
EXPORT GROWTH FORECAST

How did export revenues grow in the past 12 months and how much do you expect them to grow in the next 12 months?



REGIONAL INVESTMENT

Looking ahead 12 months, which overseas geographies will you look to invest in?



► organisation to get global reach. This approach might take a little longer as long as it's aligned to in-country integration channels.

Direct bias

Overall, the respondents were more focused on direct than indirect sales. Some 50 percent of respondents had not appointed any resellers, 61 percent said their strategy was to be more of direct sales business, and 84 percent with a direct-to-end-customer route to market. That could be changing, however.

The trend among the group was toward less direct sales, and more channel (see chart, p7). The research shows that although many ISVs are relatively immature when it comes to channel, they see the benefit of reducing the reliance on their own direct sales force and instead leveraging the extended power of resellers and distributors.

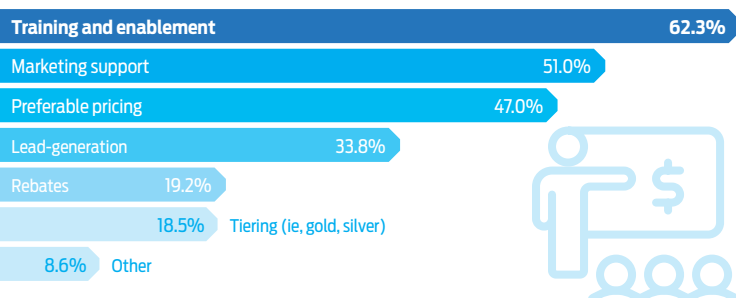
The long-term success of many global software powerhouses, such as Adobe, Amazon, Microsoft and Oracle, has been defined by powerful channels to market, which ►

Scaling for success

How Australian software firms grow and prosper

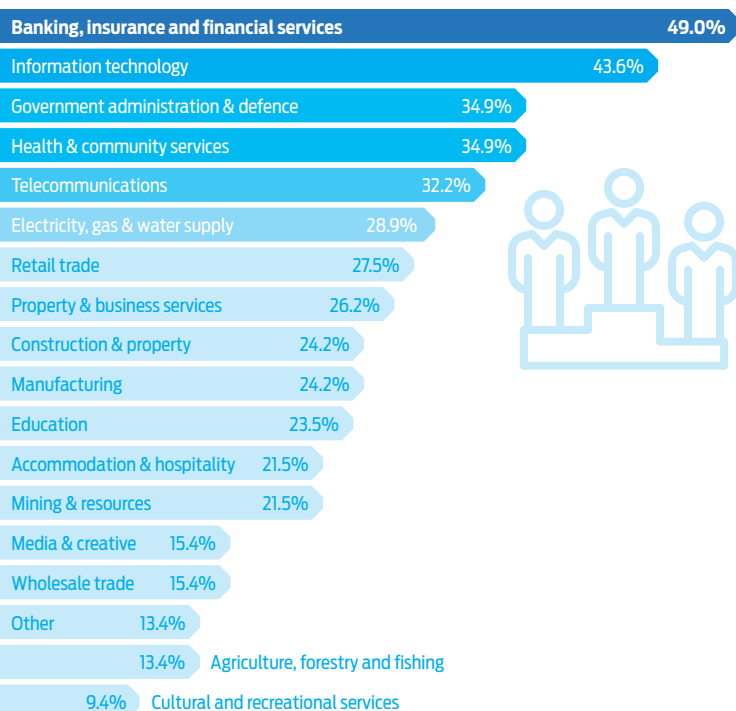
PARTNER PROGRAMS

What do you offer to channel partners to help them sell your product?



INDUSTRY VERTICALS

What are your most important customer industries?



Methodology

This research was conducted by CRN and sponsored by Ingram Micro Australia and Microsoft. The analysis was based on responses from 150 Australian independent software vendors that took part in our survey, which ran online during April and May 2018. CRN filtered out any responses from non-ISV companies that took part (such as resellers, MSPs and global vendors).

sustain the organisation in tough times, without the fixed costs, while offering another way to create differentiation for the business as well as a higher valuation.

Many people still see the role of channel staff as relationships rather than revenue. ISV channel investments are being made into alliance, channel development and partner development job titles with the rare exceptions being sales directors, sales managers or channel sales directors. The older the organisation or the deeper the channel focus, the more likely the channel roles are to be revenue orientated.

Not all respondents deprioritised resellers. The CEO of a three-year-old software firm, which does messaging technology, said: "Partners have contributed a significant amount of our closed deals and also attribute over 75 percent of our lead flow for our direct sales. They are our core focus."

Public cloud

The leading technology platform providers among the respondents were Amazon Web Services (57 percent) and Microsoft Azure (42 percent). This parallels CRN's 2017 ISV research, and again shows a large gap between number three, which was Google Cloud (20 percent).

Although Amazon Web Services and Microsoft represent the bulk of the technology platform investment, there seems to be big missed opportunity among all public cloud providers to assist ISVs in growing businesses internationally. Only 20 percent of organisations have a defined plan with their technology partners and 23 percent rely on vendor personal relationships to make an impact.

There seems to be a huge gap in what global software vendors and distributors promise in their home markets and what they are actually delivering overseas.

The standout global vendors and distributors have programs backed by people, plans, third-party marketplaces and a pricing model that takes into account everything from billing currencies to step-by-step onboarding guides on a country-by-country basis. This includes the incentives to make local representatives care about helping grow a random software developer based out of Australia. Any major vendors that are promising to provide an ISV with global reach should be researched to understand what happens after the PowerPoint pitch and what's the reality when you land in the target export country.

The MD of the Sydney-based compliance tech firm mentioned earlier said: "Our experience to date is that the tech guys are keen to flog us a product, without understanding our business model."

The CEO of a machine learning software firm, which targets the assisted living market, was happy to go it alone. "They have not helped and we don't need their help. We are in control of this with our own team."

Surprisingly, one of the unexpected barriers to international expansion was the role of the local Australia banks. Many respondents were frustrated by the cost to process multiple currencies as well as the lack of innovation from banks.

"GST in Australia is the biggest issue," said the director of a Melbourne-based startup that maps cloud environments. "Second is currency conversion on quotes and waiting for a payment, which mean you are affected by currency change."

Currency risk for smaller organisations is a concern due to the volatility of currencies in most developing economies and limits the focus of export growth in Asia and Africa.

Conclusion

For a software company, the decision between 'start global' or 'stay home' is a strategy to be defined on day one. ISVs have had success with both.

You could start simply and get some quick global growth into New Zealand, which poses limited risk and business differences although remains a highly competitive market with strong local providers.

Integrate your product strategy and your go-to-market strategy. You will need to reflect deeply on the architecture and billing platform of your products if you are seeking to go to market through a multi-tiered distribution model with resellers.

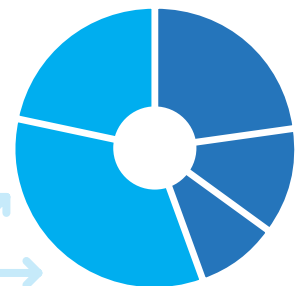
Think beyond the default of training, marketing and margin as you develop your go-to-market model. Modern applications enable API strategies, which assist resellers to create value-added adjacent products, which increase sales and channel loyalty. Your APIs enable a worldwide opportunity through third-party marketplaces. Your APIs will need to evolve and adapt to markets, customers and channel. Create flexibility and opportunity for resellers in utilising your APIs.

Australian-based chambers of commerce such as the Australia-Canada or Australia-India chambers are a simple, low-risk way to meet exporters that have experience to share with you and test your approach in their home markets. You don't have to visit a country to learn immediate.

The choice is yours - go global or stay home. ■

ALLIANCE PARTNERS

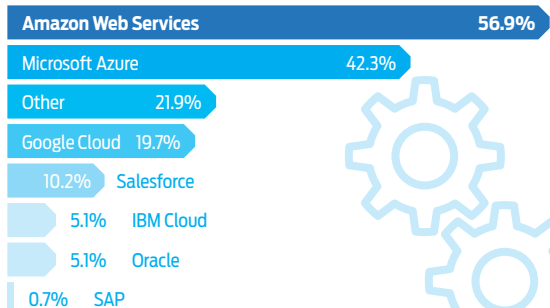
How have your platform/alliance partners helped you scale your business?



We have discussed international expansion, yet we rely on personal relationships to progress	23.0%
Created a plan with us to grow internationally and have discussed the people and resources required to grow	12.2%
Have created a defined plan, processes and people locally and internationally to grow our export revenues	9.5%
No plans to help us achieve international expansion	33.8%
N/A	21.5%

PUBLIC CLOUD PLATFORMS

Do any of the following technology platforms underpin your product?



Sample responses: Heroku | Dropbox | Own dedicated technology | Microsoft technologies but our servers | Unix cloud services | Xero | None | SQL | Rack Space | SQL | Atlassian and Clojure | ConnectWise | Xero | QBO | Shopify and others.