Policy Paper

Unique value proposition for the Macedonian

software and IT service industry

Report

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1. Executive Summary

The purpose of this policy paper "Unique value proposition for the Macedonian software and IT service industry" is to determine the competitive advantages of the Macedonian software and IT service exporting industry, so that they can be used in marketing activities.

The method used was to do an original research among Macedonian exporting companies (26) concerning their advantages, and confront their answers with interviews with five outsourcing experts from consulting companies and associations from developed markets (West Europe and USA). Therefore, both the offering and the demanding side of the market were covered.

A major result shows that for more of 70% of the exporting companies their most important advantages in international markets are: Technical know-how (quality) of personnel, Business know-how, Price, Specialization, Quality of products and services, and Trust in delivered products and services. These answers were basically confirmed by additional questions e.g. regarding loyalty of clients. When asked about the advantages of the country as a whole, the answer most frequently given by companies was Price, almost three times more than the second ranked characteristic.

The experts were asked which characteristics are required of Macedonian companies in order to offer successfully their products and services in competitive markets. Experts were also requested to classify them as 'must have', 'important' and 'useful to have'. The characteristics ranked as most important were Price, Delivery on time, Reference cases, Technology, and Technical know-how (quality) of personnel. They were followed by Business know-how and Quality of product and services.

Comparing the ranking of both sides, the characteristics overlap to the height of more than 60%. The greatest difference among experts and companies were on Cultural closeness (100% of experts and 46% of companies) and Low turnover rate of personnel (80% of experts and 42% of companies).

Additional recommendations by experts were: Have technical know-how with vertical specialization; Define image as service provider; Increase international awareness of Macedonian offers; Develop nearshore activity to Western Europe with competitive prices

The study also revealed some characteristics of the exporting Macedonian companies. Here the most important:

- *Export destination*: The majority of the companies export to South-East Europe (SEE) (83%) and Western Europe (54%).

- *Export products and services*: 85% export software products and services, and 23% hardware.

- *Export services*: The majority (55%) of the companies export Software development services, followed by Software implementation (25%), Consultancy (20%), Training (15%), and Support (10%).

- *Export turnover*: On average 40% of companies' turnover are generated by export activities

- *Offices and partners abroad*: 63% of the companies have offices in SEE countries and 27% in Western Europe; Three quarters have partners in SEE and 38% in Western Europe.

- *Maturity and export experience*: Most of the companies (58%) were founded in the 1990s (on average they have been on the market for 15 years) and they have a mean experience in export activities of almost 10 years.

- *New clients*: Most of the companies (42%) rely rather on personal relations (direct contacts, networking) than on professional approach to attract new clients.

- *Competing countries*: All companies face competition from SEE countries in international markets, mainly Bulgaria, Romania and Serbia.

- *Support needed*: Companies express the need for support in the areas of Marketing and Education, followed by Awareness raising, Branding, and Reference clients/success stories.

- *Staff fluctuation*: More than 70% estimate having low or very low staff fluctuation.

- *Sales turnover*: Most of the companies (38%) had in 2011 sales turnover between 0.5 and 1 million Euro and 21% less than half a million Euros.

The study concludes that the characteristics of the Macedonian software and IT service offers for international markets are:

- Quality and technological products and services

- Specialisation in business know-how and IT areas

- Competitive prices

- Trust in delivered products and services

- Geographical and cultural closeness / Nearshore

This policy paper additionally makes recommendations to MASIT as the representative of the sector and enabler of many export activities, which can be summarized as follows:

- Strengthen the international presence in target markets

- Intensify activities to raise the awareness in target markets of Macedonia as provider of qualified software and IT services.

2. Introduction

The goal of the present document is to determine the unique value proposition of the software and IT service sector in Macedonia. It presents the characteristics that differentiate the offer of the country's IT companies in exports markets for their products and services from that of its competitors. The final result of the preparatory work undertaken and of the document is a list of differentiating characteristics of the sector. It is to be used in marketing activities and materials by the Macedonian ICT Chamber of Commerce MASIT, the representative institution of the sector.

The method used to determine the characteristics of the Macedonian software and IT service sector consisted of two market researches. The first research was done with IT exporting companies of Macedonia and the second ones was carried out with experts in IT outsourcing operating in mature markets (West Europe and USA). This allowed obtaining information from the offering side – Macedonian IT exporting companies– and from de demanding side –the target markets as gauged through the evaluation of experts. In both cases a specific questionnaire was developed to gather information.

The document in structured as follows. Section 3 presents the results of the research done with Macedonian companies, and the following Section analyses the results of the research with experts in target markets. Section 5 crosses the information obtained from both sides. As a result of the exercise, the following Section presents the characteristics which differentiate the Macedonian software and IT service sector in international markets. Section 7 proposes an "Elevator Pitch" based on these results. Section **Fehler! Verweisquelle konnte nicht gefunden werden.** concludes with comments and suggestions to support MASIT's effort to improve the capabilities of Macedonian companies to export software and IT services.

## 3. Exporting Companies – Profile and Characteristics

This part of the document presents the analysis of the information collected among Macedonian IT exporting companies. The companies are member of the ICT Chamber of Commerce MASIT and were selected supposing that they have export activities. Using the questionnaire attached developed for this purpose the companies were interviewed personally or by telephone by the consultant, or answered the questionnaire on their own and sent it to the consultant.

Export activities

1. Does your company <u>export</u> products and/or services?

To collect information about the practical experience of Macedonian companies, 30 MASIT members companies were contacted. 26 companies replied the request: two informed that have no or minimal export activity to answer the questionnaire, and 24 (92%) provided answers to the questionnaire.

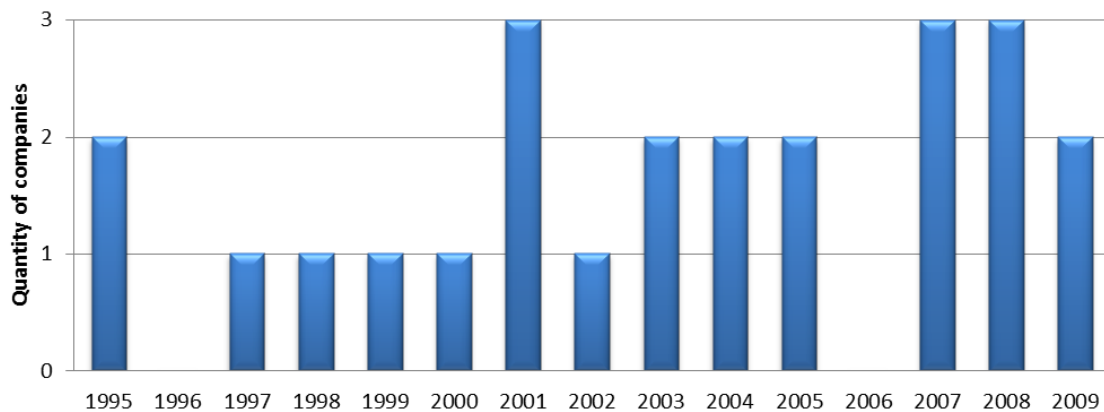## Company Export
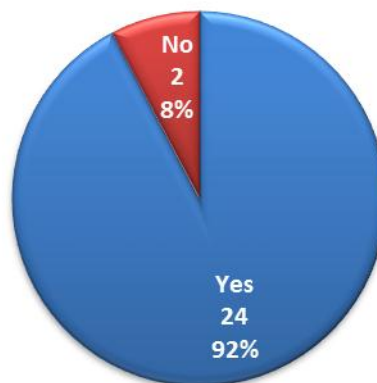
N = 26

The basis of the following questions is the 24 companies that answered the questionnaire and have export activity.

2. If yes, <u>since when</u> (year)?

24 companies informed when they started export activities.

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- Two pioneering companies started exporting activities in 1995. The most experienced companies have therefore more than 17 year experience in exports. The companies with the most recent export experience are two companies that began in 2009.

- 5 (21%) companies started to export in the 1990s, and 19 (79%) companies started in the 2000s.

- On average the IT Macedonian exporting companies started in 2003, thus having almost 10 years of experience in exporting activities. This is relevant in the relatively young IT sector.
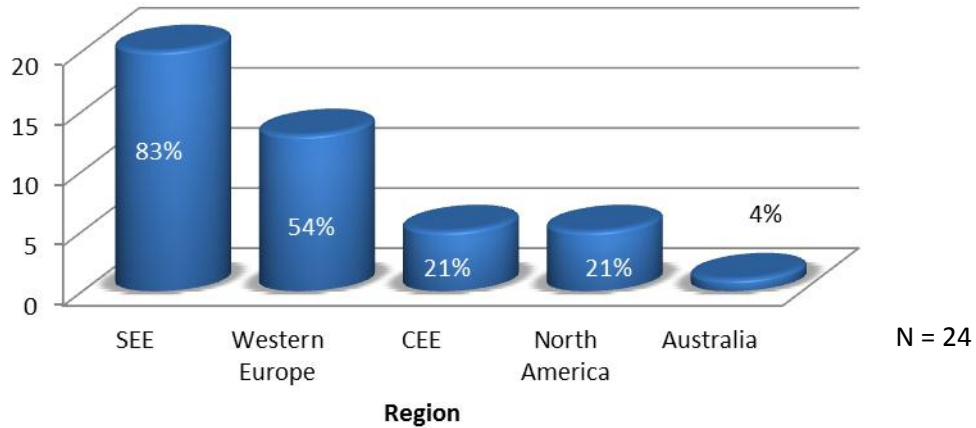
Year Starting Exports

N = 24

3. To which countries / regions?

All of the 24 exporting companies informed the destination of their exports. The countries were grouped in regions. SEE (Southeast Europe) includes Bulgaria, Romania and Turkey. Western Europe includes Switzerland and Norway.

Export Destination

N = 24

- The largest export destination is regional markets: 20 (83%) companies export to SEE.

    o Most go to Albania and Kosovo (12 each), Serbia (6) and Croatia (3).

    o The other destinations in SEE are: Bosnia and Herzegovina and Slovenia (2 each), Slovakia, Romania and Turkey (one each).

- 54% of the companies (13) export to Western Europe, wherein the major destination countries are UK (4), Ireland (3) and Germany, Austria, the Netherlands, Denmark and Norway, to which two companies export in each case.

- 5 (21%) companies export to CEE (Central and Eastern Europe) countries (Poland, Czech Republic and Baltic States). Five (21%) companies export to North America (USA).

- One company exports to Australia.

The majority of exports goes to neighbouring countries, mainly from the former Yugoslavia and Albania. And second region, Western Europe, represents the nearshore activity.

4. **What** does your company **export** divided by product and services?

Products

13 companies export IT products.

Exported Products

N = 13

- The majority, 11 companies (85%), export software products.

- Three companies (23%) export hardware.

- One company (8%) export both, software and hardware products.

Services

20 companies informed what services are exported.

Services Exported (most frequent)

N = 20
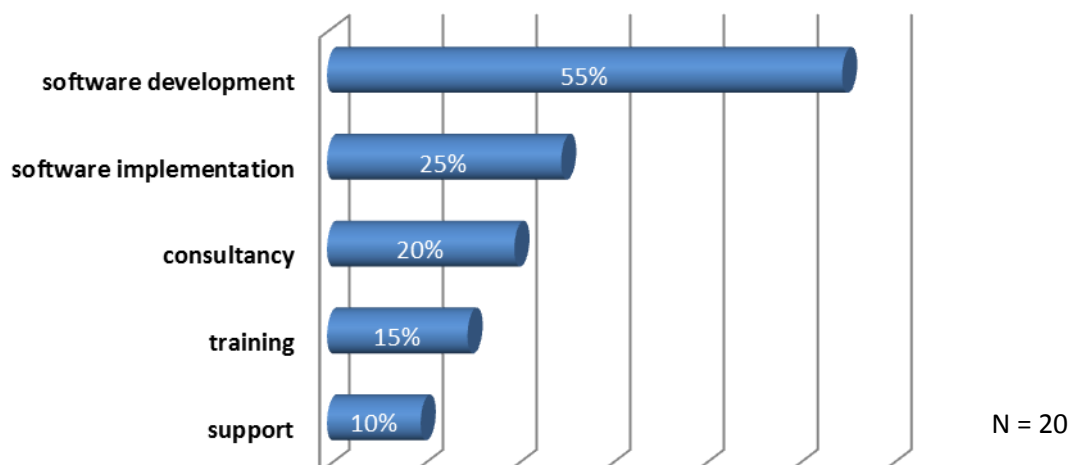
- The majority of the companies (55%) export software development services.

- The next exported services are: software implementation (25%), consultancy (20%), training (15%) and support (10%).

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- The other exported services with 5% (one company in each case) are: hardware implementation, internet marketing services, project management, maintenance, hosting of solutions, cloud services, application development, software design, business process modelling, system integrated services, quality assurance, staffing, business analytics, software as a service, network & security operations.

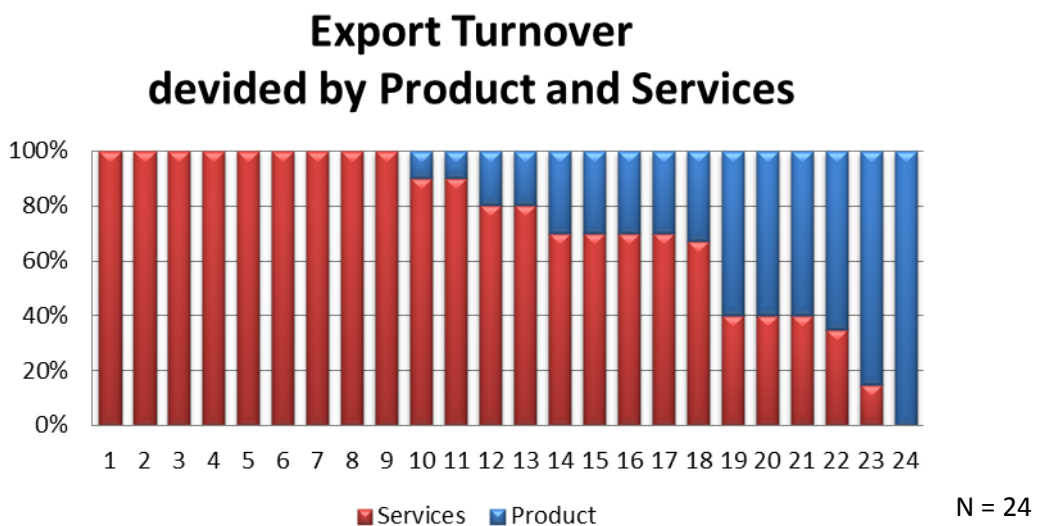Software development services are historically the most frequent exporting services and this is the main focus of the Macedonian export strategy.

> 5. If you export both, what is the <u>percentage of products and services</u> based on export turnover?

All participating companies gave information on this question.

Export Turnover devided by Product and Services

N = 24

- On average, 73% of the export turnover was generated by services and 27% came from products.

- Nine companies have export revenues only from services and one company has export revenues only from products.

- The remaining 14 companies generate their export revenues from both products and services.

> 6. What was the <u>percentage of exports</u> in total turnover in 2011?

On average, 40% of the total turnover of the 24 companies was generated by export activities.

Exports as % of Turnover

Average 40%

N = 24
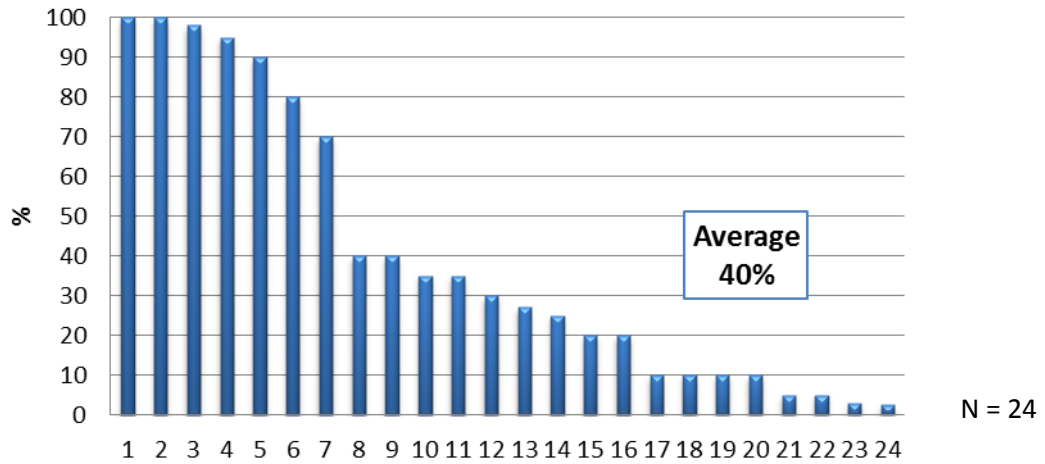
- Two companies (8.3%) have only export activities, and in total, seven companies (almost 30%) have 70% or more from their revenue coming from export activities.

- One-third of the companies (8) have only 10% or less of their turnover coming from export activities. These companies are much dependent on the domestic market.

7. Do you have offices abroad? If yes, in which country(ies)?

To facilitate the overview, the countries were grouped in regions, similarly to question 3. SEE (Southeast Europe) includes Romania, Turkey and Moldova. Western Europe includes Switzerland and Norway.

Office Abroad - Location

N = 15
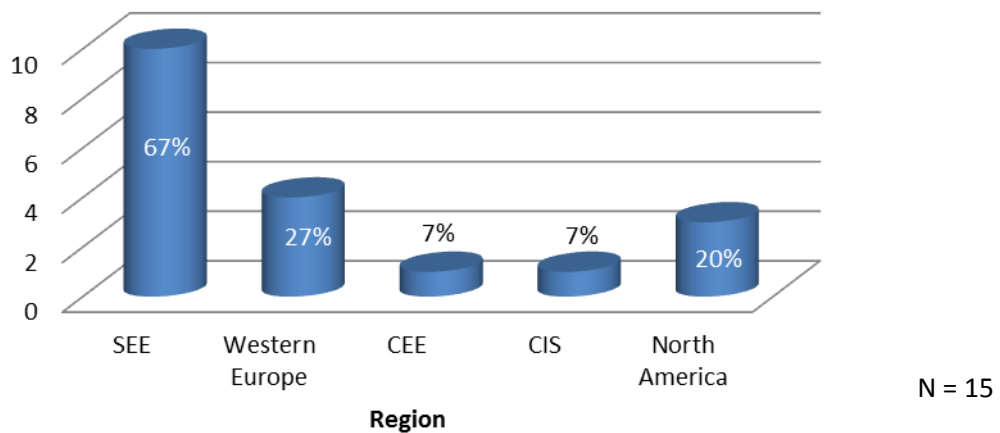
- 15 companies out of 24 (63%) have an office abroad.

- Most of the companies with office abroad (67%) are located in SEE countries.

   o The offices are located in Slovenia and Croatia (4 companies in each case), Serbia and Albania (3 companies in each case), Kosovo (2) and Bosnia and Herzegovina, Romania, Turkey and Moldova (with one company each).

- 27% of the companies (4) have offices in Western Europe. The countries are Germany, UK, Switzerland and Sweden, each with one company office.

- There is one company with an office in CEE (Hungary) and one company with an office in the CIS (Commonwealth of Independent States), i.e. Belarus.

- Three companies (20%) have offices in North America: USA (3) and Canada (1).

The focus again on regional markets (neighbouring countries) is confirmed, followed by Western Europe as neashore destination. North America is also relevant.

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8. Do you have partners abroad? If yes, in which country(ies)?

As in the previous question concerning offices abroad, the countries were grouped in regions. SEE includes Bulgaria and Turkey, and Western Europe includes Norway.

Partner Abroad - Location

N = 16
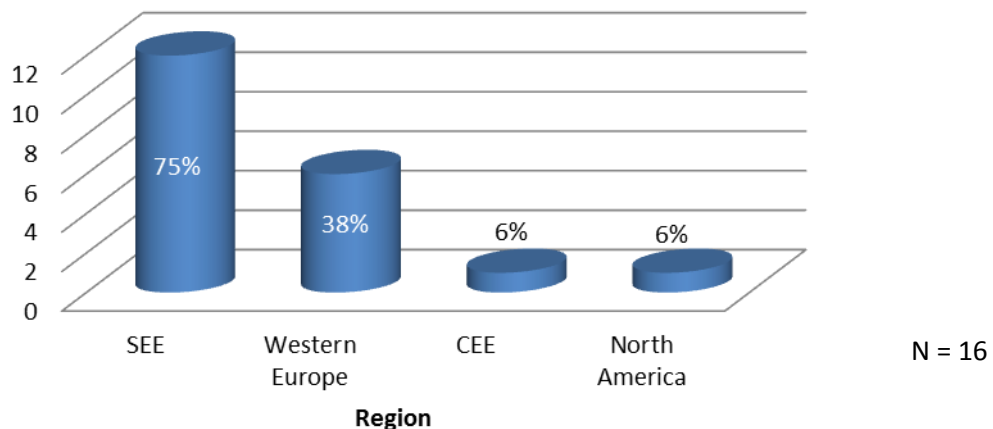
- 19 companies (79%) have partners abroad, but only 16 informed details.

- 12 companies (75%) have partners in SEE countries.

   o These are: Albania (6 companies), Kosovo and Serbia (5 each), Croatia (3), Slovenia (2) and Bulgaria and Turkey (one each).

- 6 companies (38%) have partners in Western Europe, located in: UK (3 companies), Germany, the Netherlands and Ireland (2 each) and Austria, Italy, Denmark, Sweden and Norway (one each).

- There is one company (6%) with a partner in CEE (Estonia), and another company with a partner in North America (USA).

The partnerships confirm the patterns stemming from the previous questions: concentration on regional markets, followed by nearshore in Western European markets.

Export Positioning

This is the main part of the questionnaire concerning the goal of the Policy Paper: to determine the unique value proposition (UVP) from Macedonian software and IT services companies in international markets.

9. What are the advantages from your company in the international markets?

All of the 24 companies answering the questionnaire completed this question.

Advantages in Int'l Markets (USPs)

Advantage	%
Technical know-how (quality) of personnel	83%
Business know-how	79%
Price	75%
Specialization	75%
Quality of products and services	75%
Trust in delivered products and services	71%
Delivery on time	67%
Technology (technical)	63%
Reference cases	63%
Geographical closeness to client (nearshore)	54%
Maturity of company (age)	50%
Cultural closeness	46%
Low turnover rate of personnel	42%
Size of the company in number of employees	38%
Other(s)	8%

N = 24

- The most important advantage of Macedonian companies in international markets is for 19 out of 24 companies (83%) the Technical know-how (quality) of personnel. This is a positive

indicator in a service sector like IT, because it depends on personnel rather than on machinery (hardware).

- 79% of the companies see their Business know-how as an advantage in international markets. This indicates that not only the technology is offered to clients but also the knowledge of the business of the client.

- Three quarters of the companies see their advantages in Price, Specialization and Quality of products and services. Competitive prices are a pre-requisite for outsourcing activities. Specialization is one of the differentiating factors in competitive markets. Quality of products and services may be the consequence of the major factor (i.e. technical know-how).
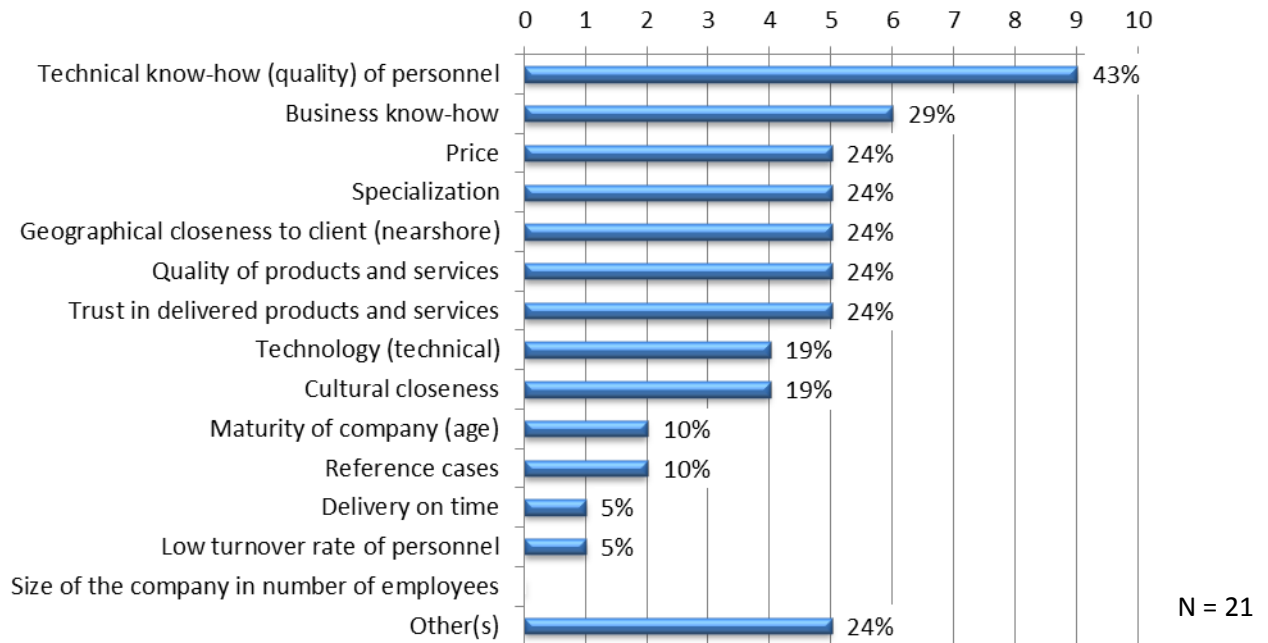
- 71% of the companies see Trust in delivered products and services as their major advantage. Trust in the service sector comes with time, as a function of delivered quality and reliability.

- Delivery on time, seen by two-thirds of the companies as one of their advantages, is another element of trust mentioned above.

- The following items ranked by companies were: Technology (technical) and Reference cases (both with 63%), Geographical closeness to client (nearshore) (54%), Maturity of company (age) (50%), Cultural closeness (46%), Low turnover rate on personnel (42%) and Size of company in number of employees (38%).

- Others factors are QA standard (CMMI ML2 SCAMPI A), and Products distribution, and agreements with the vendors, each informed by one company.

10. What does your company offer that is different from the offer of competitors?

This question is another aspect of differentiation of the offer. This question was open and the answers were classified according to the alternatives of the previous question.

Offer Differentiation

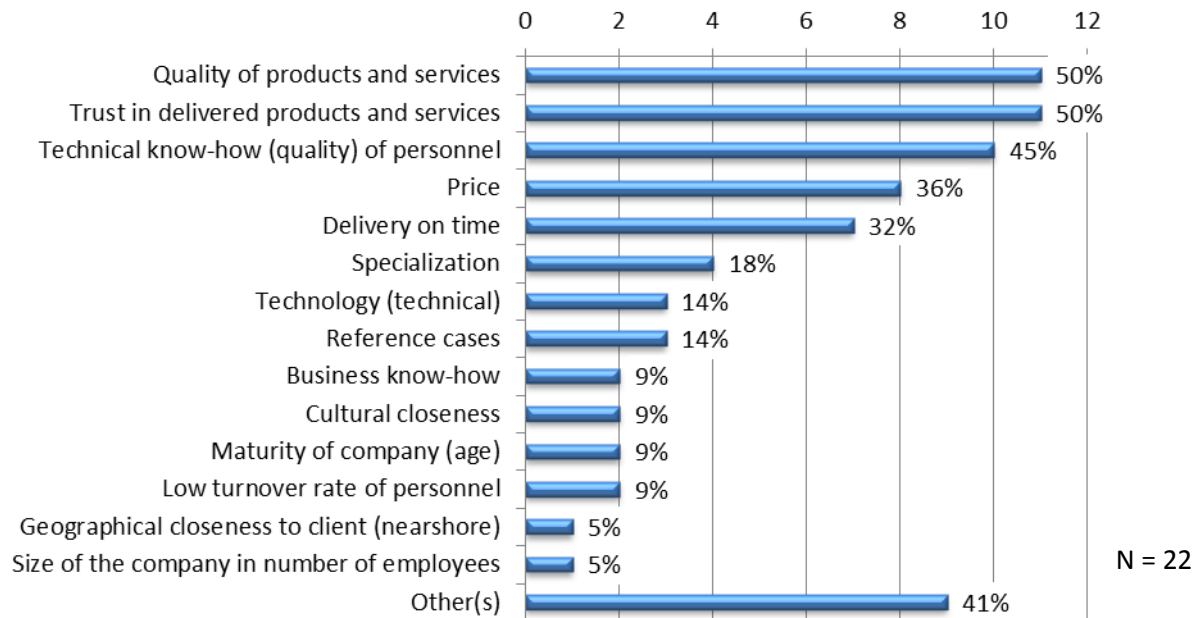|	0 1 2 3 4 5 6 7 8 9 10	
Technical know-how (quality) of personnel	████████████████	43%
Business know-how	██████████	29%
Price	████████	24%
Specialization	████████	24%
Geographical closeness to client (nearshore)	████████	24%
Quality of products and services	████████	24%
Trust in delivered products and services	████████	24%
Technology (technical)	██████	19%
Cultural closeness	██████	19%
Maturity of company (age)	███	10%
Reference cases	███	10%
Delivery on time	█	5%
Low turnover rate of personnel	█	5%
Size of the company in number of employees		
Other(s)	████████	24%

N = 21

- The six first items listed here are the same as the one listed in the previous question, which confirms their relative importance.

- One of these major items is Geographical closeness to client (nearshore). This information is in line with the answers provided previously on offices and partners abroad, where Western Europe, representing nearshore activity, was a major factor.

- The following items indicated by companies are: Technology (technical) and Cultural closeness (19% each), Maturity of company (age) and Reference cases (10% each) and Delivery on time and Low turnover rate of personnel (5% each).

- The following items were listed under Other(s): Flexibility, Robustness & security, Innovation, Client satisfaction, Customer care (by one company each)

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11. Why do international clients do <u>continuous business</u> with your company?

This question is a third aspect of differentiation of the offer. This question was open and the answers were classified according to the same alternatives used for the two previous questions.

Client Loyalty

| | 0 | 2 | 4 | 6 | 8 | 10 | 12 |

Quality of products and services — 50%
Trust in delivered products and services — 50%
Technical know-how (quality) of personnel — 45%
Price — 36%
Delivery on time — 32%
Specialization — 18%
Technology (technical) — 14%
Reference cases — 14%
Business know-how — 9%
Cultural closeness — 9%
Maturity of company (age) — 9%
Low turnover rate of personnel — 9%
Geographical closeness to client (nearshore) — 5%
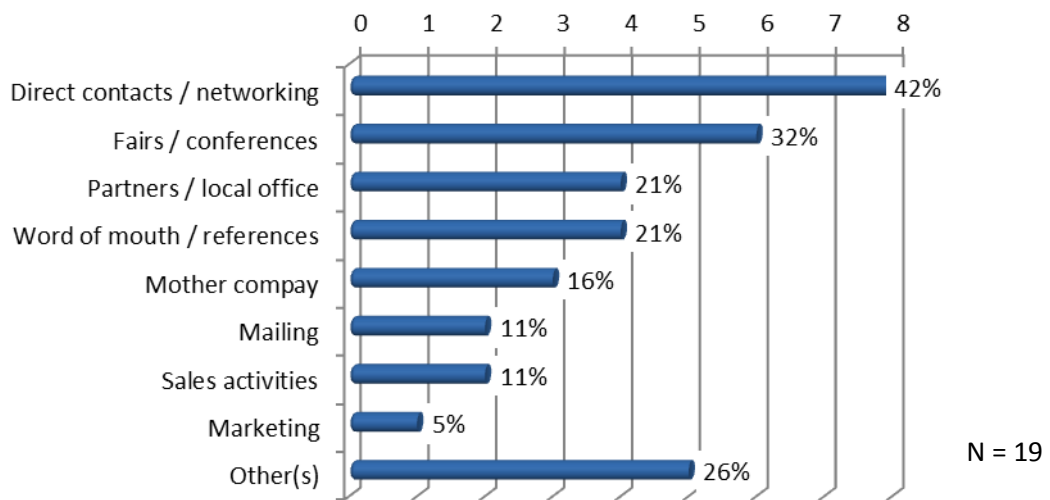Size of the company in number of employees — 5%
Other(s) — 41%

N = 22

- The items Quality of product and service and Trust in delivered products and services are now ranked at the top (50% of the answers). This compares with question 9, where these items ranked fifth and sixth.

- The top ranked item in question 9, Technical know-how (quality) of personnel, is ranked here as third (45% of answers), but not far away of the first position.

- Price appears here in the third position with 36%, the same as in question 9.

- Delivery on time seems to be more important for 7 companies (32%) when considering client loyalty, ranking fifth on this account, two positions above the result of question 9.

- The items which follow for companies are: Specialization (18% of answers), Technology (technical) and Reference cases (14% each), Business know-how, Cultural closeness, Maturity of company (age) and Low personnel turnover (9% each), Geographical closeness to client (neashore) and Size of the company in number of employees (5% each).

- Companies listed the following items under other(s): Customer care, Professionalism, Efficiency, Requirements understanding, project management, careful planning, kindness, partnership, vendor relation, flexible payment, support.

These answers represent the views of the companies when they already know the client, and the latter has already had some experience with them. This partly explains the changes in the ranking.

12. How does your company attract <u>clients</u> abroad?

This question refers to company's activity to attract new clients abroad through marketing activities. Only the answers of 19 companies in this direction were considered. Not considered were some answers with technical content.

New Clients Abroad

- Direct contacts / networking: 42%
- Fairs / conferences: 32%
- Partners / local office: 21%
- Word of mouth / references: 21%
- Mother compay: 16%
- Mailing: 11%
- Sales activities: 11%
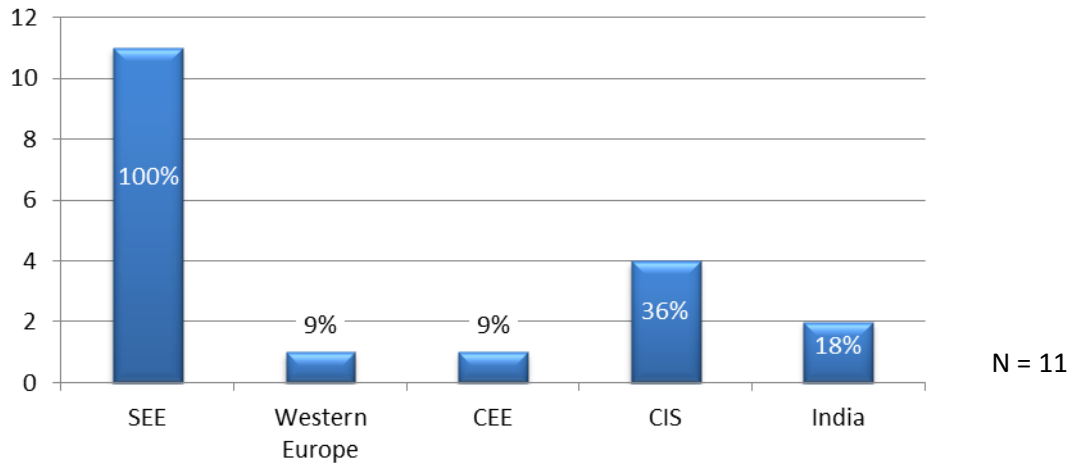- Marketing: 5%
- Other(s): 26%

N = 19

- 42% of the companies rely on direct contacts and personal networking to attract new clients abroad.

- 32% uses fairs and conferences to get in contact with potential new clients abroad.

- 21% use the existing structures, like partners and local offices, to gain new clients abroad. 21% rely on word of mouth and references to attract new clients.

- Three companies attract new clients through mother companies.

- Structured ways of getting in contact with potential new clients, like mailing and structured sales activities, are used by 11% of the companies, and marketing, by 5%.

13. Who are the <u>competitors (countries)</u> in your target markets?

This question was open and again the answers have been grouped into regions. 11 companies answered this question.

Competing Countries - Region

N = 11

- All of the 11 companies answering this question (100%) see firms from neighbouring countries (SEE) competing with them in the target markets.

- 36% of the companies see competition coming from CIS countries (Russia and Ukraine) and 18% also compete with companies from India.

- One company perceives competition from Western Europe and another one from a CEE country (Poland).

Competing Countries (most frequent)

N = 11
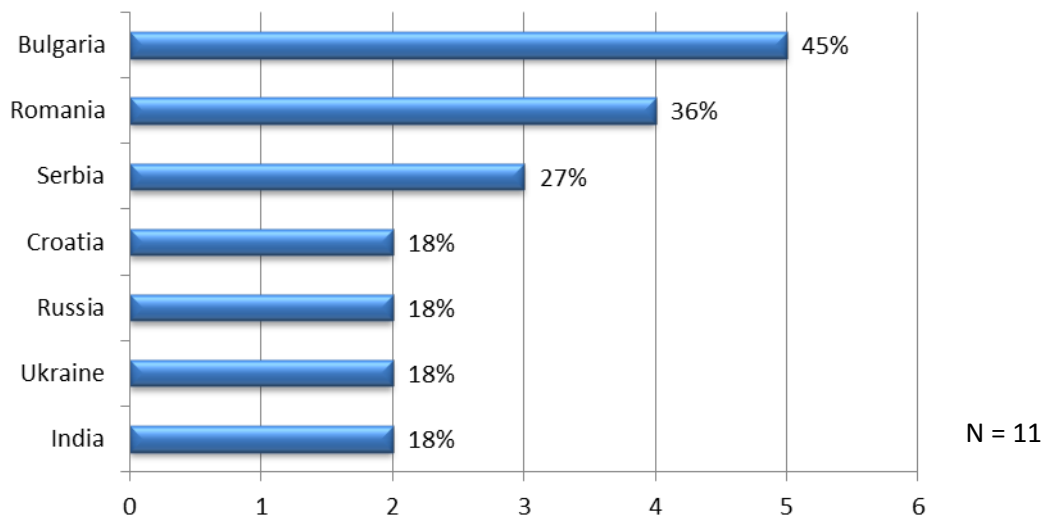
- Individually, the most mentioned country was Bulgaria, cited by 5 companies (45%), followed by Romania (4: 36%) and Serbia (3: 27%).

- Other countries, mentioned by two companies each (18%) were Croatia, Russia, Ukraine and India.

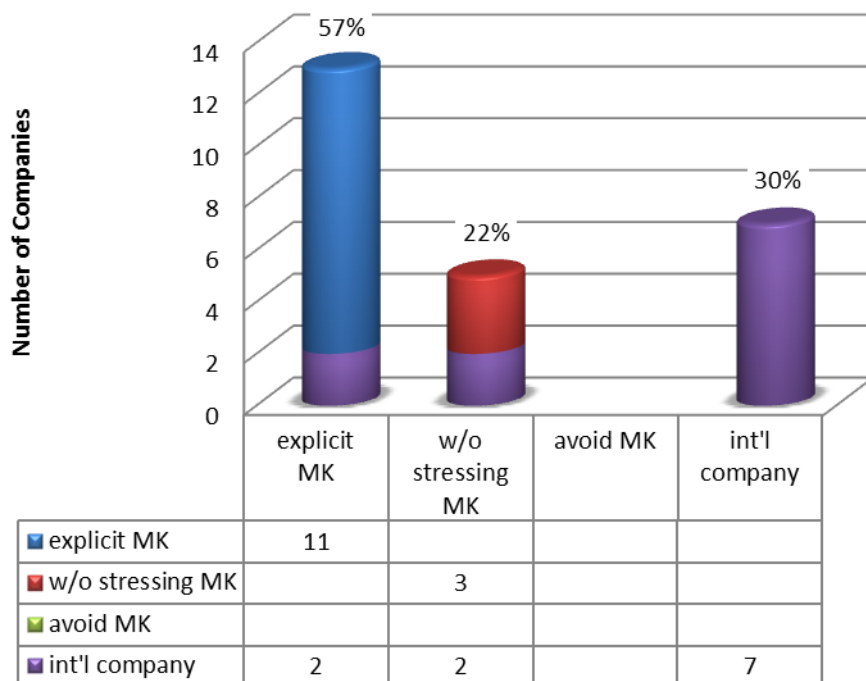- The remaining countries mentioned by one company were Albania, Macedonia, former Yugoslavia and Moldova.

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14. How do you present your company to clients abroad?

Presentation of Origin of Company

	explicit MK	w/o stressing MK	avoid MK	int'l company
explicit MK	11			
w/o stressing MK		3		
avoid MK				
int'l company	2	2		7

N = 23

- Out of the 23 answering companies, 13 (57%) present the company explicitly as a Macedonian company. Two of them additionally present themselves as an international company.

- Five companies (22%) present the company without stressing that it is Macedonian. Once again, two of them present the company as international.

- Seven companies (30%) present themselves only as an international company, probably through a foreign branch, partner or as part of a multinational company.

15. In your opinion, what are the <u>advantages of the Macedonian</u> IT software and services companies in the target international markets?

This question focuses on the opinion that companies have on the advantages of the country as a whole, rather than on individual companies. Once again the categories of question 9 were used in order to classify the answers and better compare them.

Macedonian Competitive Advantages

| Category	Value
Price	86%
Geographical closeness to client (nearshore)	32%
Quality of products and services	27%
Cultural closeness	27%
Technology (technical)	27%
Technical know-how (quality) of personnel	23%
Size of the company in number of employees	9%
Low turnover rate of personnel	5%
Reference cases	5%
Trust in delivered products and services	5%
Business know-how	5%
Specialization	5%
Delivery on time	
Maturity of company (age)	
Other(s)	41%

N = 22

- The vast majority of the answering companies, 19 (86%), informed that Price is the most important competitive advantage of Macedonian companies. This share is almost three times as high as the next items.

- Almost one third of the companies chose Geographical closeness to the client (nearshore) as second most important advantage.

- The next group of characteristics –27% or 6 companies in each case– are Quality of product and services, Cultural closeness and Technology (technical). The following item, with 23% (5 companies), is Technical know-how (quality) of personnel, which ranked top in answers to question 9.

- The characteristics included under other(s) were: Flexibility, Standards, Quality assurance, English-speaking experts, Communication language, Business ethics, Expertise, Certified companies & professionals, Education.

16. Based on your experience, what can be done to support and improve the image of the Macedonian IT software and service abroad?

This question should reflect the practical experience of companies on their effort to export and collaborate with MASIT in the implementation of the export strategy.

Supported Needed for Exporting

N = 20
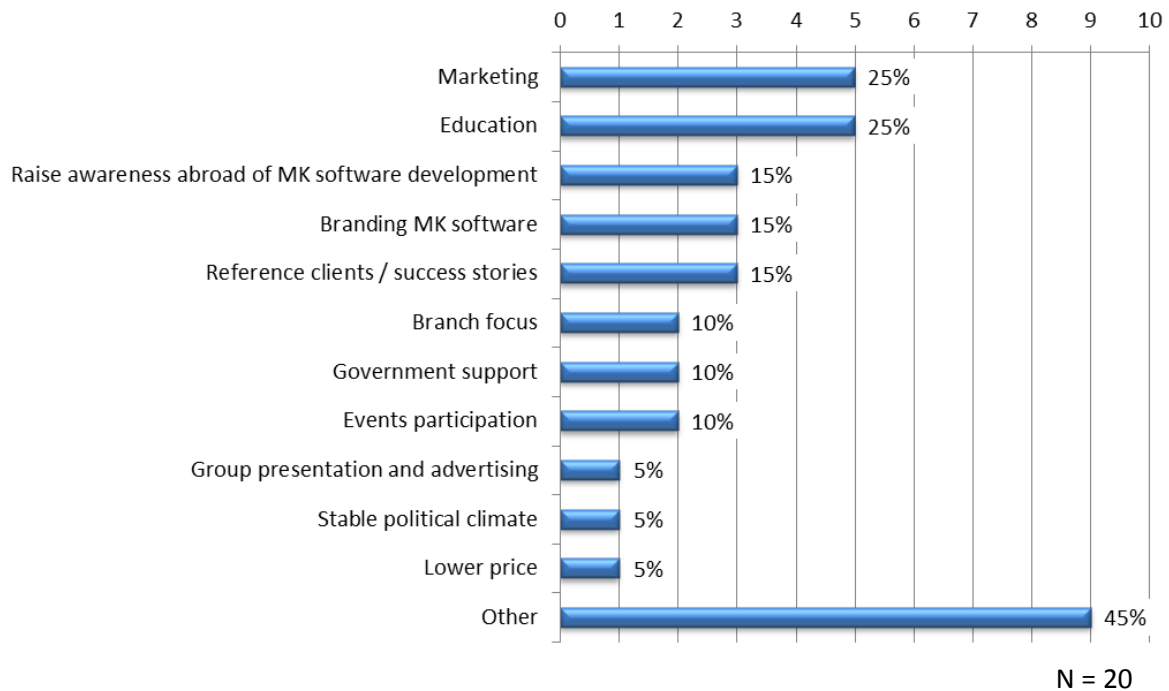
- 25% of the companies think special attention should be given to Marketing and Education (5 companies in each case).

- 15% of the companies selected Raise awareness abroad of the Macedonian software industry, Branding Macedonian software and have Reference clients / success stories.

- 10% said that attention should be made of Branch focus, Government support, and Participation in events.

- The items mentioned under Other(s) are: follow modern technologies and trends, one stop shop concept for company registration, improve quality methodology and practice, improve capacity to respond to clients abroad, improve country know-how, implement export strategy as much as possible, better cooperation among Macedonian companies, more direct flights to Macedonia, support of local embassies.

Some of the suggestions are part of the Macedonian export strategy which is being implemented via MASIT and others can be further discussed by MASIT.

17. Please provide <u>additional information</u> you think is important for this project.

Seven companies expressed their opinion under this item. They are reported hereunder.

- *Speed up strategy implementation. Factors change very fast in this business.*

- *I think we should focus on software outsourcing until we gain enough international experience and reputation as a land of software developers. Thereafter we should start to promote and offer our in-house developed products. In one word, let's start with SW as a service first.*

- *There are numerous marketing and sales channels that are not well known by Macedonian companies. Organized participation in different international events. Be closer to Brussels, in order to be aware of and take active participation in EU projects. Additional management education is necessary to deal with clients coming from different countries / with cross-cultural differences.*

- *HR Management, additional technical training & pre-defined careers over 2-3 years for engineers.*

- *Support to financial institutions, insurance for projects, etc.*

- *It would be important for bigger international projects to come to the country, so that Macedonian companies would cooperate.*

- *USPs to English-speaking countries, how to find clients and partners in these target markets (step by step)?*
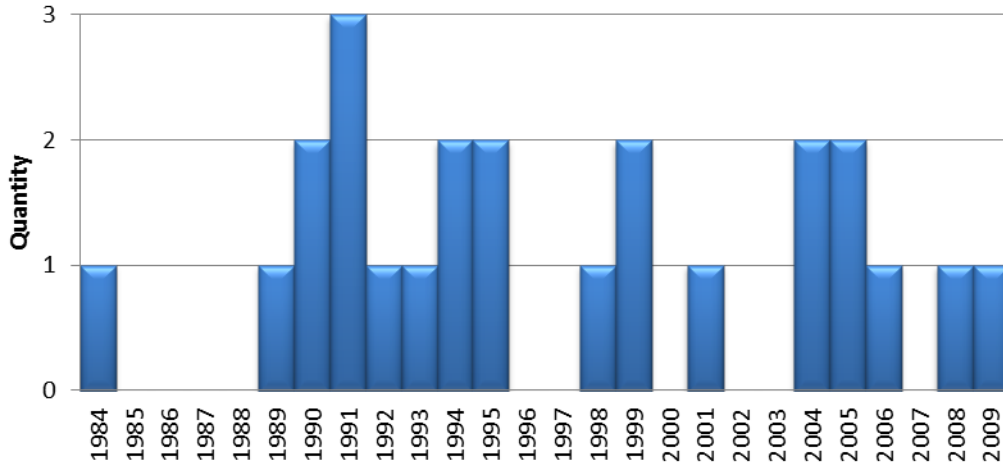
Company

Here are information about the profile of the Macedonian export companies that can be relevant on the definition of the USPs for Macedonian software and IT service exporting sector.

18. <u>Year of establishment</u> of the company

The year of foundation of a company indicates its maturity level.

Year of Establishment

N = 24

- The average of year of foundation of the answering companies is in 1996. Therefore, the average age of companies is over 15 years.

- The oldest company was established in 1984 and the youngest one was founded in 2009.

- Two companies (8%) were founded in the 1980s; the majority –58% (14) – were established in the 1990s and one third of them (8 companies) were founded in the 2000s.

These figures indicate a high level of maturity of the companies of the Macedonian IT sector. More than 15 years for a company is a long time for a young and dynamic sector like IT.

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19. What is the number of employees of your company (at the end of 2011)?

The number of employees can also support the definition the USP of the sector.

Number of Employees
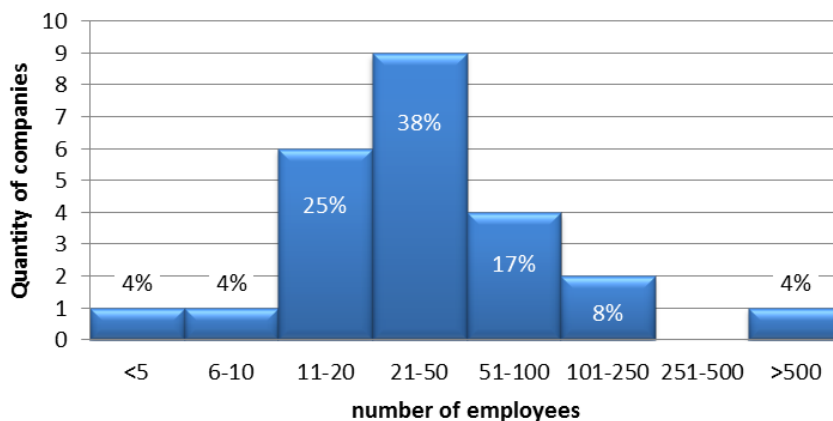
N = 24

- Out of the 24 answering companies, one company has less than five employees and another one has between six and ten employees.

- Most of the companies – 38% (9) – have between 21 and 50 employees, followed by 6 companies (25%) which have between 11 and 20 employees. Four companies (17%) have between 51 and 100 employees.

- Two companies (8%) have between 101 and 250 employees, and the largest participating company has more than 500 employees.

- More than half of the companies (55%) have between 21 and 100 employees.

- This distribution of employees is typical of the software and IT service sector, where the majority are SMEs (small and middle-sized enterprises), which is true worldwide.

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20. How do you estimate your staff fluctuation rate (employee turnover)?

The companies were asked to estimate the fluctuation rate of their employees. Broad categories were proposed, since an exact calculation would have required time for the companies to gather data, which would have disturbed the quick answering to the questionnaire.

Estimated Staff Fluctuation

N = 24
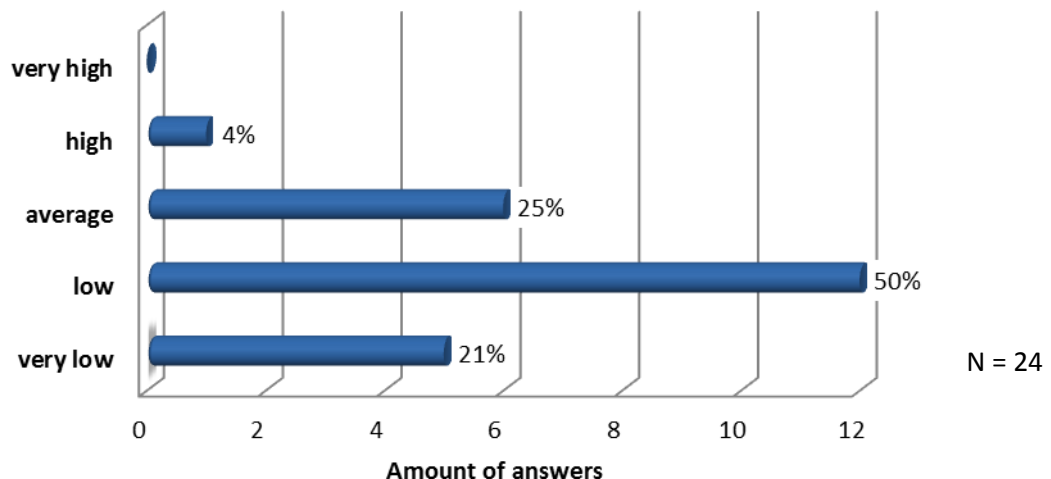
- Half of the companies (12) estimated to have small low staff fluctuation rate.

- 21% or five companies have very low staff fluctuation rate.

- One-fourth of the companies (6) informed having average employee fluctuation rate.

- One company informed having high employee turnover.

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The lower the employee turnover rate is the better for outsourcing services. Many details of longer projects are 'deposited'/incorporated in the employees which have participated of the project. For maintenance, support and continuation of a project it is good to have access to the information 'deposited' in employees. This is the reason why outsourcing clients prefer companies with lower employee turnover.

The figures show that over 70% of the companies have estimated low and very low employee turnover.

21. What was the turnover of the company in 2011 (million €)?

Sales turnover is an indicator the financial stability of an enterprise.

Sales Turnover (2011)

N = 24
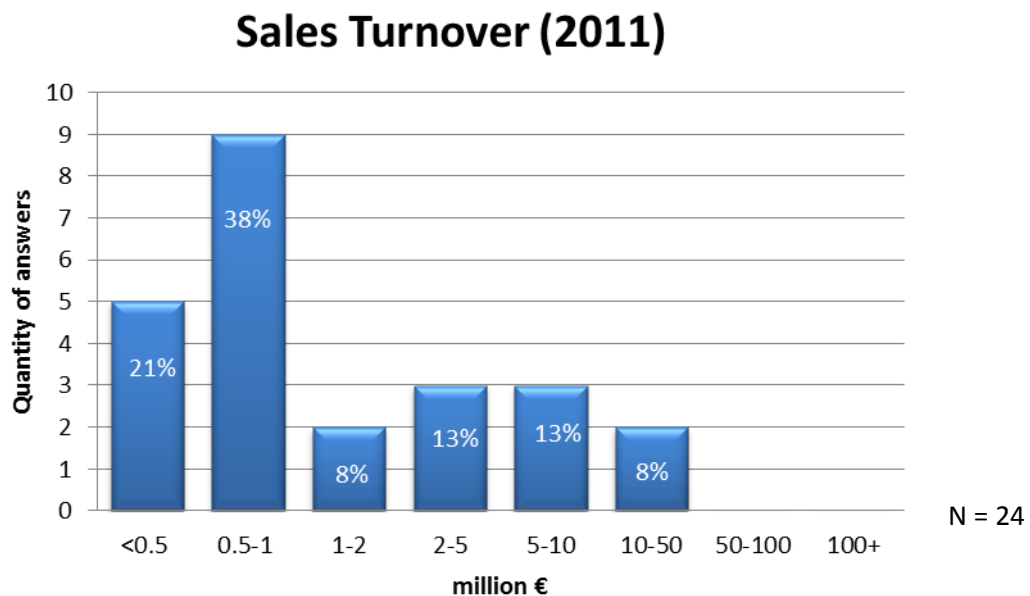
- 38% of the companies (9) had a sales turnover ranging from 0.5 to 1 million euros in 2011. This is the most common sales turnover range of Macedonian exporting companies.

- 21 companies (amounting to 21%) had less than 0.5 million euros sales turnover.

- Two companies (8%) had between 1 and 2 million euros sales turnover.

- Three companies (13%) had between 2 and 5 million euros and another three, between 5 and 10 million euros in sales turnover in 2011.

- Two companies (8%) had the highest sales turnover in 2011: between 10 and 50 million euros.

4. Target Markets – Needed Characteristics

Having mapped and researched detailed the position of Macedonian companies on their differentiation characteristics, it was useful to complement the analysis by collecting and gauging the opinion of experts in IT outsourcing from developed markets in Europe and USA. This would allow having information and analysis from both the offering side (i.e. the companies) and the demanding side (i.e. the experts). For this purpose, another questionnaire was developed (attached) and five experts were asked to answer it. The experts are from the following consulting companies and associations:

- BITKOM (Berlin, Germany) – Dr. Mathis Weber, Head of Department IT Services
- Pierre Audoin Consultants (Munich, Germany) – Dr. Katharina Grimme, Principal Consultant - Outsourcing & BPO
- Capgemini (Frankfurt, Germany) – Mr. Lucas von Zallinger, Senior Consultant Public Sector
- The Outsourcing Institute (New York, USA) – Mr. Frank J. Casale, CEO and Founder
- Outsource Brazil (San Francisco/Rio de Janeiro, USA/Brazil) – Mr. Rober Janssen, Managing Partner

We would like to formally thank the experts for their efforts and for the time taken to answer the questionnaire.

The results of the collected answers are presented hereafter.

Export Positioning

> 1. What are the <u>features</u> that a Macedonian IT company should have in order to offer software and IT services in mature markets (e.g. Western Europe and US)?
> Please check all items that apply (yes/no) and classify the importance (1=must have, 2=important, 3=useful to have)

This question, concerning the important features a company should have in order to offer services in developed markets, had the same possible answers as the questionnaire answered by companies.

The first part of the question asked which of the listed features are relevant to the market.

Needed Characteristics

N = 5

All experts judged the following characteristics to be necessary:

- Price
- Delivery on time
- Reference cases
- Technology (technical)
- Technical know-how (quality) of personnel
- Business know-how
- Quality of product and services
- Specialization
- Cultural closeness
- Geographical closeness to client (nearshore)

80% of the experts also indicated the following features as necessary:

- Trust in delivered products and services
- Low turnover rate of personnel

60% of the answers selected the following characteristics regarding the company:

- Maturity of company (age)
- Size of the company in number of employees

The following features were cited once:

- Methodologies
- University linkages
- Language capabilities
- Local contacts/project manager in the country

The second part of this question asked the experts to classify the selected characteristics as 'must have', 'important' or 'useful'. The results are presented in the following chart.

Needed Characteristics - Classification

Horizontal bar chart titled "Needed Characteristics - Classification" with axis from 0 to 5. Categories (top to bottom): Price, Delivery on time, Reference cases, Technology (technical), Technical know-how (quality) of personnel, Business know-how, Quality of products and services, Specialization, Cultural closeness, Geographical closeness to client (nearshore), Trust in delivered products and services, Low turnover rate of personnel, Maturity of company (age), Size of the company in number of employees, Methodologies, University linkage, Language capabilities, Local contacts/project manager in the country. Legend: must have (blue), important (red), useful (green). N = 5

This classification provides a more precise picture of the characteristics and of their importance.

The characteristics that all experts (100%) stated to be necessary fell into the following differentiated classifications:

- Price, Delivery on time, Reference cases, Technology (technical) were classified as 'must have' by 80% of the experts and 'important' by 20%;

- Concerning Technical know-how (quality) of personnel 80% said 'must have' and one 'useful';

- For the characteristics Business know-how and Quality of products and services, 40% said 'must have' and 60% said 'important;

- For Specialization, similarly 40% said 'must have', but 20% deemed it 'important' and another 20% stated it was 'useful';

- Cultural closeness was judged a 'must have' by one (20%) expert, 'important' by another one and 'useful' by two others;

- Referring to Geographical closeness to client (nearshore) 60% replied 'important' and 40% 'useful'.

For the characteristics chosen by 80% of the experts, the classifications were the following:

- Trust in delivered product and services was classified as a 'must have' by half (40%), and as 'useful' by the other half;

- Referring to Low turnover of personnel half (40%) said 'must have', one expert said 'important' and another replied 'must have'

The characteristics Maturity of company (age) and Size of the company in number of employees – chosen by 60% of the experts– the classifications were 20% 'important' and 40% 'useful'.

Among the characteristics mentioned only once, Methodologies was classified as 'must have', University linkage and Language capabilities as 'important' and Local contacts/project manager in the country as 'useful'.

> 2. Are there <u>additional comments/information</u> you want to give regarding the question above?

The answers given to this question by the experts were:

- *Creativity in building different engagement models.*

- *Better awareness of Macedonia. Lack of awareness and understanding means risk to the buyer. Better awareness and familiarity of the individual provider. If they never heard of you, this means risk to the buyer.*

The comment about raising the awareness on Macedonia as provider of software and IT services is very important. In service sectors image has a crucial importance, given the impossibility of doing quality control, as is done for products/hardware. Awareness raising gives the buyer greater security on the provider.

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3. Do you have suggestions on how Macedonian firms can <u>differentiate themselves from</u> the offer of firms from <u>competing countries</u>?

The answers to this question were:

- *Need to use as a leverage present industry expertise that can be found locally.*

- *Differentiation through hybrid capabilities: technical expertise in combination with vertical know-how and business process experience.*

- *Quality of service: reliable, on time, high quality (but still cost competitive, although companies need not necessarily have the lowest price).*

- *What are the Macedonian companies really good at? What do they want to be known for? India is known for low cost IT application development; Philippines for quality call center resources; But what about Macedonia?*

The experts made the following suggestions: technical know-how with vertical specialization, trust, reliability, delivery on time, quality. The country needs to define its image as a service provider, which can only be achieved after several years of presence in international markets, in order to be convincing. The comment that companies must have competitive prices, but not '*necessarily the lowest*', must be consider.

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4. In your opinion, what are the <u>advantages of the Macedonian</u> IT software and services companies in the target international markets?

The answers to this question are here listed below.

- *Nearshore to Western Europe.*

- *Nearshoring, cost effectiveness, vertical specialization.*

- *Geographic proximity. Possibly lower prices than other East European countries?*

- *I do not know. They are not even showing on my radar. The fact that the founder and CEO of The Outsourcing Institute does not know them is a bad sign.*

The experts see the advantages of Macedonia in geographical closeness (nearshore), cost effectiveness / competitive prices (especially compared with other East European countries) and vertical specialization.

The fact that Macedonia is not yet known in the US market as a provider of software services could be expected.

5. Please feel free to provide <u>additional information</u> you think is important for this project.

The final comments by the experts are listed below.

- *Be focused and specific. Do not try to be all to everyone.*

- *Do benchmarking with existing and potential competitors, taking into account latest technology and market trends (e.g. mobile apps), methodologies and delivery models.*

- *Determine your unique value proposition; market the region, then market the individual providers. Be sure to better understand (US) buyers. Don't be a generalist; be a specialist.*

The most important message from experts that should considered by the companies is likely that the companies should focus their offer, '*not being a generalist, but a specialist*'.

5. Features: Experts and Companies

After assembling the evaluation that Macedonian exporting companies have of their competitive advantages and collecting the opinion of experts about which characteristics are expected from foreign companies offering software and IT services in developed markets we want compare both sides. In the following chart the answers of experts and of companies are placed side by side, so as to allow the comparison of the offer and the demand side.

USPs: Experts x Companies

Price
Delivery on time
Reference cases
Technology (technical)
Technical know-how (quality) of personnel
Business know-how
Quality of products and services
Specialization
Cultural closeness
Geographical closeness to client (nearshore)
Trust in delivered products and services
Low turnover rate of personnel
Maturity of company (age)
Size of the company in number of employees

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

■ Experts ■ Companies

N = 5 (experts) and
26 (companies)

The blue bars on the chart represent the percentage of the answers of the five experts that consider this characteristic important. The red bars give the answers by the 24 companies that have export activities and participated in the questionnaire. The ranking is the one of the classification by experts, as described in the previous chapter.

6. Characteristics of the Macedonian Software and IT Service Industry

A suggested characterisation of the Macedonian software and IT service industry is presented hereafter. It is based on the information on the most important features of Macedonian companies collected from firms and experts, as described in the previous Sections. What follows can be used for marketing activities of the sector.

Quality and technological products and services

- Historically good formal education and well trained personnel in the country.

- Low staff turnover (more than 70% of companies estimated themselves as having low or very low staff turnover).

- Mature exporting companies with average of more than 15 years since the establishment.

Specialization in business know-how and IT areas

- Companies experienced in different branches: financial sector, medicine, automotive, public sector, etc.

- Companies specialized in different areas of activities: software development, training, support, maintenance, consulting, etc.

- Companies specialized in different horizontal applications: finance, ERP, cloud computing, business intelligence, etc.

Competitive Prices

- High price/quality ratio.

- One of the most competitive prices in Eastern Europe.

- Long planning horizon due stable prices on account of Macedonia being neither an EU nor a euro area country. By contrast, East European countries which have entered the European Union or adopted the euro have experienced increases in the IT prices of their products and services.

Trust in delivered software and services

- Delivery of quality products and services, in the agreed time.

- Experienced companies with more than 10 years on average of export activities.

- Long-term relationship between Macedonian companies and international clients.

Geographical and cultural closeness / Nearshore

- European country.

- European culture.

- Same time zone as most West European countries (CET).

- Closeness to clients.

- Direct flights from Skopje to Vienna, Zurich, Düsseldorf, Brussels, Amsterdam. Other flights are being planned.

These characteristics should be considered as a group and not individually. The price, for example, is relative to the quality of the products delivered on by companies and to the technology contained therein.

The points above are the main characteristics of the Macedonian Software and IT service industry. Additional features could be considered, such as flexibility or certification. However, they were not frequently mentioned either by companies or by experts. The characterisation listed here can be used in MASIT's marketing materials, like folders, presentations of the sector, etc.

7. Elevator Pitch

Macedonia IT
(Quality – Nearshore – Value)
"Your new outsourcing destination"

Macedonia has a large number of experienced companies providing quality software and IT services. We offer superior technical and business know-how, and propose competitive prices.

The traditionally good education system forms a well-educated workforce, which is complemented by specialized training.

Our companies are mature, have technical expertise and have developed several IT projects. We have developed business know-how in different branches (e.g. financial sector, medicine, automotive, public sector), specialization in different areas of IT services (e.g. software development, training, support, maintenance, consulting), and expertise in different horizontal applications (e.g. finance, ERP, cloud computing, business intelligence).

Our experience and specialization enable us to provide quality products at competitive prices –one of the best in Eastern Europe. As a non-EU and non-euro area country, we will remain competitive in the foreseeable future.

Macedonia is a nearshore country in Europe, with European culture and Western business mentality that understands your business.

Your advantages are high quality solutions and services, and nearby and reliable partners at competitive prices.

Additionally, we offer a single entry-point service via MASIT, the focal point for the sector. Send a request for proposals specifying your needs, and you will receive several offers form Macedonian companies. You choose the one that best fits your needs.

You know Alexander the Great, but never heard about Macedonian IT? No problem. Send us a test project, and we are sure you will be convinced by the results!

8. Comments and Suggestions

Further development

The suggestion and recommendations of this document should be further developed by MASIT, together with the involve member companies. This is especially important for the characteristics of the software and IT service sector of Macedonia. The companies should be convinced that these characteristics reflect the features of the majority of individual companies.

Participation in international events

Macedonia via MASIT and individual companies should increase their presence in events abroad to increase the awareness of the country as a provider of software and IT services. Events include fairs, conferences, congresses, trainings, etc. in different target countries. Personal contacts to develop trust among potential clients are particularly important in the present phase, in which Macedonia is barely known as an IT outsourcing destination. Participation can be as a group, as was the case of the participation of MASIT with 11 companies at the Gartner outsourcing event in London in October 2012, or through the presence of only one MASIT member company in a focused/branch (rather than IT) fair like Automechanika in Frankfurt in September 2012. In the latter case, one company can represent the Macedonian IT sector by also presenting flyers and brochures on the Macedonian IT sector. Enhanced presence abroad would increase awareness of Macedonian IT, as suggested by some experts and companies. The whole sector, including the individual companies, will benefit from it.

Macedonian promoters

Macedonia presently has commercial promoters from the Invest Macedonia Agency in several embassies and consulates in different countries. They should be empowered to give basic information on the country's IT sector and 'sell' Macedonia as an outsourcing destination. It is always important to have a contact person in the country for basic questions and to indicate reference cases. This will increase the trust for a potential client who, in the past, may never have had experience with Macedonian companies.

Working group on exports

To coordinate all software and IT service export activities a working group 'Export' should be created within the MASIT structure. MASIT already has experience with working groups and all export issues should be concentrated in one focal point. This working group should focus on the marketing aspect of the activities and their commercial consequences, while individual companies should take care of

the technical subjects. A working group can speed up and better coordinate the participation of Macedonian companies in international markets and events.

Success Cases

One of the most effective ways of convincing potential clients in a service sector like software and IT services is to present success cases. Clients like to see that other clients, maybe with similar problems, were already successfully taken care of by Macedonian providers. A database of success cases can likely be created and made available for marketing activities. Ideally the success case description should contain testimonial(s) from clients and the authorization to contact the satisfied client(s).

Newsletter

In order to raise awareness of Macedonia and draw the attention of the international public to it, a newsletter should be issued for foreign clients, partners, multipliers, associations, international specialized media etc. It should feed the reader with news on the activities of MASIT and of individual companies.

Social Media

Representing the country's IT sector, MASIT should actively participate in social media discussion groups on relevant subjects. Individual companies should also participate in discussion in these groups. Companies should provide MASIT with relevant information on outsourcing / export activities, which should be spread by MASIT using these media.

Public relations activity

A coordinated plan of public relations (PR) activities should be established in order to raise international awareness of Macedonia as a provider of software and IT services. This should include traditional media (newspapers, journals) and also electronic media (newsletter, homepages), including the available social media channels. The scope should be the relevant and specialized media in target countries.

Single entry point

In marketing materials MASIT should emphasize its role as single entry point to access more than 30 software development providers in the country. For a new potential client this is a strong argument

because, with only one request of proposal document sent only once to MASIT he may receive offers from different providers, which the potential client can compare so as to choose the most appropriate to his/her needs. A single entry point will also facilitate the activities of foreign representatives, like Macedonian promoters abroad in embassies and consulates.

List of offers

A list of the different services that the country has to offer to clients should be prepared. It should be the result of the collection of software and IT services individually offered by companies and it should mention development languages, technologies, branches attended, horizontal applications, certifications, etc. This information should be maintained updated and it should be used in marketing material. It can be also be presented as a catalogue of company offers, ideally in electronic form.

Highlight international ICT companies

International companies investing in the ICT sector in Macedonia should be highlighted. There are several international companies that have companies or branches in Macedonia. These should be listed, including their testimonial, for the use on marketing materials. The focus should be put on software and IT service companies. Some examples of these companies are Netcetera (Switzerland), ASSECO (Poland), S&T (Austria), GDi and SRC (Slovenia) and King ICT (Croatia).

Export folder

A dedicated folder should be prepared describing the export capabilities and advantages of the software and IT service of Macedonia. The same content should be used to prepare a presentation of the sector. Both should be used during participation in international events and sent to potential clients and partners.

Journalist / PR firm

In order to speed up and strengthen market communication, a journalist or a specialized PR firm should be hired to generate and place press releases in the appropriate media and channels. The activity should target external markets. Ideally the work should be done in English and German. The activity would include feeding relevant social media concerning Macedonian export software and IT services.

Brand for Macedonian IT

A brand should be developed to promote Macedonian IT abroad. A brand –e.g. 'Macedonia IT'– should be established and used in all activities, communications and actions linked to export activities, and in international markets. This would facilitate the identification and communication with markets and relevant players in target countries, and would help raise awareness abroad of the country's offers of the IT sector.

Annex I: Questionnaire to Companies

Policy Paper: Unique Selling Proposition

– Questionnaire to Export Companies –

Dear MASIT Member,

In the framework of the of the USAID / BAH Project for the development of the Policy Paper "Unique value proposition for the Macedonian software and IT service industry" we would like to interview you regarding the export activities of your company and the competitive advantages or "Unique Selling Proposition" that your company has in export markets. The basis for the telephone interview is the following questionnaire.

The goal of the questionnaire is to learn from the practical experience of companies, so as to develop the USPs for the Macedonian IT/Software sector based on the concrete practice of companies.

The answers will be collected through telephone interviews by the consultant Mr. Claus Traeger. If you so wish, you can send the answers in advance to ctraeger@consim.biz to prepare the interview. If you don't want to be interviewed just send the completed questionnaire to the e-mail informed.

All information will be treated confidentiality. No individual company information will be published. The information gathered on individual firms will be aggregated and the final result will be used to prepare the Policy Paper.

We appreciate your support and cooperation.

Questionnaire

Export activities

1. Does your company <u>export</u> products and/or services?

   ☐ Yes ☐ No

2. If yes, <u>since when</u> (year)?

3. To which <u>countries / regions</u>?

4. <u>What</u> does your company <u>export</u> divided by product and services?
   - Products:
   - Services:

5. If you export both, what is the <u>percentage of products and services</u> based on export turnover?

    % Product   % Services

6. What was the <u>percentage of exports</u> in total turnover in 2011?

    %

7. Do you have <u>offices abroad</u>?

   ☐ No ☐ Yes, in the following <u>country(ies)</u>:

8. Do you have <u>partners abroad</u>?

   ☐ No ☐ Yes, in the following <u>country(ies)</u>:

Export Positioning

9. What are the <u>advantages</u> from your company in the <u>international markets</u>?

   a. ☐ Price

   b. ☐ Specialization

   c. ☐ Geographical closeness to client (nearshore)

   d. ☐ Technology (technical)

   e. ☐ Business know-how

   f. ☐ Cultural closeness

   g. ☐ Quality of products and services

   h. ☐ Trust on the delivered products and services

   i. ☐ Maturity of company (age)

j. ☐ Deliver on time

k. ☐ Reference cases

l. ☐ Low fluctuation rate on personal

m. ☐ Technical know-how (quality) of personal

n. ☐ Size of the company in number of employees

o. ☐ Other(s). Please specify:

(For the next questions you may use some of the expressions listed on question above.)

10. What does your company offer that is <u>different from</u> the offer of <u>competitors</u>?

11. Why do international clients do <u>continuous business</u> with your company?

12. How does your company attract <u>clients</u> abroad?

13. Who are the <u>competitors (countries)</u> in your target markets?

14. How do you <u>present your company</u> to clients abroad?
   ☐ I present my company explicitly as a Macedonian company.
   ☐ I present my company without stressing that it is Macedonian, but without hiding it.
   ☐ I try to avoid mentioning that the company is a Macedonian company.
   ☐ I present my company as an international company using my presence abroad.

15. In your opinion, what are the <u>advantages of the Macedonian</u> IT Software and Services companies in the target international markets?

16. Based on your experience what can be done to <u>support and improve the image</u> of the Macedonian IT software and service abroad?

17. Please provide <u>additional information</u> you think is important for this project.

Company

18. <u>Year of establishment</u> of the company

19. What is the <u>number of employees</u> of your company (at the end of 2011)?
☐ <5 ☐ 6-10 ☐ 11-20 ☐ 21-50 ☐ 51-100 ☐ 101-250 ☐ 251-500 ☐ >500

20. How do you estimate your <u>staff fluctuation rate</u> (employee turnover)?
☐ very small ☐ small ☐ medium ☐ high ☐ very high

21. What was the <u>turnover</u> of the company in 2011 (million €)?
☐ <0.5 ☐ 0.5-1 ☐ 1-2 ☐ 2-5 ☐ 5-10 ☐ 10-50 ☐ 50-100 ☐ 100+

Annex II: Questionnaire to Experts

Policy Paper: Unique Selling Proposition

– Questionnaire to Experts –

Dear Outsourcing Expert,

In the framework of the of the USAID / BAH Project for the development of the Policy Paper "Unique value proposition for the Macedonian software and IT service industry" which is being undertaken for MASIT (the Macedonian ICT Chamber of Commerce), we would like to interview you as an outsourcing expert concerning the characteristics which a foreign (here a Macedonian) company should have in order to offer software and IT services in mature markets (e.g. Western European and US markets).

The goal of the questionnaire is to determine what <u>expectations clients</u> in mature markets have from IT service providers from Macedonia.

The majority of Macedonian IT companies are small- and medium-sized enterprises offering mainly software development services. They also export software packages and IT services, including, beside software development, maintenance, training, implementation, IT consulting, system integration, hosting services, remote technical support, etc. They have specialization in different branches (e.g. finance, automobile, medicine) and several horizontal applications.

We would appreciate receiving your opinion through the following questionnaire. It consists mostly of multiple-choice questions.

All information will be treated confidentiality. No individual information will be published. The information gathered will be aggregated and the final result will be used to prepare the Policy Paper.

We appreciate your support and cooperation.

Claus Traeger

Consultant

Questionnaire

Export Positioning

1. What are the <u>features</u> that a Macedonian IT company should have in order to offer software and IT services in mature markets (e.g. Western Europe and US)?
Please check all items that apply (yes/no), and classify the importance (1=must have, 2=important, 3=useful to have)

   a. ☐ -- Select -- Price

   b. ☐ -- Select -- Specialization

   c. ☐ -- Select -- Geographical closeness to client (nearshore)

   d. ☐ -- Select -- Technology (technical)

   e. ☐ -- Select -- Business know-how

   f. ☐ -- Select -- Cultural closeness

   g. ☐ -- Select -- Quality of products and services

   h. ☐ -- Select -- Trust in the delivered products and services

   i. ☐ -- Select -- Maturity of company (age)

   j. ☐ -- Select -- Deliver on time

   k. ☐ -- Select -- Reference cases

   l. ☐ -- Select -- Low fluctuation rate on personal

   m. ☐ -- Select -- Technical know-how (quality) of personal

   n. ☐ -- Select -- Size of the company in number of employees

   o. ☐ -- Select -- Other. Please specify:

   p. ☐ -- Select -- Other. Please specify:

   q. ☐ -- Select -- Other. Please specify:

   r. ☐ -- Select -- Other. Please specify:

   s. ☐ -- Select -- Other. Please specify:

2. Are there <u>additional comments/information</u> you want to give regarding the question above?

3. Do you have suggestions on how Macedonian firms can <u>differentiate themselves from</u> the offer of firms from <u>competing countries</u>?

4. In your opinion, what are the <u>advantages of the Macedonian</u> IT software and services companies in the target international markets?

5. Please feel free to provide <u>additional information</u> you think is important for this project.