

## SURVEY

### The HiGrowth Project: New Zealand ICT Sector Profile

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#### EXECUTIVE SUMMARY

This study represents the findings of the 2005 *HiGrowth Profile of the New Zealand ICT Sector Survey*, which surveyed 400 ICT companies within New Zealand, with a view to mapping the dynamics of the sector. The HiGrowth Project Trust and New Zealand Trade and Enterprise (NZTE) will use the results of this survey in their endeavours to grow the New Zealand ICT space. The following represent some of the key findings associated with this study:

- ☑ In terms of numbers of businesses, the New Zealand ICT space is dominated by software vendors, however, there is increasing hardware and services activity occurring within secondary and tertiary business lines.
- ☑ Although results have shown 78.0% of respondents primarily use commercial software, they also indicate that open-source is preferred by several specific segments within the ICT community, such as the 10-49 FTE company size group.
- ☑ One of the key differentiators between local and multi-national companies (MNCs) is the lack of penetration local companies have within international markets. While penetration within the Australian market is far higher than with MNCs, this appears to be the sole focus for local companies.
- ☑ A significant number of companies in the sector have no advisors or board of directors (30.4%), and no business plan (29.2%), as such, IDC recommends that education and resources be directed towards increasing the sectors understanding, acceptance and use of these important yet simple tools for sustainable business growth.

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## IN THIS STUDY

This study represents the findings of the 2005 *HiGrowth Profile of the New Zealand ICT Sector Survey*, which surveyed 400 ICT companies within New Zealand, with a view to mapping the dynamics of the sector. The results portrayed reflect the state of the ICT sector in New Zealand, and provide insight into a previously underestimated portion of the New Zealand economy. This study concludes with IDC guidance and recommendations for action as deemed appropriate from the results of this study.

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## Methodology

During 2005, HiGrowth, in conjunction with Microsoft New Zealand Limited, and New Zealand Trade and Enterprise, commissioned IDC New Zealand to produce a comprehensive profile of New Zealand's ICT industry, including its areas of focus, strengths, weaknesses and growth, and how it contributes to the New Zealand economy.

The information used in this project has come from a variety of sources. The bulk of the quantitative data comes from the 2005 *HiGrowth Profile of the New Zealand ICT Sector Survey*, however, other sources include the following:

- ☒ Statistics New Zealand – for general population statistics and demographic information relating to New Zealand industry as a whole, or to the ICT industry in New Zealand as a whole.
- ☒ Other publicly available information was used to quantify factors such as the age of organisations within the ICT sector (based on year of incorporation).

### ***2005 HiGrowth Profile of the New Zealand ICT Sector Survey***

A combination of primary and secondary research was used to compile a profile of the New Zealand ICT sector, namely the *HiGrowth Profile of the New Zealand ICT Sector Survey*, which surveyed 400 ICT companies throughout the second half of 2005. This was a comprehensive, qualitative and quantitative view of the NZ ICT industry and its contribution to the NZ economy. Given the diverse and fragmented nature of the ICT sector, three different approaches to data capture were taken:

- ☒ Telephone Survey
- ☒ Online Survey
- ☒ Face-to-face Interviews

### **The Objectives**

The key objective of the *HiGrowth Profile of the New Zealand ICT Sector* survey is to provide a map of the ICT sector, primarily to analyse the strength of the New Zealand ICT industry. This is further broken down into the following components:

- ☒ Areas of technological leadership, traction (revenue) and momentum (growth) in the industry.
- ☒ Opportunities for fostering closer collaboration within the industry to accelerate its success.
- ☒ Areas of weakness and barriers, which could constrain industry growth.

### **The Sample Frame**

Assuming a total ICT population of 8115 companies based on the *Statistics New Zealand Annual Enterprise Survey*, a sample size of 400 was required to achieve a minimum confidence interval of 95% with an error rating of  $\pm 4.8\%$ .

The survey sample is purposely skewed towards the largest organisations. This was accomplished by initially conducting the telephone interviews of businesses with greater than \$1 million in revenues prior to opening the online survey.

The target respondents were business executives capable of discussing the companies performance, CEOs, Managing Directors, CFOs, owners and directors.

### **The Survey Incentives**

IDC and *The HiGrowth Profile* sponsors; HiGrowth, NZTE and Microsoft NZ Ltd would like to thank all respondents for participating in the project. Respondents were entered into the draw to win two prizes; either a Home Entertainment Package (for completing the telephone interview) or an Xbox 2 Gaming Pack (for completing the online survey). We would also like to extend our congratulations to the following respondents, who are the proud new owners of the following prizes:

#### **☒ Home Entertainment Package**

Keith Valentine (Vekteck Electronic Ltd)

#### **☒ Xbox 2 Gaming Pack**

Aaron Davidson (SimWorks International Ltd)

### **Please Note:**

- ☒ *All references to revenues (excluding Banded stats) include only those respondents that have provided an actual revenue figure. Therefore, this does not necessarily constitute the entire revenue stream for components covered, but can be considered indicative of the revenue potential.*
- ☒ *The classification between local and multinational organisations has been made on the basis of the location of the companies head office. Therefore any company with their head office in New Zealand will be deemed a local company and vice versa.*
- ☒ *Revenue figures are based on the 2005 Financial Year.*
- ☒ *All dollar values are represented in New Zealand dollars unless otherwise stated.*
- ☒ *Some figures may not be exact due to rounding.*

## SITUATION OVERVIEW

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### Introduction

The New Zealand government has the objective of growing the economy to return the country's per capita income to the top half of the OECD. In 2002, the government set out its vision for New Zealand in its Growth and Innovation Framework. That strategy includes developing areas where New Zealand's natural advantages and aptitudes give it scope to boost growth and innovation. The three areas identified for specific development were the biotechnology, ICT and the creative industries. They are seen to be the industries with the greatest potential to make a rapid difference to the New Zealand economy. These industries act as enablers for other industries. They can also deliver powerful export growth for New Zealand in their own right.

On May 16, 2005 the government also released its Digital Strategy, which is intended to provide an integrated framework to encourage the uptake and effective use of ICT. The Strategy's vision is that "NZ will be a world leader at using information and technology to realise our economic, social and cultural goals". The Digital Strategy set as one of its 12 Desired Outcomes that "The ICT sector will contribute 10% of New Zealand's GDP by 2012." This is one of the goals set by the 2003 ICT Taskforce Report.

According to Statistics New Zealand the IT industry (excluding communications) contributed about \$7 billion in 2004 (further discussion on this is included in the ICT and the Economy Section). However, the industry is highly concentrated. The ICT Taskforce Report explained that the 1% of companies that have annual sales exceeding NZD 15 million generate approximately 80% of the IT industry's contribution to GDP. However, it envisaged that the growth needed to reach the 10% GDP contribution target will be largely achieved by an increase in the number of companies that operate at above NZD 20 million (USD 13 million) of annual sales. Export income from the ICT sector in 2001 was NZD 0.9 billion (USD 0.58 billion), and if the growth target is achieved, should be in the order of NZD 16 billion (USD 10.4 billion) by 2012.

New Zealand believes it has significant advantages in its pioneering culture, levels of innovation, quality and small size, with an enormous capability for achieving more for less in the area of niche products and shortages. While it believes there is no shortage of world-class compelling innovation in New Zealand to support the growth of the ICT sector, due to the small size of the domestic market, it is imperative for most New Zealand-based ICT companies to export. The opportunities for growth of ICT in New Zealand have largely been identified with global commercialisation.

To attain the goals set in the ICT Taskforce Report and Digital Strategy, HiGrowth believes that a sound information base is needed that will help the ICT companies identify:

- ☐ niche market opportunities;
- ☐ trends and factors that may contribute to success in product development, commercialization and exporting;
- ☐ resources that may be available to enable them to enter and develop offshore markets to build a global presence.

HiGrowth, Microsoft and NZTE are each involved in various initiatives to help the New Zealand ICT industry grow and succeed with global commercialisation.

The HiGrowth Project has a strategic role in facilitating the objectives set out in the ICT Taskforce Report, including the target of increasing contribution to GDP to 10% by 2012.

Microsoft has more than 120 people working at offices in both Auckland and Wellington, and interacting with a network of 2,500 New Zealand business partners. By developing and retailing technology solutions and services on Microsoft software platforms, these partners generate significant revenue for the local technology ecosystem. Each year in New Zealand, Microsoft invests extensively in activities that contribute to the country's development on both an economic and social level. As part of these activities, Microsoft believes that a detailed analysis of the industry will be of value to Microsoft and the industry as a whole to benchmark the industry as it currently stands and to identify areas for improvement and growth.

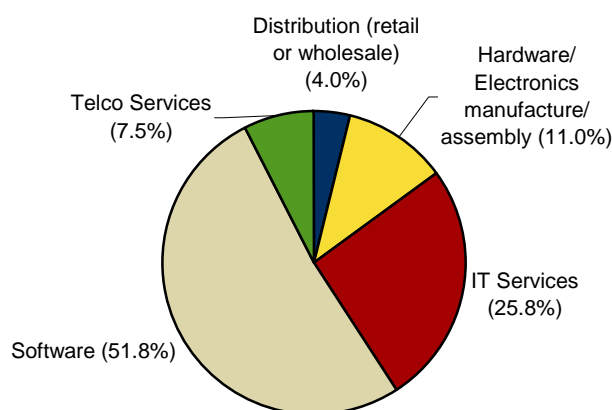
NZTE is tasked with increasing the international competitiveness and capabilities of New Zealand firms, and the ICT sector has been established as a priority area under the Growth and Innovation Framework. In order to support the New Zealand ICT industry's growth and offshore aspirations, NZTE desires to focus efforts on domestic companies in those parts of the industry that have the strongest potential to contribute to the sector target of reaching 10% of GDP.

## Survey Demographics

The survey demographics are representative of the New Zealand ICT sector and are primarily defined by the main business line of each organisation, which includes ICT distributors in addition to the hardware, software, IT services and telecommunications (telco) sectors (refer to Figure 1). This is then further segmented by primary, secondary and tertiary horizontal business classifications (refer to Table 1).

**FIGURE 1**

What is your Company's Main Business?



**n = 400**

Source: IDC / HiGrowth Survey, 2005

The software market comprises more than 50% of the total ICT sector in New Zealand. However, based on the revenue figure provided by respondents (see *note in Methodology*), the software market accounts for only 7.5% of the total ICT industry value. The telco industry on the other hand accounts for only 7.5% of the respondent population, but represents the lion's share (more than 60%) of the total ICT industry value. This sector is heavily skewed by the presence of both Telecom and Vodafone.



IT services and hardware hold the middle ground, accounting for 18% and 10% of the industry values respectively. And this, despite the fact that IT services accounts for 25% of the respondent population. As can be expected, the distribution industry is the smallest both in terms of respondent population, and revenue streams.

Looking specifically at the top products and services within each company, we have used horizontal business classifications to distinguish the most prominent business lines (refer to Table 1).

**TABLE 1**

What are your companies top 3 products/services?

Product/Service Types	1st	2nd	3rd
<b>Hardware</b>			
Consumer electronics	2.3%	4.4%	4.6%
Navigational equipment	1.3%	1.8%	1.1%
Network infrastructure	1.8%	1.0%	5.2%
Systems and peripherals	4.5%	4.7%	3.7%
Other	1.0%	0.8%	0.9%
<b>Hardware Totals</b>	<b>10.8%</b>	<b>12.7%</b>	<b>15.5%</b>
<b>IT Services</b>			
Outsourcing	7.5%	5.4%	5.5%
Support & maintenance	5.8%	11.1%	16.1%
Systems integration, Consulting & Development	12.5%	14.8%	11.5%
Other	2.0%	0.8%	0.6%
<b>IT Service Totals</b>	<b>27.8%</b>	<b>32.1%</b>	<b>33.6%</b>
<b>Software</b>			
Application Development software	26.0%	6.2%	5.2%
Business Intelligence	9.5%	8.3%	6.0%
Collaboration	1.3%	2.1%	4.0%
Consumer Applications	6.0%	10.4%	7.2%
CRM software	1.3%	6.0%	3.7%
Engineering software	1.8%	2.8%	2.6%
Network / OS	0.8%	2.3%	2.3%
Security	0.5%	2.3%	2.0%
Systems Management software	2.0%	4.9%	7.2%
ERP / SCM software	3.3%	1.6%	3.4%
Other	1.5%	1.0%	1.1%
<b>Software Totals</b>	<b>53.8%</b>	<b>47.9%</b>	<b>44.8%</b>
<b>Telecommunications</b>			
Internet Services	3.5%	3.1%	1.7%
Mobile / Wireless services	2.8%	2.6%	1.7%
Voice Services	1.5%	1.6%	1.7%
Other	0.0%	0.0%	0.9%
<b>Telecommunications Totals</b>	<b>7.8%</b>	<b>7.3%</b>	<b>6.0%</b>
<b>Totals</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

1<sup>st</sup> n=400 2<sup>nd</sup> n=386 3<sup>rd</sup> n=348

Source: IDC / HiGrowth Survey, 2005

While software remains dominant in the primary, secondary and tertiary business lines, it is interesting to note the increase in hardware and IT services within the secondary and tertiary business lines. This indicates increased levels of diversity for organisations within the ICT sector. On the communications side however, there is a marked decrease in telco services being offered as secondary and tertiary business lines, despite the move towards ICT convergence.

Even though the survey was purposely skewed to include large ICT organisations Table 2 confirms the widely held view of New Zealand as an SME market. A mere 16.1% of respondents (including MNCs) have more than 50 FTEs in New Zealand.

**TABLE 2**

How many Employees within your Organisation?

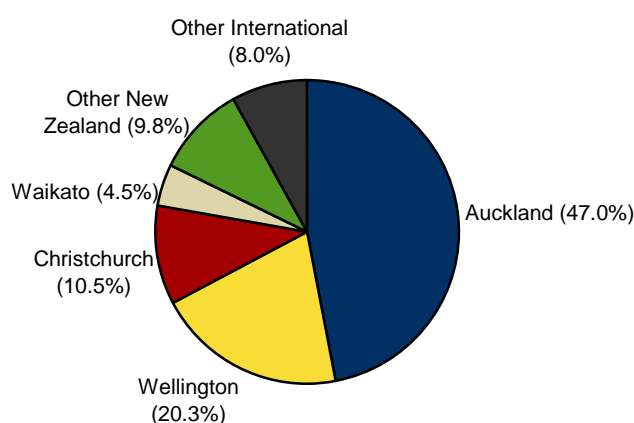
	Total Organisation	In NZ
Less than 5	24.3%	23.0%
5 to 9	20.5%	22.5%
10 to 49	35.0%	38.5%
50 to 99	6.0%	7.3%
100 to 499	6.8%	5.0%
More than 500	7.5%	3.8%

Total n=296      NZ n=400  
Source: IDC / HiGrowth Survey, 2005

The vast majority of respondents had their head office located within New Zealand. For the purposes of this analysis, these companies are deemed to be local companies. Within this category Auckland, Wellington and Christchurch were revealed as the ICT centres within New Zealand, although almost 15% of respondents were based in other New Zealand towns and cities (refer to Figure 2).

**FIGURE 2**

Where is your Company's Head Office Located?



**n = 400**

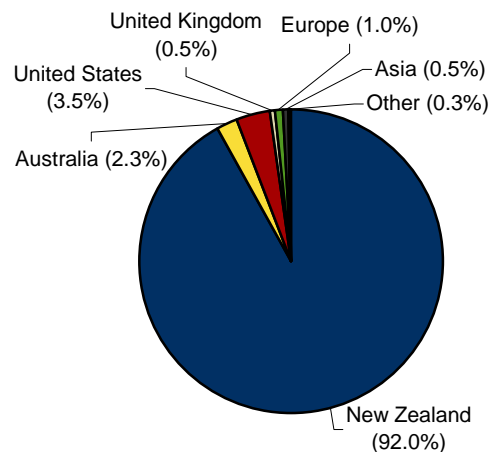
Source: IDC / HiGrowth Survey, 2005

Looking at the remaining 8.0% that have head offices located outside of New Zealand, the United States was the most prominent, relegating Australia to third place (refer to Figure 3). However, we are presently seeing increasing levels of actual and intended mergers & acquisitions from the Australian market, so the Australian component here may well be on the rise. The United Kingdom, Asia and Europe also

factored in and while New Zealand companies may not be as enticing, global consolidation is looking to play a part in the expansion of this group also.

**FIGURE 3**

In which Country is your Head Office?



**n = 400**

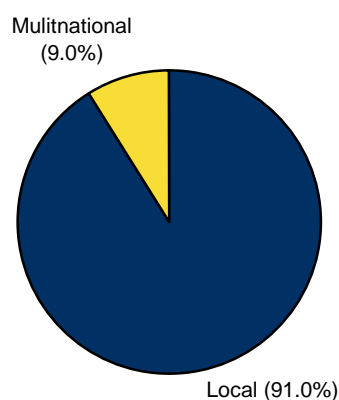
Source: IDC / HiGrowth Survey, 2005

The vast majority of respondents, 91.0% are local companies (refer to Figure 4). For the purposes of this project, a local company is described as a company that has their global head office based in New Zealand, and vice versa. For the most part, differences between multinational and local companies are minimal, however, some results showed large differences.

Multinational companies had a tendency to be larger than local companies in terms of headcount, and have a tendency to prefer a reseller/distributor channel model as opposed to a direct model. Respondents have indicated that a higher proportion of local companies primarily use open source software, as compared with multinational companies.

**FIGURE 4**

Is your Company a Multinational or a New Zealand Owned Company?



**n = 400**

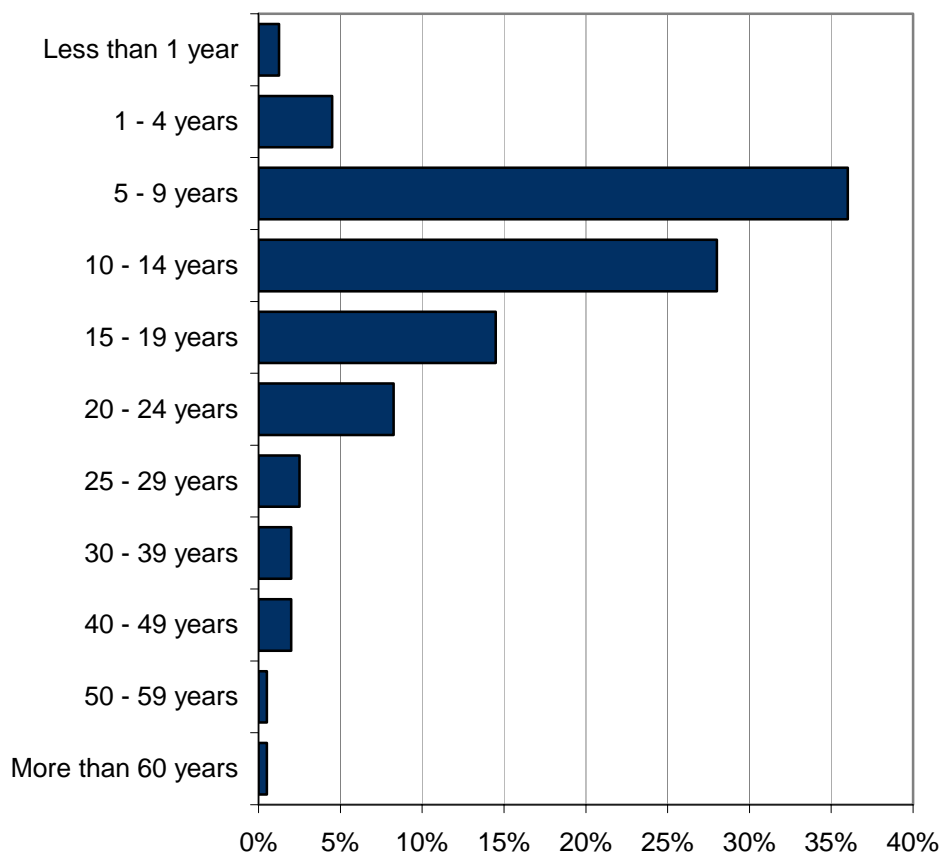
Source: IDC / HiGrowth Survey, 2005

It is interesting to note, that while multinationals represent the New Zealand subsidiary of a multinational corporation, we are seeing the New Zealand subsidiaries engage in export activity. While these companies appear to have greater ease penetrating international markets (other than Australia) than local companies, local companies have far greater penetration into the Australian market from an export perspective.

The age of respondent companies was based on the year of incorporation in New Zealand. On this basis, indications are that more than 35% of organisations within the New Zealand ICT sector are between 5-9 years old (refer to Figure 5). While the bulk of the respondents are aged between 5 and 25 years, almost 6% are less than five years old. At the other end of the scale, 5% of responding companies are more than 30 years old, indicating potential for companies to maintain long-term viability within the sector.

**FIGURE 5**

How long has your Organisation been Trading?



n=400 (Based on year of incorporation in New Zealand.)

Source: IDC / HiGrowth Survey, 2005

In terms of the health of the ICT sector, the majority of young companies (aged 1-5 years) have a board of directors or advisors, and a written business plan. Looking specifically at the largest segment; companies 5-9 years old, almost 75% of respondents have a board of directors and advisors, and 78% have a written business plan.

Auckland, Canterbury and Wellington stand out in terms of both, the proportion of respondents based within each region as well as indicative revenue figures. With 55.3% of the surveyed companies based in Auckland, more than \$5,543.0 million in revenue is accounted for (refer to Table 3). Wellington has the second highest concentration of ICT companies, according to responses, and accounts for \$800.7 million.

Waikato appears to be the fourth largest region in terms of ICT concentration, accounting for 4% of respondents, however, indicative revenues show the Hawkes Bay to be more prominent, representing \$20.5 million in revenue.

**TABLE 3**

What Region is your Company Based in?

	Percentage	Total Revenue (NZ\$M)	Average Revenue (NZ\$M)
Auckland	55.3%	5543.0	32.8
Bay of Plenty	2.5%	6.4	1.1
Canterbury	9.3%	318.1	11.8
Hawkes Bay	1.0%	20.5	10.3
Manawatu	1.5%	3.3	0.7
Marlborough	0.3%	0.8	0.8
Nelson	1.5%	5.5	1.1
Northland	1.3%	6.5	1.6
Otago	1.0%	4.2	1.4
Southland	1.8%	2.1	0.5
Taranaki	0.3%	0.0	0
Waikato	4.0%	7.1	0.9
Wellington	20.5%	800.7	15.7
<b>TOTALS</b>	<b>100.0%</b>	<b>6718.2</b>	

n=285 (2005 Revenues)

Source: IDC / HiGrowth Survey, 2005

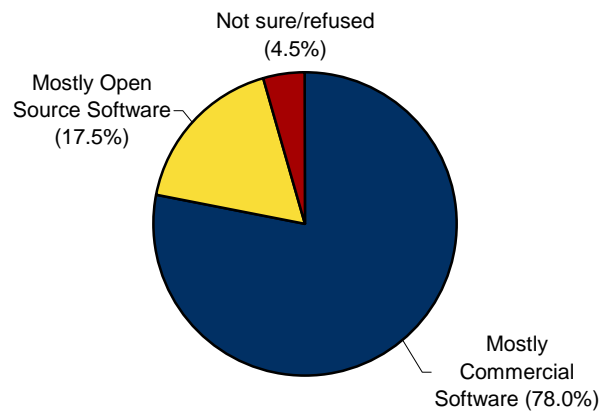
Please note revenues included within this table are only from responses where an actual revenue figure was given. Therefore these numbers should be considered indicative, and represent a minimum threshold. Also note that Telecom New Zealand is included in the Auckland figures as they indicated in their survey that their head office was in Auckland.

## Industry Behaviour

Figure 6 represents the primary use of commercial and open source software within ICT companies in New Zealand. Of the 400 companies that responded to this question, 17.5% use mostly open source software within their organisation. While the dominance of commercial software may come as little surprise, the dynamics of those using open source software provide greater insight. Indications are that open source software is preferred by certain 'niches' within the industry; for example the SME companies, in particular the 10-49 FTE (full-time equivalent) company size segment. Of the ICT sub-segments, IT services and telecommunications display the highest levels of open source use.

**FIGURE 6**

Does your Company use Commercial or Open Source Software?



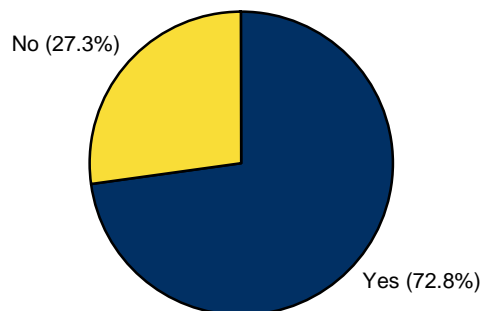
**n = 400**

Source: IDC / HiGrowth Survey, 2005

The fact that almost 73% of respondents are selling products and services into other countries is a positive sign for the economy (refer to Figure 7). Given the demographics of the New Zealand ICT sector, and the high number of small businesses, having almost three-quarters of the industry exporting goods is encouraging.

**FIGURE 7**

Is your Company Providing Products & Services to Other Countries?



**n = 400**

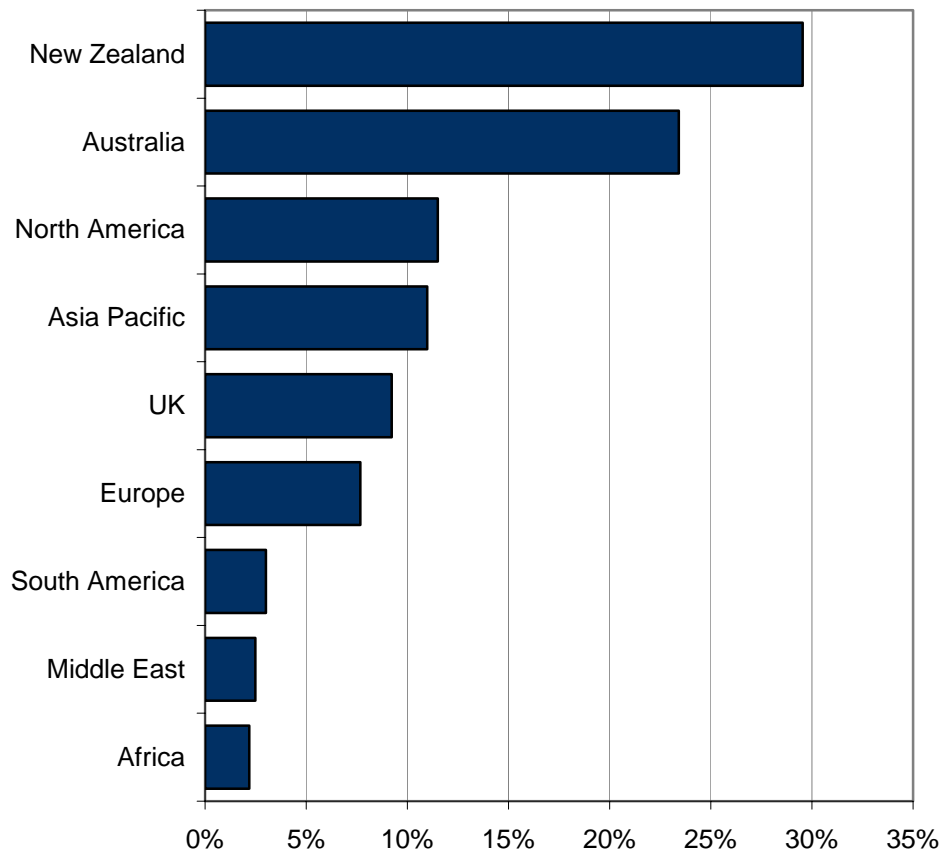
Source: IDC / HiGrowth Survey, 2005

Australia is of course the top revenue earner aside from New Zealand, accounting for almost 25% of total ICT revenues. In saying this however, North America and Asia Pacific also contribute more than 10% of total industry revenues respectively (refer to Figure 8). The fact that the industry has organisations exporting as far afield as the

Middle East and Africa is promising, and reflective of the desire for New Zealand ICT companies to play on the world stage.

**FIGURE 8**

Which Regions does your Company Earn Revenues from?



n=965 Responses (Multiple responses were allowed)

Source: IDC / HiGrowth Survey, 2005

It is also interesting to note that there is little difference between local and multinational companies exporting, in terms of numbers. Both groups have approximately 75% of respondents selling into overseas markets. The differences here lie in the destination of the products and services. While local companies export extensively into the Australian market, there appears to be little penetration into other international markets. MNCs on the other hand export more consistently across the board.

*Please note that the distinction was made between the MNC as a body having a presence or selling into other markets, and the New Zealand subsidiary of the MNC selling into other markets. Only international sales made by the New Zealand subsidiary were captured within this question.*

In terms of revenues earned from overseas markets, the average revenue earned by each respondent within a given market is NZ\$3.14 million. While the total revenue stream for respondents exports is in the ballpark of NZ\$1.5 billion. The average revenue earned per respondent within New Zealand is NZ\$14.8 million, although this figure is skewed by several large players in the market (refer to Table 4).



**TABLE 4**

## Revenues that are Earned from these Regions

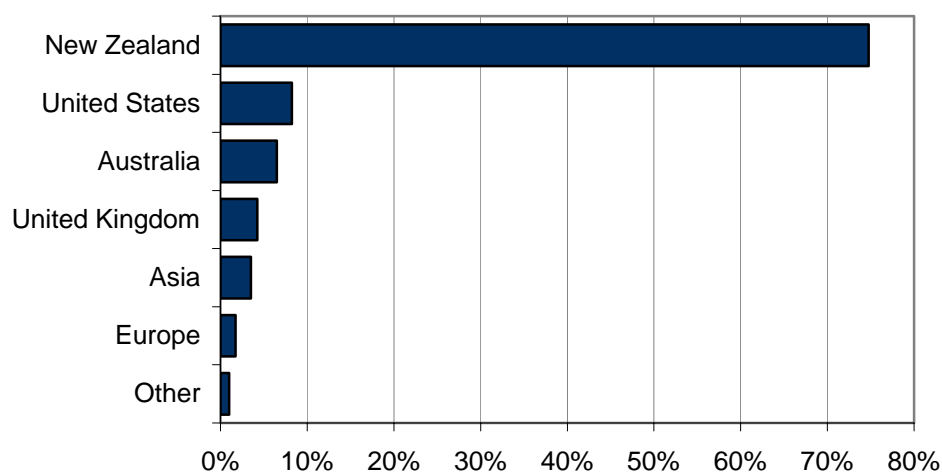
	Total Revenue (NZ\$M)	Average Revenue (NZ\$M)
Africa	18.87	1.30
Asia Pacific	211.14	2.60
Australia	492.64	2.90
Europe	240.13	4.60
Middle East	37.59	2.10
New Zealand	3,083.53	14.80
North America	319.67	3.90
South America	75.99	3.20
United Kingdom	182.11	3.00
<b>TOTALS</b>	<b>4,661.67</b>	

n=711 Responses (Multiple responses were allowed)

Source: IDC / HiGrowth Survey, 2005

**FIGURE 9**

Which Country/Region do you Sell the most to?



n=400

Source: IDC / HiGrowth Survey, 2005

Despite high numbers of companies exporting, the New Zealand market dominates as the country that the respondents sell the most to (refer to Figure 9). Approximately 2% more of the respondent population sell more into the United States than into the Australian market, making the United States the second largest single country after New Zealand. After Australia, the United Kingdom comes in as the fourth most sold to country.

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## Vertical Industries

Generally speaking, the structure of the client base in terms of vertical industries is relatively stable. There are no expectations for dramatic changes in vertical strategies over the coming year, except for a slight increase in the telecommunications and media space. Public administration & safety (government), professional, scientific and technical services (professional services), manufacturing, finance and insurance services (finance) and telecommunications and media remain the prominent vertical industries (refer to Figure 10).

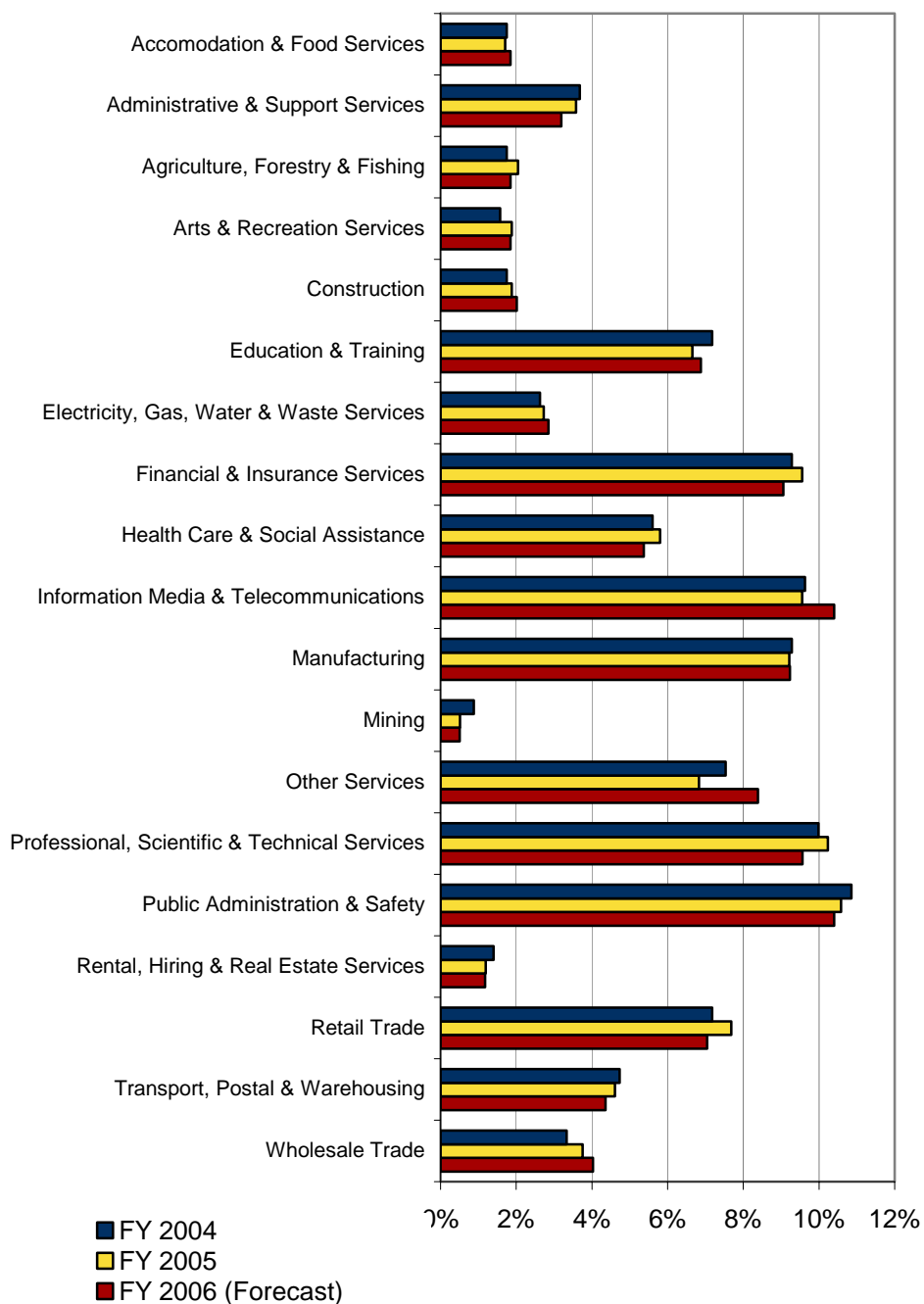
There are some differences in vertical strategy when looking at local and multinational companies – multinational ICT vendors have a distinct preference for the government sector. Local vendors on the other hand have a stronger preference for the manufacturing industry, whereas, manufacturing as well as telecommunications and media remain present within both groups. Professional services are also a strong focus for local players.

Tables 5 to 10 provide an in-depth look at the vertical industries that are prominent within the New Zealand ICT sector, considering FY 2004, FY 2005 and FY 2006 (projected) respectively. Tables 5, 7 and 9 provide information on vertical industries in terms of the first, second and third largest verticals for respondents. For example, 13.2% of respondents considered manufacturing to be their largest vertical industry in FY 2004.

Tables 6, 8 and 10 provide two revenue counts across the vertical industries, for each of FY 2004, FY 2005 and FY 2006. The primary count is the total revenue derived from each vertical within the given year. Again, this is based on the number of respondents that provided an actual revenue figure, and should be considered as indicative. The second count is the average revenue earned per company from a particular industry – for example, based on respondents, the average revenue derived from the government industry in FY 2004 is \$14.6 million.

**FIGURE 10**

Top Three Vertical Industries, FY04-FY06



2004 n=868 responses      2005 n=880 responses      2006 n=884 responses  
 Source: IDC / HiGrowth Survey, 2005

**TABLE 5****Top Three Vertical Industries, FY04**

	1st	2nd	3rd
Accommodation & Food Services	1.8%	1.8%	0.5%
Administrative & Support Services	3.3%	3.6%	4.5%
Agriculture, Forestry & Fishing	2.3%	1.8%	0.5%
Arts & Recreation Services	1.5%	1.8%	1.5%
Construction	1.3%	1.5%	3.0%
Education & Training	6.4%	5.8%	8.0%
Electricity, Gas, Water & Waste Services	3.1%	2.2%	2.5%
Financial & Insurance Services	6.6%	11.3%	10.5%
Health Care & Social Assistance	4.6%	5.1%	3.5%
Information Media & Telecommunications	9.9%	11.6%	8.0%
Manufacturing	13.2%	9.1%	9.5%
Mining	1.5%	1.5%	0.5%
Other Services	7.9%	5.1%	10.0%
Professional, Scientific & Technical Services	8.1%	11.6%	9.5%
Public Administration & Safety	10.2%	11.3%	9.0%
Rental, Hiring & Real Estate Services	1.5%	0.4%	1.0%
Retail Trade	7.1%	5.5%	8.5%
Transport, Postal & Warehousing	6.6%	4.0%	6.0%
Wholesale Trade	3.1%	5.1%	3.5%
<b>TOTALS</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

1<sup>st</sup> n=393    2<sup>nd</sup> n=275    3<sup>rd</sup> n=200

Source: IDC / HiGrowth Survey, 2005

**TABLE 6**

## Revenue by Vertical, FY04

	Total Revenue (NZ\$M)	Average Revenue (NZ\$M)
Accommodation & Food Services	7.9	0.8
Administrative & Support Services	20.2	1
Agriculture, Forestry & Fishing	103.1	10.3
Arts & Recreation Services	3.6	0.4
Construction	3.3	0.3
Education & Training	200	4.9
Electricity, Gas, Water & Waste Services	31.1	2.1
Financial & Insurance Services	352.9	6.7
Health Care & Social Assistance	147.3	4.6
Information Media & Telecommunications	584.1	10.6
Manufacturing	255	4.8
Mining	4.1	0.8
Other Services	74.1	1.7
Professional, Scientific & Technical Services	89.0	1.6
Public Administration & Safety	908.2	14.6
Rental, Hiring & Real Estate Services	4.1	0.5
Retail Trade	339.1	8.3
Transport, Postal & Warehousing	76.9	2.8
Wholesale Trade	212.2	11.2
<b>TOTAL</b>	<b>3,416</b>	

n=571 responses

Source: IDC / HiGrowth Survey, 2005

**TABLE 7****Top Three Vertical Industries, FY05**

	1st	2nd	3rd
Accommodation & Food Services	1.0%	2.1%	1.0%
Administrative & Support Services	3.3%	3.2%	5.4%
Agriculture, Forestry & Fishing	2.5%	1.8%	0.5%
Arts & Recreation Services	1.5%	1.8%	1.5%
Construction	1.3%	1.8%	3.9%
Education & Training	6.6%	5.3%	7.9%
Electricity, Gas, Water & Waste Services	3.5%	1.1%	3.4%
Financial & Insurance Services	8.1%	11.0%	8.9%
Health Care & Social Assistance	4.3%	6.7%	3.4%
Information Media & Telecommunications	10.4%	11.0%	7.4%
Manufacturing	12.2%	9.6%	10.3%
Mining	0.8%	1.4%	0.5%
Other Services	8.1%	4.3%	9.9%
Professional, Scientific & Technical Services	8.4%	11.0%	9.9%
Public Administration & Safety	10.6%	11.3%	8.4%
Rental, Hiring & Real Estate Services	1.0%	0.7%	1.5%
Retail Trade	7.8%	6.4%	7.4%
Transport, Postal & Warehousing	5.8%	4.3%	5.4%
Wholesale Trade	2.8%	5.3%	3.4%
<b>TOTALS</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

1<sup>st</sup> n=395 responses      2<sup>nd</sup> n=282 responses      3<sup>rd</sup> n=203 responses

Source: IDC / HiGrowth Survey, 2005

**TABLE 8**

## Revenue by Vertical, FY05

	Total Revenue (NZ\$M)	Average Revenue (NZ\$M)
Accommodation & Food Services	11.2	1.1
Administrative & Support Services	22.6	1.1
Agriculture, Forestry & Fishing	108.5	9
Arts & Recreation Services	3.1	0.3
Construction	4.8	0.4
Education & Training	204.9	5.3
Electricity, Gas, Water & Waste Services	57.7	3.6
Financial & Insurance Services	404.5	7.2
Health Care & Social Assistance	172.2	5.1
Information Media & Telecommunications	719.6	12.8
Manufacturing	293.1	5.4
Mining	1.3	0.4
Other Services	75.7	1.9
Professional, Scientific & Technical Services	105.7	1.8
Public Administration & Safety	1063.3	17.1
Rental, Hiring & Real Estate Services	4.2	0.6
Retail Trade	451.1	10
Transport, Postal & Warehousing	61.8	2.3
Wholesale Trade	249.9	11.4
<b>TOTAL</b>	<b>4015.2</b>	

n=586 responses

Source: IDC / HiGrowth Survey, 2005

**TABLE 9****Top Three Vertical Industries, FY06 (Projected)**

	1st	2nd	3rd
Accommodation & Food Services	1.8%	1.4%	1.0%
Administrative & Support Services	3.3%	2.8%	4.8%
Agriculture, Forestry & Fishing	2.8%	1.4%	0.5%
Arts & Recreation Services	1.8%	2.1%	1.0%
Construction	1.5%	1.8%	2.4%
Education & Training	6.9%	5.0%	7.7%
Electricity, Gas, Water & Waste Services	3.0%	2.1%	3.3%
Financial & Insurance Services	7.1%	9.6%	11.0%
Health Care & Social Assistance	4.6%	4.6%	3.8%
Information Media & Telecommunications	9.1%	12.5%	9.1%
Manufacturing	12.4%	10.0%	10.0%
Mining	1.3%	1.1%	0.5%
Other Services	8.9%	4.6%	11.0%
Professional, Scientific & Technical Services	8.4%	11.0%	9.1%
Public Administration & Safety	9.9%	11.4%	8.6%
Rental, Hiring & Real Estate Services	1.0%	1.1%	1.0%
Retail Trade	6.6%	7.5%	7.2%
Transport, Postal & Warehousing	5.8%	5.3%	4.3%
Wholesale Trade	3.8%	4.6%	3.8%
<b>TOTALS</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

1<sup>st</sup> n=394 responses      2<sup>nd</sup> n=289 responses      3<sup>rd</sup> n=209 responses

Source: IDC / HiGrowth Survey, 2005



**TABLE 10**

## Revenue by Vertical, FY06 (Projected)

	Total Revenue (NZ\$M)	Average Revenue (NZ\$M)
Accommodation & Food Services	14.7	1.3
Administrative & Support Services	26.1	1.4
Agriculture, Forestry & Fishing	125.1	11.4
Arts & Recreation Services	6.2	0.6
Construction	6.4	0.5
Education & Training	236.6	5.8
Electricity, Gas, Water & Waste Services	48.6	2.9
Financial & Insurance Services	446.9	8.3
Health Care & Social Assistance	219.6	6.9
Information Media & Telecommunications	806.1	13
Manufacturing	365.1	6.6
Mining	1.6	0.5
Other Services	72.7	1.5
Professional, Scientific & Technical Services	115.8	2
Public Administration & Safety	1152.4	18.6
Rental, Hiring & Real Estate Services	6.0	0.9
Retail Trade	657.7	15.7
Transport, Postal & Warehousing	77.9	3
Wholesale Trade	301.6	12.6
<b>TOTAL</b>	<b>4687.1</b>	

n=596 responses

Source: IDC / HiGrowth Survey, 2005

## HEALTH OF THE INDUSTRY

This section assesses the health of the ICT sector in New Zealand, covering factors such as governance, business plans, competitive awareness and revenue growth. These factors are measured by grouping certain metrics together, the inspiration for which stemmed from the *Baldrige Criteria for Performance Excellence Framework: A Systems Perspective* provided by the New Zealand Business Excellence Foundation.

### The Inspiration

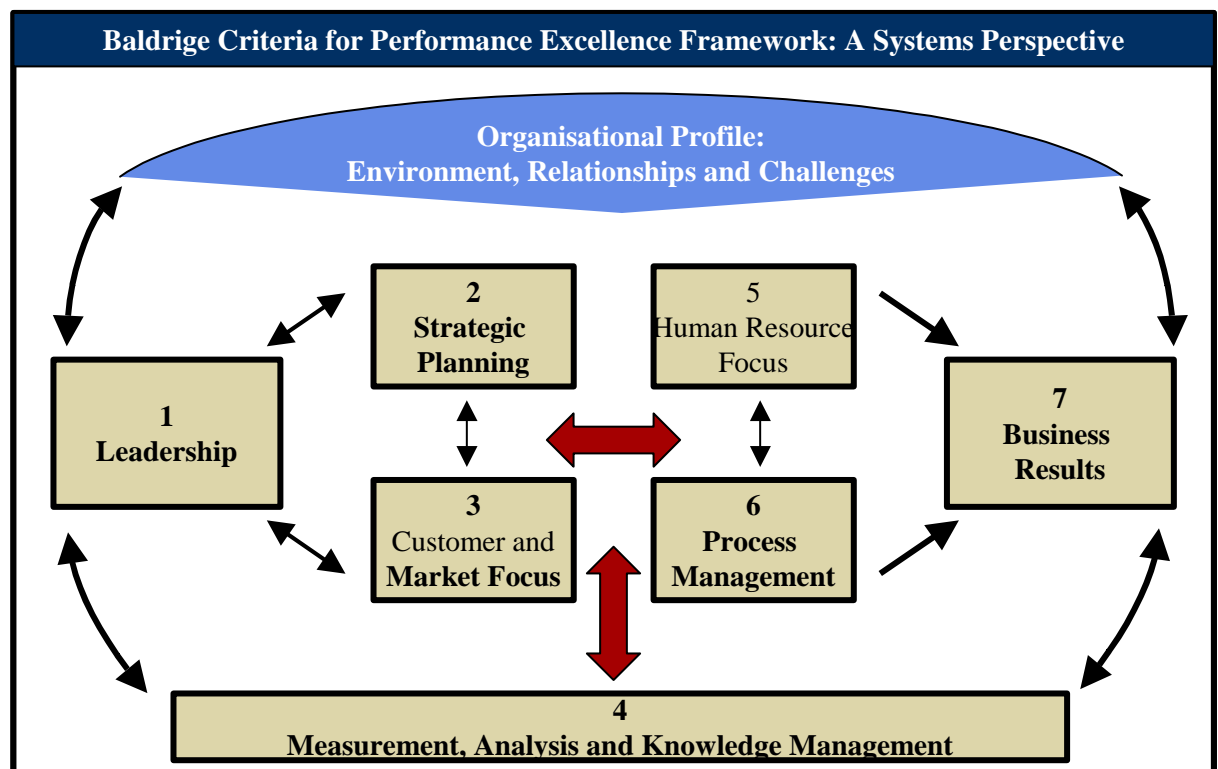
Using the Baldrige Criteria (Figure 11) as the backdrop for the development of an analysis of the health of the New Zealand ICT sector, IDC included questions in the survey that focused on the following elements of the criteria: Leadership, Strategic Planning, Market Focus, Measurement, Analysis & Knowledge Management, Process Management, and Business Results. While we acknowledge that this doesn't cover all of the Baldrige Criteria per say, it does allow IDC to provide an excellent overview.

The *HiGrowth Profile of the New Zealand ICT Sector Survey* was structured to include questions that would provide insight into each of these factors and answer the following important questions:

- ☐ Where is our company going?
- ☐ How are we getting there?
- ☐ How do we measure progress?
- ☐ How well have we done?

**FIGURE 11**

*Inspiration:* The Baldrige Criteria



Source: NZ Business Excellence Foundation, 2005

The Baldrige Criteria has a focus on business results with 450 of the possible 1000 points associated with this area. The next most important areas for the measurement and comparison of successful companies are the Leadership factor (worth 120 from the 1000) and Measurement (90 from 1000). As such IDC included a number of questions in the survey to establish how New Zealand ICT organisations are performing, their leadership structures and planning and analysis abilities.

## Where are we going?

### *Board of Directors Analysis*

In the Baldrige Criteria the Leadership category examines how an organisation's senior leaders guide and sustain an organisation. It also examines the organisation's governance and how the organisation addresses its ethical, legal and community responsibilities.

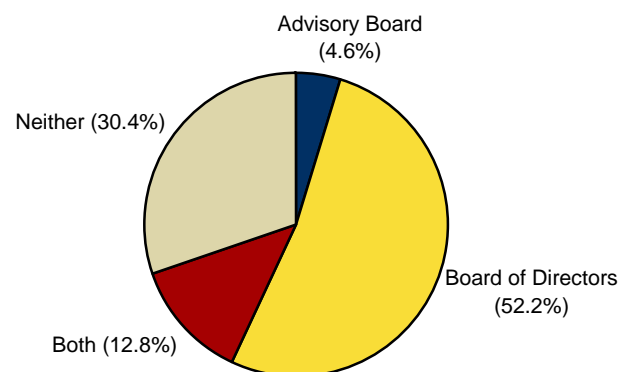
Therefore, presence of an advisory board or a board of directors is an important indication of the ability of a company to continue to develop in a sustained fashion. The board of directors and/or advisors are typically involved in the creation of objectives, providing guidance to ensure management meets its objectives and generally steering the direction of the company.

A substantial 30.4% of companies surveyed had neither an advisory board nor a board of directors providing guidance (refer to Figure 12). However, the board of directors was portrayed as the dominant form of guidance for New Zealand ICT organisations.

A disturbing factor in this analysis is that the lack of directors and advisory boards is not restricted to companies within a particular demographic. There are companies within the 100-499 and 500+ company size segments that have indicated they have no official board. Likewise, the age of a company does not appear to impact this overtly, although from the survey sample, 100% of companies aged 50+ have a board of directors or advisory board.

**FIGURE 12**

Does your Company have an Advisory Board or a Board of Directors?



**n = 392**

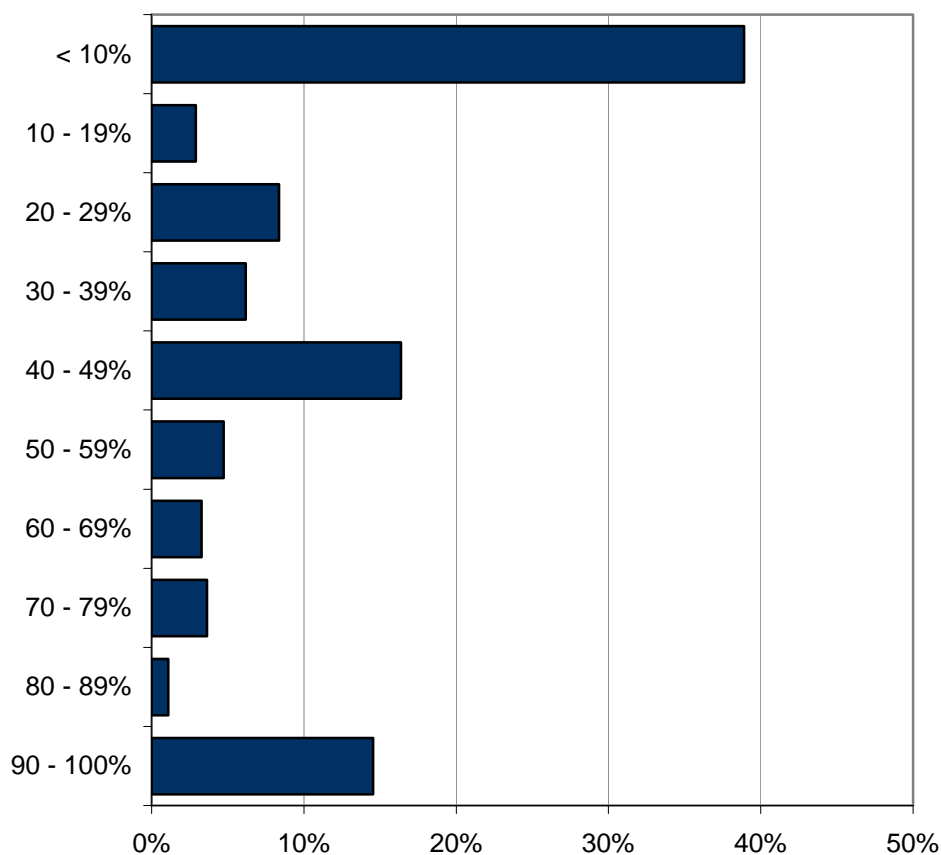
Source: IDC / HiGrowth Survey, 2005

Almost as important as the presence of a board or advisors is their level of independence. It is accepted that the only true way to gain separation between management duties and governance of the company is through the inclusion of a significant number of independent members on the board.

Figure 13 portrays the percentage of organisations that have independent advisors and directors on their boards, that is, the board members are not employed by the organisation. The vast majority have less than 10% independent members, however on the other end of the scale, almost 15% of respondents have 90-100% of their members independent.

**FIGURE 13**

What Percentage of your Board is Independent?



n=275 responses

Source: IDC / HiGrowth Survey, 2005

## How are we getting there?

### ***Business Plan Analysis***

Having a business plan is a fundamental factor in ensuring that organisations are working towards their objectives.

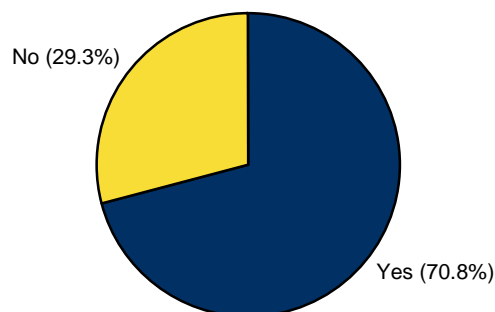
Respondents indicated that 70.8% of ICT companies have a written business plan for the current financial year, leaving almost one third of companies without a formal plan (refer to Figure 14). Cross referencing this with companies without independent advisors, we find that 16.1% of the respondent population has neither a board of

directors/advisors, or a written business plan, which could prove problematic for the health of the ICT sector

Fortunately there is some degree of correlation between having a written business plan and the size of the company. As a general rule, the larger the company size, the higher the proportion of respondents with business plans. This is most likely a reflection of New Zealand small businesses where the business plan often remains as the vision of the owner or director of the company. However, it is commonly accepted that a written plan is one of the best ways for a company's management to share their vision and sustain their direction in the face of changing dynamics. IDC recommends that education and resources be directed towards increasing the sectors understanding, acceptance and use of this simple tool.

**FIGURE 14**

Do you have a Business Plan Written for this Financial Year?



**n = 400**

Source: IDC / HiGrowth Survey, 2005

Through the development of a business plan, companies can approach their business in a more structured and thought out way. The Customer and Market Focus category of the Baldrige criteria looks at how an organisation determines the requirements, expectations, and preferences of customers and markets. It also examined how an organisation builds relationships with customers and determines the key factors that lead to customer acquisition, satisfaction, loyalty and retention, and to business expansion and sustainability.

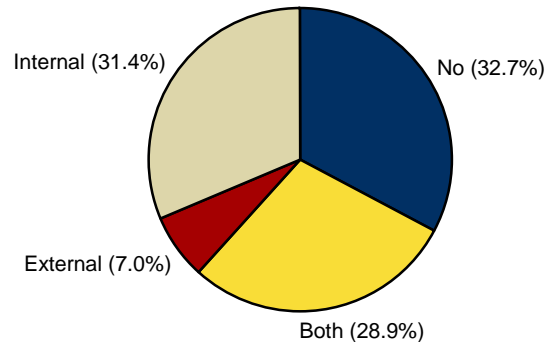
The *HiGrowth Profile of the New Zealand ICT Sector Survey* included questions on channels to help build an understanding of the sectors route to market and two more on market research to see if ICT companies understand their markets with more than just gut feel.

### ***Market & Competitive Research Analysis***

Market and competitive research is an important tool for tracking the progress of an organisation, allowing the business to benchmark progress against competitors and the market in general. It is interesting to note that the proportions of market and competitive research are in favour of internal research rather than external research (refer to Figure 15). In saying this however, a good percentage of respondents (28.9%) invest in both internal and external research providing a broad-based view of the competitive landscape of the New Zealand ICT industry.

**FIGURE 15**

Have you invested in Market or Competitive Research?



**n = 388**

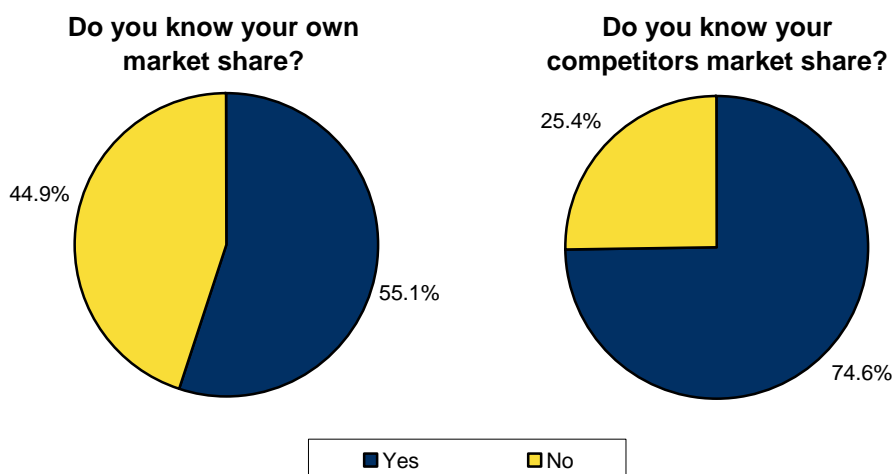
Source: IDC / HiGrowth Survey, 2005

Stemming from general market and competitive research is knowledge of market share. This consists of two parts, knowledge of a company's own market share, and knowledge of their competitors market share. This uses a tiered approach, based on the logic that a company cannot know their competitors market share without being aware of their own.

By this merit, 55.1% of respondents have knowledge of their own market share in their key target markets (refer to Figure 16). Of this group, 74.6% have knowledge of their competitors market share.

**FIGURE 16**

Knowledge of Market Share



Own n=392      Competitors n=215  
Source: IDC / HiGrowth Survey, 2005

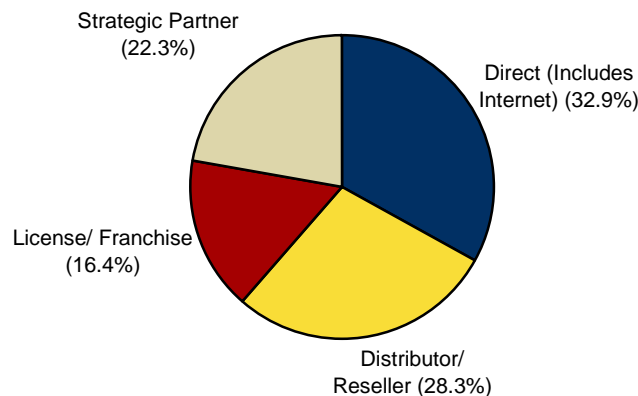
With one third of the market making no attempt to conduct either internal or external analysis of their market, competitors and possibly their customers this provides a clear signal to the government of another area for potential development.

### ***Channel Analysis***

An understanding of the ICT sectors preferred channels allows us to hypothesize on the nature of the market and the ability of the sector to grow at the exponential rates that will be required to build the sector to the size that the government is aiming for. The use of channel partners is as might be expected, with respondents indicating overall that direct sales are preferential, with distributors and/ or resellers and strategic partners following respectively (refer to Figure 17). The comparative lack of license and franchising channels appears to be an effect of the high number of small businesses in New Zealand, however, this may inhibit the markets ability to grow, particularly in times of resource constraints and low unemployment.

**FIGURE 17**

Which Channels do you Sell the most through?



**n = 400**

Source: IDC / HiGrowth Survey, 2005

Respondents indicated that strategic partnerships are strongest as a second or third channel option, as opposed to the license and franchising options, which has largely been viewed as a last resort. Direct and distributor and/or resellers have been confirmed as the preferential method of going to market. This reflects a growing trend towards a consultative approach to business development, regardless of hardware, software, IT service or telco designation.

### **How do we measure this?**

#### ***Performance Objectives***

The Baldrige Criteria place a relatively high emphasis on a company's ability to measure and analyse performance. This ability is common within high performing companies and, as such, the Measurement, Analysis, and Knowledge Management Category examines how an organisation selects, gathers, analyses, manages, and improves its data, information, and knowledge assets. It also examined how an organisation reviews its performance.

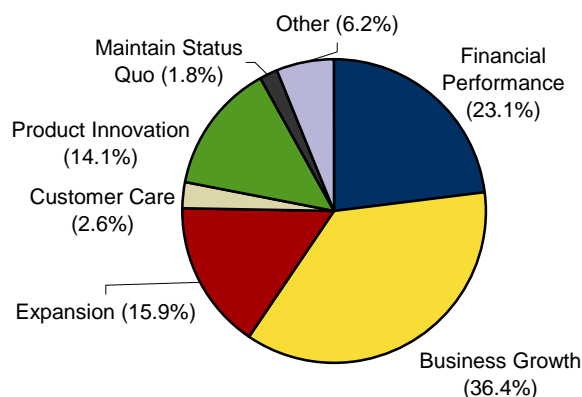
Within the *HiGrowth Profile of the New Zealand ICT Sector Survey*, respondents indicated their business objectives and the metrics they used to monitor performance.

The primary objectives for organisations within the New Zealand ICT sector were around financial performance and business growth, affirming the assumption that New Zealand ICT companies have a desire for growth (refer to Figure 18). While financial performance refers to growth in revenue and profits, business growth refers to the growth of the business in general - predominately based on increasing headcount, revenues and product and service offerings.

What is more meaningful, in terms of the health of the New Zealand ICT sector and as an indication of where the sector may be headed, is the 14.1% of respondents indicated that product innovation was their main objective for the current financial year. Also of note is the proportion of respondents that indicated expansion as their main objective. 15.9% of respondents indicated expansion of some form. While the majority (39.3%) of companies looking to expand indicated a preference for local expansion, Australia and the United States also rated highly as markets to expand into.

**FIGURE 18**

What is your Company's Main Objective for this Financial Year?



**n = 390**

Source: IDC / HiGrowth Survey, 2005

### ***Performance Metrics***

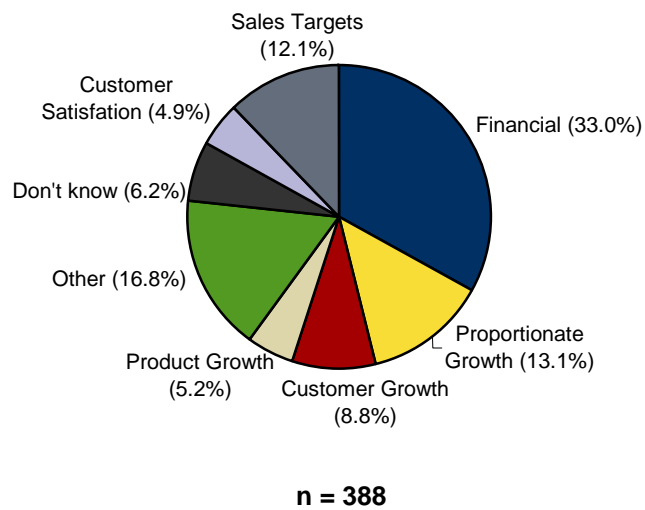
One of the key means of measuring the success of companies is the metric that they are using to quantify their key objectives. Financial benchmarks, proportionate growth rates and sales targets are some of the key metrics the respondents are using. More than 50% of respondents subscribe to one of these metrics as primary means of measuring the success of their business objectives (refer to Figure 19).

Customer satisfaction and customer growth rate are relatively low, which is an indication of those factors ICT companies view as important in the growth of their business. The results indicate a high level of financial awareness in the sector, however, the lower focus on customers may prove problematic in their quest for growth.



**FIGURE 19**

What Metric are you using to Measure your Objectives?



Source: IDC / HiGrowth Survey, 2005

### Review: How well have we done?

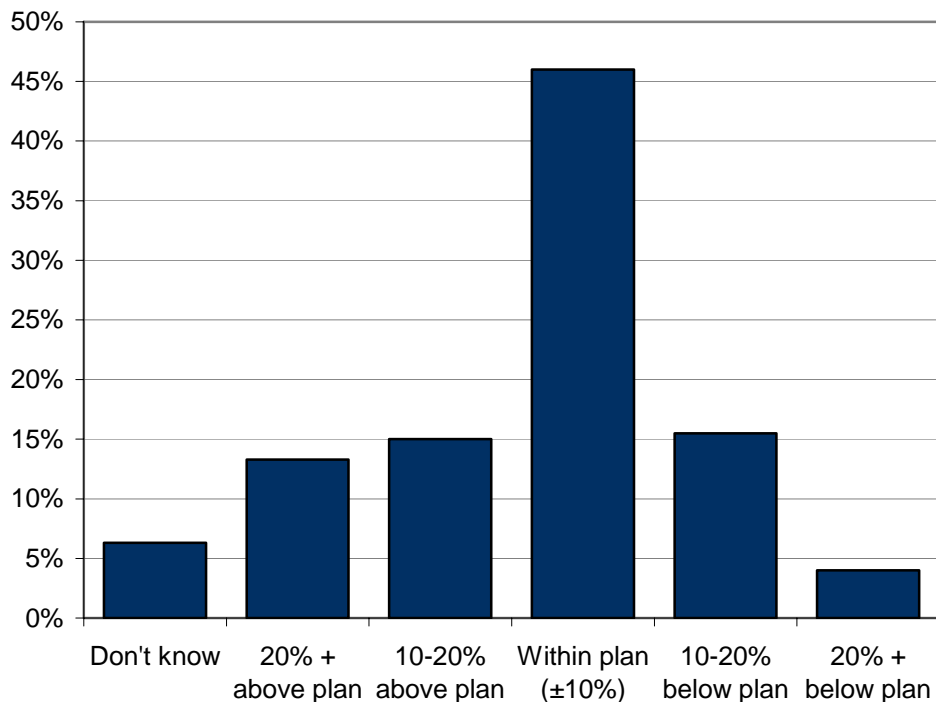
With the largest weighting in the Baldrige Criteria, the category of Business Results provides a results focus that encompasses objective evaluation and effectively a customers' evaluation of an organisation's products and services, overall financial and market performance, leadership system and social responsibility results, and results of all key processes and process improvement activities.

Fundamentally, revenues and budgets play a large role in assessing how well organisations have done, and how far they have gone to achieving their objectives. Using business plans as a benchmark, organisations are able to assess their success at various stages throughout the year. As such, Figure 20 reflects the proximity to plan for FY 2006 for respondent companies.

More than 45 % of the respondents were within  $\pm 10\%$  of their business plan at the time of survey. Following the bell curve, the further away from plan, the fewer the respondents. It is a little disconcerting to note however, that more than 5% of respondents were not aware how they measured according to plan for the year-to-date.

**FIGURE 20**

How Close to Budget are you for FY06?



n=400

Source: IDC / HiGrowth Survey, 2005

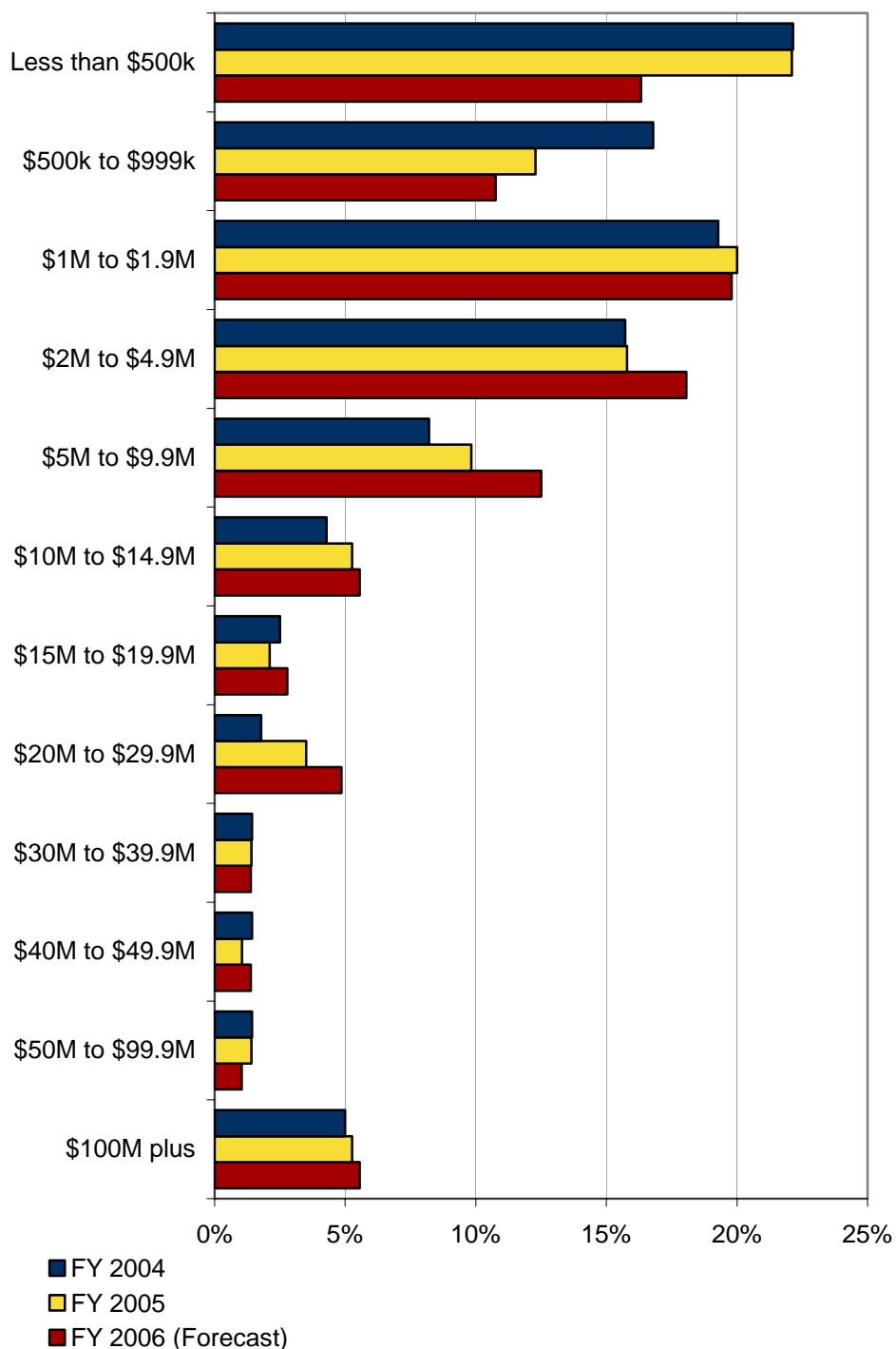
Revenue growth is deemed to be one of the more important indicators for sector, particularly for companies wishing to compete on an international stage. The revenues that respondents provided (Figure 21) show that revenue trends are headed in the right direction. In FY 2006 (projected) over FY 2005 there is a marked decline in the number of respondents with less than \$500,000 in revenues. Concurrent with this, there is also a notable increase in respondents indicating revenues between \$2 million and \$4.9 million, and then again between \$5 million and \$9.9 million.

Respondents are also anticipating increased volume in breaking the \$20 million market, which has long been a milestone within the New Zealand business community. There is a similar trend at the high end of the market, whereby there is a decline FY 2006 (projected) revenues for the \$50 million to \$99.9 million bracket, and an increase in the number of respondents indicating revenues of more than \$100 million.

The \$5 million to \$9.9 million and \$20 million to \$49.9 million revenue bands are showing the most consistent growth over the past three years. Approximately 280 respondents which provided financial detail indicated that the total value of their revenues is set to increase from \$9,495 million in 2004 to \$11,963 million in 2006.

**FIGURE 21**

Respondent Revenue Growth



2004 n=280      2005 n=285      2006 n=288

Source: IDC / HiGrowth Survey, 2005

Proportionately speaking, the less than \$500,000 revenue band has been dominant over recent years, accounting for around 15% of respondents. In 2006 however, it is projected that this will drop to 12% and the \$1 million to \$1.9 million revenue band will dominate the New Zealand ICT sector.

We will see the top end of the market, namely the \$100 million or more revenue band grow to account for 4% of respondents (refer to Table 11). The demarcation zone

between medium and large organisations will remain sparsely populated, as this represents a prime hunting ground for organisations in search of acquisition.

**TABLE 11**

What were your Total Company Revenues for FY 2004 - FY 2006?

	FY 2004	FY 2005	FY 2006 (Forecast)
Don't know	30.0%	28.8%	28.0%
Less than \$500k	15.5%	15.8%	11.8%
\$500k to \$999k	11.8%	8.8%	7.8%
\$1M to \$1.9M	13.5%	14.3%	14.3%
\$2M to \$4.9M	11.0%	11.3%	13.0%
\$5M to \$9.9M	5.8%	7.0%	9.0%
\$10M to \$14.9M	3.0%	3.8%	4.0%
\$15M to \$19.9M	1.8%	1.5%	2.0%
\$20M to \$29.9M	1.3%	2.5%	3.5%
\$30M to \$39.9M	1.0%	1.0%	1.0%
\$40M to \$49.9M	1.0%	0.8%	1.0%
\$50M to \$99.9M	1.0%	1.0%	0.8%
\$100M plus	3.5%	3.8%	4.0%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

2004 n= 280      2005 n=285      2006 n=288

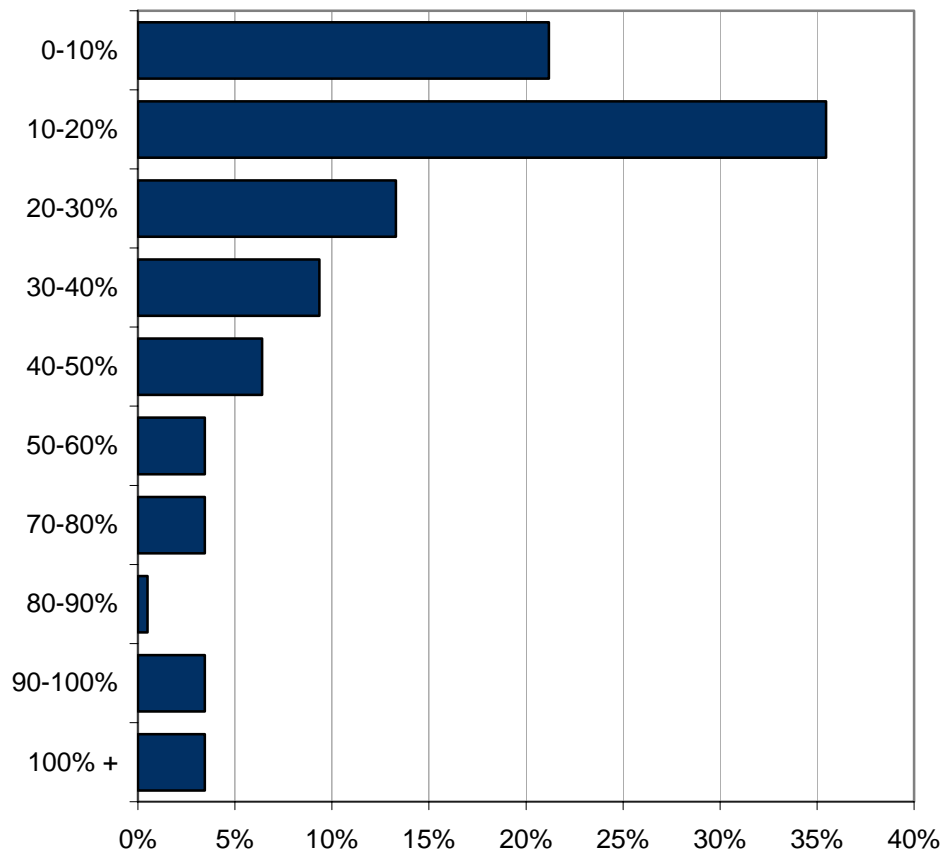
Source: IDC / HiGrowth Survey, 2005

Looking at the average three year growth rates provided by respondents, there is a great deal of variance in the level of growth experienced by survey participants. More than 35% of the respondent population however, have indicated an average growth rate of between 10-20% (refer to Figure 22). Approximately 13% have indicated slightly larger growth – between 20-30% over the past three years.

There are a healthy number of respondents indicating growth rates between 30% and 80%, however, these high growth rates may be explained by the high number of young companies in New Zealand whose revenues are coming off very low bases.

**FIGURE 22**

Average Three-Year Growth Rate



n=203

Source: IDC / HiGrowth Survey, 2005

## LEARN MORE

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### Research Sponsors

HiGrowth, Microsoft and NZTE are each involved in various initiatives to help the New Zealand ICT industry grow and succeed with global commercialisation.

The HiGrowth Project has a strategic role in facilitating the objectives set out in the ICT Taskforce Report, including the target of increasing contribution to GDP to 10% by 2012.

Microsoft has more than 120 people working at offices in both Auckland and Wellington, and interacting with a network of 2,500 New Zealand business partners. By developing and retailing technology solutions and services on Microsoft software platforms, these partners generate significant revenue for the local technology ecosystem. Each year in New Zealand, Microsoft invests extensively in activities that contribute to the country's development on both an economic and social level. As part of these activities, Microsoft believes that a detailed analysis of the industry will be of value to Microsoft and the industry as a whole to benchmark the industry as it currently stands and to identify areas for improvement and growth.

NZTE is tasked with increasing the international competitiveness and capabilities of New Zealand firms, and the ICT sector has been established as a priority area under the Growth and Innovation Framework. In order to support the New Zealand ICT industry's growth and offshore aspirations, NZTE desires to focus efforts on domestic companies in those parts of the industry that have the strongest potential to contribute to the sector target of reaching 10% of GDP.

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### Definition of ICT

This project used the following definition for the ICT Sector (OECD 1998):

"The products of a candidate manufacturing industry must:

- ☒ Be intended to fulfill the function of information processing and communication, including transmission and display; or
- ☒ Use electronic processing to detect, measure and/or record physical phenomena, or to control a physical process.

Components primarily intended for use in such products are also included.

The products of a candidate service industry must:

- ☒ Be intended to enable the function of information processing and communication by electronic means; and,
- ☒ The service provided must go beyond simply the supply of goods."

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### About IDC

#### *IDC Worldwide*

IDC is the premier global market intelligence and advisory firm in the information technology and telecommunications industries. We analyse and predict technology trends so that our clients can make strategic, fact-based decisions on IT purchases and business strategy. Over 775 IDC analysts in 50 countries provide local expertise and insights on technology markets, and our management team is comprised of experienced and respected industry luminaries. Business executives and IT

managers have relied for 40 years on our advice to make decisions that contribute to the success of their organizations.

IDC is a subsidiary of IDG, the world's leading technology media, research, and events company. Additional information can be found at [www.idc.com](http://www.idc.com).

### ***IDC New Zealand***

IDC New Zealand has been serving the New Zealand ICT industry since 1991 and has a full time staff of 10 and a number of contractors, including 10 experienced analysts and a broad range of products and services.

IDC covers a range of different markets, including:

- ☒ Software (e.g. Security, Customer Relationship Management and Supply Chain Management)
- ☒ Hardware (e.g. Peripherals, Monitors, Servers, Storage, Printers, PCs)
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- ☒ Small & Medium Business (End user spending analysis)
- ☒ Vertical Markets (Industry spending analysis)
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