

# **“Success through services”**

A perspective on the technology  
services sector in Ireland

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The Authors are Mary Cryan, Evin McLoughlin and Henry Sheils.

We would like to thank all those companies that participated in this research.

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## Foreword from Bank of Ireland

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Bank of Ireland is delighted to be associated with this report, which is the result of a survey of some 700 firms in the technology sector in Ireland, carried out by Prospectus Strategy Consultants. Ireland has now become the largest exporter of software in the world and while this is in no small way due to the operations of multinational companies, a vibrant and growing indigenous technology sector has emerged, including some well-known world-class names.

As this sector matures, it is key to its continued success that proper strategies are developed to ensure the provision of products and services and the proper mix of the two. Innovation in product development needs to be underpinned by grasping opportunities for higher margin service provision. Continued success now demands the proper research of markets and effective execution of marketing plans.

In addition to dealing with the growth issues associated with the sector this report highlights some of the successful strategies adopted by world-class companies in addressing the barriers to growth and also highlights the infrastructural issues facing the sector as we enter the 21st Century. Innovative strategies are required to deal with issues such as skills shortage in order to attract and retain key skills.

Bank of Ireland Business Banking has, through its Hi-Tech Sector, taken a very proactive approach to the sector over the past 3 years and has developed specific products and services for the sector including seed capital, venture funding and contract working capital. These and our business start-up packages have enabled the bank assist many technology companies in realising their business plans. We welcome this publication, which will be of good use to companies formulating their plans to continue growth into the future, and to those of us supporting the development of this vibrant sector.

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# About Prospectus Strategy Consultants

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## About Prospectus

Prospectus is Ireland's leading strategy consultancy, established in 1991 and focusing on technology, financial services and the public sector. Our core strength lies in developing strategies for fast growth companies, by identifying the critical milestones and strategies necessary to accelerate the business forward.

We have a network of international alliance partners, which enables us to develop global business strategies. The company provides consulting and research services and adds real value to clients' business by:

- Identifying areas of opportunity;
- Developing creative strategies to exploit those opportunities;
- Assisting companies develop and implement their "e" strategy;
- Bringing about significant change within clients' organisation.

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# Executive Summary

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## Introduction

International experience suggests that companies in the information and communication technology industry are changing direction at a strategic level to ensure continued profitability and growth in the future. As the market for products matures and becomes more competitive, the industry is being forced to find alternatives to replace shrinking profit margins. Services are proving to be the means to creating differentiation, generating revenue and profits.

The Irish technology industry is characterised by an amalgamation of foreign direct investment and a strong indigenous sector. The basis of this report is a survey of over 700 companies, covering a broad cross-section of Ireland's leading technology players.

In the first instance, the responses to this survey indicate that the industry is largely generating healthy revenues and has experienced impressive growth in recent years. However, analysis of the survey results also shows that, while the industry believes it can sustain rapid growth levels in the future, it faces serious barriers to business expansion in the short term. The industry must take full cognisance of international trends to ensure continued profitability in the longer term.

## Barriers to growth

- Ability to recruit and retain skilled staff

The improbable forecast made some years ago, that the ever-increasing demand for skilled employees would eventually outstrip supply, has become reality. Considered by 60% of respondents to be the major obstacle to overall business growth, staff shortages are also deemed to be hampering international expansion and seriously impacting the development of e-business related activities. With many CEOs now spending 35% of their time on "people" issues, it is clear that addressing this problem is detracting from actually running a company.

- Cost competitiveness

The traditional view of Ireland being a cost competitive location has been called into question by the survey respondents. While corporation tax levels are still viewed positively, inflation, salary levels and infrastructural bottlenecks are seen as having a negative effect on growth.

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# Executive Summary

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- Infrastructure

General infrastructure in Ireland was cited by 55% of respondents as a major barrier to the overall growth of their companies. A further 32% believed the lack of broadband capabilities to be an obstacle in developing e-business related activities. With the new broadband systems coming on line from Global Crossing and others, there will be a significant expansion in bandwidth in the short-term, and this issue is certain to become less of a barrier to growth in the future.

## Facilitators of growth

- Ireland as a place to do business

Positive Government support for the technology sector, Ireland's strong indigenous industry, its export culture and its high levels of successful spin-offs with international profile are among the factors making Ireland a very attractive base to do business. Two thirds of respondents to our survey believed that the Irish Government will succeed in its objective of positioning Ireland as a global e-commerce hub.

- Access to funding

Access to funding for expansion and growth, which was previously viewed as a barrier to growth, is an area where companies with good plans are no longer experiencing problems. Together with increased confidence in security measures, availability of funding is now seen as a significant facilitator of e-business activities.

- Organisational effectiveness

Irish technology companies are confident about their organisations' management capabilities in general, and their ability to create competitive advantage. Respondents indicated that the ability to react to market trends quickly (59%) and marketing expertise (51%) are the key factors in establishing competitive advantage, though not necessarily areas where they felt they were very effective. The findings of the survey also suggest that a greater emphasis on implementing strategic plans would further improve performance.

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# Executive Summary

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## Strategies for growth

- Managing the product/service mix

The survey results indicate that the Irish technology marketplace is to some degree following international trends, with the consensus being that profit margins on services are increasing at a significant rate, whereas those on products tend to be shrinking. It is therefore surprising that 44% of respondents to the survey state that their strategy is still to grow product revenue faster than service revenue.

While services are making a growing contribution to overall revenues, the findings would suggest that the Irish technology sector has not yet realised the full potential that services have to offer. Strategic planning in this regard seems to be short-term, focusing on exploiting current expertise and ensuring a quick return on product investment, without giving full regard to the potential for profitable services.

- Exploiting e-business

The reality is that the 'e-commerce revolution' is now over and e-business is now a fact of life, and every company must step up to the challenges it poses to traditional business models and strategies. The results of the survey indicate a positive future for the development of Irish technology companies' e-business related activities. Most firms are adopting a co-ordinated approach, following clear strategies, and will focus their efforts on revenue generating potential in the fast-growing B2B market. With e-business firmly established, the success stories of the future are certain to be those companies that have already implemented e-business strategies, and are now addressing m-commerce, which represents the key growth area in the short to medium term.

While critical barriers to growth, namely skills availability and infrastructure, could seriously impinge upon the future prospects of these companies, availability of funding, allayed security fears and Government measures in positioning Ireland as an e-commerce hub are all encouraging factors.

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# Executive Summary

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## Recommendations for positive action

### 1. Lead, don't follow

Considering that Ireland has already created a number of impressive role models in the technology sector, the most startling outcome of the survey is the apparent lack of willingness of most industry players to put in place aggressive, acquisition strategies to guarantee sizeable growth in the future.

There is no doubt that the industry will continue to experience growth in the years to come, but while companies seem content with reacting to market trends, there seems to be a certain lack of vision in directing the course of these trends. In this rapidly evolving marketplace, those that will succeed will be the companies that become thought leaders by:

- a) planning and implementing aggressive strategies, aimed at becoming the key influencer and dominant player in their market;
- b) expanding through active consolidation and acquisition.

It is only in this way that Irish technology companies will be able to successfully meet the challenges of the global marketplace and sustain profitability in the future.

### 2. Combine imagination and reward

The principal barriers to growth identified in the survey were external market factors, which generally cannot be addressed by internal strategies. The exception is the shortage of skills. While this is of course an external factor – one which is being targeted by Government initiatives involving the investment of \*£411 million to develop the necessary technology skills - innovative recruitment and retention techniques are essential to enable an organisation to successfully attract the shrinking pool of talent:

- a) give strategic importance to human resource management, and devote the necessary resources throughout the organisation;
- b) adopt a business development approach to recruitment by developing a real employee value proposition that can be marketed continuously to potential staff;
- c) engage in alternative marketing and promotional activities such as employee referral schemes;
- d) focus on retention – present a package, of which compensation is only one element, that includes training and career progression, aimed at establishing employee loyalty.

\* *Government training and employment initiatives 2000*

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## Executive Summary

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### 3. Combine the physical and the digital

Developing e-business activities may be part of a company's strategy to increase overall revenues, but such investments must be viewed as long-term investments rather than as the key to overnight success. Experience has shown that those companies that succeed at e-business are those that successfully combine elements of the new technology with traditional business models. This combination may involve:

- a) developing a sound business model - creating a physical presence that attracts customers initially, provides service and reassurance, and generates brand loyalty;
- b) identifying e-activities that will add value to the overall business – implementing a strategy that draws on the values of the traditional business and combines these with accessibility and specialised services over the internet;
- c) creating “sticky” loyal customers, motivated to return to the service provider either online or in a physical location, thereby ensuring a recurring revenue stream for both channels;
- d) ensuring that e-business is given strategic importance throughout the organisation, driven from the top.

### 4. Combine products and services

Ireland is not unique – it cannot escape the global trend, which has seen a shift in focus from products to services to ensure sustained growth and profitability in the future.

The key to success will be in:

- a) combining products and services, developing services that will generate revenues that are product-based;
- b) moving up the value curve to provide high-end, differentiated services;
- c) ensuring recurring revenue by creating a strong brand and loyal customers;
- d) evaluating the potential to introduce an “ASP” model.

## Introduction

- Traditionally Irish technology companies have been taught to move from services into product offerings at the earliest possible opportunity. Services were often seen as merely a generator of funding for product development. In recent years, however, this strategy has come under attack and the message is now changing.
- Globally, companies are now waking up to the potential offered by product-related services. In Ireland, shared services are big business, software companies are becoming increasingly aware of the revenue potential from services, and major technology service companies are growing rapidly. As e-business continues to redesign business, services will become increasingly important as a source of revenue for the IT sector.
- In addition the emergence of the ASP model has given greater impetus to the growing services trend.

## Objectives

The objectives of the report are to:

- identify key trends, growth areas and critical issues facing technology organisations in Ireland;
- determine worldwide best practice in technology service companies in areas such as business development, positioning, branding and human resource management;
- make recommendations on how Irish technology companies can optimise profitable growth through services.

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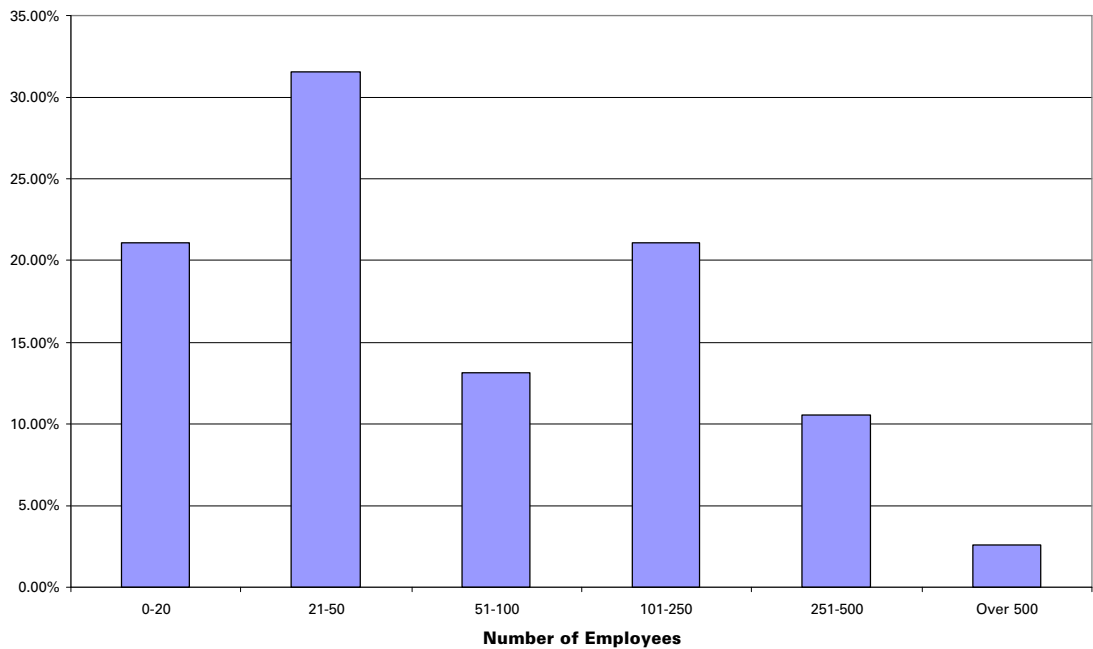
# Introduction

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## The Irish experience

- In order to capture the Irish experience, surveys were sent to over 700 technology organisations in Ireland to elicit their views on management practices, strengths and weaknesses, perceived facilitators of and barriers to growth, and to ascertain the importance of services in their overall product mix now and in the future.

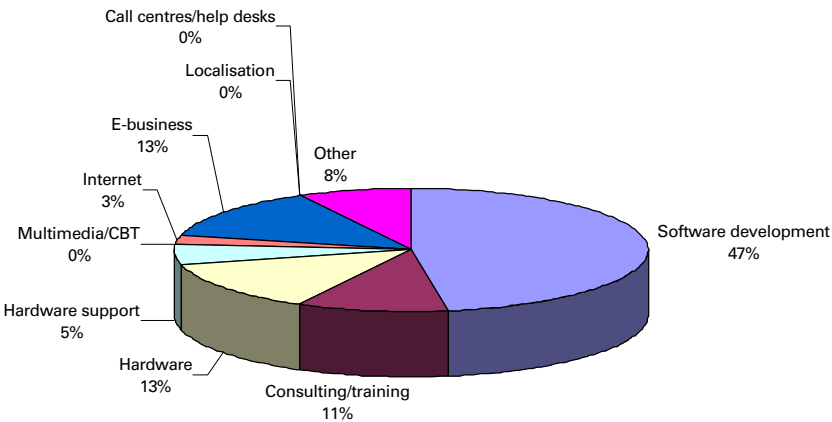
**Number of employees by respondents in 1999**



# Introduction

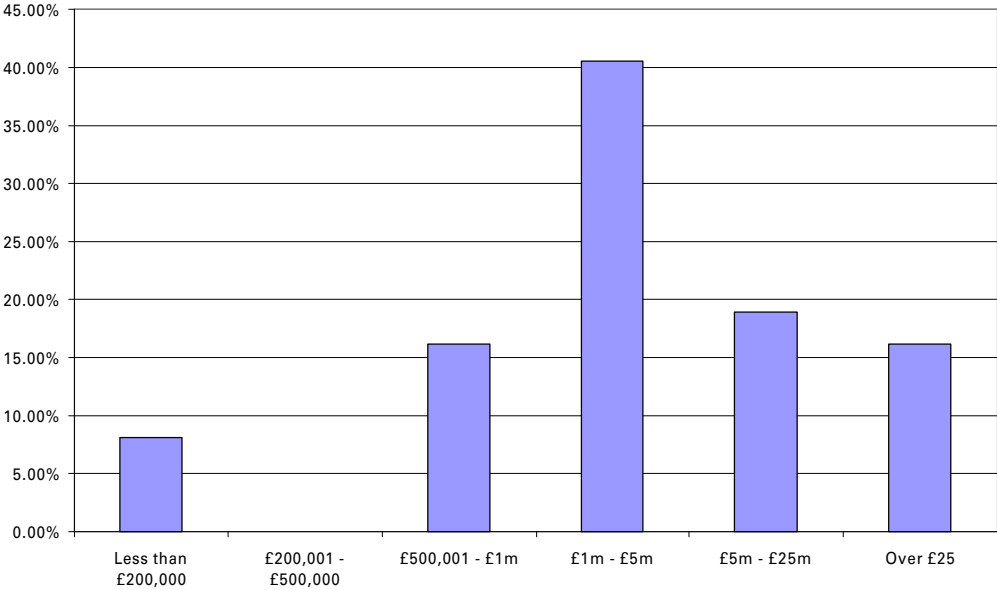
- Responses were received from a broad cross-section of Ireland’s leading technology companies, representing the full range of sectors within the market from software development (47%) and hardware (13%) to e-business (13%). The sample included established organisations as well as new technology companies with few staff.

### What would you describe as your core business?



- The responses portrayed a positive image of the industry financially, with 35% indicating turnover of over £5 million in the last financial year. Of these, 16% achieved revenues of over £25 million. Most companies (40%) reported turnovers of £1 million to £5 million.

### Company turnover estimations



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## **Introduction**

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- Revenue growth is characteristic of the industry, with all companies confirming an increase in turnover from the previous year. 14% of respondents experienced an increase in earnings of 51 – 100%.
- One quarter of respondents generated revenues solely from the Irish market with Europe also representing a significant source of revenue for the industry. Reflecting perhaps the high market entry costs in the US, only 8% of respondent companies generated more than 60% of their earnings there and these tended to be the largest organisations. The survey results would also seem to suggest that Irish technology companies have yet to seriously address markets outside Europe and the US.

### **Strategies for growth**

Prospectus has drawn on the results of the survey, an analysis of worldwide best practice in technology service companies in areas such as positioning, branding and human resources, and its own expertise in the service sector, to identify key areas of growth for Irish technology companies. Emphasis has been placed on positive actions to be undertaken to ensure successful and profitable growth.

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# 1. Rapid growth - facilitators and barriers

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## Recognising an obvious asset

When analysing the factors affecting an organisation's ability to grow, companies naturally examine a range of internal issues and external market conditions. Topics such as strategic planning, organisational effectiveness, finance and human resources inevitably receive attention, but it is surprisingly easy to miss one obvious facilitator of growth:

**Ireland as a location, together with its international business culture and its positive Government, represents a major facilitator of growth for the technology industry.**

- Positive Government factors include:
  - Major commitment to the information and communication technology industry. The identification some 25 years ago of the potential of the IT sector for Ireland gave the country 'first mover' advantage in attracting foreign direct investment and developing indigenous expertise.
  - £18 million of EU structural funds have been allocated to provide nationwide broadband connectivity, while an agreement reached with Global Crossing will produce an advanced broadband network connecting Ireland with 36 European and US cities.
  - Support for the indigenous industry has been shown through the implementation of specific funding initiatives aimed at creating a best practice technology community.
  - Recognising the importance of maintaining a competitive edge, the Government actively promotes innovation and has allocated significant funds to research and development in educational establishments and within companies.
- With English being the recognised international business language, Ireland is in a unique position as the only English-speaking country in the Euro zone.
- Ireland has an export culture, and a strong foreign investment base. Ireland is now the largest exporter of software products in the world.
- Government policies have succeeded in attracting the major US technology players. The prevalence of these companies has had a knock-on effect on business practices in general, with the result that the established model of doing business in Ireland is now the US model.
- There are currently in the region of 60 spin-offs per annum from multinationals and larger indigenous companies. This fuels market growth, and leads to the development of a strong indigenous industry, which has brand and profile in international markets.

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# 1. Rapid growth - facilitators and barriers

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- Ireland has produced its fair share of role models, such as IONA Technologies, Baltimore Technologies, and Trintech. The success of these companies acts as a huge incentive and stimulus to the industry in general – the above-mentioned companies, were cited by respondents to the survey as being the most admired technology companies operating in Ireland, ahead of multinationals such as Intel, Microsoft and IBM.

## Gearing up for growth

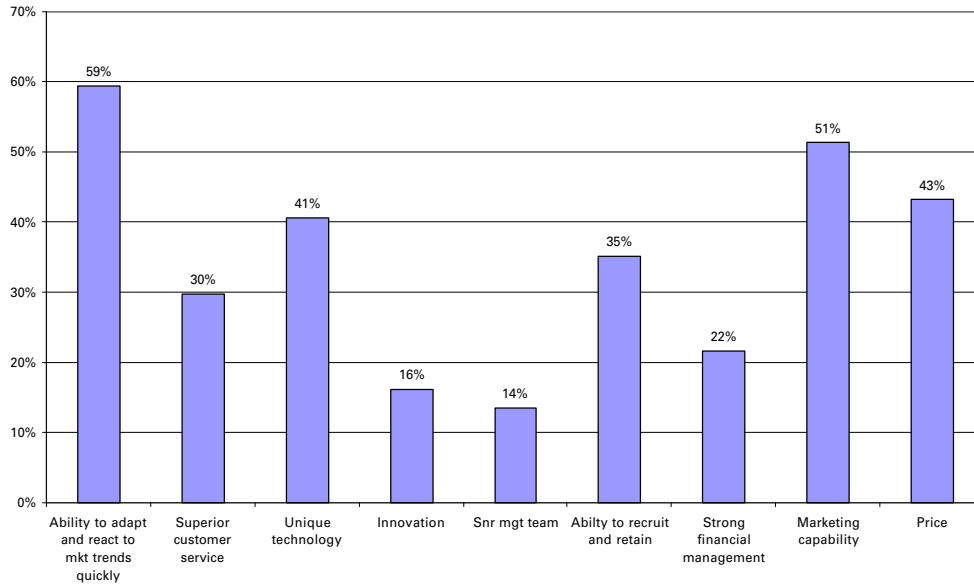
In a marketplace gaining new entrants at an almost exponential rate, an organisation's flexibility and its competitive advantage are the keys to growth and success, both nationally and internationally.

**Ability to adapt and react to market trends quickly was identified as the key competitive advantage of Irish technology companies.**

- While respondents considered themselves very able to adapt and react quickly to market trends – almost 60% regard this as their greatest competitive advantage - it is disturbing that only 16% rate innovation as providing competitive dominance. With over 40% believing their unique technology to be an asset, and 76% considering their organisation to be very effective in terms of innovation, there is an obvious need to take advantage of this expertise. With the implementation of innovative and aggressive strategies, these companies can establish themselves as market leaders rather than followers.
- Marketing strength was rated by over 50% of respondents as a major source of competitive advantage. However, there is general recognition of the need to improve effectiveness in this area, as less than 40% of companies rated their performance in this activity positively.
- Price is an important part of the marketing mix in the technology sector, with 43% of respondents listing price competitiveness as a major competitive advantage.
- A commitment to customer service will need to play an increasingly important role in the technology sector if the market is to move from a product-orientated to a service-driven industry. This needs to be given strategic importance throughout the organisation in order to establish market dominance. While over 64% of respondents considered they provided excellent customer service, only 30% saw their superior customer service as a source of competitive advantage.

# 1. Rapid growth - facilitators and barriers

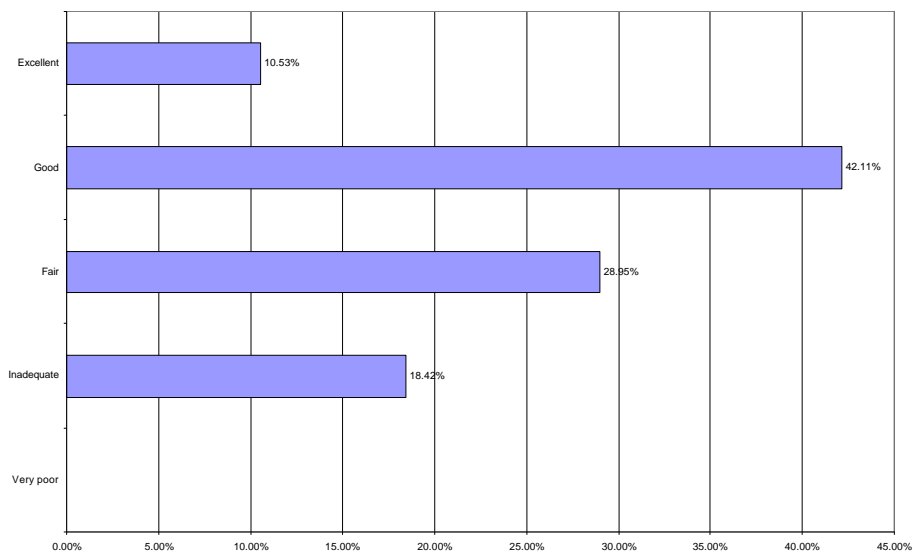
## What are your company's key competitive advantages?



**Irish technology companies need to review their effectiveness in key management areas and to ensure they have a strong, well-balanced management team.**

- Irish technology companies recognise the importance of strategic planning, with almost 80% of respondents confirming that they develop such plans. However, there appears to be a need for improving expertise in this area - 47% of companies rated their ability in strategic planning as only 'fair' or 'inadequate'.

### Assessment of strategic planning ability



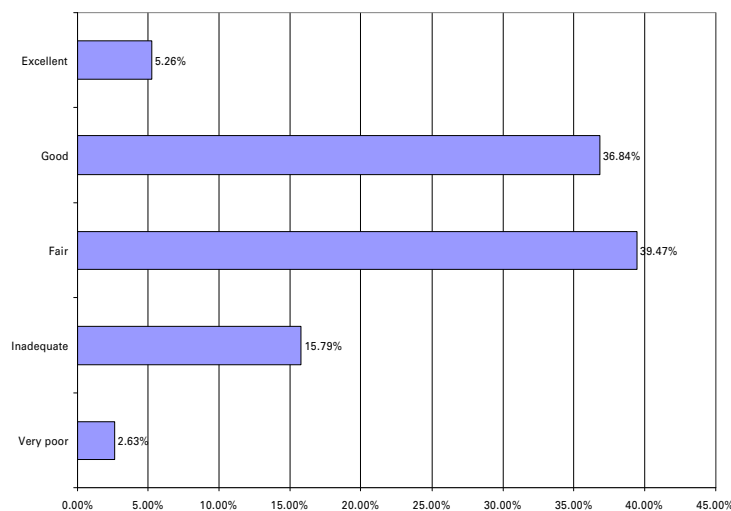
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# 1. Rapid growth - facilitators and barriers

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- The corollary of strategic planning, namely strategic implementation also needs to be addressed by companies in this sector. Only 42% of respondents advised that they had developed and successfully implemented a strategic implementation plan to accompany their strategic plans.

## Assessment of strategic implementation ability



- Human resource management needs to be addressed on a strategic level. An organisation can only be as good as the people it employs, and a move towards a service industry puts increasing demand on the need for talent. Over 55% of respondents rated their effectiveness in human resource management positively, and 35% even considered their ability to recruit, develop and retain key skills to be a competitive advantage.
- While this would seem to contradict the general view that the skills' shortage is the main barrier to growth, it does prove that the implementation of human resource and management development tools can positively affect an organisation's ability to compete. Many companies appear to have successfully implemented development tools in this area – for example, over 60% of companies carried out training needs analyses and formal performance appraisals.

**The skills' shortage continues to be the single most significant barrier to growth, resulting in CEOs spending an enormous amount of their time on the attraction and retention of staff.**

- With 60% of respondents citing the lack of skilled employees in Ireland as a major obstacle to growth, and 50% considering that the scarcity of suitable skills seriously hinders international expansion, recruiting talented people is the major issue facing technology companies. Retaining such talent represents an additional challenge. These issues are expanded upon in Chapter 4.

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# 1. Rapid growth - facilitators and barriers

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- Other market conditions in Ireland pose serious barriers to growth, in particular infrastructure and cost competitiveness. Traditionally a low cost location, Ireland's spiralling inflation rates are beginning to erase the advantageous conditions of the past decade. With wage costs being driven upwards due to shortage of supply and rentals doubling over the past five years in many locations, basic expenditure demands are negating the tax benefits.
- In the last couple of months a number of companies have laid off staff in Ireland citing the spiralling staff and other costs as the reason for exiting. While staff costs may be a serious issue for multinationals, they must be recognised as representing a far greater challenge to indigenous companies who do not have the ability to move to the next low cost location when staff costs increase in Ireland.

**Access to funds and distribution channels are no longer viewed as serious impediments to growth.**

- In order to exploit opportunities and fund international expansion, access to financing is a critical issue. The success of companies in raising funding and going to IPO in the last few years have obviously filled the sector with optimism, with less than one third of respondents concerned that they would have inadequate finance to fund expansion. Ireland as a source of venture capital/funding is viewed positively by respondents.
- In its 1997 report 'Strategies for growth', Prospectus found that Irish software companies were greatly concerned by their inability to access suitable distribution channels abroad. This is fast becoming less of a problem, with only 26% of technology firms now considering this to be a barrier to international expansion.
- Despite the perceived problems with infrastructure and cost competitiveness, the industry remains positive about the Government's support, their legislative stance and tax structures.
- Most Irish technology companies are positive about the prospects of international expansion, and do not consider there to be many internal barriers to growth. 44% of companies believe it to be a priority of management, and 47% are confident that they have adequately researched overseas markets in terms of competitor analyses and entry strategies.

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# 1. Rapid growth - facilitators and barriers

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## Best practice – Sun Microsystems

- Sun Microsystems, Inc. has long been synonymous with leading edge technology. 18 years after telling the world 'The Network is the Computer,' Sun is poised to become the leader in the emerging network-driven economy. Their current marketing campaign is targeted at the media sector, where interactive TV and broadband access will finally converge, resulting in increasing demand for servers.
- Five years ago, Sun made three critical bets, that were either going to break the company or propel it into the first tier of Tech companies – those bets were on the internet, bandwidth, and network services – very good bets, as it turns out. Sun is now making three new wagers:
- First of all is **massive scale**. With the internet growing by 147,000 new users a day, 196,000 new access devices, and 2 million new web pages, billions of dollars of transactions will soon turn into trillions. Those companies that can 'scale up' rather than 'scaling out' will reap the rewards. Sun is actively designing and creating systems to handle billions of devices and millions of simultaneous users.
- Bet number two: **continuous real-time computing**. Through the use of wireless and optical networks, people will be continuously connected to the net, regardless of where they are. People now want and demand instant access to information, communications, and other services at all times. The day of undertaking maintenance on a Saturday morning are now gone. The challenge going forward is to design software, build systems, and provide support services that eliminate downtime and deliver real time responsiveness. Sun has developed rigorous standards for building and maintaining a highly reliable, highly scalable service delivery environment.
- Bet number three: **the integrated stack**. Sun's belief in massive scale and continuous real-time service requires that the backend system be an integrated hardware and software stack. Microprocessors, storage and system software will all need to be seamlessly integrated – much like telephone switches today.

Sun has, through successful marketing campaigns ('we're the dot in.com'), positioned itself as the preferred business partner in today's digital economy. However, its success is not based solely upon clever marketing but in seeing and realising a future that has not yet come to fruition.

Any company that can prophesise a vision – and then actively pursues it - is a company worth doing business with. In creating and seeing a vision of how the world might look in twenty years, Sun is attempting to make that vision a reality, thereby ensuring its long-term growth.

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# 1. Rapid growth - facilitators and barriers

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## **Be a thought leader**

- The Irish technology industry has experienced immense growth over the past two decades, and the combination of technological expertise, effective business planning and external incentives will continue to push growth upwards.
- However, it is evident that, to date, there have not been enough companies prepared to implement aggressive acquisition and consolidation strategies, which would see them leading the field in their particular sector. Too many companies have been happy to grow to the point where they represent an attractive take-over or acquisition target for other companies. We need more 'consolidators'.
- In this rapidly evolving marketplace, those that succeed will:
  - plan aggressive strategies, aimed at becoming the key influencer and dominant player in their market;
  - take 'first mover' advantage by implementing such strategies, enabling them to capture market share
  - aim to grow by consolidation and acquisition.

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## 2. Strategy for growth - product or service?

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### Introduction

- Traditionally the best strategic advice has always been to concentrate on products, rather than services, as a means of becoming a global player in the technology industry. The reasons for such a recommendation were simple:
  - there were less human resource demands;
  - there was a greater ability to partner and to leverage a fluid network of alliances globally;
  - the marketplace was so new that products generated acceptable profit margins on their own.
- Recent experience suggests, however, that technology companies are now looking to services to drive growth and sustain their profitability in the future. A number of factors have resulted in the upsurge in service provision:
  - product margins are shrinking as markets become more mature and competitive;
  - as product differentiation becomes increasingly difficult, companies are experiencing a lack of sustainable competitive advantage;
  - the global trend towards outsourcing and ASP models are fuelling the demand for services.

### Are Irish companies facing up to the services challenge?

- In this survey, particular emphasis was placed on understanding the evolving importance of services to the industry here. Specifically, the research sought to establish whether similar trends were emerging in Ireland as are being experienced internationally, and whether Irish technology companies were maximising the profit opportunities offered by services.

**Research results indicate that the Irish technology market mirrors international experience in terms of profitability of products and services.**

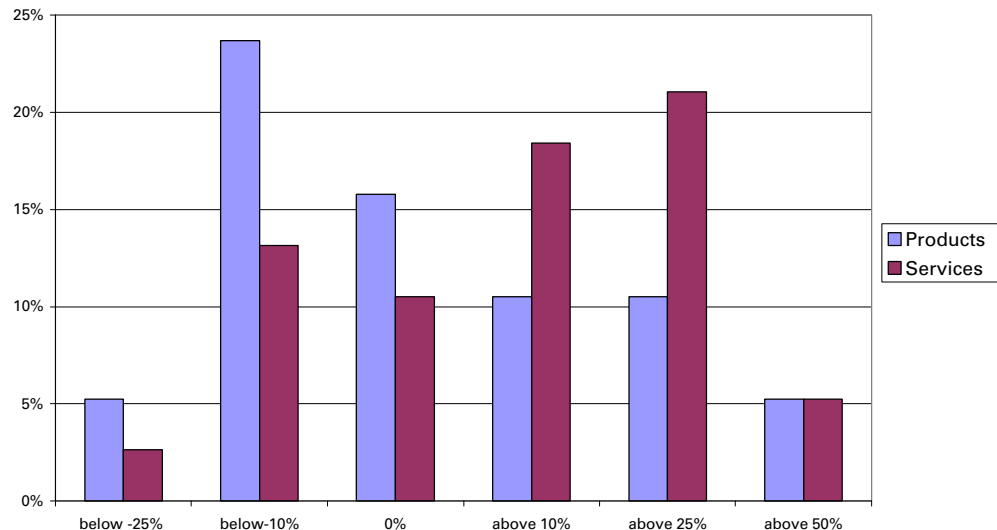
- Technology companies in general report a greater increase in gross profit margins on services, with one quarter confirming a growth in margin realised of over 25%. Only 15% believed margins on service provision to have decreased over the past two years.
- The current view internationally that many products are becoming commodities, yielding decreasing profit margins, is validated, with 44% of respondents reporting either no increase or a significant decrease in margins in this sector.

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## 2. Strategy for growth - product or service?

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**Gross profit margin change in the last two years for IT products and services**



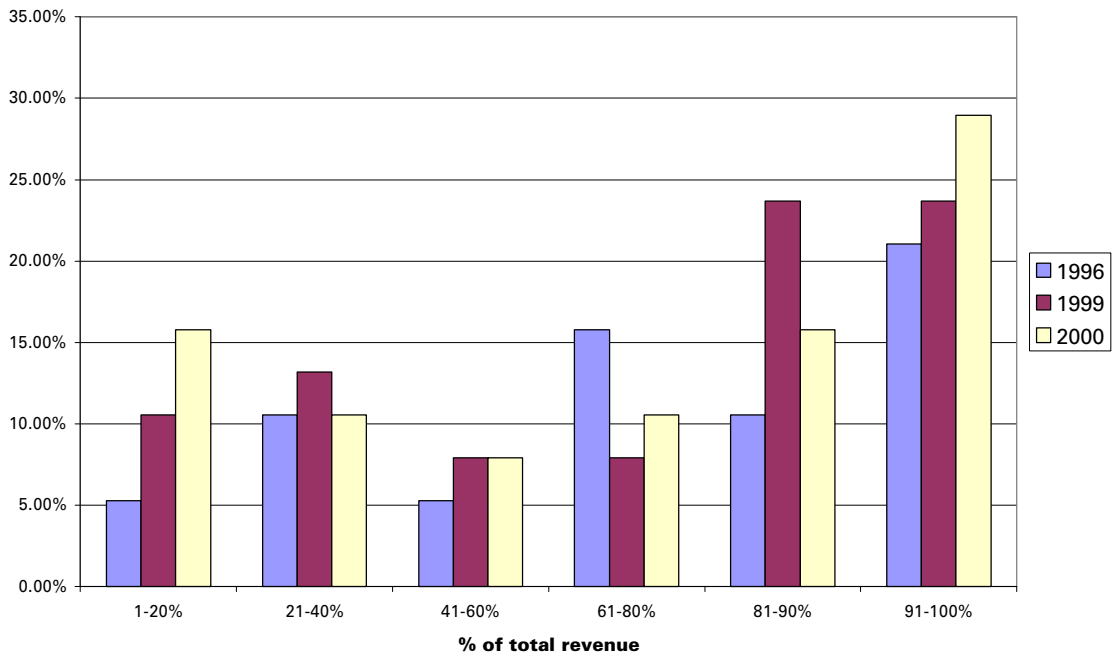
- The fact that one quarter or respondents confirmed an increase in gross profit margins on products in recent years proves that revenue-generating opportunities still exist in this sector, at least in the short term. Such companies must now address whether they can sustain these profit levels into the future, given international experience.

**The Irish technology market is not yet exploiting the services sector to its full potential.**

- The percentage of total revenue generated by technology organisations from service provision has been increasing in recent years, but this growth is steady rather than dramatic. There is no proof that Irish based companies – other than those already offering services almost exclusively – have implemented extensive policy changes shifting the emphasis from products to services. This is despite the fact that the chart above clearly shows how service margins are growing considerably faster than product margins.

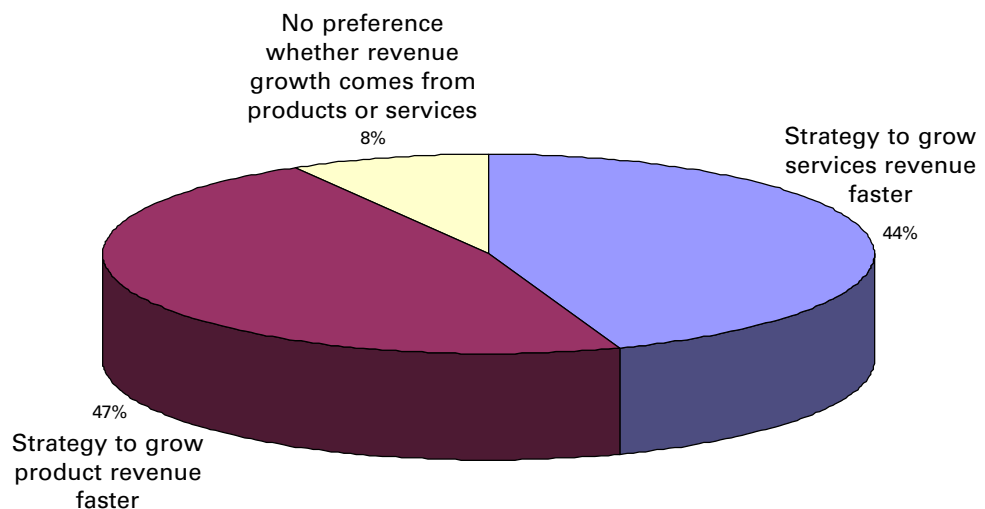
## 2. Strategy for growth - product or service?

**Percentage of revenue generated from service provision**



- Regarding plans for growth into the future, the Irish technology market is split, with almost an equal number of respondents intending to expand revenue faster through products as those expecting to increase earnings more quickly through services.

**Is your strategy to grow product or service revenue?**



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## 2. Strategy for growth - product or service?

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- Regarding plans for growth into the future, the Irish technology market is split, with almost an equal number of respondents intending to expand revenue faster through products as those expecting to increase earnings more quickly through services.
- These figures indicate that many operators appear to have short-term strategic objectives, endeavouring to maximise revenue potential in the market sector in which they currently have particular strengths.
- Many of those companies intending to grow revenues faster through products do so with a view to exploiting their experience and to securing an economic return on investment in product development. Service-orientated organisations, with some exceptions, are not adopting the traditional business practice of using revenues generated by services to fund product development.
- The skills' shortage – identified as the single greatest barrier to growth by Irish technology companies – it a critical factor for companies choosing to prioritise services. The increased demands for skilled labour, and the skill intensive nature of the service side of business pose a serious deterrent to developing a services business.
- The research suggests that the Irish market is not moving in line with international trends in terms of giving services greater focus and the excuse is the shortage of suitable staff. Naturally, certain companies already generate the majority of their earnings from services, and will continue to reap the rewards of increased profit margins. Product developers will come under increasing pressure to generate new and innovative products that will not be price sensitive, and that can bolster waning margins on other products that have become commodities.
- Irish technology companies have rated their ability to adapt and react to market trends as their greatest competitive advantage. The time has now come for these organisations to prove this and to seriously consider international trends with regard to service provision. The challenge will be for them to develop and implement long-term strategic plans enabling them, where appropriate, to combine products and services, and to maximise revenue potential. This will particularly be of critical importance to those organisations targeting the US marketplace.

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## 2. Strategy for growth - product or service?

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### **Best practice - IBM**

- Old 'Big Blue', the veteran of the IT sector at 87 years old, recently managed to transform itself - or part of its operation - into a start up, called the 'Global Services' division.
- The 'start-up' is now being used to drive the entire operation into the internet age. IBM's real product having always been hardware, the corporation took the route of developing software that could be tied closely to its hardware. While things looked bad for the hardware giant a few years ago, its Global Services arm is now performing very well.
- Officially formed in 1991, the Global Services Division turned in initial revenues that year of \$4 billion. In 1998, the division was responsible for generating \$13 billion of the corporation's overall revenue of \$79 billion. 1999 revenues for the services arm are expected to reach \$33 billion.
- It is expected that the services arm will continue to grow at double-digit rates and, at that pace, the service revenue could surpass product revenue shortly. With higher gross margins - 27.6% versus 25.2 % for hardware - it is fast becoming the profit engine of the company.
- The division has succeeded in implementing a very effective brand building strategy. In 1997, it redefined the focus of its business to 'e-business solutions' - i.e. putting businesses on the web. The company 'e-culture campaign' focuses on solutions rather than hard sell of its products, featuring many of its clients with the IBM component very subtly represented. It also shows that e-business is real, and services make money.

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## 2. Strategy for growth - product or service?

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### The way forward

- Internationally the market has undoubtedly shifted from a pure focus on products to developing closely related services that will ensure sustained growth and profitability in the future.
- It is recommended that organisations look to develop services that will generate revenues that are product based. The key to success will be in differentiation – companies must progress up the value curve, providing services that are unique and high-end. ‘Me-too’ service providers will not survive in a marketplace characterised by discerning users.
- Ensuring a continuous service revenue stream is critical. As well as increasing the client base, companies must create brand loyalty, thereby motivating recurring revenue from loyal customers.
- While the industry emphasis has switched to services, companies that traditionally concentrated on products should recognise the significant difficulties in achieving the same profit margin in the early stages:
  - to get a return on investment in product development, product sales need to be generated – shifting the focus from products will affect the rate of return;
  - services are labour intensive – the additional human resource requirements nationally and globally make it difficult to achieve scale;
  - the industry is experiencing a skills’ shortage on a global level, making recruitment and retention of talented employees increasingly difficult and costly.

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### 3. E-business opportunity

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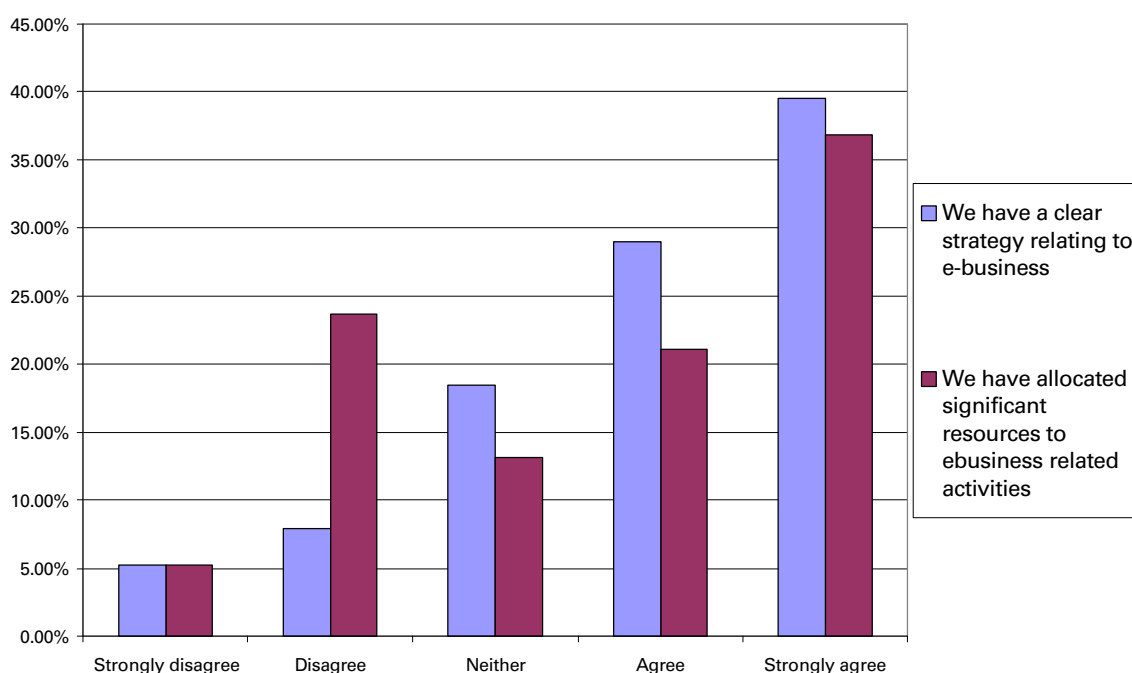
#### E-business – real opportunity, here and now

We have now passed the point in time when it was relevant to discuss the emergence of e-business. E-business is now a fact of life - it is dramatically changing the traditional business models and strategies of all companies, and will radically transform the way we work. The organisations that will succeed in this changing environment will be those that combine traditional business approaches with online strategy, and who are able to cope with the mix of cautiousness and speed of change that now characterises the market.

**Results show a significant endorsement of the opportunities e-business has to offer Ireland, and the development of the Irish technology sector.**

- 74% of respondents confirmed that e-business represented a very significant opportunity for their companies, and some 68% advised that they had a clear strategy in place for progressing their e-business-related activities. Only 12% of companies said that they had not yet allocated very significant resources to this area, while a mere 5% of firms are currently adopting a 'wait and see' approach to e-business. Surprisingly, some 24% of companies feel that e-business represents a threat to their core activities.

**Extent of companies response to E-business**



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## 3. E-business opportunity

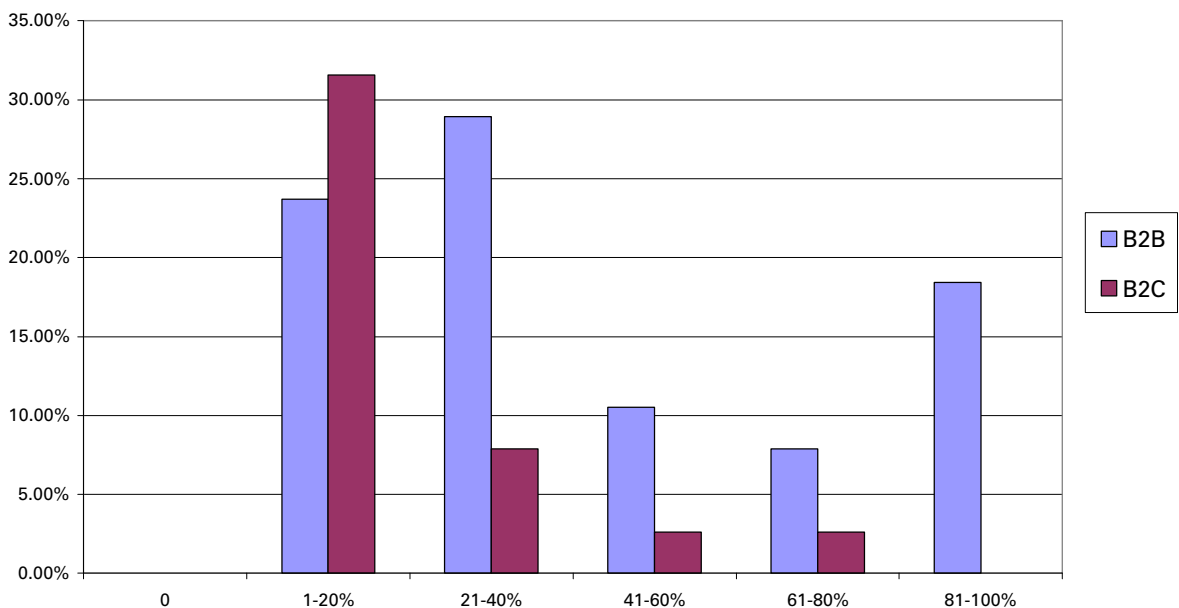
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- These findings mirror recent research from Enterprise Ireland, which indicated that 90% of Irish companies believe e-business will become increasingly important to them, and that some 70% have begun to put e-business strategies in place. The expectation would be, however, that companies in the technology sector would have a greater appreciation of the potential opportunities of e-business.

**E-business related activities, particularly B2B, will account for an increasing percentage of overall earnings in the short-term.**

- The acceptance by a majority of companies of the absolute need for a dedicated e-business strategy is encouraging. The importance of this area to companies is further witnessed by the enhanced contribution e-business related activities are expected to make to overall company revenues in the next two years.
- In line with international e-business trends, and with those of the overall market in Ireland, priority is being given by technology organisations to business to business (B2B) activities. 37% predict that over 40% of their companies' revenues will be generated by B2B e-business activities in 2002. Nearly one fifth (18%) believe that these activities will be responsible for some 81–100% of overall revenues. Business to consumer (B2C) e-business is of lesser importance, with 38% of respondents stating that less than 40% of total earnings will come from this sector.

**% of total revenue expected to come from e-business related activity in 2002**



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### 3. E-business opportunity

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**E-business development is facing major obstacles, the most significant being the shortage of skills and inadequate telecommunications infrastructure.**

- Although the industry is generally positive about the opportunities offered by e-business, respondents confirmed the existence of certain barriers to expansion. The most significant barrier is the shortage of skills, identified by 53% as an obstacle to increasing e-business activities. This issue, which can be described in terms of a global crisis for the IT industry, will seriously affect a company's ability to develop and implement an effective e-business strategy, and requires an innovative approach to recruitment and retention (see Chapter 4).
- The Irish telecommunications infrastructure was identified by 34% of respondents as a major barrier to expanding their e-business activities. The technology sector is not alone in its view in this regard – similar sentiment has been expressed at an industry wide level recently by IBEC, the Small Firms' Association and the Chambers of Commerce of Ireland.

**Funding and security are no longer perceived as major barriers to e-business growth.**

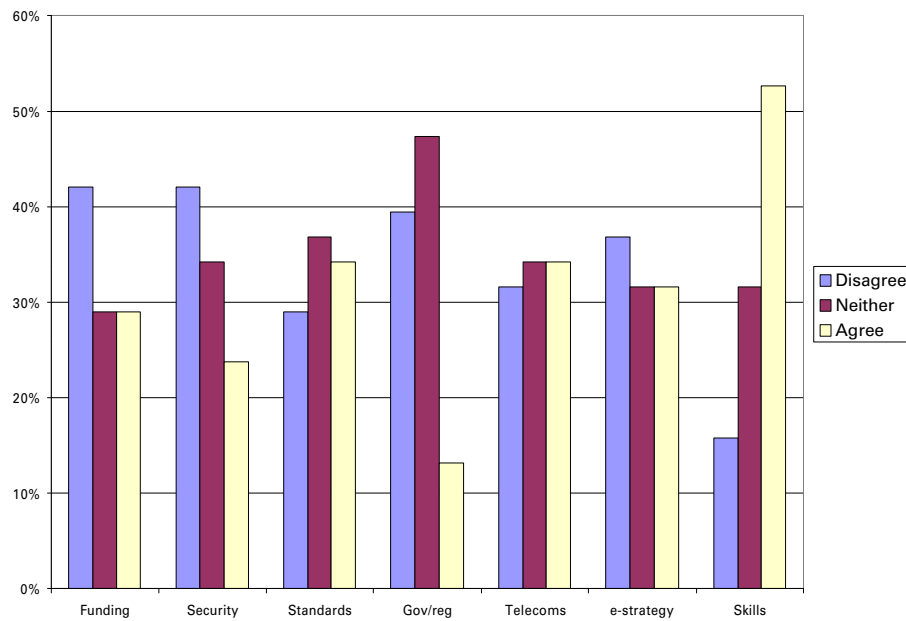
- Significantly, the availability of funding – identified as a key problem area in Prospectus' 1997 report entitled 'Strategies for growth – The Software Industry in Ireland' – is no longer viewed as a barrier, with almost 50% of companies stating that this was not a limiting factor in developing their e-business activities.
- While security is often cited as a concern in e-business, this has greater repercussions for B2C rather than B2B activities. Irish technology companies, concentrating their efforts primarily on B2B e-business, are not overly concerned with security - 42% strongly disagree that e-business security is not sufficiently developed.

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## 3. E-business opportunity

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**View of major barriers to the growth of e-business**



**While recognising the existence of key limitations, the technology industry believes that Ireland will achieve the Government's objective of becoming an e-commerce hub.**

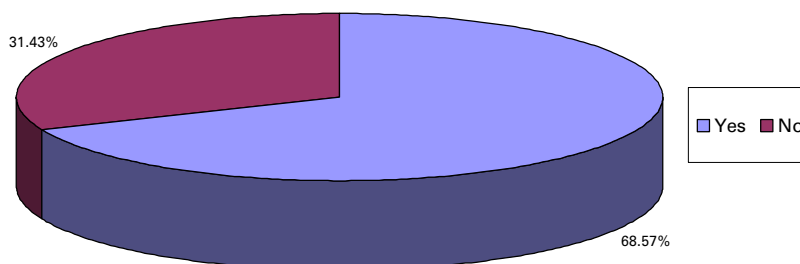
- The reality of e-business in Ireland is that it is here to stay and is growing at a dramatic pace. The Government's objective in this regard - to actively pursue the positioning of Ireland as a global leader in e-commerce in order to ensure the country's continued prosperity and competitiveness in the future - is instrumental to such growth.
- The Government received a vote of approval from 69% of respondents, who believe that its objective of making Ireland a global leader in electronic commerce can be realised. 31% disagreed, believing that the factors necessary to create international competitive advantage were not in place in Ireland.

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### 3. E-business opportunity

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**Do you believe Ireland will achieve the Government's objective of becoming an e-commerce hub?**



- The conviction that Ireland can become an e-commerce hub generally stems from the belief that the presence of the major international players in the electronics, software and teleservice sectors - attracted here through IDA and Government incentives – will be the driving force.
- With established manufacturing or service facilities in Ireland, many of these companies have made the progression to e-business activities from their Irish base, and this has served to enhance the image of the country as an e-commerce site. The challenge for the Government will be to attract new investment into the country for e-commerce intensive operations.

**The key factors critical to achieving the Government's aims - skills, telecommunications infrastructure, cost and investment – remain major concerns of the Irish technology industry.**

- Despite Government assurances that, through a policy of targeted expenditure (£411 million) for the development of skills in information technology, Ireland will continue to be at the forefront in terms of having a skilled labour force, the industry remains seriously concerned by the tightening labour market. Certain companies believe in Ireland's ability to produce the necessary skills, but the majority feels that the shrinking pool of talent and the increasing labour costs will prevent Ireland from becoming a true e-commerce hub.

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## 3. E-business opportunity

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- Although the Government has recognised that a modern, liberalised telecommunications sector is a pre-requisite to making Ireland an e-commerce hub, this is viewed by respondents as a key restriction impacting on the Government's ability to achieving its e-commerce aims. Despite having a liberalised market, controlled independently of Government by the Director of Telecommunications Regulation, the industry is still viewed as bureaucratic and costly with limited capacities. Changes in regulatory control and implementation of measures to increase both national and international bandwidth will create better market conditions. Cost continues to be an issue, despite the effect of competition and recent reductions in local call charges.
- The Irish corporate tax regime is seen as one of the most positive factors in favour of the Government achieving its e-commerce aims. However, Ireland's cost competitiveness in general is coming under increasing criticism. Spiralling inflation rates have resulted in greater costs across the board; the increased demand on a decreasing number of skilled employees has driven salaries upwards; and the lack of availability of suitable business accommodation has led to rents doubling in recent years. Ireland's reputation as the most cost-effective business location has become questionable.
- While corporate tax rates are viewed positively, there is criticism about personal tax rates and their effect on the industry's ability to attract employees. At present, employees are taxed twice on any gains made from stock options - income tax and capital gains tax on disposal. In the US, the UK and other major European countries, stock options are only taxed at the prevailing capital gains rate. Given the other perceived barriers to Ireland being an e-commerce hub, personal tax rates are an issue that the Government could redress quickly.
- Respondents had a mixed impression of the Government's commitment to investing in Ireland as an e-commerce hub. While some expressed approval of the initiatives undertaken, others dismissed the investment as 'too little, too late'. In one instance, it was suggested instead of investing £500 million in e-commerce and £2.5 billion in paying off the national debt, the Government should reverse these figures, with the result that national debt would then become a much smaller percentage of GDP. The pace of the e-commerce revolution necessitates instant action if companies are to maximise revenue potentials - the Government cannot afford to adopt a wieldy, bureaucratic approach to regulatory and funding issues.

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### **3. E-business opportunity**

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**With e-business firmly established as a given in today's business environment, the more aggressive thought leaders will now target mobile commerce and other new forms of online commerce.**

- The reality of the e-commerce revolution is that e-business is now essential to continued growth. With previously perceived barriers to developing e-business now being removed – namely security issues, availability of funding, and upgraded broadband capabilities – even the most hesitant organisations no longer have any reason not to plan and implement e-business strategies.
- Looking to the future, the companies that are likely to forge ahead in exploiting information and communications technology are those that have already implemented e-business strategies, and are now addressing m-commerce. Of particular interest to the investment community currently, m-commerce represents the key growth area, and those organisations planning m-commerce strategies now will stand to reap the rewards in the short to medium term.

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## 3. E-business opportunity

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### **Best practice – Custom Store International**

Dublin-based Custom Store International are specialists in made-to-measure shirts and suits. Established in 1993 as an in-store retail operation, it has since developed into a successful online and offline made-to-measure franchise business.

Their success is a result of two major factors:

- a) implementation of an effective business model;
- b) effective combination of the physical business with their online service.

- Custom Store International's business model focused on building a physical customer base; providing a quality service aimed at encouraging repeat purchasing and creating customer loyalty; and expansion through franchise partnerships with tailors with local knowledge.
- The first element of the business model was to generate a customer base. Since its inception, Custom Store has developed a client base of 2,500 regular customers. Customer loyalty has been ensured by offering choice, quality and service – once the consumer has made an initial purchase, measurements are kept on file, facilitating repeat orders.
- The second element involved expansion through franchises, combining in-store and online facilities. Custom Store developed the ShirtWare System - a website and kiosk that displays all possible combinations of styles and colours in a choice of 700 different fabrics. For about £7,500, tailors purchasing the in-store franchise receive a retail unit, which contains physical shirt templates and material samples, as well as a computer containing the ShirtWare System software comprising style, size, fabric and colour details. This software is also on the Custom Store's website.
- Customers who have made initial purchases in-store are directed, upon receipt of their shirts, to the company's website for repeat orders. Confidence in using the online service is greatly increased, once customers have access to a local physical presence, to whom they can return should they experience any problems. Franchisees are also keen to encourage online purchases - for every shirt that a customer buys online, the tailor that originally sold to the customer gets £20, without having to facilitate the repeat sale.
- The business model that Custom Store has created could be applied successfully to many industries. The levels of personalisation and ease of access that the internet allows, and the confidence brought about by a local presence, have been combined in a model that is cost-effective for the service provider and the client. Custom Store's experience proves that the winning formula lies in combining the best elements of the physical and digital worlds.

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## 3. E-business opportunity

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### **Taking the first steps towards e-business**

Creating a successful e-business strategy needs careful planning and implementation. There are, however, some basic steps that should be followed when contemplating an e-business strategy:

- Examine the existing business strategy
  - Before considering an e-business strategy, examine every aspect of the existing business model. Address any problems before implementing an online service. There is no point in putting a “sick business” online - if it doesn’t work offline, it won’t work online.
- Combine the physical and digital world
  - Both physical and e-activities will add value to the overall business. The key to success is identifying the positives and negatives of each, and finding the optimum mix of traditional and online business approaches.
  - Be prepared to have a physical presence at some level. There are still significant obstacles to shopping in cyberspace, and online users are reassured when they can relate to a trusted physical brand.
- Register global and national domain names
  - A global domain name is essential - preferably .com, which is still the most prestigious, and the domain under which potential clients are most likely to search.
  - National domain names should be registered in those countries where a local presence is planned, or where local customers need greater reassurance.
- Build a secure and scalable solution
  - Infinite amounts can be invested in developing an e-business - avoid developing a service that cannot cope with expansion.
  - Identify initial requirements in terms of concurrent users, but ensure that the scale of the system is such that future levels of simultaneous users can be handled.
  - Define the nature of the business and the perceived risk in doing business online, and implement appropriate security levels. Reassurance regarding security will be the key to getting customers online.
- Start with a pilot
  - Success is not automatically guaranteed. Do not risk generating huge losses, damaging the company’s reputation or alienating clients through poor service by launching an all-encompassing e-business initiative from the start. Select an area that is not mission-critical and test accordingly. Learn from the experience and make the necessary improvements before extending the service.
- Allocate dedicated resources
  - The website is the public face of the company. It will establish corporate identity, consolidate/redefine brands and increase sales and profits. Planning, developing, implementing and maintaining an e-business strategy requires dedicated resources and the acquisition of new skills.

**Most importantly: E-business must be a Boardroom topic, driven from the top**

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## 4. Recruitment and retention

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### A widespread problem requiring a special solution

**In a people-orientated, service driven industry such as IT, the problems being faced in staff recruitment and retention are at crisis levels and as outlined previously represent the most significant obstacle to growth.**

- It's a seller's market nowadays. The fears expressed a number of years ago - that the ever-increasing demand for quality employees may mean that demand could soon outstrip supply - have been realised. CEOs are now complaining that finding and retaining key talent is one of the most difficult tasks they face every day. Many CEOs are spending 35% of their time on "people" issues.
- Much has been written in recent months on the difficulties being experienced currently in the Irish labour market. Unemployment, at 4.4%, is at an eighteen year low, there is a recognised shortage of skills, wage costs are rising, and yet business is booming. Organisations are obliged to invest heavily in human resources management in order to attract and retain a shrinking base of essential skills.
- The situation is not unique to Ireland – research by the American Management Institute in 1999 found that with 190,000 job openings in the US, there were only seven candidates for every ten positions. Nor is it industry specific, but the demand for information technology talent is especially high, and the short supply is making the recruitment and retention of technology professionals increasingly difficult.
- Companies worldwide have recognised that it is not sufficient to engage talent. Such talent must be nurtured and developed, and encouraged to stay. With the estimated cost of replacing a staff member running to up to four times the staff member's salary, attention is being turned to innovative retention techniques.
- Recent studies have also indicated that money alone is not sufficient to keep key people. Companies are being put under increasing pressure to meet staff needs in terms of employee development and career succession. These elements need to become standard elements of every company's human resources management plan.
- The key organisational change required, in order to address the worsening problem, is to see human resources management as a strategic element of the business, and to devote the necessary resources throughout the organisation.

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## 4. Recruitment and retention

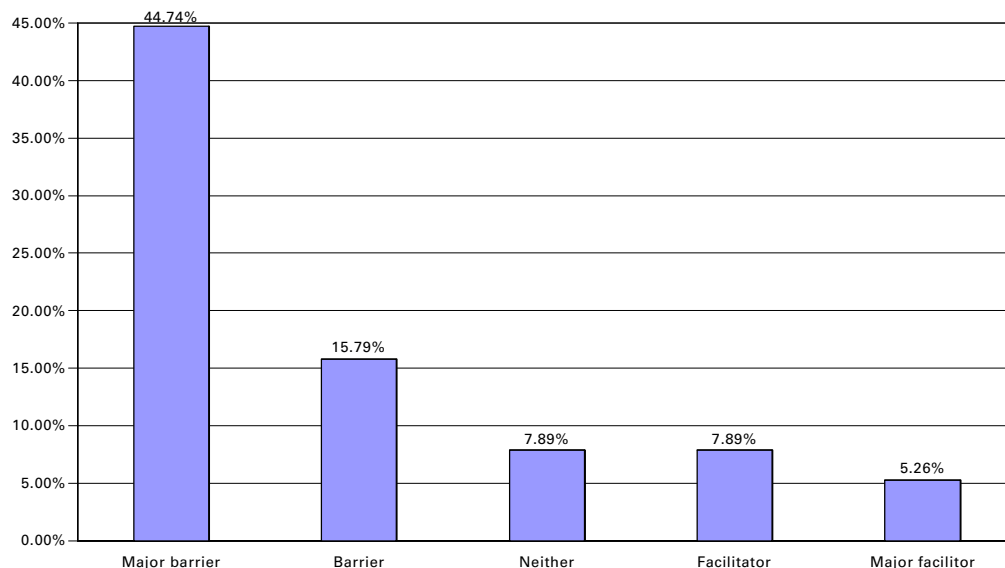
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### The Irish recruitment crisis

**The lack of essential skills is not only hampering overall business growth – it is also the most significant barrier to expanding e-business related activities.**

- In a report issued by Prospectus in October 1997 entitled 'Strategies for sustainable growth – The Software Industry in Ireland', the inability of firms to attract and retain suitably skilled staff was cited as being the most significant barrier facing the software industry in Ireland. Some three years later, the issue of recruiting and retaining skilled employees still remains a serious concern of Irish companies. At a time when service is becoming a key factor in the industry, the quality of the workforce has a major impact on the competitiveness of a service-orientated company. Critically, some 60% of respondents considered the availability of skilled employees nowadays to be a barrier to overall company growth.

#### Availability of skilled employees



- International expansion, a crucial development for Irish companies, is also being hampered by the lack of human resource skills. Half the companies responding to the survey identified the lack of sales, marketing and/or business development skills as a significant barrier to the company increasing its revenues in international markets.

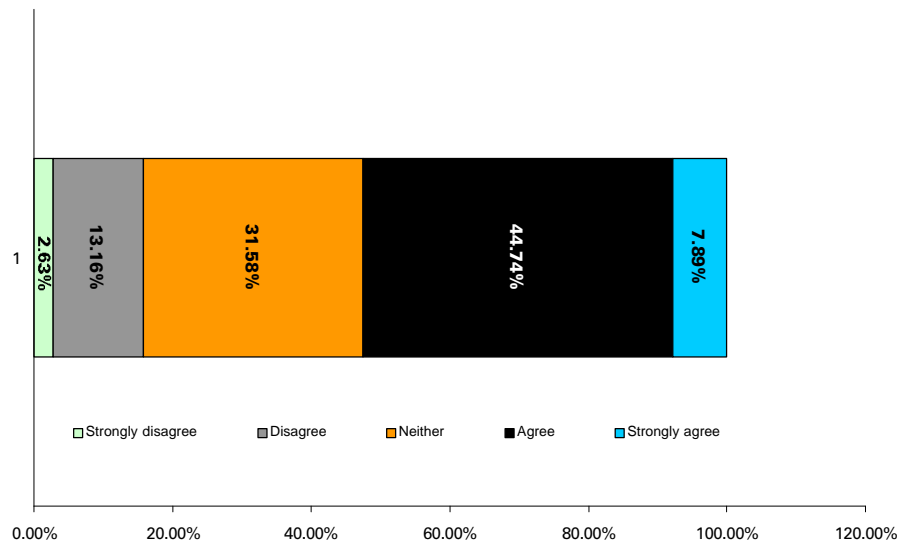
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## 4. Recruitment and retention

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- Critically, the expansion of e-business related activities, representing a significant business opportunity for three-quarters of the respondents, is being affected by the limited availability of associated skills (e.g. web developers and experienced management). This response certainly questions the Government's view that Ireland is continuing to produce the necessary skills to develop a superior e-commerce hub.

### **Skills availability is a barrier to our company increasing its e-business related activity**



**While external market factors are responsible for creating the limited pool from which to source skills, internal human resource strategies remain the key for successfully attracting and keeping this precious resource.**

- While many companies would consider their ability to react to market trends, their marketing capabilities or price competitiveness as their main competitive advantages, only 35% of respondent could claim their ability to recruit, develop and retain key skills as one of their top competitive advantages. Unless properly addressed, this issue could in fact be one of the key factors impinging on a company's competitiveness in the future.

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## 4. Recruitment and retention

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- Technology companies appear to be investing significant resources in this area. Some 56% of respondents rated their organisation's ability positively in terms of human resources management – a surprisingly high percentage, given that there is almost universal acceptance that the lack of necessary skills is hampering business development. With only 21% of companies considering their endeavours in this regard to be inadequate, it may be time for organisations to seriously review the effectiveness of their HR procedures and the basis on which success in HR is defined.
- Employee training was identified as an important area, with 61% of companies implementing training needs analyses. Formal performance appraisals were carried out by almost 70% of responding companies. Significantly, only 39% of companies implemented 'succession-planning techniques' in the past two years. This organisation development tool must be given more focus in the future if employee retention is to be addressed seriously. Management development programmes also require further attention, with only 45% of respondents indicating that such programmes had been employed in their organisations.
- Incentive stock options have been described as the digital age's equivalent to the donkey's carrot – they are one of the favoured methods of attracting employees to start-up firms, enabling those employees to share in a company's gain in value over time. Employee share participation schemes are increasingly becoming a characteristic of this industry, with 50% of responding companies offering such an incentive.

The results of the survey paint a bleak picture for companies currently trying to recruit essential skills. There is no doubt that Ireland has a highly skilled workforce, but the tightening of the labour market has resulted in staff retention rising to the top of Irish businesses' agendas. This emphasises the need to implement innovative recruitment and retention techniques, and to focus on incentives other than salary.

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## 4. Recruitment and retention

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### **Best practice - Ebeon**

The growing skills shortage in the IT sector globally has led Ebeon - specialists in implementing corporate e-business systems - to incentivise existing employees in their operations in the US, the UK and Ireland to become staff recruiters.

- **The logic:**

Ebeon has noted that IT experts, in particular Java technology developers, are difficult to target through traditional means as they tend to have very different interests. However, recognising that their common interest in IT results in these like-minded people socialising together, Ebeon believes that word of mouth yields greater results in attracting potential staff.

Through an innovative package of incentives, employees are encouraged to put forward the names of suitable candidates. The candidates, having been exposed to Ebeon through their friends, are already predisposed to working in the company. The company, in turn, has access to a pool of talent that could otherwise have gone to its competitors.

- **The offer to employees:**

- A bonus payment of £3,500 for each referral hired;
- An additional bonus payment of £3,000 on top of the £10,500 for employees who generate three appointments;
- A three series BMW for employees who originate ten successful appointments;
- Entry in a monthly draw for a holiday voucher worth £1,000 for employees whose referrals do not pass the interview stage.

- **The incentive to new recruits:**

Recognising the importance of attracting young talent, Ebeon also targets college leavers with an enticing offer. Final-year students who sign up to work with Ebeon upon completion of their exams are given an all-expenses trip for two to Bali before commencing employment with the company.

**The result:**

This approach has produced a greater success rate at attracting new employees than traditional advertising and professional recruitment services, and is deemed by the company to be more cost-effective. In the first six months of running the referral scheme, Ebeon Ireland recruited 15 people through employees' recommendations.

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## 4. Recruitment and retention

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### **Practical steps in recruiting and retaining employees**

The world class organisation will compete and win on the strength of its people. Hence, the key message is that companies must now treat their existing and prospective employees as they would their most (potentially) valuable customers. As the tightening job market comes under more pressure, success will only be achieved through the creation of a winning employee proposition, aimed at attracting and retaining the most valued talent.

A novel approach is required to attract the attention of the increasingly sophisticated and demanding IT labour market, but industry experience suggests that benefits of an innovative strategy far outweigh the costs, and yield greater results than standard recruitment techniques.

- **Action 1: Move from ad hoc to continuous recruitment**

Traditionally, companies sought to hire a new person when a position needed to be filled. Nowadays, more proactive recruitment strategies are required. Companies must develop and sustain a real employee value proposition that can be marketed continuously to potential employees. In effect, recruitment needs to adopt a business development approach.

- **Action 2: Act fast - move recruitment from a HR to an Organisational priority**

Every day, CEOs and senior managers meet many prospective employees at industry conferences, on business trips, with suppliers/competitors, offering unparalleled access to new talent. Senior managers must view recruitment as a key strategic priority, and have measurable objectives on staff recruitment and retention in their area.

- **Action 3: Look for talent in unusual places**

Given the demands on the attention of a shrinking potential workforce, an imaginative approach is required. Some companies target prospective employees at sports and social events, others employ older staff, relocate to rural areas, employ staff from disadvantaged areas or recruit school and college students for certain tasks. Differentiation is the key to being noted as an employer. Remember that talented people from other industries can be retrained.

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## 4. Recruitment and retention

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- **Action 4: Offer velvet rather than golden handcuffs**

Compensation is just an element in the entire offer made at the recruitment stage. Stock options and deferred payments, offering employees potential gains in the future for taking a risk now, are very much in favour, but organisations need to adopt alternative methods to entice, and more importantly keep, talent:

  - 1: Creating a learning organisation**, where training and development courses are promoted as key perks of the job. Employees add more value, the market value of the company increases, and the organisation develops past its first good idea.
  - 2: A good induction and ongoing development programme** is essential to engender team spirit and social ties amongst employees, resulting in increased commitment to the job and to colleagues.
  - 3: Job customisation**, whereby actual jobs and their associated benefits packages are adapted to suit specific individuals, is an innovative way of marrying the demands of the position with the needs of employees.
  - 4: Feedback:** The importance of feedback cannot be over-emphasised. Employees should continuously be asked if they are being challenged and recognised for their contribution. Feedback should also be solicited on the company structure and on managers – it is widely recognised that people generally leave managers, not companies. Lastly, act on constructive feedback.
  - 5: Balance:** As work pressures increase in every industry sector, a retention winner will **incorporate some elements of fun** into the workday. US companies have long sung the ‘work hard, play hard’ mantra. It is now time to take this seriously in Ireland too. If the learning opportunity and money a company offers is similar to the next company, a key way to distinguish itself is through the company culture, ethos and atmosphere.



