Industry Structure

The software industry comprises software developers and software sales and servicing firms.

- *Software developers.* These companies develop software programs on commission for their clients. In general, the Japanese prefer an information processing system that provides information and business services customized to their specific needs. This preference for customized software, including construction of a fundamental network system, characterizes the Japanese software business.

  Sales of software by developers account for over 55 per cent of total sales in the software industry.

- *Software sales/service.* Companies either conduct market research to identify the need for general-purpose software before developing and marketing software packages, or they acquire the marketing rights for general-purpose software products developed by other domestic or foreign software houses.

An immature market for general-purpose software products leaves room for foreign software developers to market their own software in Japan.

In Japan, the ratio of customized software to general-purpose software is almost 9:1. In the U.S., the ratio is 4:6 in favour of general-purpose software products. In the U.K., France and West Germany, the ratio of customized software products to general-purpose software is 6:4.

Although, recent Japanese demand for general-purpose software products has increased, customized program development enjoys a dominant market share.

From 1985 to 1987, sales of general-purpose software products increased at an annual rate of 20 per cent. Demand for best-selling U.S. programs is expected to increase according to current demand trends.

FIGURE 1

Sales Growth of Japanese Software Products — 1985 to 1987
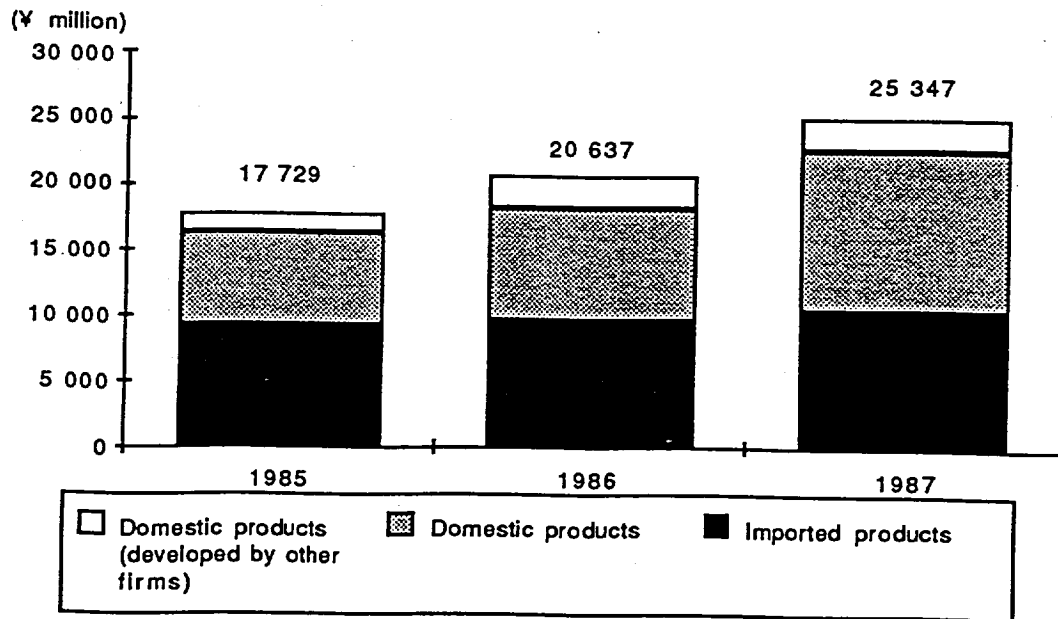
Source: MITI'S "Survey on the Special Service Industry".

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