

Apart from a few notable exceptions software product firms, internationally, are generally small to medium sized enterprises employing fewer than 10 people. Low barriers to entering the industry allow for the emergence of many new start-ups; however, failure rates are extremely high. Of over 4,000 software products producers in Canada only about 150 have grown above a \$2 million revenue level. Of these, fewer than 30 are above the \$10 million level. Industry observers feel that a \$2 million per annum level of sales is a sustainable success threshold for Canadian Software producers.

It is important to note here that although 150 seems a small number, many of these companies were below that \$2 million threshold a very short time ago. (For example, Corel has risen to a \$20M+ revenue company within a few years.) PC software packages offer an astonishing payback of 10 to 20 times the development cost within one year.

The development of software product companies derives in a large part from an interested group (or person) developing a solution for a specific problem. This solution is then generalized and packaged to be a general solution for similar problems. This path can cover all types of software products from computer application development, utility tools and computer/communication management tools, to more focused products addressing finance, business management, education, health care, geographic information etc. The original product is often developed by computer professionals called in to solve the problem for the initial user. Sometimes they develop a product (tool) to assist themselves in the development of computer applications for clients. This "tool" is then realized to be a marketable product. (Currently Canada's most internationally known company, Cognos, was initially a computer systems integrator and their first products were developed to assist their own computer specialists.) Niche products are often developed by computer aware "users." For example some of Canada's best educational and health care software products are designed by specialists in those fields.

Mergers are not as common in the software sector as in others. The companies are usually controlled by the original developers who often have an unhealthy possessiveness towards their "child." Acquisitions are higher and often happen following an extended period attempting to find necessary risk capital. Financing for software companies from both established institutions and venture capitalists is extremely difficult. The software sector in the USA is the best served in this area and the Canadian sector among the worst.