

The software sub-sector will also continue to show high growth levels provided the move towards developing specialized and vertical market niches is maintained. Being non-capital intensive this sector has the flexibility to achieve the above with relative ease. It is doubtful however, if Canada's software sector can overcome its lack of competitiveness in most areas of the saturated horizontal packaged software market, particularly in the U.S.

The data processing sub-sector is experiencing a slowdown in growth due to a shift to in-house computing and technological changes such as the development of powerful and less costly computers. In order to maintain and improve its relative position the processing sub-sector is reorienting its offerings to include specialized services, vertically integrated processing services and value-added data bases. This reorientation however is made difficult by the high fixed and capital costs characteristic of the sub-sector which tend to decrease flexibility and increase the cost of adjustment. These cost factors together with the rapidly changing technology referred to earlier have lead to the current shakeout and increased number of acquisitions in the processing sub-sector. The shakeout should not however result in declining employment due to labour absorption by the successful data processing firms as well as in-house processing operations.

6. KEY ISSUES

Processing Services

This sector is adapting to new technological advances and changing market demands by developing specialized service, vertically integrated processing services and value added data bases. This process is made core difficult due to the high cost structure and low profit margins facing the sub-sector. Indications are that while the industry will experience an increased number of acquisitions as this adaptation occurs, employment levels will not change significantly.

The processing services sector is unlikely to attempt export marketing ventures in the short to medium term due in part to the fact that its resources are devoted to domestic restructuring.

Software Products

The software sector must improve its export marketing capability as the Canadian market is too small to sustain growth. While Canada has achieved international competitiveness for specialized software (i.e. French language, healthcare, educational and earth sciences) its ability to export is impaired by the lack of management and marketing skills found in the majority of small firms. The sector also requires improved market intelligence to enable them to enter relatively untapped market niches in otherwise saturated markets (i.e. the U.S.).

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