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Software Vendor's Business Model Dynamics Case: TradeSys

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EXECUTIVE SUMMARY

This case describes evolution of a small software company through three major phases of its life cycle. During the first phase, the business was founded within a subsidiary of a large multinational information technology (IT) company. In the second phase, the business evolved as a spin-off from the initial organization through a MBO (Management Buy-Out) into an independent software vendor. Finally, in the third phase, the business has established itself as a vertically-focused business unit within a publicly-quoted company operating in software and consulting businesses. These three phases are termed *introduction*, *growth* and *maturity* as defined by Cravens (1987, 376)¹.

The company described in this case, called TradeSys, Inc. (pseudonym), develops and sells software for trade unions and unemployment fund organizations. The business model of TradeSys, Inc. (later TradeSys) has evolved through a typical life cycle of product-oriented software companies in Finland. First, it was comprised of business information systems consultation and a proposition of systems solution to a few major customer organizations. This led to customer-initiated product development. Consequently, the deliverable of the very first project was developed as a solution to the needs of a single customer, which was later worked into a universal software product along with several customer projects. During

all three major phases, the company had to rethink its business model and value propositions. At each stage, the ownership of the business has also changed. This case highlights the challenges of a business in major turning points in its life cycle and the major changes in the business model accordingly.

INDUSTRY AND ORGANIZATION BACKGROUND

Finland is a small but characteristically open market for software companies. In this Northern-European country, there are a little more than five million citizens and over 220,000 companies. Since 1995, Finland has been one of the member states of the European Union. During the past decades, Finland has rapidly shifted from being a producer of forestry and industrial goods into an exporter of high technology goods and services. According to Statistics Finland, the proportion of high technology exports surpassed 23% of all the exports of Finland in 2000 (Statistics Finland).

General readiness to adapt new technologies and a good established IT infrastructure characterize the Finnish market for software products and services. Many large foreign or multinational companies, though, have traditionally considered Finland as too small of a market for building up local operations and support networks for software businesses. This is especially true with companies providing software for narrow market segments. While Finland might not be that attractive market area for foreign companies, Finnish software companies are typically seeking to expand their operations abroad and, hence, concentrating on narrow solution domains to focus their efforts. Thus, as compared to their international rivals, local vendors focusing on narrow domains might be able to sustain superior competitive advantages related to software deployment, local support and insight into customers' needs.

In this case, we follow the evolution of TradeSys, a Finnish software vendor that has focused its operations on developing and selling software for Finnish trade unions and unemployment fund organizations. Development of TradeSys products started within a local business unit of a U.S. information technology (IT) giant, Unisys, in 1996. Around 1996, when Unisys was globally re-directing its strategy from product-orientation towards IT servicing, the management team of the current TradeSys decided to acquire the rights to the assets that became the core product of their business. The co-founders of TradeSys believed in the business and the product they had been creating and made a Management Buy-Out (MBO) to prove that the ideas they had been developing could be turned into profitable business. With the MBO, the business including software licenses as well as project liabilities were transferred to the two co-founders of TradeSys. Also, eight of the key persons having been part of the development team within Unisys transferred to the new company as old employees. Now, since April 2000, the company has been part of PublicSys, Inc. (a pseudonym). PublicSys is a publicly quoted information systems consulting house, which has actively acquired small and medium-sized software companies since it became listed at the Helsinki Stock Exchange in Finland in 1999.

LEARNING OBJECTIVES

This case is intended for Master's level students. The case highlights the challenges faced by a software production company in various stages of its life cycle. We discuss the evolution of the company, its product offerings and consequent changes in its business model.

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