

LOWER PRICES OF LOCAL SOFTWARE PRODUCTS WHY?

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1. INTRODUCTION

Since early 2000 until now, Vietnam has made great efforts to build the industry of information technology (IT) and develop the IT market, including the software one. Many policies and measures to encourage operations of software enterprises have been issued by the Government such as relief of corporate income

Nevertheless, although they enjoy favorable conditions from the Government's incentives, they still face difficulties in selling their products. In addition to pirating and serious violations of copyright which cause great damages to producers, the software products are not sold in accordance their value, producers cannot thus reinvest in production. Many

Government's programs. As a result, the Government has not uncontrolled tender prices.

Furthermore, to date there is no complete system of indicators to trace the industry growth. Therefore, it is hard to plan its development as well as evaluate its contribution in the national economy.

One of critical and in-

equipment, for example, operating systems...

- Utility software: used to implement a common utility in the process of exploiting equipment and basic software, for example, instruments for software development.

- Application software: used to execute one or many functions of a certain field, for example, accounting software, labor and wage management software...

Basic and utility software are designed by software experts while application software is commonly written by users or sometimes provided by experts or software development companies. However, some application software products are manufactured by experts due to their technological complication.

Many groups of experts have been involved in producing application software to meet increasing demands of users. Another characteristic is that the cost price of these products is easily specified because the manufacturing process is divided into many stages. That is one of basic causes of the establishment of a new dynamic industry - information industry.

Nevertheless, software production is affected by a lot of factors. Software is also a special product, using mainly white-collar labor. Other production factors including equipment, materials, and building do not account for great share in product value. In contrast, the determinants to product quality are training, market and technology research, adoption of new technologies, organization...

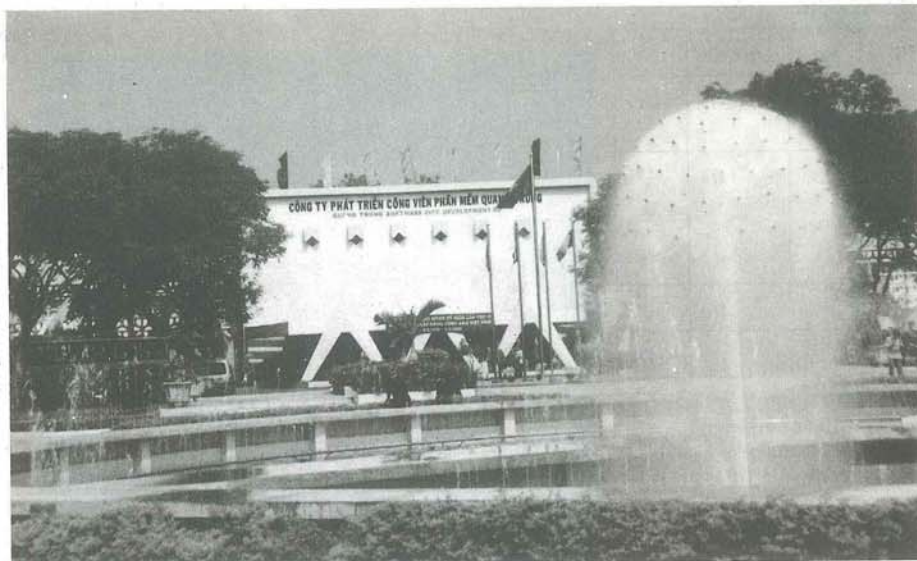


Photo by Hoàng Tuấn

in four consecutive years since starting operations, higher minimum income tax base for software makers and exemption of value added tax for software products. In such a situation, many software companies have taken shape quickly. In 2002, the number of software production establishments registered in HCMC is 313, fifty percent of which had began operations from 2 to 3 years ago [1]. This shows the software market grows well and the Government policies and measures have been effective.

companies could not survive even in first years of operation or provide other services including software installment, art graphic design, training, sales of personal computers...to earn more incomes.

In terms of legal environment and technology, this embryonic industry has made significant achievements, but it has not paid full attention to costs and profits. The absence of a standard and proper method to price software products has caused troubles not only in management of the company's projects but also in the

avoidable indicators is cost price. There is now no common calculation. Each enterprise must figure out the cost price on its own. This article displays some facts of software production and causes of lower prices of local software products.

II. CHARACTERISTICS OF SOFTWARE PRODUCTS

Software is divided into the following items based on its functions:

- Basic software: used to increase capacity of

The quality of software products depends on equipment, professional skill of software makers and organizational level.

A software product requires major conditions including market research before production; tests before mass production; preparation of large output to meet orders; regular efforts in trade and logistics; and finally after-sale services such as guarantee, maintenance, and technology development as requested by customers.

III. ACTUAL INVESTIGATIONS

1. General investigations

generates competition in head hunting and the success belongs to foreign-invested businesses; causing brain drain from local software companies.

In another survey in January 2003, the HCMC

Table 1: Software production capacity in the 1998-2001 period (US\$/person/year)

Year	1998	1999	2000	2001
Capacity	4,300	5,500	6,400	8,450

Source: An Overview of Vietnam IT in 2002

Table 2: Average wages of software makers (US\$)

Monthly wage	Processing software for foreign partners		Domestic businesses	
	International standard contracts	Common contracts	Large size	Small and medium size
Analyzer - Project manager	2,500	1,500	500	350
Analyzer- Programmer	2,000	1,200	300	250
Programmer	1,500	900	200	150

Source: HCMC Association of Informatics, 2002

Table 3: Software products of typical companies

Products	Khả Thi	HPT	AZ	Anh Quân	PSV
Processing for businesses	90%	15%	0%	100%	94.6%
Computerization projects for government agencies	10%	70%	15%	0%	0%
Packaged products	0%	5%	85%	0%	5.4%
CD	0%	10%	0%	0%	0%

Source: HCMC Association of Informatics, 2002

According to the HCMC Association of Informatics, the number of registered software companies in HCMC is 313 and as many as 6,500 workers were engaged in the software production. In 26 investigated companies, their total 1,040 employees earned US\$8.8 million from software production in 2001, or per capita income of US\$8.450 annually. The capacity of companies processing software for foreign partners was higher, US\$13,000/person in 2001

A survey on wages of software makers indicates there is a big gap in wages between domestic enterprises and companies processing software for foreign partners (see Table 2). It is three to four times on average for the same job. This

Association of Informatics investigated software production and sale in typical local companies. These companies operate mainly in two markets:

- Local market: Khả Thi Center, FPT and AZ.
- Foreign market: Quantic, PSV

Products of four among these five companies meet application needs of enterprises, and FPT focuses its products on management computerization.

In respect of prices, in comparison of prices of these companies' products with foreign items of the same kind, the lowest is AZ's price, equivalent to 12.5-15%; Anh Quân 30%, and Khả Thi 50%. FPT and PSV have no products equivalent to foreign counterparts.



In spite of much lower prices than foreign ones of the same kind, domestic products still have strengths and even excessive functions.

Most of local companies claim their advantages include capability of understanding about customers and quality of after-sale services. Their professional skill and experience are equivalent to those of foreign competitors. The reputation of trade name is higher by claims of 40% of units and equivalent by other 40%. In the meantime, 60% of these units recognize their weakness in advertisement and marketing.

In fact, dominant advantages of foreign products include their market-



- Companies which have attracted customers to their initial products do not manufacture new items but only improve existing products. As a result, the wage calculation of total products is not necessary. They only estimate a certain percentage that they think suitable to increase the selling price.

- Due to their less capital, small companies have to sell their products as quickly as possible for survival, so their price depends on customer's offer.

The capacity and quality of local made software are not lower than those of foreign products in Vietnam market. However, their price is always lower than that of foreign products. This is attributed to

Table 4: Causes of reduced prices of local software products

Causes	Khả Thi	FPT	AZ	Anh Quân	PSV	%
1. Local customers have no improper evaluation.	X	X	X		X	40%
2. Product marketing is not suitable.	X	X	X			30%
3. Local products have not yet met enough customers' requirements		X		X		15%
4. After-sale services have not yet satisfied customers' requests	X	X				15%
5. Customers cannot afford high-price products	X				X	15%

Source: HCMC Association of Informatics, 2002

ing professionalism. They are accompanied by relevant documents which are designed distinctly and nicely. Foreign businesses also apply e-commerce to sell their products. This allows them to expand global distribution network easily. They give customers trial usage, for example, Accpac provides free accounting CDs. This method is also undertaken by local businesses.

Obviously, a shortcoming totally recognized by local companies is that they cannot understand foreign customers. This factor need be mentioned for assistance when local units export their products.

2. Some conclusions about the cause of above facts

Local software products are priced under their value because of following factors:

- 40 % of units claim that domestic customers have inappropriate evaluations of Vietnam product value.

- 30% note that product marketing is not well undertaken.

- 15% say that local products and after-sale services have not yet met enough customers' requirements.

- 15% think that customers cannot afford high-price products. This reason reflects customers' im-

proper awareness rather than their financial capability.

Besides the causes mentioned by the above companies, there are other factors affecting prices of local software products as follows:

- Small-sized companies processing software have no attention to the calculation of wages of product development or else they cannot do it because their production is not based on planning, especially for first products. On the other hand, the company founders are also software makers and they must share their time to other jobs for survival in the early stage.

the reason that local manufacturers often pay no attention to figuring out costs, therefore, they find no ground for determining product prices. Their price cannot thus reflect wages properly. Given the condition, a distinct example is that local companies processing software for foreign partners encounters not a few obstacles in contract negotiations to protect local workers' wages. They also face further barriers when they are forced to implement local processing contracts because the contract value is lower than the production cost. This is really an impediment to the development of application software market in the country. ■