



SoDA

**Sentiment Barometer
Q3 2022**

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The last barometer survey took place in what we today consider a bygone era - in **September 2021**, before the “Apocalypse horse rider” (war, inflation) appeared. One can see among SoDA-affiliated companies a rebound from the dark times of pandemic isolation, lockdowns, and the effects of loose monetary policies of central banks sustaining the policy of distributing cheap money to the economy.

However, the optimism that prevailed among entrepreneurs was strongly dampened by Russia's indefensible aggression against Ukraine. The summer increased positive sentiment, and the data justified it. In the spring, the UK services PMI recorded a score above 60 points (March 2022), which was an excellent result. We could see the UK industry opening up to new opportunities, chasing lost time.



Germany's ZEW, on the other hand, although it chugged significantly, was still in positive sentiment. A drop of nearly 15% from the previous reading indicated emerging pessimism among German managers surveyed about the overall capabilities of the German economy. In contrast, the German services PMI showed a big jump upward, the highest level in many months.

This, however - viewed from today's perspective - was more of a jump than a trend, as the world's struggles with rising inflation or the rising cost of money have been evident for many months. In March, inflation in the UK was over 6%, the highest level not seen in 10 years (although current readings are even higher).

The pessimism visible in the July barometer of SoDA-associated companies is justified. In its March analysis, the IMF was already hinting at rising inflation (and even deflation) risks or a deteriorating investment climate. Fortunately, although experiencing turbulence, the IT industry is still the privileged one where optimism about the future is still evident.

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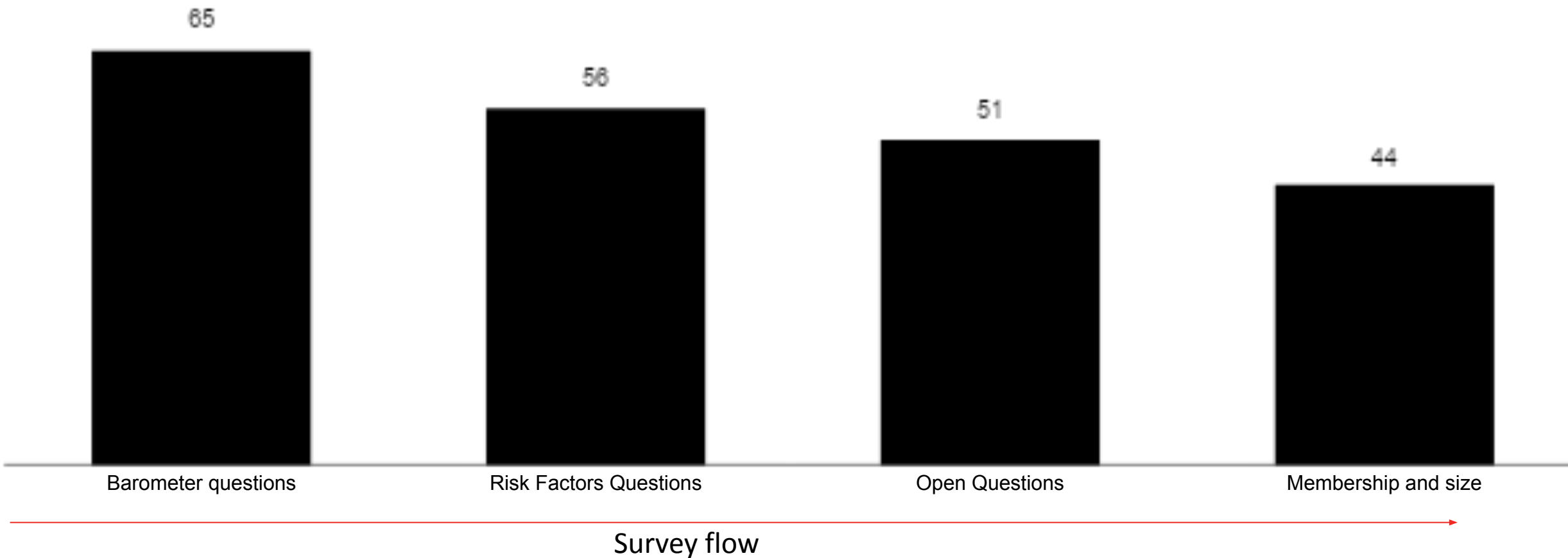
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We have gathered barometer sentiment feedback from 65 C-Level executives from software development companies; many of them also filled other questions

C-level at software development companies, Poland

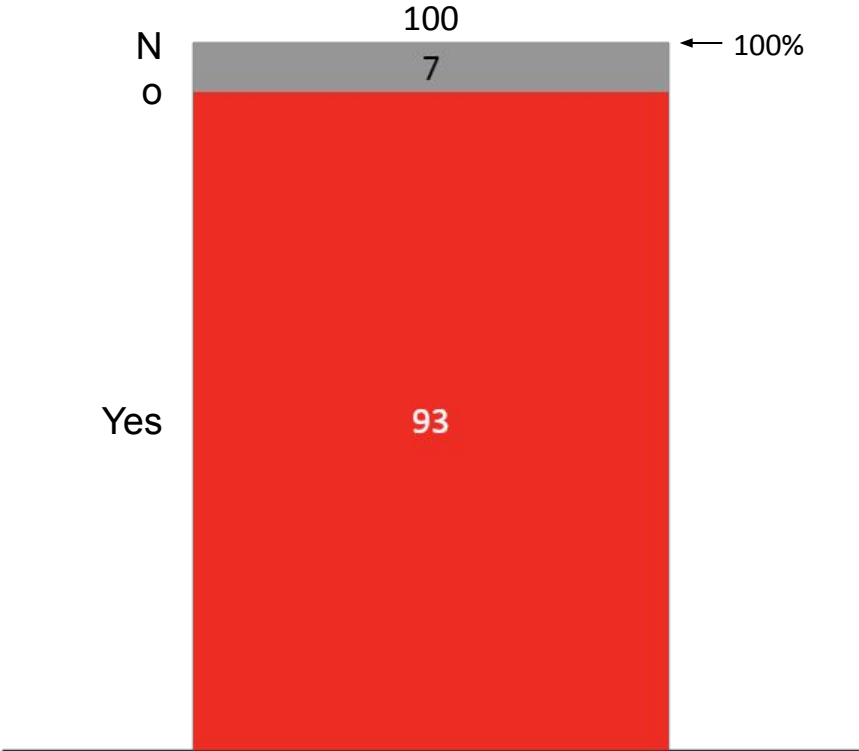
N=65



Almost all of those who finished the survey were SoDA members; most of them from 1-50 employees companies

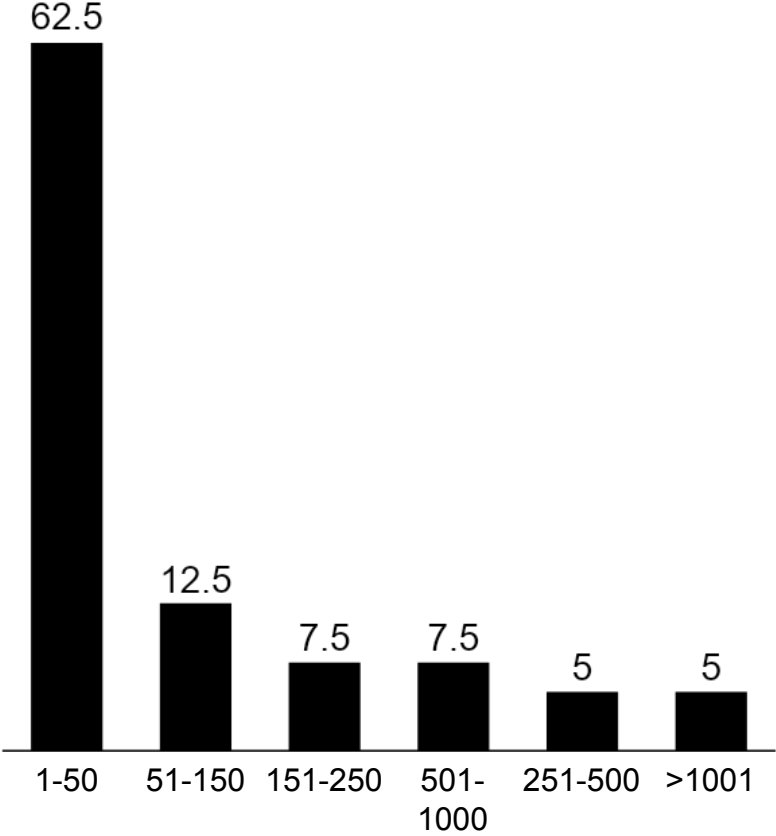
SoDA member?

N=44



Company size

N=44



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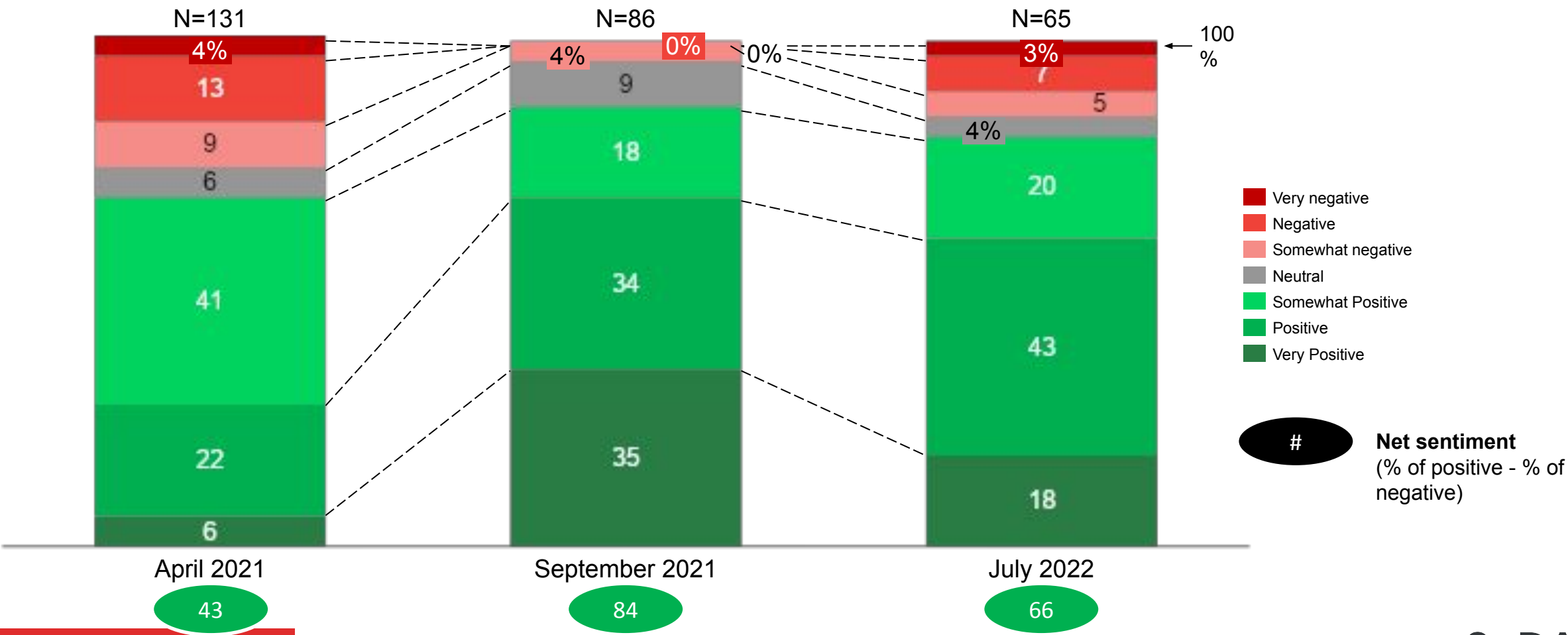
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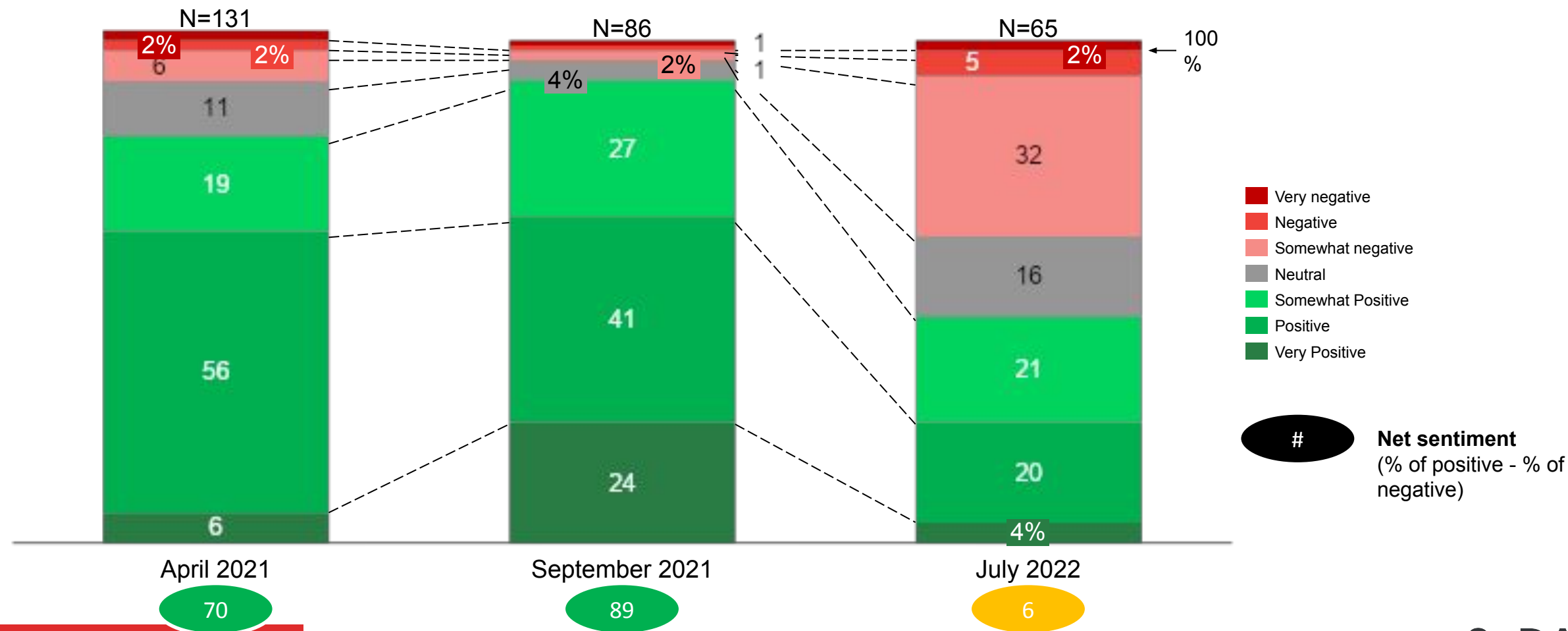
IT executives believe the last year was mostly good, but the overall net sentiment in the sector dropped down

Taking everything under consideration, the last twelve months for my company were:



The sector's outlook towards the future deteriorated and dropped towards almost neutral level – it's a drastic shift in the overall sentiment

Taking everything under consideration, my outlook towards the future is:



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Most companies believe that internal political situation might have an impact on their business

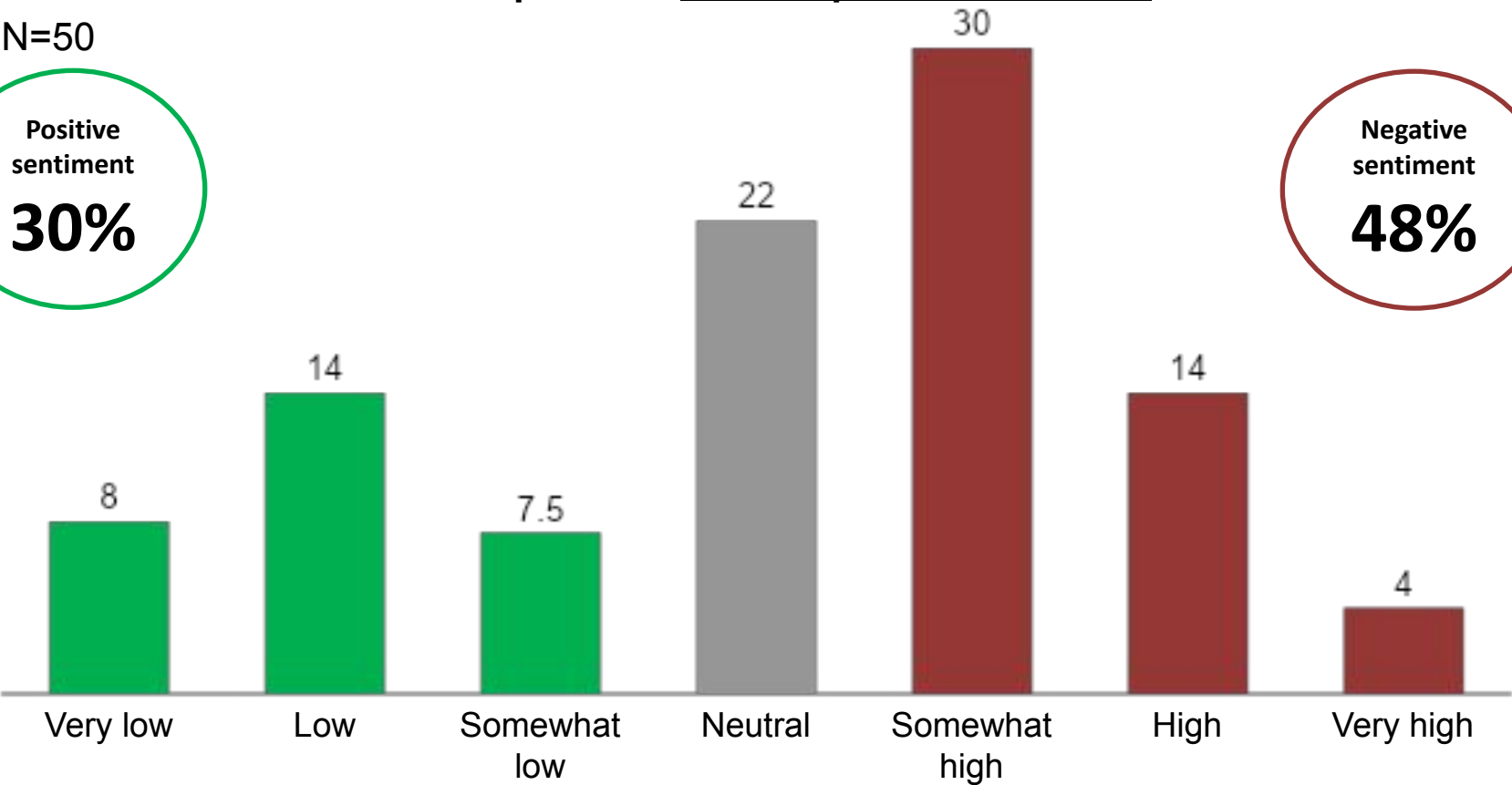
Net sentiment:
-18%

How do you assess negative impact of selected factors on your company's revenue over the next four quarters: Internal political situation

N=50

Positive sentiment
30%

Negative sentiment
48%



- To say the least, SoDA members are worried about an internal political situation
- While half of the executives seem to be worried, there is also a substantial share of leaders who don't see the risk as drastic
- There are many factors, which may create a potential fear: inflation, economic situation, unstable changes in law & politics
- The assessment of the internal situation among managers of SoDA member companies is not surprising. The soaring inflation that is putting wage pressure, the insistence on meeting the milestones enshrined in the National Recovery Plan, the surprising communication of the NBP to the market and the decisions the central bank is making vs. the government's conduct, Poland's moving from crisis to crisis (health, emigration, energy, fighting the EU, tax - the New Deal), the communication about a lazy IT professional vs. an honest shoemaker from the mouth of the head of the government can't be in a different mood.

However, external situation (e.g., war) results in higher estimated impact for the business

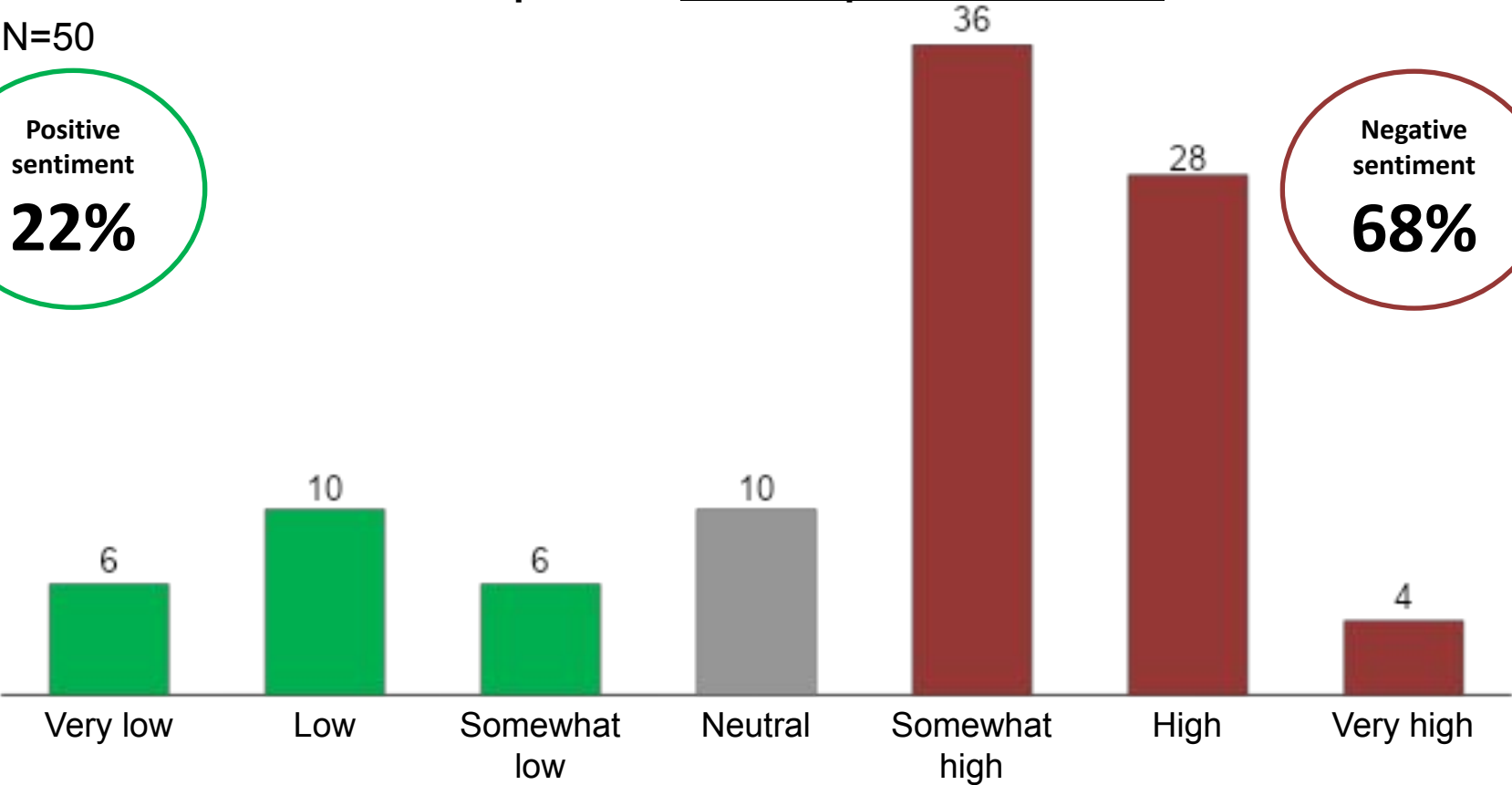
Net sentiment:
-46%

How do you assess the negative impact of selected factors on your company's revenue over the next four quarters: External political situation

N=50

Positive sentiment
22%

Negative sentiment
68%



- While the internal political situation was somewhat distributed across companies, **there is a clear negative consensus when it comes to the external political situation**
- **It's mostly affected by the war on Ukraine**, but also fears about the conflict spillover
- It's essential to notice that **war also affected the contracts and deals in Ukraine, Russia, and Belarus, along with Baltic countries** – this may justify the negative sentiment
- The debt of countries around the world will grow, and that means looking for money in taxes for people and companies, for example. Data from the UK market, which is key for many SoDA-affiliated companies, indicate that the fears are justified. According to Goldman Sachs, the UK economy will enter a recession at the beginning of the fourth quarter of this year due to high inflation. The Bank of England is likely to raise interest rates by 50 bps in September, and GDP growth in 2023 could be negative at -0.6 percent. In addition, the ongoing war against Russian aggression is a negative element affecting the willingness to buy, and the struggle for energy security is raising the cost of operating IT companies. This coming time is like a catharsis, it will remove the weaker ones from the market - although this is a very painful process for everyone.

Salaries tend to be one of the biggest challenges for the IT sector – almost two-thirds see it as a threat

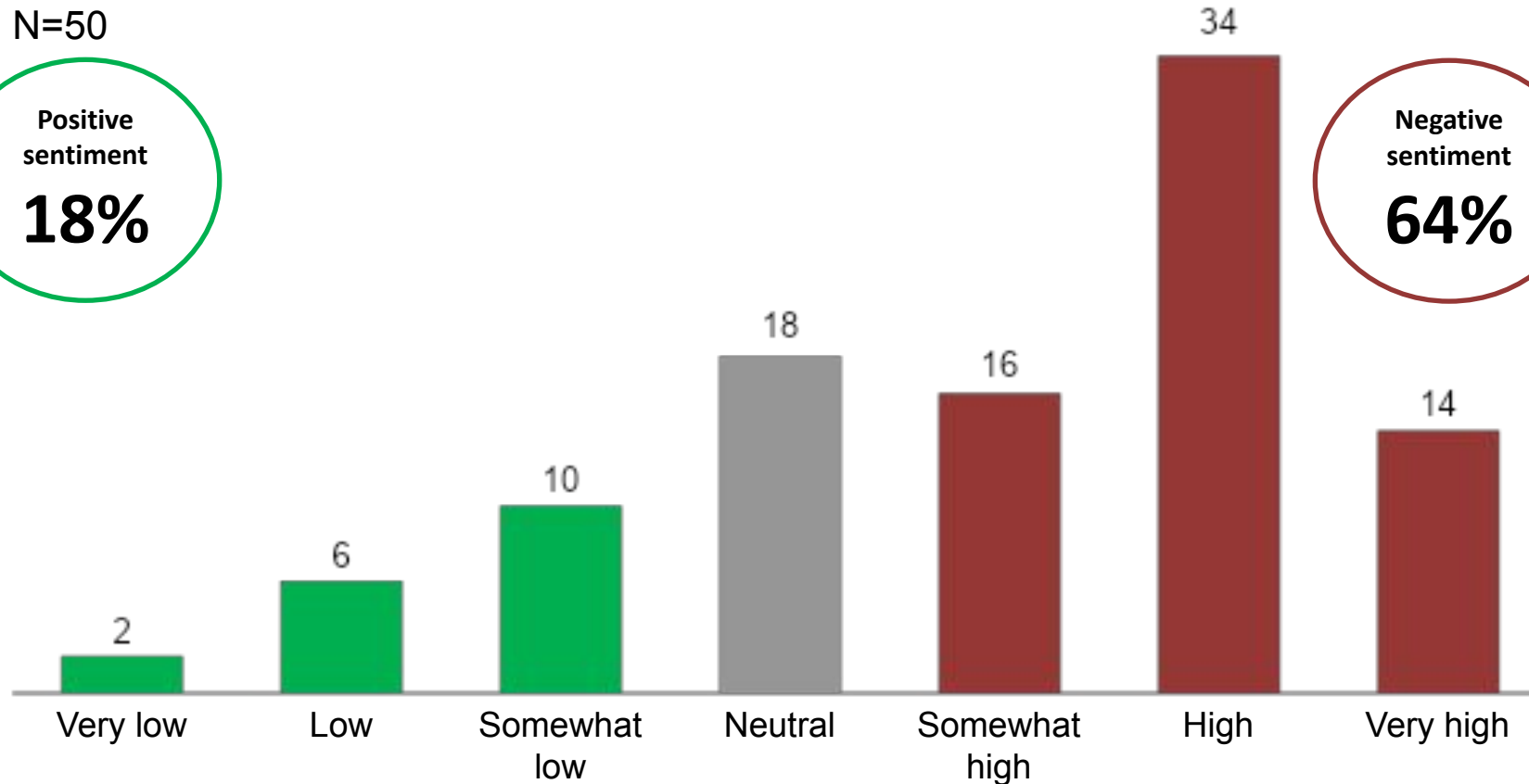
Net
sentiment:
-46%

How do you assess negative impact of selected factors on your company's revenue over the next four quarters: Salaries

N=50

Positive
sentiment
18%

Negative
sentiment
64%



- Unsurprisingly, **salaries increases are one of the biggest challenges**
- While the last inflation in Poland results was close to ~15.5%, **the overall inflation in the IT sector might boom to +25% levels**
- **The inflation spiral impacts the bottom-line accounts of software companies**, which might result in initiatives boosting the P&L
- **Billability increase, new leads, and better deals are critical topics in the discussion now**
- Rising wage pressures due to inflation, translate into ever-increasing costs. In addition, the New Tax Order has caused considerable confusion and uncertainty about the economic environment. There is incredible confusion and the need to adapt rapidly to changes whose consequences are difficult to assess. In turn, remote work, so widespread during the pandemic, gives foreign employers access to Polish workers, which affects the stability of employment in our companies - hence it is not surprising to see such a result of the survey

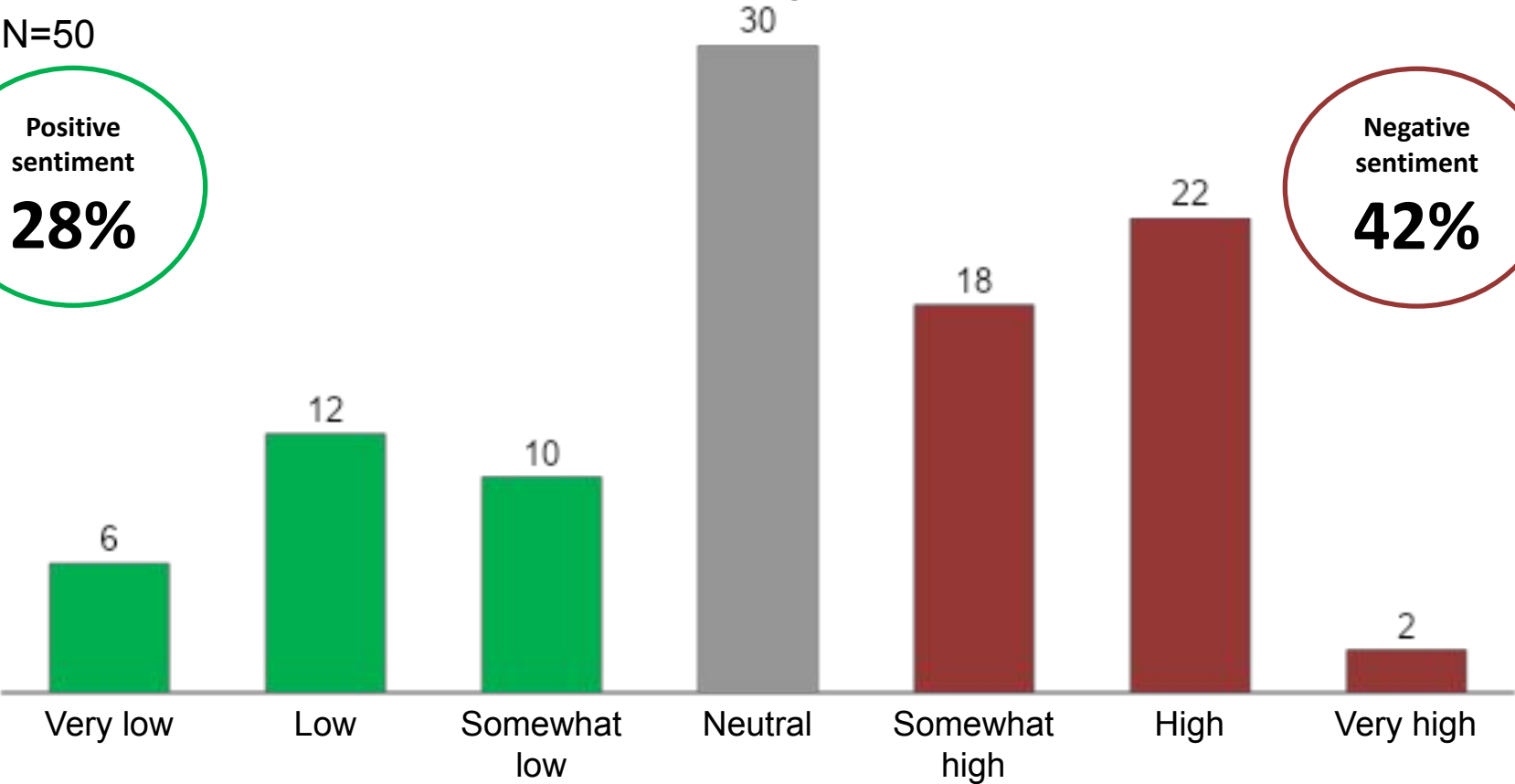
Depending on the company situation, lead generation might be another important challenge

Net sentiment:
-14%

How do you assess negative impact of selected factors on your company's revenue over the next four quarters: Lead generation

N=50

Positive sentiment
28%



Negative sentiment
42%

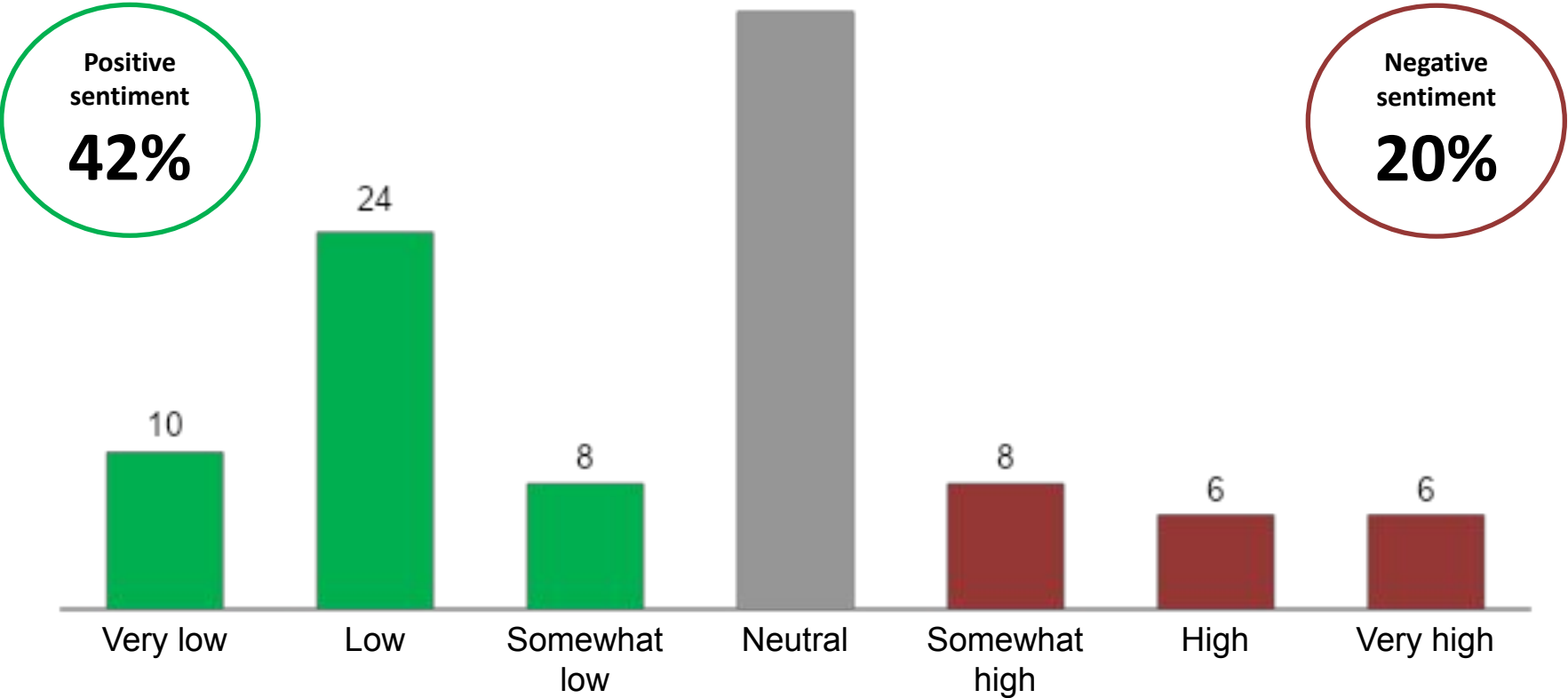
- The responders are somewhat divided when it comes to lead generation, **but the sentiment towards the new deals is rather downward**
- We believe it's heavily **affected by the type of contracts and lifecycle stage the company currently has** – those with a stable pipeline from before the crisis are somewhat positive
- Surprisingly, as many as 30% of respondents commented neutrally on the topic related to winning new contracts. And while there is concern about the challenges ahead, it is also worth looking for the sources of optimism evident in the survey results. Long-term relationships with customers, the trust developed together, represent an annuity that is a hedge against hard times associated with uncertainty. We can see a weakening in the strength and volume of leads, so steady customers and long-term contracts are a guarantee that the company will remain profitable. Trust, built over years, works both ways, as customers are more likely to order further services from a supplier they know, instead of seeking a new one and building mutual trust from scratch. But not everyone loses in a crisis - reputation provides a shield of protection.

IT sector seems confident with regards to regulatory uncertainty - it is not a threat as of now

Net sentiment:
22%

How do you assess negative impact of selected factors on your company's revenue over the next four quarters: Regulatory uncertainty

N=50



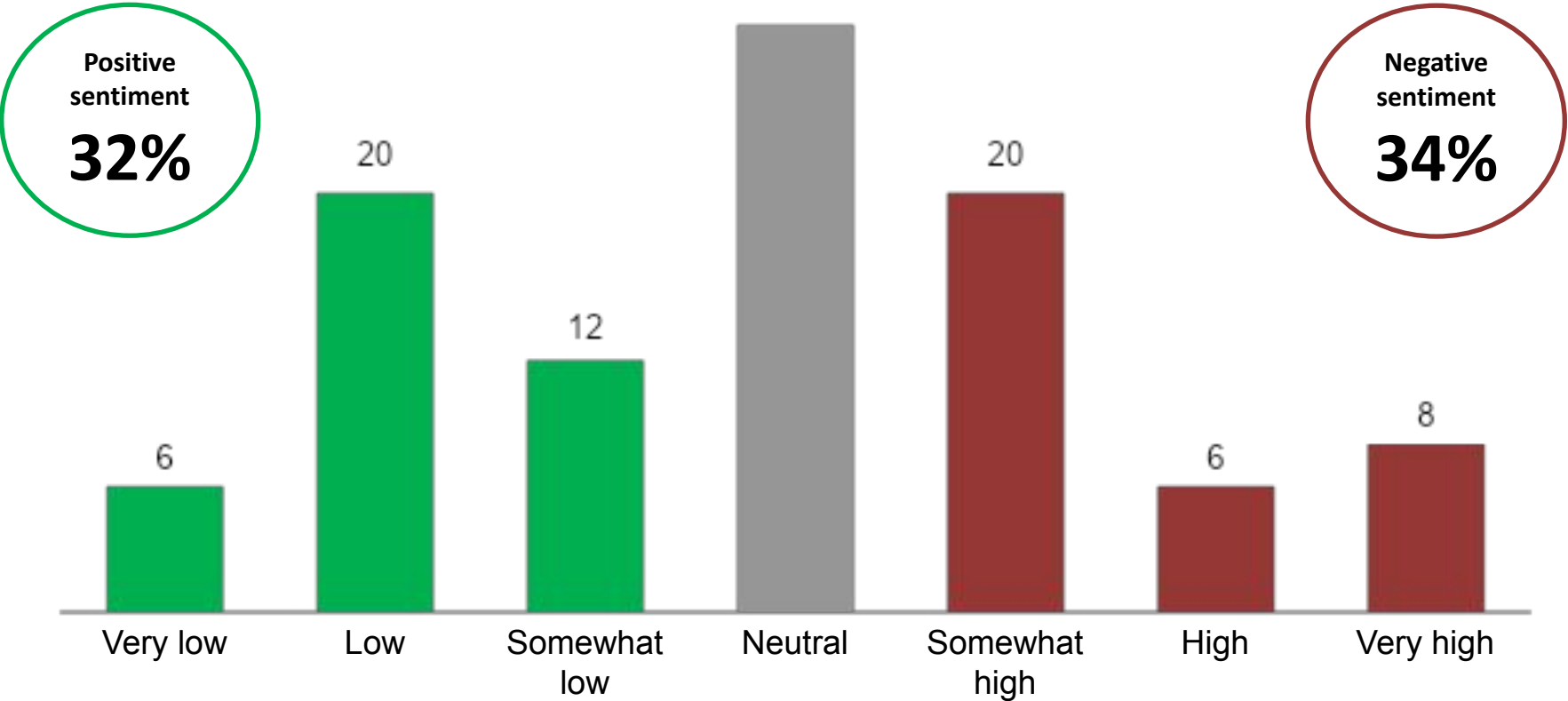
- While annoying and problematic for some, the **majority of executives find the regulatory risks relatively low**
- In general, **80% of responders are either neutral or positive when it comes to the risk assessment** – they know the conditions of running a business in Poland
- The number of pages of legislation that have come into force in recent years is a significant challenge for businesses. According to the Barometer of Stability of the Legal Environment in Poland, conducted by Grant Thornton, we are talking about tens of thousands of pages (more than 21k in 2019, almost 14k in the pandemic in 2021, and more than 20k pages last year. And in the first half of 2022, 14.5k typewritten pages of legislation were adopted in Poland, which is 75 percent more than a year ago) - such a result cannot be optimistic. The trend that says there is a lack of confidence in lawmaking in Poland has been recording very low ratings for years. In the 14th edition of the Koniunktural Survey of the Polish-German Chamber of Industry and Commerce, conducted in cooperation with 14 other bilateral chambers in Poland, the predictability of economic policy was rated at 2.3 points. (out of a possible five).

The companies are almost split in half while considering threat of uncertainty of tax regulations

Net sentiment:
-2%

How do you assess negative impact of selected factors on your company's revenue over the next four quarters: Uncertainty of tax regulation

N=50



- While regulatory risks were low, **tax-related changes are seen as more problematic**
- The opinion is almost equally distributed, **so the tax problem differs case-by-case**
- It's also important that **results might be affected by the general secrecy of tax-related problems**, so we suggest treating this with caution
- The confusion with the New Deal has caused a crisis of confidence in the legislation and has caused organizational confusion in companies and may have generated costs in understanding how to adjust. Hence, it is difficult to assess other than skeptically the quality of tax changes in Poland.

Increasing taxes might have a strong negative impact in the near future according to almost half of the companies

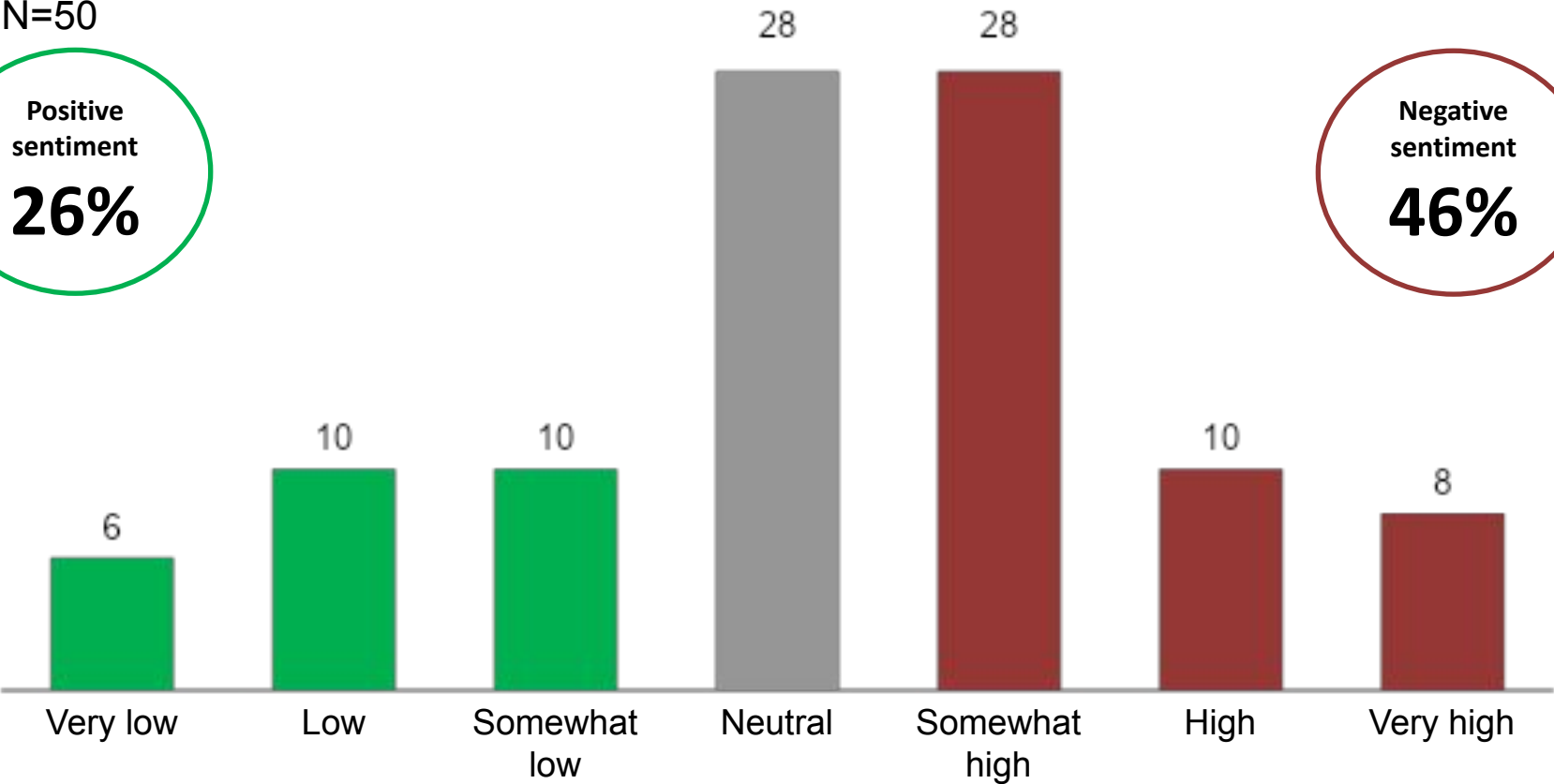
Net sentiment:
-20%

How do you assess negative impact of selected factors on your company's revenue over the next four quarters: Increase in the tax burden

N=50

Positive sentiment
26%

Negative sentiment
46%



- Unsurprisingly, an **increase in tax burden is seen as a potential risk**
- Contrary to the tax changes themselves, a **clear and direct increase in taxes might impact the FY2022 P&Ls** before companies can adjust and answer properly
- The 18 p.p. difference in the net sentiment of law changes vs. increases says a lot **-companies are afraid of tax increase**
- Increased tax burdens supported by a thicket of various reliefs pose a challenge to companies on how to meet them. The confusion surrounding the change in Poland's tax system is an example of how badly the law is created and implemented in Poland. In addition, more and more tax revenues are being left to the central administration, where companies that pay taxes locally do not see the impact on their immediate environment. The vagueness of the law introduces a high degree of discretion and the margin for error is widening, increasing the risk of doing business and increasing the cost of doing business. It is therefore not surprising to see such an assessment from managers of SoDA member companies.

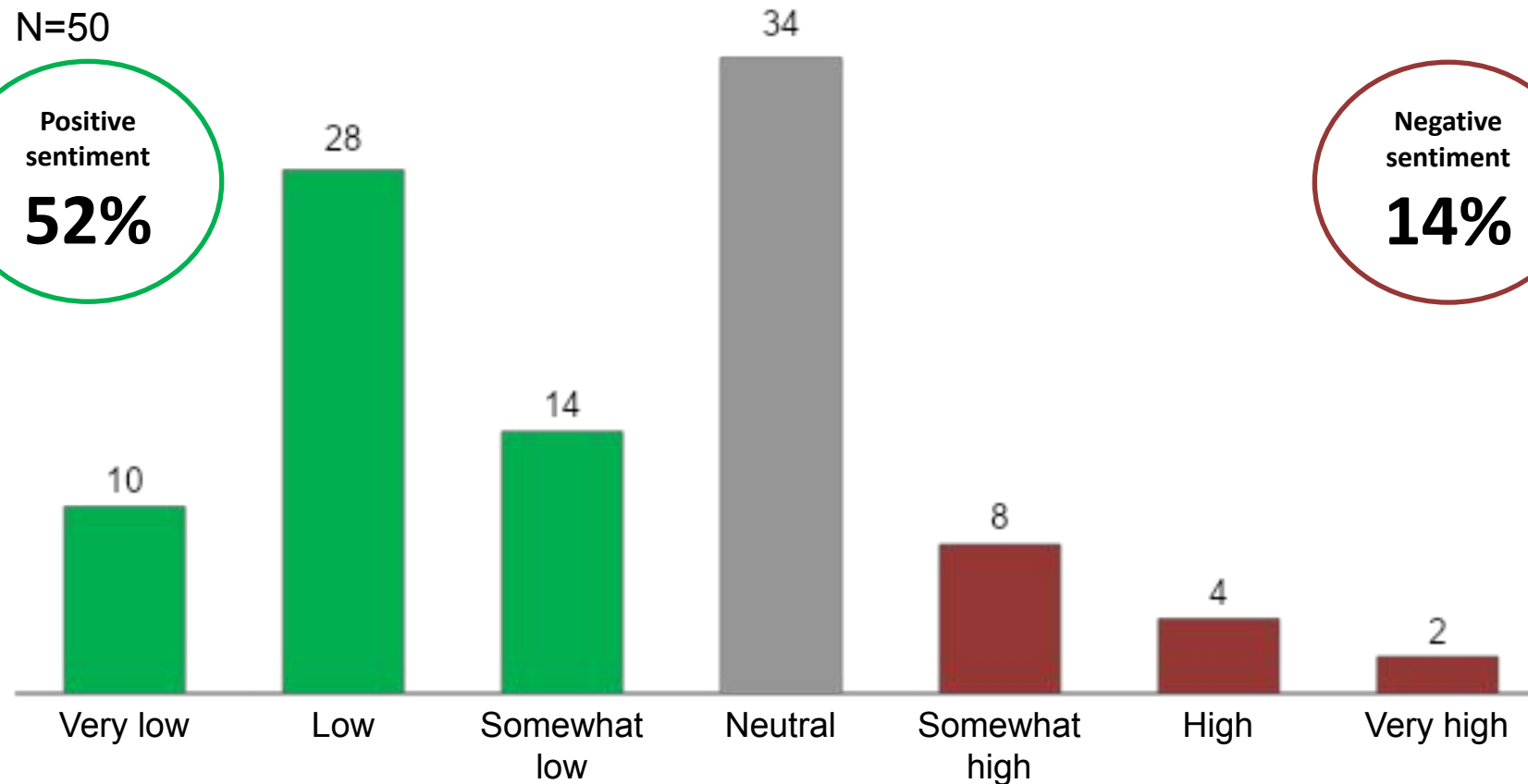
Companies seem to be preprepared for cybersecurity challenge – most of them don't see it as a real challenge

Net sentiment:
38%

How do you assess negative impact of selected factors on your company's revenue over the next four quarters: Cybersecurity

N=50

Positive sentiment
52%



Negative sentiment
14%

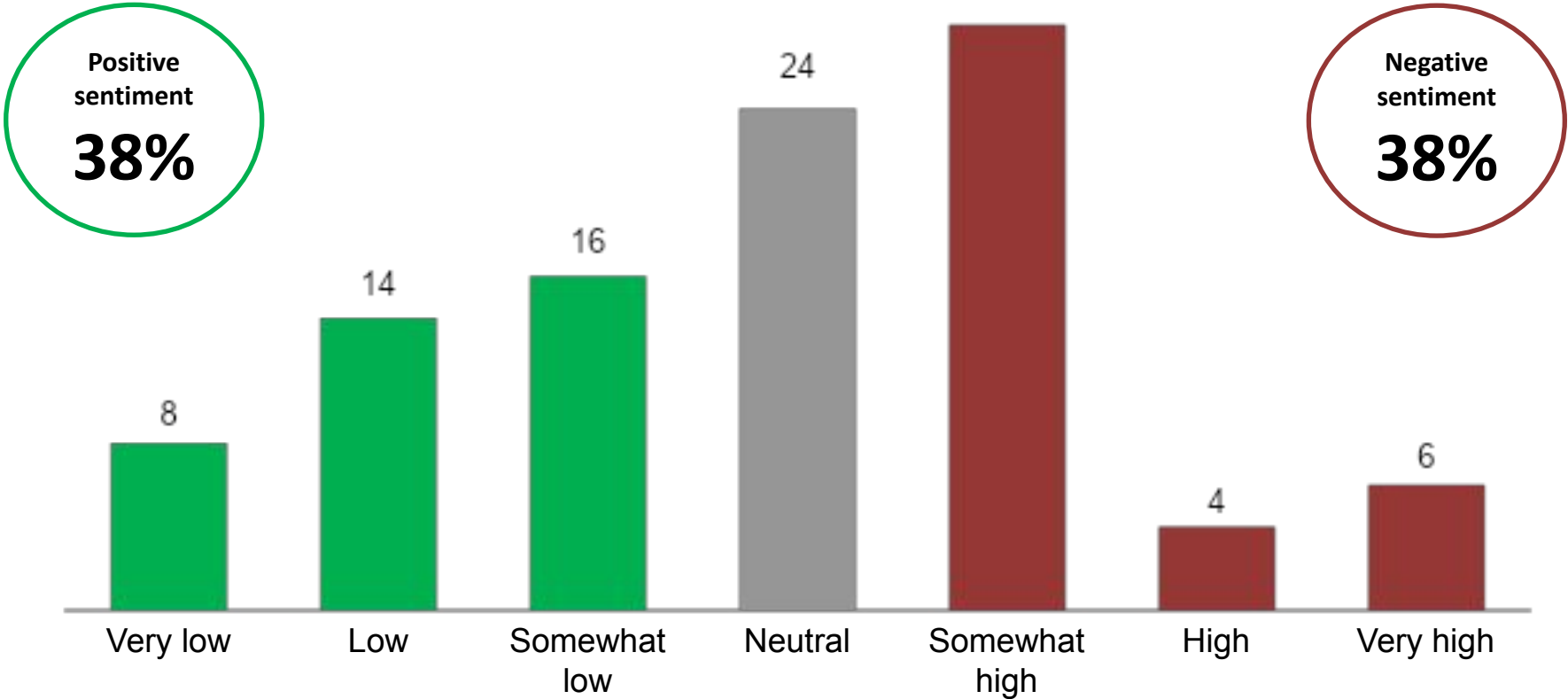
- Cybersecurity doesn't seem to be an issue for IT companies
- Unsurprisingly, these aspects are not a problem for highly innovative technological companies
- There are two important conflicting hypotheses here:
 - A) Cybersecurity companies contradict the current market trend of sectors, where cybersecurity is a top priority (e.g., banking, telco, airline) as they have it well-implemented
 - B) Despite technological capabilities, the cybersecurity awareness level is low
- Security expenditures are a matter of course among IT companies. However, incurring them has a tangible benefit in the form of a security policy that can be used for international cooperation with clients. The personnel gap in the market, on the other hand, is sizable and there is a high demand for services related to this area, which translates into profitability for companies.

In general, companies are divided when it comes to staff turnover – there is no clear consensus in the sector

Net sentiment:
0%

How do you assess negative impact of selected factors on your company’s revenue over the next four quarters: Staff turnover

N=50



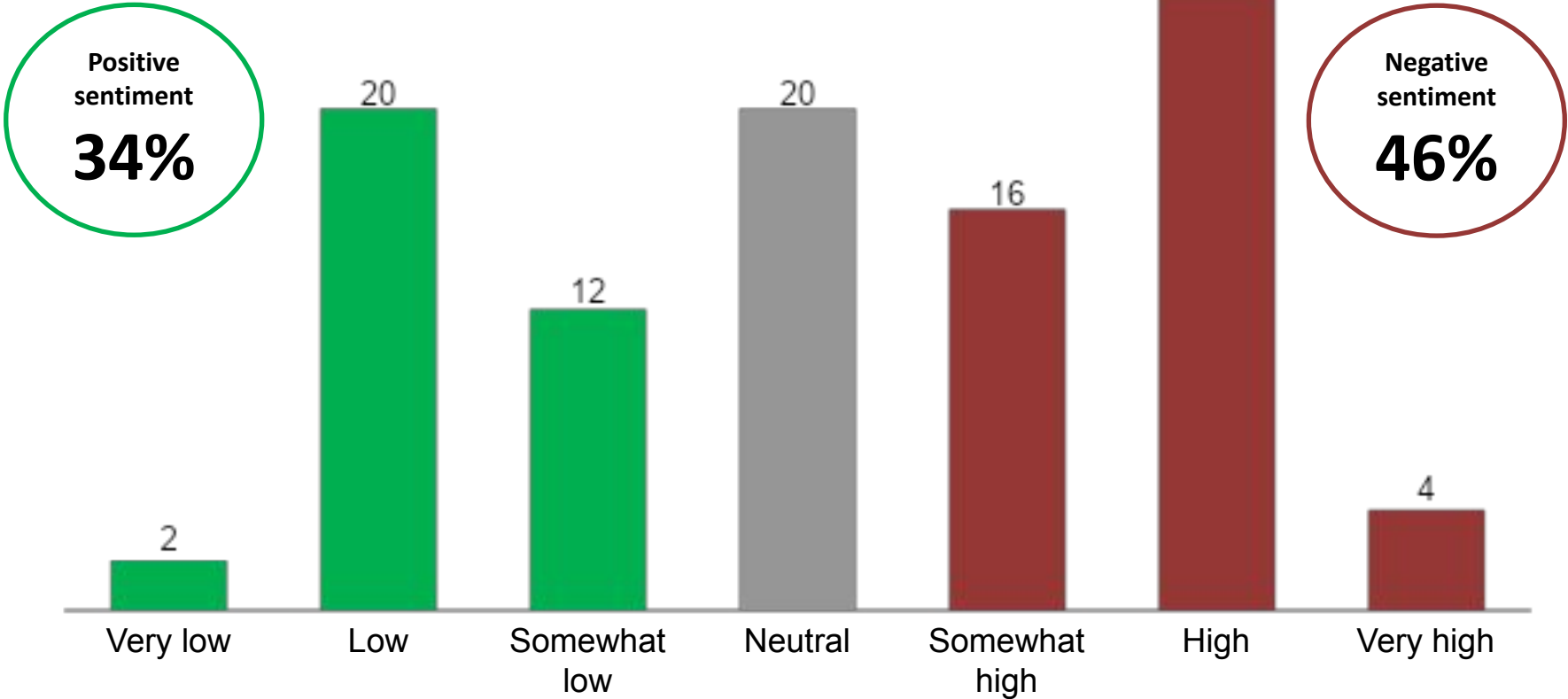
- Depending on the situation, the **consensus is divided between the companies with and without retention issue**
- If we look at the distribution of the answers, **executives keep an eye on the problem, but don’t associate it with the risk – it’s a part of the software business**
- With the crisis on the horizon, **employees might be reluctant to switch jobs and work for a new companies**
- Having said that, **top employees might leave if companies can’t face the salary pressure**
- Employee turnover is a threat to company stability and culture. On the other hand, however, remote work, the openness of employees from other countries to work in Polish IT companies, where salaries are comparable, provides a balancing act for departing employees. The economic uncertainty and stability of jobs make the willingness to risk a new job rather less.

Recruiting challenges scores relatively high as a major problem in terms of revenues for IT companies

Net sentiment:
-12%

How do you assess negative impact of selected factors on your company's revenue over the next four quarters: Serious difficulties in recruiting staff

N=50



- Unsurprisingly, **attracting new talent is still an issue**, but it's not considered a huge risk
- **Difficulties in recruiting staff are a regular "cost of doing business"**, especially in software services
- With the growing "fear market" among employees, acquiring new talent will be an increasing cost. This will involve a longer recruitment process and the strengthening of recruitment departments. Companies, especially for Generation Z, are not just a workplace, but a kind of worldview manifesto where cultural identity is also important. So, investment in non-obvious activities that make a "pro" case for taking a job should also be considered. The negative sentiment is certainly also a result of the heated labor market we have faced until recently. It is also worth mentioning a phenomenon that has only recently taken hold in modern economies - and we are talking about the "great resignation," as formulated by Prof. Anthony C. Klotz, which could potentially also appear in the IT environment.

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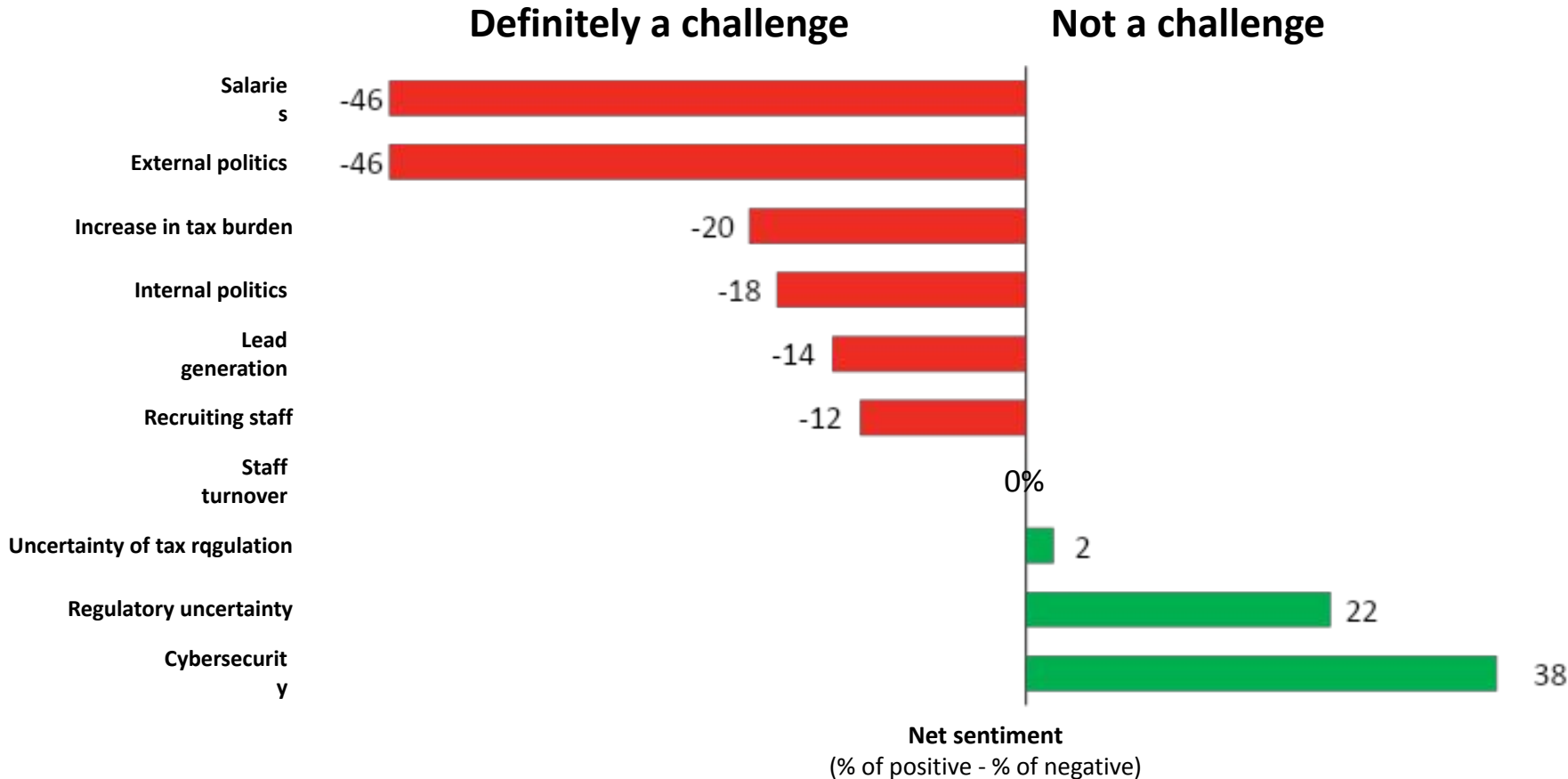
Future challenges

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Salaries and external politics, stand out as key challenges for IT-industry in the nearest future

What do companies perceive as a potentially difficult area for their business?

N=50

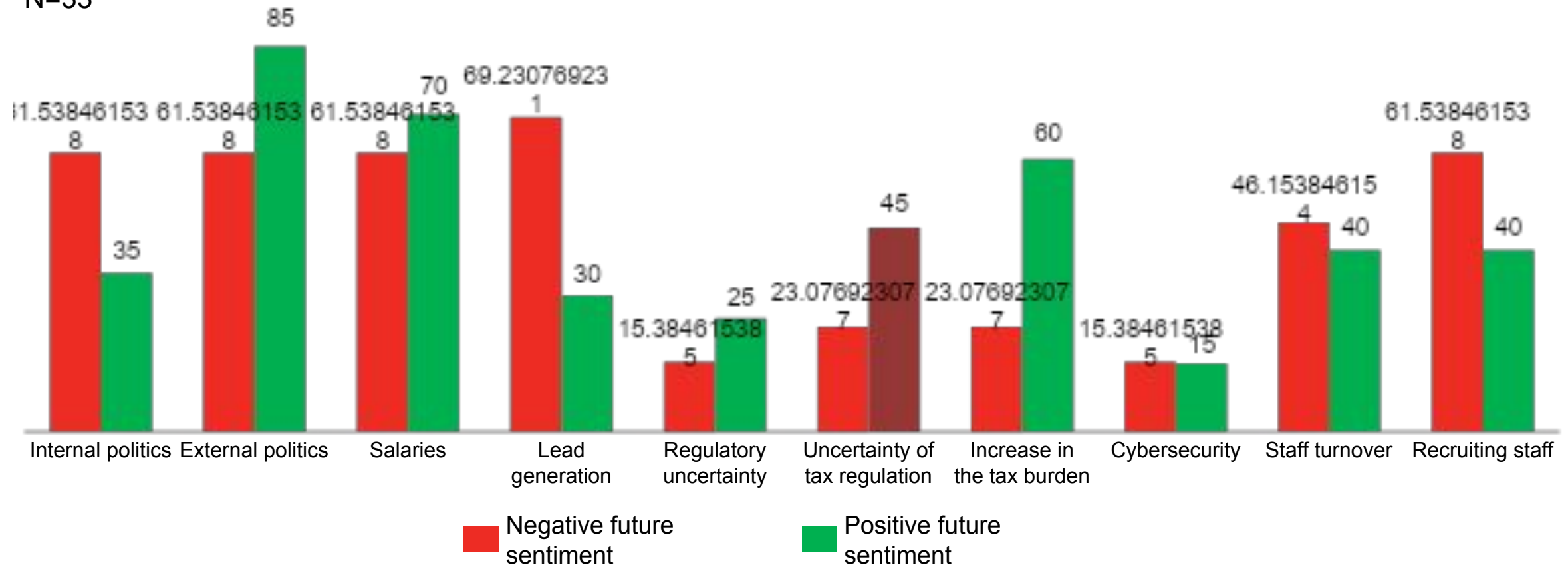



- If we combine challenges we see the top two overarching themes, which are critical:
- A) **Salaries pressure created by the inflation** – companies need to face a potential 20-25% increase in employment costs, which will create pressure on the revenue side of the business
- B) **External politics due to war** - a natural fear of conflict, which might flatten if the situation gets better in time

External politics is the highest threat amongst companies, which are optimistic towards the future

What do companies with negative & positive sentiment towards the future perceive as a potentially difficult area for their business?

N=33





With the growing crisis, the specter of deflation looming over the world, and the conflict in Ukraine, it's not surprising that the greatest emphasis companies are currently placing on acquiring new clients and orders. After all, it will not be possible, without talented new people in teams working on behalf of clients, to maintain growth and defend against negativity.

Companies see their resources (strategies, know-how, people) as a stable basis for doing business. But what they believe influences their fortunes is outside the company. Hence, this result can be interpreted to mean that respondents feel confident and are aware of their strengths and potential risks, but need to focus on the revenue side.

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About SoDA

SoDA is an association of Polish technology companies founded in 2018. They associate nearly 200 companies with Polish and foreign capital throughout the country and employ more than 30,000 employees in Poland. The total turnover of the member companies is over PLN 4 billion.

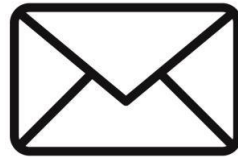
By conducting research and analyses and organizing training sessions, webinars, and networking meetings, they develop cooperation and exchange of knowledge between the member companies and promote Poland as a leading global market in software development and outsourcing of IT services. Read more: <https://www.sodapl.com/>

In case you have any questions, feel free to reach out to Maciej Wilczyński

Founder & Managing Partner



+48 660 601 091



maciej@valueships.com



Maciej Wilczynski



@wilczynski24

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**Software
Development
Association**
Poland