



Periodically, we take an objective look at market sentiment, trends and hot topics in the contract software testing market, based on our customers' and contractors' answers to pertinent survey questions.

In this issue we touch upon the change in average duration of contracts and the likelihood of renewals.

Market Sentiment

Over the last six months a very surprising 84% of our survey respondents - representing a cross-section of contract testing professionals - feel more confident about the prospects for the future than they have about the recent past. The reason this is surprising is because confidence levels stood at just 64% for the prior period, so a move to 84% brings us back to the levels of last summer's peak, which stood at 86%. So, there seems to have been a marked dip in confidence over the early part of this year which from Spring through Summer has resurged. Furthermore, whilst in our last report 27% suggested that there was no change in their outlook, that number is now just 7%. The proportion feeling less confident has moved from 5% to 9%. We conclude that fewer people overall are sitting on the fence and instead of being neutral in their outlook, they are now positively expressing their confidence.



Jobs advertised

On 29th September, 2,038 contract testing vacancies were advertised on jobserve.com™; a huge increase of 35% over February's 1,506 vacancies. Jobserve is one of the leading internet job boards and whilst the same vacancy is often advertised many times over by various different agencies, it is still a solid barometer of market demand. We are astonished at this increase and suggest that one possible explanation is that general recruiters may be struggling to understand the specific skill mix in testing and have taken to advertising their requirements many times over. There is also evidence that many contractors this year have elected to return to full-time employment thus creating a smaller pool of skilled contract resource. It's intriguing that this has been the trend, since whilst confidence in the market leads employers to recruit additional full-time headcount, it conversely tends to mean that many full-time staff elect to go

contracting. We suspect that with the prospect of tougher times ahead - just look at what's happening on the High Street - then this recent permanent recruitment activity will diminish. Still, for the time being let's not undermine the obvious 'feel good factor' that we're experiencing in our specialist sector just now!

Rate of pay

Our table below shows the average day rates actually paid to contractors, excluding any agency or consultancy firm margin:

	2003 Q4	2004 Q1	2004 Q2	2004 Q3+Q4	2005 Q1	2005 Q2+Q3
Test Analyst	£268	£280	£308	£307	£289	£302
Test Manager	£384	£400	£425	£414	£422	£429

In accordance with the laws of economics, the confidence that the market has experienced has been reflected in the material increase in rates being achieved by contractors. For Test Analysts, the day rate has moved upwards by 4.5% to £302. This isn't too far adrift from the rates of Summer 2004 when, if you recall our earlier comment, market confidence was on a par with today.

In our last survey we expressed concern that Test Analysts were being over ambitious in their rate expectations come the time of negotiating their new contract or extension. You might recall that they were looking for average rises of 9%. We were right to express that concern but it's still impressive that increases of 4.5% have actually been achieved. Today, Test Analysts are seeking rises of 5% which would take their average day rate to £318. We're not so sure that this is possible - workforce confidence and outlook always lags behind that of management and whilst the service sector has enjoyed a solid period of growth, it's possible that we're running out of steam.

On to Test Managers now and they too, have enjoyed a rate rise to £429 per day from £422. Note that these more experienced test professionals didn't suffer the dip in rates which members of their team did earlier in the year. Perhaps in line with our comment about the outlook of management being ahead of their staff, Test Manager's aspirations when it comes to rate rises are a little more modest at 3%. Still, that takes them to £442 per day, a level which they probably haven't enjoyed since 2000/2001.

Contract length can play a major part in deciding whether or not to accept the rate that's been offered. Often there's a trade-off with the security of a longer contract or extension resulting in a lower acceptable rate. Similarly, many organisations are looking to the contract market today as a genuine alternative to using consultancy firms who may not have much value to add but

whose rates are charged at a premium. Because of this, it's quite common for that "one month project" to extend into something much more significant, especially with those organisations that are a step down from the blue-chip FTSE100.

Today, the average length of initial contracts is 4.5 months. This will come as no surprise to any of us - it suggests that there are just as many initial 3 month contracts as 6 month contracts. Extensions average a further 4 months in total, making 8.5 months the length of the average contract. This is akin to where it was at the height of the market in 2000 when contracts averaged 9 months, this figure reducing in 2002 to 7 months in total.

Market Skills

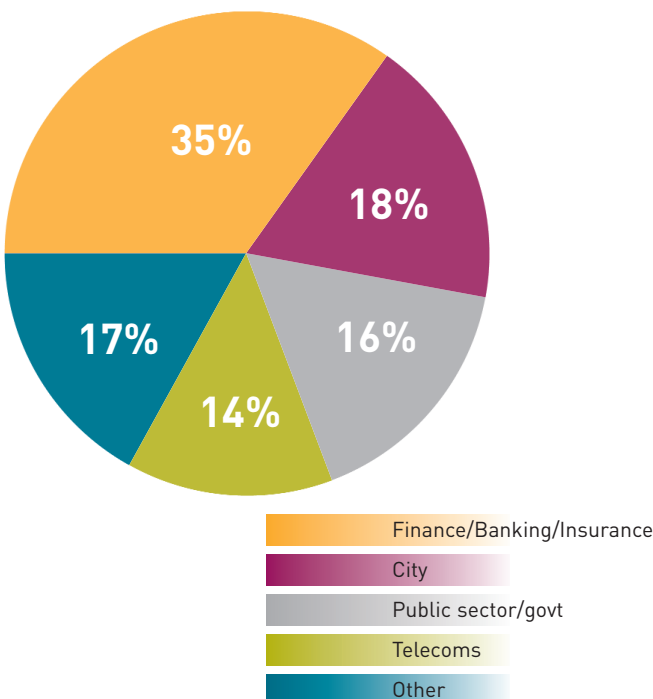
A key part of our survey is keeping track with the requirements of the market in terms of technological skills, or more accurately the environments within which our community works, and also reviewing those sectors of the market which appear to be offering the best prospects for software testers.

The Top 3 technical environments are:

- 1 Oracle
- 2 J2EE
- 3 Java

In fact, Oracle has maintained its dominance over J2EE and Java in exactly the same proportions as a year ago, that's to say there are 50% more requirements for Oracle-based testing skills than for the other two combined. Naturally, a number of organisations require a combination of these skills but these three skills alone, in some guise at least, currently feature in 64% of all contract testing opportunities.

In terms of the application areas, or markets, where demand seems to be at its strongest, financial services, including retail banking and insurance, wins hands-down with a massive 35% of the market. Investment banking and related areas are also experiencing something of a boom and organisations in the City of London currently account for 18% of all contract testing requirements. Consider the pie chart below:



Financial services have always dominated but it's interesting to note that even with huge advances in mobile telephone technology, requirements in this space still haven't matched the levels of the late 1990's when the mobile telephone companies were investing heavily in their automated billing systems. Gone are the days when we used to say that a tester couldn't go wrong with telecoms experienced coupled with Oracle and SQL skills. Public sector and Government projects have been talked about for years, catalysed perhaps by the focus on joined-up e-Government, but the really big projects tend to be within the traditional areas such as the Inland Revenue.

Summary

Activity levels over the last six months have definitely picked-up from last winter when we experienced a modest slowing in demand. Whilst we sounded a note of caution in our last report, the market has in fact become more buoyant and confidence has increased. We were correct, however, in suggesting that expectation levels for rate increases were too high last time, but nonetheless we have seen a healthy increase.

Contract length has increased overall and it's worth accepting a contract for one month in the expectation of it extending. Organisations are now using contractors as a truly flexible resource, rather than as a means of overcoming HR's dreaded headcount freeze, so they're introducing the concept of "rolling" contracts which extend from month-to-month rather than issuing purchase orders which commit six month's worth of budget. It's worth noting that accepting a contract at even 20% off the average daily rate is a better bet than being out of work for another week - it would take you 25 days work to make up the difference.

The financial sector still dominates the landscape for contract software testing and the City is enjoying a taste of latter-day demand.

Take part in MarketWatch

The information in MarketWatch is based upon the hundreds of conversations that we have with testing professionals each week. You can also complete the MarketWatch survey online, and download this and previous surveys in PDF format, at www.centre4testing.com Thanks to everyone who is contributing.

If you have any thoughts or feedback, including ideas for questions we should ask or measurements we should take, please contact us on 0870 850 3434 or at marketwatch@centre4testing.com



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