



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 impact that offshore testing resources are having on the UK contract testing market.

Market Sentiment

It's a complete coincidence that exactly the same number of survey respondents over the last quarter feel more confident about short term prospects as last time around - that's a massive 84%. As you would expect, our survey is polled across hundreds of contract testers and also hiring managers, so the sentiment expressed is an accurate reflection of the 'feel good factor' that is prevalent in our niche market place today. Interestingly though, the number of people that are feeling less confident about the future has risen from 9% to 14%, perhaps reflecting an increasing trend that started in last Autumn's survey. Certainly, the number of people who believe that there is no change in outlook has plummeted to just 2% of our sample, a negligible number and a huge difference to this time last year when 27% sat on the fence.



Jobs advertised

On 22nd February, jobserve.com™ advertised 1,369 contract testing vacancies. This is a huge decrease of 33% from over 2000 vacancies advertised at the end of September 2005 and, more alarmingly, a decrease of 137 contracts over February 2005. Clearly, there may be reasons such as advertisers using competitive internet job boards in preference to jobserve but the most likely explanation is that there are genuinely not as many opportunities as a few months ago. We've seen before the natural lag between confidence and demand and this can be symptomatic off a 'frothy' market where demand and confidence changes weekly. We do not believe that we're at this point but it's worth sounding a note of caution.

Rate of pay

Our table below shows the average daily 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	2005 Q4
Test Analyst	£268	£280	£308	£307	£289	£302	£314
Test Manager	£384	£400	£425	£414	£422	£429	£422

Day rates for Test Analysts have risen for the third consecutive quarter and now stand at an average £314 per day, based upon an 8 hour day. This healthy quarter-on-quarter increase of 4% is not too far short of the 5% increase that this group was targeting last Autumn. Compared to national average wage inflation of circa 2.5% per annum it's astonishing, but then rates in the contract market can go down as well as up.

The feel good factor mentioned above is fuelling further pressures on rates, with an across the board expectation of increases of over 5% during the Spring and Summer. This would peg day rates for Test Analysts at £331 which in our experience is not tenable by hiring organisations at the moment.

Our Test Managers, on the other hand, have not enjoyed the same increases and, in fact, rates have slipped slightly to £422 per day representing a deterioration of 1.5%. We don't believe that too much can be read into this, except perhaps it's a small reflection of the fact that many projects are engaging large teams of Test Analysts, as they did several years ago, so the ratio of Test Analysts to Test Managers has perhaps increased and therefore demand for Managers is not quite as strong as for the team members. We would be interested in your own views. Certainly, Test Managers haven't achieved the £442 day rate that they had hoped for, but despite this they are pinning their hopes on £446 next time around. We usually find that senior testers are more pragmatic in their outlook but in this quarter we beg to differ with their goal of a 5.5% rate rise - in our view it's just not going to happen.

As always, we sound a note of caution when you're comparing your own rate with our survey results. We're witnessing marked effects of location and sector and so naturally a contractor working in the financial markets of the City can expect to be paid significantly more than his or her counterpart engaged on a public sector project in the Midlands.

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.

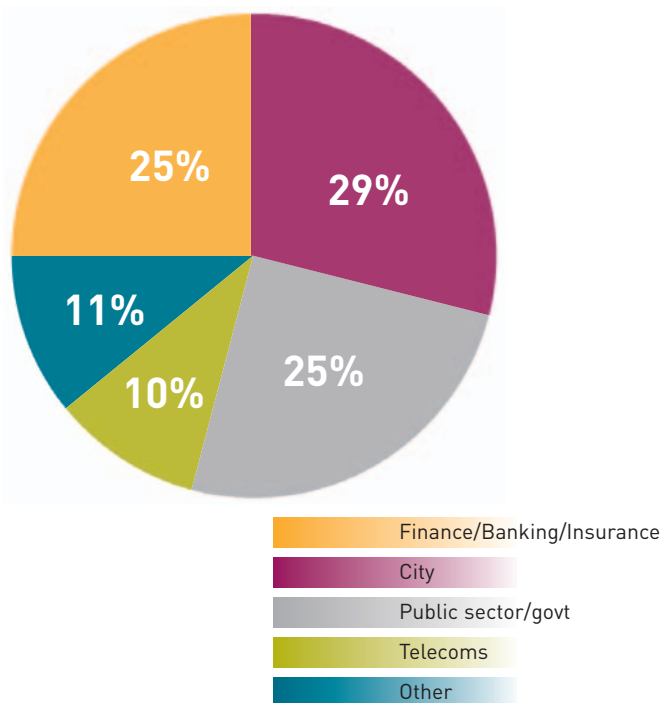
The Top 3 technical environments are remain exactly as the same as in our last survey:

- 1 Oracle
- 2 J2EE
- 3 Java

According to those taking part in our survey, something like 45% of all contract testing opportunities brought to their attention over the last quarter require an element of Oracle skills, followed by 25% for J2EE skills. Java and Unix skills trail a long way behind in third and fourth place.

There have been some notable shifts in terms of the application

areas, or markets, where demand seems to be at its strongest. In our last survey, financial services, including retail banking and insurance (but excluding the City), won hands-down with a massive 35% of the market. That's now seen a fall-off in demand to 25% of the market and the City, predominantly investment banking, has claimed the top position with 29% of the market. Consider the pie chart below:



Requirements in the public sector have jumped from 16% of the market to a huge 25%. In a recent survey published by Giant, the accountant for contractors, Matthew Brown, Managing Director, observed "The degree to which the public sector has shown willingness to utilise external consultants in recent years in areas such as IT has surpassed all expectations." He continued "The question for Government is whether it can compete long term with a resurgent financial services industry in terms of getting the skills it needs". The drivers within Government are for "increased scrutiny of major IT projects" and certainly we would agree with that suggestion. Within financial services, the big drivers are compliance projects in the City and for the wider financial services market it's the change in pension legislation, commonly referred to as 'A' day or 'M' day, for the mortgage providers, that is swallowing up volumes of testers.

Interestingly, Giant forecasts that 21% of all IT requirements will shortly emanate from the public sector, which compares with 25% for software testing. But most notable is the fact that of all general IT contract requirements, 28% come from the financial services industry as a whole, compared with a massive 53% for software testing. This clearly suggests that this sector is investing a much higher proportion of project spend on testing than any other sector.

Offshore Testing

In our opinion, the jury is out on the merits of utilising offshore testing resources. It's important to differentiate between testers actually executing the testing offshore as opposed to those testers relocating to the UK for the duration of the project. There's a big difference and it lies within control of the project and the need for highly structured project management and

communication if the testing cycle is to be migrated to an offshore locality. For years, the testing community has been expecting the large Indian integrators for example, to make their presence felt in our market but to a great extent this threat has failed to materialise. This is probably because their phenomenal growth has been fuelled without the need to go after the 'scraps'. But whilst these organisations can boast of Six Sigma project maturity models, it's the observation of Tony Wells, a founding director of Centre4 Testing, that they simply don't have the in-house experience to match the expertise and quality of the consultants operating in the UK contract testing market.

In an evaluation visit to India in 2002, Wells who was founder and Chief Executive of testing services provider Mission Testing, observed that most personnel in these organisations yearned to focus on programming using in-vogue platforms such as J2EE and that testing was very much seen as an ancillary activity that was often included as an aid to sales and marketing. Indeed, as Guest Editor of Computer Weekly he questioned the ethical position of the "poacher" also being the "gamekeeper". Several years later, however, the UK integrators have established substantial offshore competency centres and it's likely that we will slowly start to witness the migration of chunks of the more meaty testing projects offshore.

Summary

There is a very clear 'feel good factor' across the sector, but we counsel that this may be a lagged effect because indicators such as the number of opportunities have indisputably deteriorated since our report last Autumn. Having said that, rates have definitely risen but contractors are sensibly accepting more modest rates in exchange for long term contracts and are taking a realistic position by waiving rate increases when agreeing contract extensions.

The City has taken the lead once more in it's use of contractors and is demonstrably investing a far higher proportion of project spend in software testing than any other sector. Large projects in the public sector have attracted swathes of testers on solid, long term projects where project failure is simply no longer acceptable.

The pressure from offshore testing has by and large failed to materialise to-date but, as is the case with so many other British industries from years gone, we should not become complacent.

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 Our thanks as always 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

