

Mastech 2nd Quarter Update

The Economy continues to slowly show signs of recovery as we move into the second quarter. Our clients demand for IT resources and projects have increased modestly from the beginning of the year and show signs of continued momentum. We look forward to the prospects ahead in the next few months as IT Services spending shows signs of growth.

Offshoring Navigates Closer to Home

As companies become more sophisticated consumers of IT outsourcing — especially amid ongoing economic uncertainty — the question of “where” has become a very important one.

Offshore outsourcing centers continue to spring up around the globe. Even developing nations, such as Ghana, are building outsourcing sectors. Despite the many offshore providers and destinations, it remains challenging to successfully manage offshore solutions.

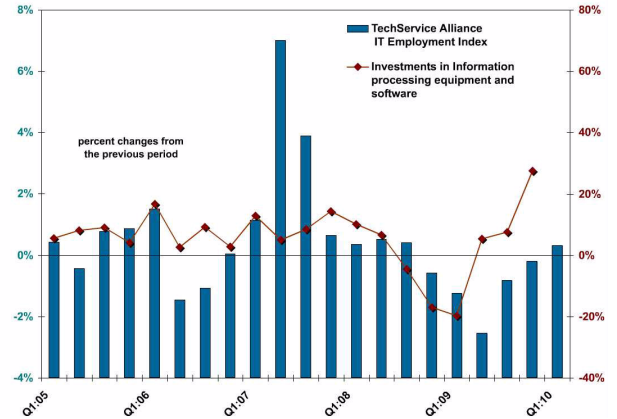
What many businesses are finding is that the toughest challenges they have with offshoring are resolved when they shift to “near-” or “home-” shore outsourcing.

Consider nearshoring. The recent rise in nearshoring has been driven by businesses that learned through hard experiences that outsourcing to a distant land may not deliver promised cost savings and also comes with added risk and unforeseen pitfalls, such as security concerns and domestic political and customer backlash. Nearshoring carries with it several benefits associated with close proximity: cultural and language similarities; common political goals and agenda; and comparable time zones (which eliminate off-hours premium charges and offer economical travel when necessary).

As these benefits are recognized by U.S. companies, new outsourcing hubs are developing. Canada, Mexico and many nations in South America have developed nearshoring hubs for the United States. Central and Eastern Europe have long done the same for Western Europe as has China for Japan and Korea.

An even newer trend, which pundits are calling “Outsourcing 2.0,” is one step closer than nearshoring — it’s homeshoring (also known as rural domestic outsourcing). As the challenging post-recession era keeps prices and domestic salaries low, the cost advantages of offshoring to far-off lands or even nearshore countries plummet.

More and more companies today see homeshoring



Sources: TechServe Alliance & Bureau of Economic Analysis (BEA)

as a way to take advantage of IT skills in the U.S. at a time when local talent and infrastructure are both affordable.

Data Center Demand, IT Services Opportunity

IT staff at enterprises are increasingly stretched thin — especially in the data center arena. Symantec, the security software provider, recently released a *2010 State of Enterprise Security* study that found “The IT manager’s ‘to-do’ list is as long as ever. Applications continue to grow in number and complexity. Servers remain underutilized. Storage continues to grow but is also underutilized. And disaster-recovery plans — more important than ever — are still not complete.”

Handling too many applications was identified as a major problem and centers are becoming “too complex to manage easily.” Although half the companies surveyed anticipate IT funding increases in the next 12 months and only 15% expect decreases (34% expect no changes), budgets rarely rise as fast as expectations.

As the importance and size of data centers grow, so does the need for security, which was rated the top priority followed by backup and recovery initiatives. One major trouble facing data center managers is keeping their centers properly staffed with more than half of respondents saying they were somewhat or extremely understaffed. Almost 80% reported they have the same or more open job requisitions compared to 12 months earlier.

The biggest obstacles to adequately staffing data centers are budgetary constraints and finding qualified applicants. The most severely understaffed areas seemed to be those requiring networking, virtualization and security skills. With budgets often prohibiting new positions and the difficulty in finding the proper skill set, data centers could be turning to IT staffing and solutions companies to meet the growing demand.

IT Employment for Most Professions Better Than National Trends

Despite a persistently high national unemployment rate of 9.8% in the first quarter of 2010, IT workers continue to experience lower unemployment rates for most, but not all, IT occupations.

Recession-scarred businesses are still not in the mood to buy new hardware as reflected by the relatively high unemployment rate (14.3%) for computer hardware engineers. Since hardware wasn't being purchased, those responsible for keeping the aging equipment working — computer, automated teller and office machine repairers — were in high demand as evidenced by a comparatively low unemployment rate of 4.3%.

At the high end of the skill spectrum, IT professionals were in great demand, including database administrators (unemployment rate of less than 2%), network systems analysts and data communications analysts.

But other IT workers did not fare as well. Those without high-end skills, such as computer software specialists, experienced a fairly high unemployment rate of more than 13%, perhaps because that work can still be done cheaper offshore.

Occupation	1Q:10 Unemployment rate
Computer and information systems managers	5.9%
Computer, automated teller and office machine repairers	4.3%
Computer hardware engineers	14.3%
Computer programmers	8.1%
Computer scientists and systems analysts	5.2%
Computer software engineers	5.5%
Computer support specialists	13.3%
Database administrators	1.6%
Network and computer systems administrators	4.8%
Network systems and data communications analysts	3.5%

Source: unpublished tabulations of Current Population Survey data furnished by the U.S. Bureau of Labor Statistics.

Those working in high-skilled computer systems design and related services as well as the custom computer programming services sectors saw paychecks decline slightly from a year earlier. That reduction was mainly because hours were reduced.

IT's Emerging Role in the Recovery

The damage from the recession is done. As the economy begins its tender steps to recovery, it is time to focus on growing, or re-growing, revenues and boosting profits. A recent survey from Gartner Inc. confirms that "IT-enabled changes will be a key element in their (CEOs) post-recession strategy."

For this strategy to succeed, the best organizations will need both "IT-smart business leaders and business-smart IT leaders," this according to Susan Cramm, former CFO, CIO and author of a posting on *Harvard Business Review's* blog. Her survey exploring the IT and business-leader relationship found different results depending upon the "IT smarts" of each business.

Cramm's results suggest it may be worth CIOs' efforts to educate business leaders on the value of IT because "as companies become smarter about IT, they change how they manage IT assets." For example, 90% of leaders at "IT smart" firms say business leaders drive IT-enabled business change" compared to only 21% at "IT dumb" organizations.

But, CIOs will not have "carte blanche" regarding IT spending. According to Gartner, "CIOs are advised not to expect 2010 budget increases, rather to expect to finance future IT projects from the cost savings obtained from existing IT operations."

Tips & Tricks

Speed Check, No Radar Gun Necessary

Costs for everything IT remain under close scrutiny, which is why it's important to ensure you are getting what you pay for in terms of Internet connectivity. Since connection speed can have a major affect on productivity, it is advantageous to regularly check whether your company is receiving the broadband speed it purchased. Trusting an ISP's own tests or a third-party test site is akin to putting the fox in charge of the hen house.

The Federal Communications Commission offers two free live tests to help IT organizations determine if they are receiving the speeds for which they pay. To run a live test, go to <http://www.broadband.gov/> and then the Consumer Broadband Test. After answering a few basic questions, such as the type of connection (home or business and size of that business as well as location), the test results will show expected download and upload speeds, latency and jitter, which can all help an IT pro identify the source of a potential problem.