

2008 HOUSTON

IT HIRING TRENDS

By James Del Monte, CERS, CPC

In a recent survey, fifty-eight percent of IT executives in Houston predicted a local industry skill shortage which would prevent them from finding the talent they need in 2008¹. As we reach the end of the first quarter, has this prediction held true? What should we expect for the future of the local IT industry? As an IT manager in Houston whose success is dependent upon the attraction of new talent to your company and the retention of current employees, it is imperative that you understand and are prepared to deal with the issues currently facing our industry. While you likely found it difficult to find and retain critical staff in 2007, the question remains – will the problem get worse in 2008?

IT Executives Forecast a Bright Future for the Local Industry

In our annual hiring survey conducted in late 2007, we asked Houston-area IT executives for their perspective on recent occurrences within the local industry, their predictions for 2008, and their plans for combating present-day challenges. Below are a few highlights from the survey¹:

- 72 percent of the executives polled felt that the next national economic slowdown was either currently happening or would occur in the next year or two.
- 53 percent predicted that the next economic slowdown in Houston would not occur until 2010 or later.
- 79 percent expected overall growth for their company in 2008.
- 64 percent planned to increase their departmental budget.
- 61 percent planned to increase their current staffing levels.
- 72 percent of the staffing increases would equate to 5 percent or more above current levels.
- 61 percent of the staffing increases were expected to come in the way of full-time employees.

Theoretically, it follows that over the course of the year an executive with 100 IT employees would add 5 or more team members with 3 or more of them being full-time employees. Taking into account the number of companies in Houston with over 100 IT employees, that would be a lot of hiring. If the talent pool were to continue dwindling as it did in 2007, the combination of these factors could generate an IT labor crisis that would impact companies of all sizes.

As Global Sophistication Expands Demands for Technological Advancements Increase

Before further examining local IT trends, it is important that we take a step back and look at the industry on a larger scale. As reported in a recent article on MarketWatch.com, formerly troubled countries like Russia, India, and China have, in recent years, grown at enormous rates which have helped them to establish themselves as new world powerhouses. Because of their strong growth, the global economy has thrived, and is expected to do so throughout 2008².

As a result of this extreme growth we have seen a worldwide increase in demand for products and services, which has triggered a need for rapid technological advancements as companies look to improve productivity. Many of the companies in need of technical developments are based in the U.S., but unfortunately the large numbers of tech-savvy workers needed to make the improvements are simply not available within our own country.

Despite a stall in our national economy, the unemployment rate for most IT occupations throughout 2007 was at or below 3 percent³. With the majority of economists considering a rate of 4.5 percent to denote “full employment” for an occupation, the IT unemployment rates we saw in 2007 signify that there were virtually no IT resources available for hire within the U.S.

National Unemployment Rates For Occupations In The IT Industry ³				
IT OCCUPATIONS	1Q2007	2Q2007	3Q2007	4Q2007
Computer Hardware Engineers	3.9	—	3.9	1.5
Computer & Information Systems Managers	0.9	1.7	1.1	1.6
Computer Programmers	3	2.7	2	1.4
Computer Scientists & Systems Analysts	1.9	1.3	1.8	3.1
Computer Software Engineers	0.9	1.6	2.8	2.0
Computer Support Specialists	5	1.7	4.7	—
Network & Computer Systems Administrators	3.2	1.1	0.7	3.9
Network Systems & Data Communications Analysts	—	2	0.6	1.0
Data Administrators	1.9	1.5	—	—

Off-shoring May Not be the Best Solution

Over the past few years, many U.S.-based companies have turned to some of the newly developing countries to off-shore their IT services in order to offset the current skill shortages within the states. Until now, these countries have offered a plethora of skilled labor and resources through outsourced providers at bargain-basement prices. Most recently, however, a growing middle class of skilled professionals has emerged who, much like their American counterparts, value work/life balance and are no longer willing to work long hours for minimal wages. As these workers have gained marketable experience, the demand for their skills has increased faster than the supply, causing serious wage inflation. As a result, many of these countries have experienced record-breaking turnover rates, in some cases near 40 percent. This, along with the difficulty of managing projects with global resources, has some U.S.-based companies and IT managers beginning to rethink the idea of off-shoring.

When we asked local IT executives about their opinions of off-shoring as a solution to the impending national skill shortage, most seemed less than optimistic. Only 30 percent of the managers surveyed said they currently used off-shoring as an alternative. Of those, 30 percent said they planned to decrease their current levels in 2008 while only 20 percent planned to increase¹. If we were to compare this to the prior year’s survey where 33 percent of the respondents were currently off-shoring IT services, 19 percent planned to increase their use, and only 4 percent planned to decrease, it would appear as though the off-shoring craze was definitely losing steam⁴.

Comparison of Executive Responses From 2007 & 2008 IT Hiring Surveys^{1&4}

Executive Responses	2007 Forecast	2007 Actual	2008 Forecast
Increase Off-shoring Levels	19%	36%	20%
Decrease Off-shoring Levels	4%	21%	30%
Off-shoring Levels to Remain the Same	77%	43%	50%

High Oil Prices Have Led to a Huge Shortage of IT Labor in Houston

As the national IT labor crisis grew throughout 2007 and confidence in global outsourcing began to crumble, Houston was facing additional factors which only intensified the impact on our IT labor market. Because oil and gas companies account for 47 percent of our economic base employment, both the economy and overall demand for labor in Houston typically explode when energy prices go up⁵. In 2007, as oil prices hit a record breaking yearly average of \$69.60 a barrel, the unemployment rate in Houston reached an average six-year low of 4.2 percent^{6&7}. As reported in a recent article on MSNBC.com, by the beginning of March 2008 oil prices had surged above a whopping \$110 a barrel⁸. Because of this major economic boom, the demand for technology improvements and therefore skilled IT labor in Houston has been even greater than that of the national market as a whole.

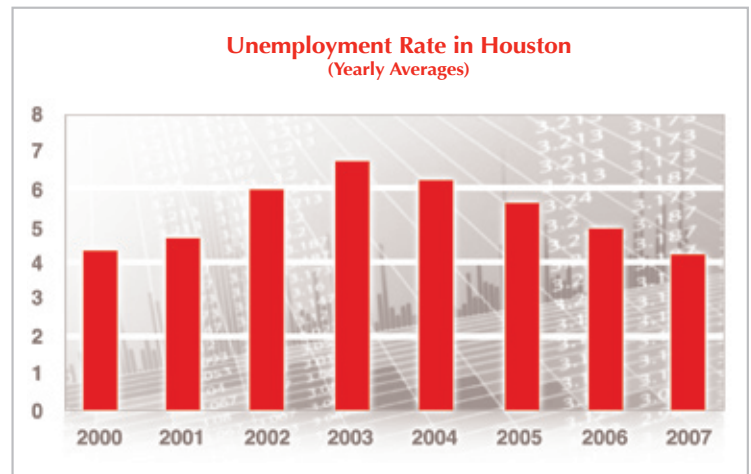
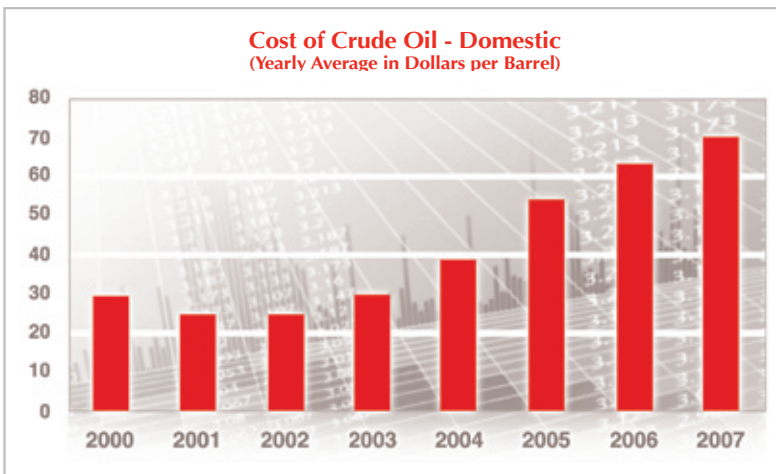


Illustration of the correlation between oil prices and unemployment rates in Houston from 2000 to 2007 (statistics for 2007 are estimated).^{6&7}

The results from our recent survey stated that sixty-one percent of the local IT executives polled said they planned to increase current staffing levels in 2008, some as much as 16 percent or higher. While significant demand for IT labor alone is not a real problem, combining it with the fact that only 11 percent of the executives said they planned to decrease their staff and the rest planned to remain the same, the possibility of a significant increase in the local IT worker deficit becomes apparent¹. When asked outright whether or not they anticipated an IT skill shortage in 2008, 58 percent of the executives we polled said yes. The areas in which they seemed to expect the greatest shortages include¹:

- *Business and functional analysts*
- *ERP specialists*
- *Project managers*
- *Enterprise architects*
- *Web-based developers (especially Java and .Net)*
- *IT professionals with expertise in database, infrastructure, and/or energy trading.*

The 2008 Market May Be Less Predictable than 2007

When comparing these most recent forecasts to those from the prior year, there were notable differences. In the prior year's survey, which was conducted in late 2006 when the national economy was still booming, only 44 percent of IT executives in Houston said they anticipated an increase in their staffing levels and only 46 percent forecasted a local IT skill shortage for 2007⁴. When asked in this year's survey about the outcome of those forecasts, only 33 percent reported an actual increase in staff for the year¹. Based on these surveys alone, predictions would be that the local IT labor crisis would not only continue in 2008, but it would likely worsen.

Comparison of Executive Responses from 2007 & 2008 IT Hiring Surveys^{1&4}

Executive Responses	2007 Forecast	2007 Actual	2008 Forecast
Increase Staffing Levels	44%	33%	61%
Decrease Staffing Levels	0%	17%	11%
Staffing Levels to Remain the Same	56%	50%	28%
Anticipate a Local IT Skill Shortage	46%	—	58%

In the quarter that has ensued since our survey, the national economy has stalled as expected, and by some accounts it has even begun to decline. For the most part original predictions, which suggested that those of us in Houston, and especially those of us in IT, would remain unaffected by the national downturn, appear to be coming true. As indicated by the amount of job orders still coming into our office, demand for IT talent remains strong.

Despite the unwavering stability of our market, we are beginning to see implications of a changing mindset among local IT executives. While most of the executives seemed really optimistic about their company's future at the close of 2007, many have showed signs of growing uncertainty in recent conversations. Some have mentioned hiring freezes for other departments within their company, others have discussed recent budget reductions within their own departments, and while many are still looking to hire, they have become hesitant about spending big bucks to do so.

Herein lies the problem. Despite all this talk of freezes and reductions, we are still in the midst of a major IT skill shortage, and IT professionals, who have been paid well for quite a while now, are still demanding and receiving high pay rates at least for the time being.

What Does this Mean for Local IT Managers?

The key for you, as an IT manager in Houston, is to become a proactive, rather than reactive, leader who is ready for whatever obstacles may come your way. Keeping in mind that market conditions constantly evolve, it is imperative to keep a watchful eye on changes as they unfold and be prepared to address the resulting challenges.

For most of 2008 we will likely remain in a high-demand, low-supply IT labor market. Based on our 26+ years of experience in the industry, we know that the challenges associated with this type of market include longer fill-times for vacant jobs, higher turnover rates as more churning occurs, more training required to make up for the empty seats, and increases in salaries and the costs of hiring additional resources.

Good News for the Future of IT

In the midst of all this chaos is a small, but highly significant, bit of good news on the horizon. Last year we reported that the number of students enrolling in 4-year or higher computer-related degree programs had declined considerably over the previous five years and in Fall 2005 had sunk to an all-time low of 21,232. Fortunately for the industry, recent reports have shown that in Fall 2006 enrollment numbers for this same group finally increased for the first time since Fall 2002⁹. Most experts would suggest that this comes as a result of the major increase in demand for IT professionals which is allowing future graduates to finally relinquish their fears caused by the dot-com crash.

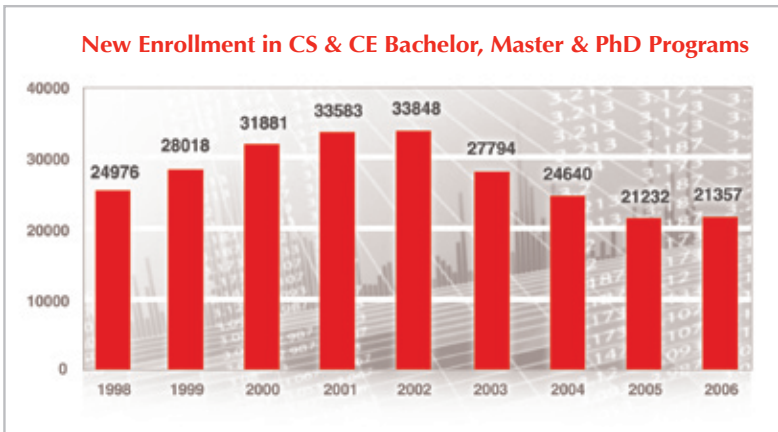


Illustration of participation in 4-year or higher computer-related degree programs from 1998-2006⁹.

We also believe that the large number of companies opting to hire part-time students, interns, and fresh grads into their IT departments has a lot to do with the increasing level of interest in the field. In our most recent survey, 67 percent of the executive respondents said they currently hire these types of employees¹. Knowing how vital that population is to the future of the IT industry, we are convinced this is a great strategy for all companies to adopt. Not only can hiring interns, part-time students, and new grads fulfill an immediate need for resources, it can also provide a great pool of future full-time talent from which to choose.

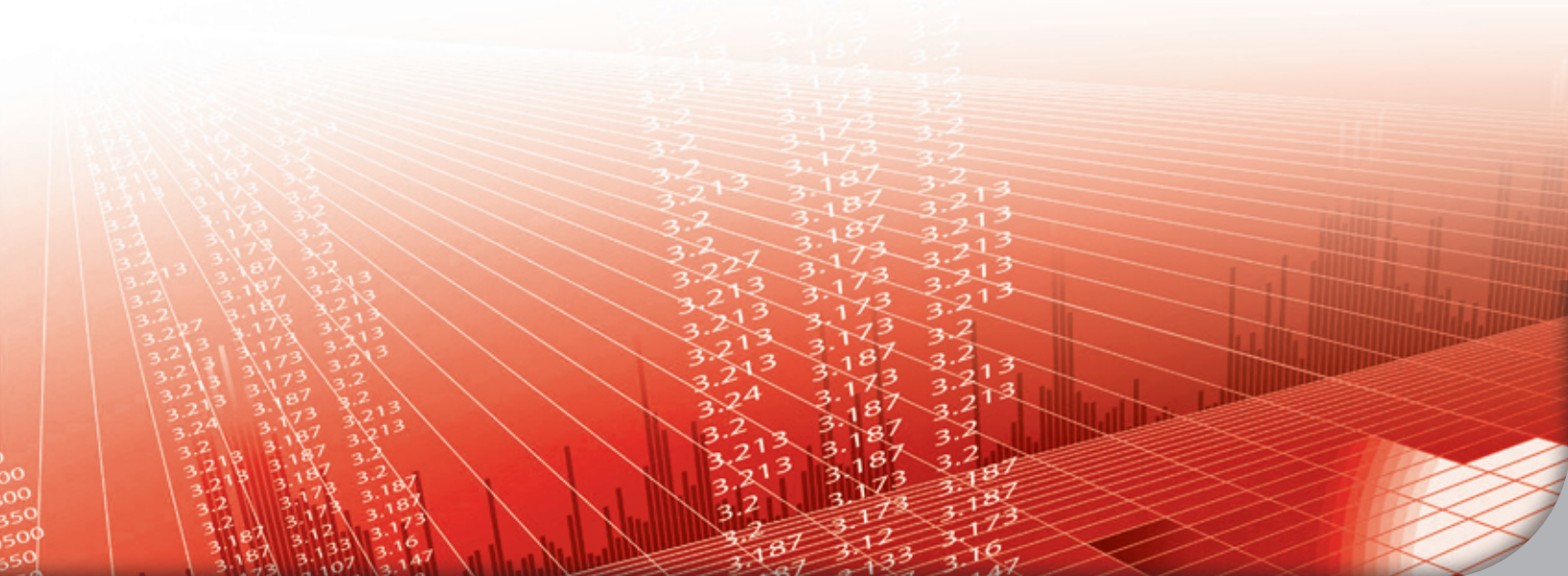
A New Approach to Off-shoring

In discussing the global marketplace, we revealed that many U.S.-based companies and managers were finding it increasingly less desirable to off-shore their IT services. This is very true, but in some instances local companies have found there is no other choice because the necessary resources simply do not exist within the U.S. For example, a major oil and gas client of ours which requires a minimum GPA for all new employees including those in IT recently claimed to have much better luck finding available workers who meet the criteria overseas rather than here in the states.

Taking this into consideration, perhaps the solution is not simply to do away with off-shoring altogether, but possibly to look at it with a different approach. With that goal in mind, some companies have decided to eliminate much of the costs and conflicts associated with managing foreign resources by relocating their own IT facilities and management teams overseas. Rather than turning their off-shore services over to a foreign-based outsourced company, they are managing the IT services themselves with the tried and true strategies that made them successful within the U.S.

On-shoring as an Alternative

Another popular alternative that some companies and IT managers have adopted is a strategy called "on-shoring." In this approach the company moves their facilities to areas within the U.S that have become economically depressed in recent times due to varying circumstances such as the closing of automobile manufacturing plants in the Detroit area. By doing this, they are able to find a surplus of skilled professionals who are able and willing to work.



What Role will Salaries Play?

Regardless of the levels of off-shoring and on-shoring that companies use, there will likely remain a deficit in the number of IT professionals available for hire in the U.S., and especially in Houston, for most of 2008. With that said, what are local executives planning to do to retain existing staff and attract new talent throughout the year? 100 percent of those questioned in our survey said they planned to increase current employee salaries in 2008 anywhere from 2 to 10 percent with most falling in the traditional 4 to 6 percent range. In addition, 71 percent said they would include bonuses in their compensation packages with the majority of those bonuses ranging from 6 to 10 percent of base salaries¹.

In 2007, we saw companies go to extreme measures when competing for top IT talent. Most of our candidates received multiple offers last year, all with 10-30 percent increases in their current annualized earnings, and many were offered impressive sign-on bonuses as well. On the reverse side, we saw companies doing all they could to keep their best employees. We saw many counteroffers, both proactive and reactive, ranging from 10 all the way up to 60 percent above current salaries.

Even entry-level IT salaries reached unprecedented heights in 2007. With a quickly aging worker population, many of our city's major oil and gas companies went to great lengths to drive entry-level hiring to capacity. At a recent meeting, we spoke with a soon-to-be IT graduate from the University of Houston who was simultaneously evaluating four different offers, including two from local oil and gas companies. This student was looking at entry-level offers between \$63.5K and \$65K.

2007 presented quite possibly the biggest industry boom we have seen in the past 26 years, and salary expectations seemed to increase much faster than company budgets. To compete in the tight market of 2007, we suggested that our clients add 10-30 percent to the current annual base salary of any position they were looking to fill. Given that the market remains this competitive throughout 2008 you should be ready to offer nothing less than your very best if you want to attract top IT talent to your company.

Money is Not the Only Answer

While salary increases are generally well-received, money is not necessarily the answer for everybody. This is an extremely unique time in history. We have four different generations currently participating in the workforce, all of which are motivated differently and have opposing views on work/life balance. Unlike those in the Boomer and Pre-Boomer generations, young Gen X and Gen Y professionals are not willing to put in 80-hour work weeks in exchange for higher pay. Most in these generations claim to value work/life balance over monetary compensation altogether. Additionally, we have more differing cultures working side by side than ever before which leads to even greater variations in values and motivational preferences.

Taking into consideration these differences, many companies have begun to develop creative ways of attracting new talent regardless of age or background. 40 percent of the managers surveyed said they currently have a formal retention/attraction plan that includes non-cash incentives, 62 percent said they allow their employees to telecommute anywhere from a few days each year to every day with most opting for a few days each month, and 81 percent offer flexible scheduling, which includes employees working a

required 9-hour day but having the flexibility to choose the hours that best suit their schedules. Some managers are also offering compressed work weeks in which employees pack all 40 hours into Monday through Thursday and enjoy Fridays off.

Some other creative incentives mentioned in our survey include¹:

- *Increased vacation time*
- *Flex spending accounts*
- *Advanced training opportunities*
- *Formal career paths*
- *Discounted Metro tickets*
- *Free flu shots*
- *Additional appointment time for doctor and dental visits*
- *Employee van pools*
- *On-site child care*
- *Free health club memberships*

Winning the IT Labor Battle in 2008

No doubt the stakes are high for 2008! The national economy may be slowing and attitudes may be shifting, but energy prices are sky-high, and both the economy and the employment market in Houston are still going strong. The skilled IT labor deficit is expected to grow as companies continue to hire additional resources and start to move their off-shored services back to the U.S. As we know from experience, however, expectations never equate to certainties. As an IT manager in Houston, now is the time to become a proactive and resilient leader who is ready to face whatever market conditions may come your way and the staffing challenges that accompany them.

As a leader with more than 26 years in Houston's IT staffing industry, JDA has the experience and know-how to help our clients find, attract, and retain top talent regardless of the market conditions. We have witnessed and survived the highs and lows of both the oil & gas and dot-com booms, and we use those experiences to guide our clients through the highs and lows of today. Despite the difficulty of finding qualified IT labor in 2007, JDA achieved one of our best years ever, and we were successful in locating and attracting many top-notch IT professionals for our client companies, including several executive-level IT managers.

To win the IT labor battle in 2008, we encourage you to develop and employ a well-defined staffing strategy that includes the inception of a proactive recruiting model. For more information on how to make this happen or to discuss your current IT hiring needs, please contact JDA today at 713-548-5400.

We wish you continued success throughout 2008, and we look forward to hearing from you soon.

DATA SOURCES

1. "2008 IT Executive Survey," JDA Professional Services, Inc. – October 2007
2. Market Watch – www.marketwatch.com
3. National Association of Computer Consultant Businesses – www.naccb.org
4. "Houston IT & Education Research Survey," JDA Professional Services, Inc. – September 2006
5. Greater Houston Partnership – www.houston.org
6. Energy Information Administration – www.eia.doe.gov
7. U.S. Department of Labor, Bureau of Labor Statistics – www.bls.gov
8. MSNBC – www.msnbc.msn.com
9. Computing Research Association – www.cra.org



About the Author

James Del Monte, CERS, CPC

From modest beginnings in 1981, James Del Monte founded JDA Professional Services, Inc., which today is one of Houston's leading IT staffing firms, according to the Texas Association of Personnel Consultants (TAPC). Throughout his career, James has helped hundreds of companies build great IT departments by finding key individuals and providing excellent strategies for employee retention. In addition, he has helped thousands of professionals build great IT careers through direct placements and by providing valued advice and guidance. In November 2007, James joined an elite group of professionals becoming one of only seventeen Certified Employee Retention Specialists (CERS) in the country.

James is a board member of both the TAPC and the National Association of Computer Consulting Businesses (NACCB). He is a former president of the Houston chapter of the Association of Information Technology Professionals (AITP) and a founding member of the Open Door Education Foundation which provides scholarships to IT students. In 2006, he was awarded the TAPC community service award for his commitment to the community and charitable contributions.

As part of his commitment to the advancement of IT training in Houston, James is a regular speaker at various colleges/universities, trade groups, and job ministries, and he is often quoted as a subject matter expert for the IT staffing industry. Additionally, James serves on the advisory board for the technology departments at the University of Houston Downtown, Westwood College, and ITT Technical Institute.



*Information Technology Staffing
Specialists Since 1981*

JDA Professional Services, Inc. is a Houston-based IT staffing firm specializing in the recruitment of strategic-technical to executive-level professionals. We provide staffing solutions through full-time, contract, and project-based placements. Since 1981, we have been helping companies build great IT departments while helping IT professionals find the right career opportunities.