



Winning the War for Talent – How Partners Are Addressing the Resource Shortage

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Important disclosures can be found in Appendix

Agenda

- **What is happening?**
- **Why is it happening?**
- **What is the impact to services partners?**
- **What is the impact to cloud & software vendors?**
- **How are partners and vendors addressing the shortage?**



Key Takeaways

- Resource shortage intensifying last 30-60 days
- Likely pressure point on margins – costs going up
- Potential risk to revenue and delivery for services
- Software and cloud vendors relatively un-impacted
- Near-term to-dos to address shortage
 - Accelerated hiring & training
 - Increased wages
 - Shift towards subcontracting / near-shore
 - Automation
- Long-term to-dos to address shortage
 - Heavier investments into university recruitment
 - Build out near-shore capacity
 - Cross-skilling/up-skilling



What are we seeing in IT Services?

Margins and top-line at risk, wages going up

- **Intensifying resource shortage for cloud & software over the last 90 days**
 - 1Q21 utilization rates approaching record levels
 - Attrition saw 200bps increase Q/Q, retention becoming more difficult
 - Client delivery more uncertain – BPO seeing most attrition
- **Wages rising, employees shopping around for high-offers**
 - Consultants and developers switching firms
 - Partners / vendors poaching resources from each other
 - Seeing 40-50%+ increase in salaries for offshore resources
- **COVID resurgence in India creating further challenges**
 - Workers out sick or taking care of family members
 - Partners tapping other countries or paying overtime to non-infected staff



Source: Cleveland Research

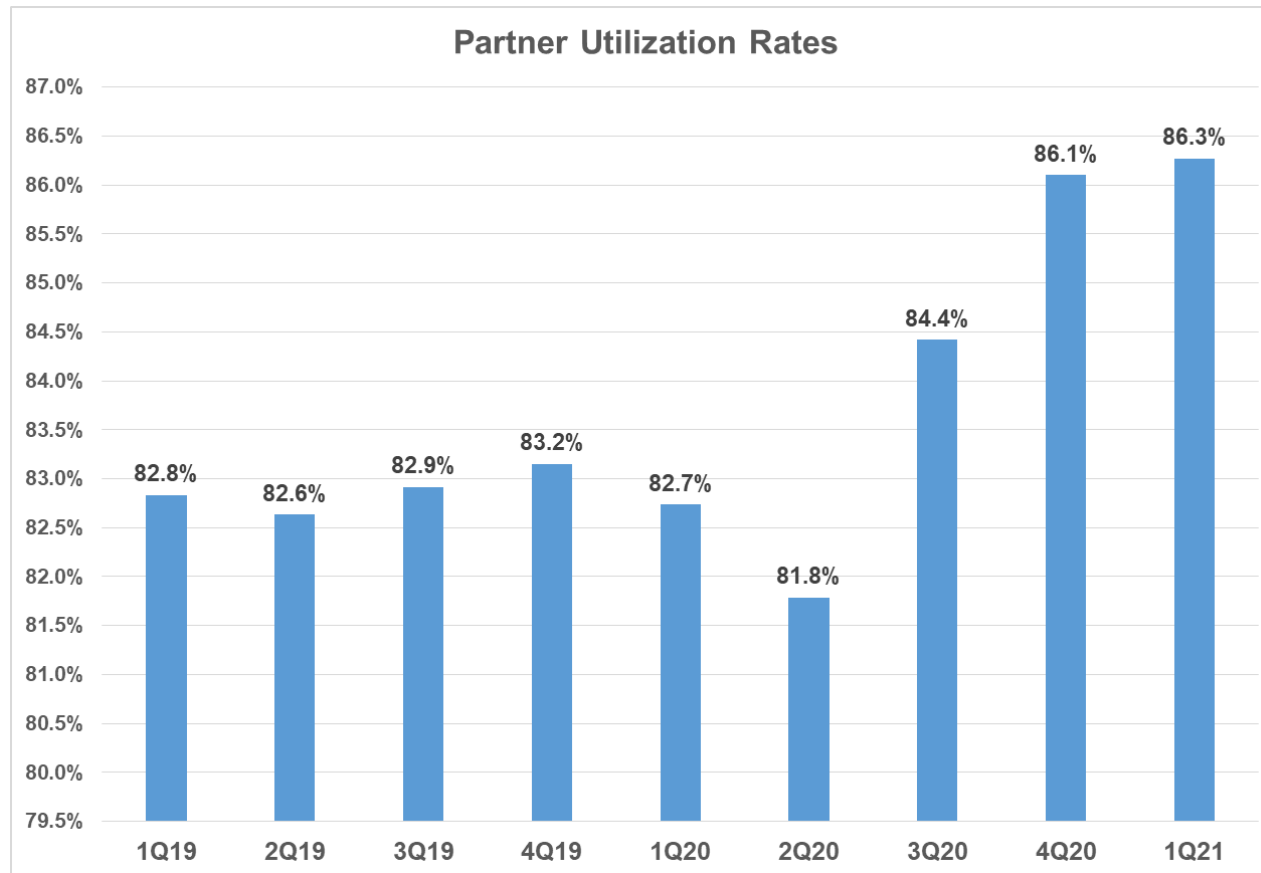


What are we seeing in IT Services?

Utilization rates at peak levels

Partners seeing all-time high utilization rates

- Expect to come down in next 6-12 months as mix of new hires increases
- Will need to spend more time training vs. active projects



Source: Cleveland Research, company reports

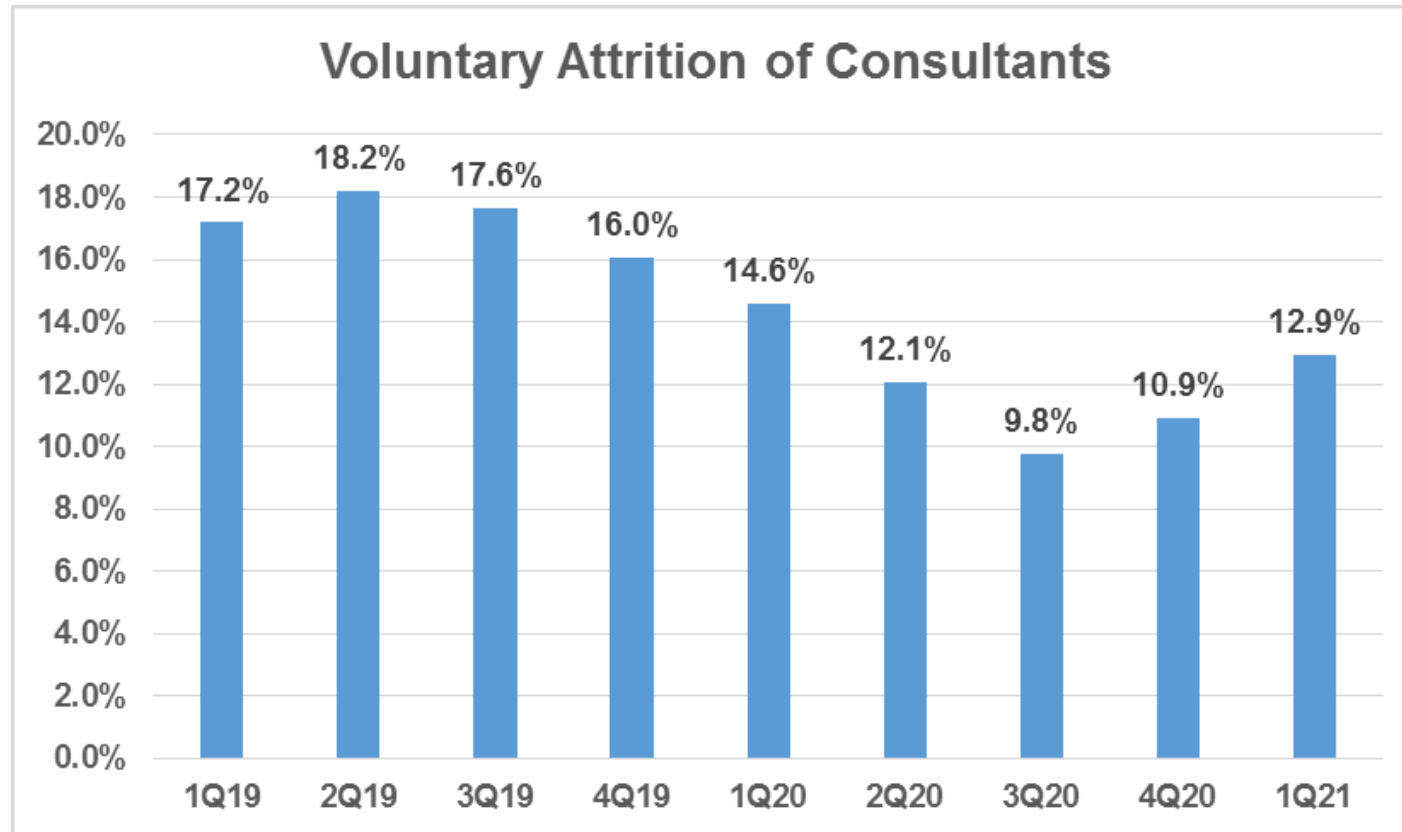


What are we seeing in IT Services?

Attrition Increasing

Attrition up 200bps Q/Q

- Expect similar to greater increase in coming quarters



Source: Cleveland Research, company reports

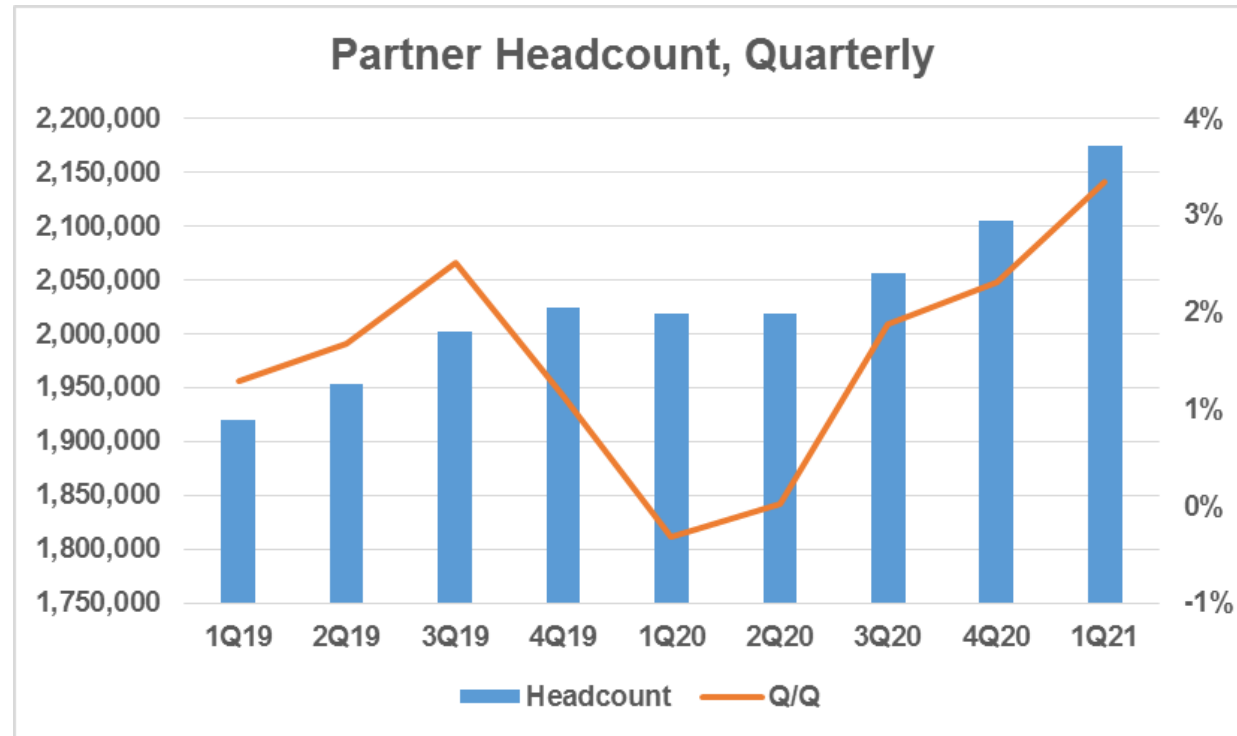


Why are resources so constrained?

V-shaped recovery

Many partners paused hiring or reduced headcount last year

- Demand snapped back beginning early 3Q – earlier than expected
- Pace of demand rebound outpacing ability to find / foster new talent



Why are resources so constrained?

Lack of experienced hires, attrition going up

- **Balancing act of experienced hires vs. juniors**
 - Battle of who is willing to pay the most for experienced hires (3+ years)
 - Seeing instances of new hires not showing up on first day, accepting alternative higher offers
 - Training college grads or reskilling existing employees takes time
 - 12+ months for college hires, 3-6 months for reskilling
 - Results in paying employees for idle time on bench
 - Also seeing training of non-IT talent
 - Primarily for less-complicated technologies (Salesforce, business apps, low-code)
- **180-degree turn from 12 months ago**
 - Attrition was declining last year as employees wanted job security
 - Now seeing higher turnover as employees chase higher wages

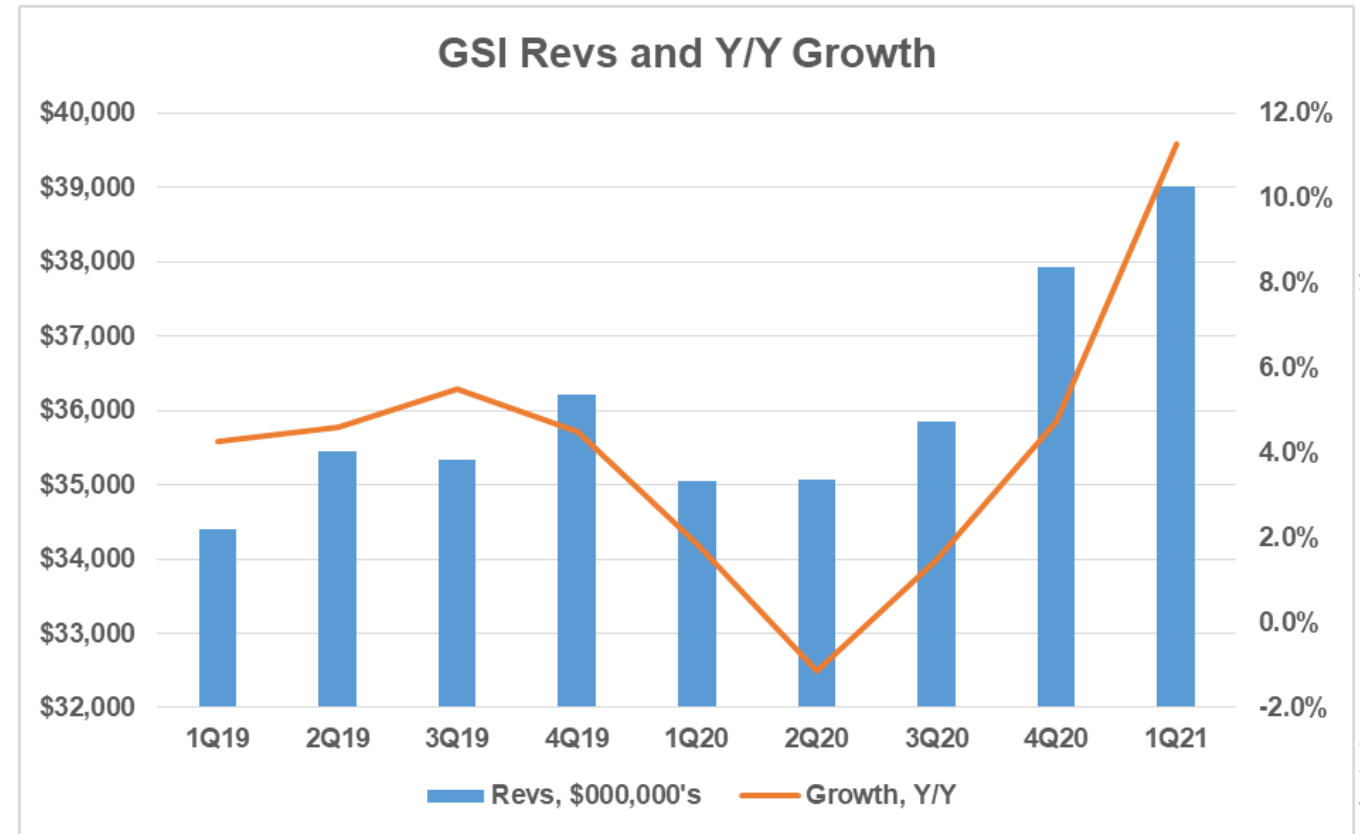


Why are resources so constrained?

Demand bottomed in 2Q20, expect to stabilize

Partner revenue growth bottomed in 2Q20, has accelerated the past 3 Q's

- Expect revenue growth to stabilize near current levels given shortage
- Shortage likely limits further top-line upside potential despite strong end markets
- Anecdotally, partners seen lacking 20-25% of the resources needed to deliver existing backlog



How are partners being impacted?

Margins likely get squeezed

- **Margins likely to be negatively impacted**
 - Wages increasing considerably
 - Greater mix of near-shoring and subcontracting
 - Limited ability to pass on higher rates to end customers
- **Partners with footprint in India more exposed**
 - Wages rising faster than in U.S. – narrowing cost arbitrage opportunity
 - Rethinking investment strategy between offshore vs. near / on-shore

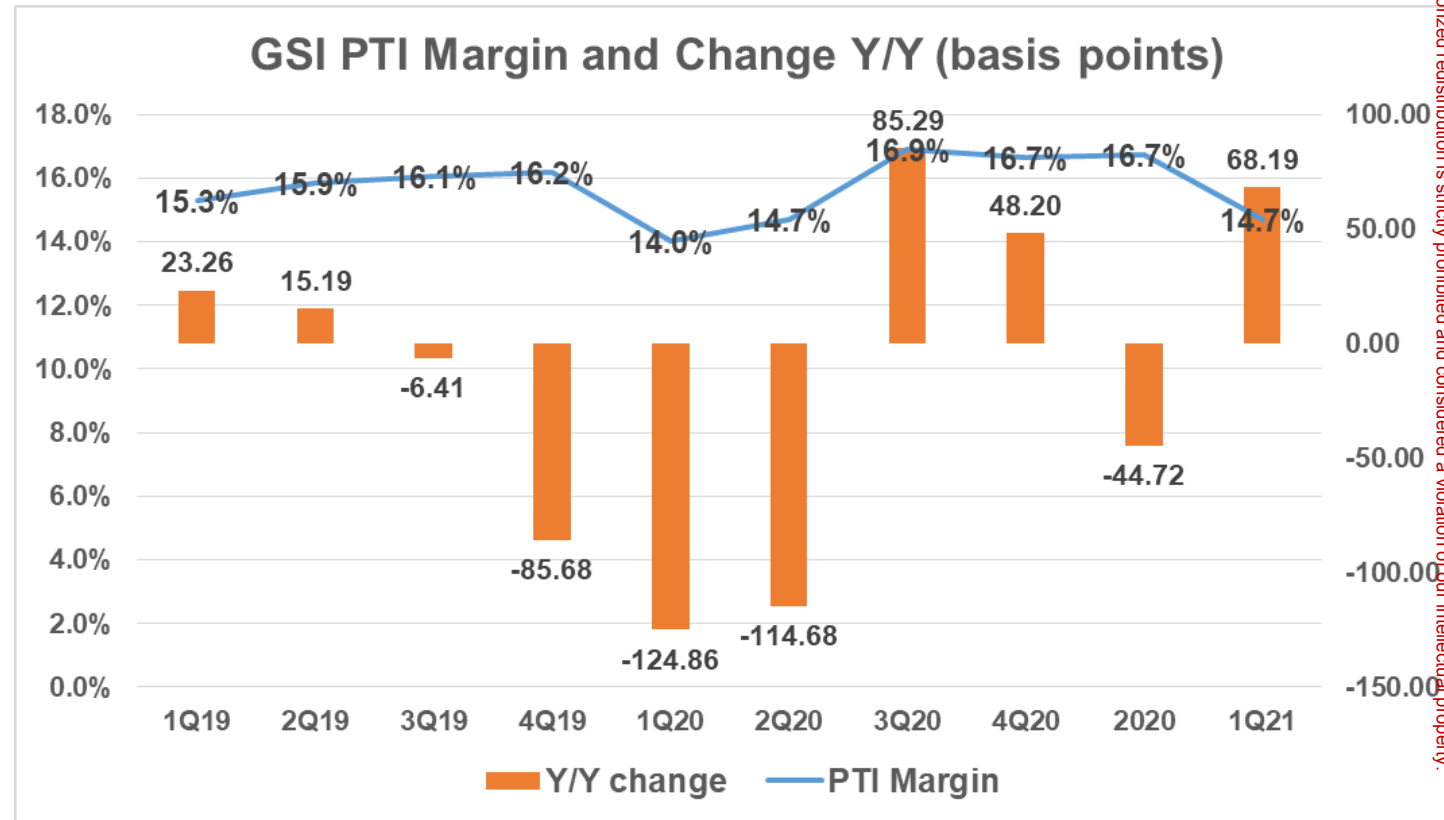


How are partners being impacted?

Margins likely get squeezed

Potential for margins to contract

- Margins have benefitted the last year from less travel and higher offshore mix
- Higher wages and more nearshore/subcontracting likely weigh on margins
- Limited ability seen in passing through price increases



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Strategies to Address Shortage

Increased wages, training / hiring, near-shoring

Short-Term Strategies

- **Address COVID**
 - Cover employees' family medical expenses
- **Retain talent**
 - More frequent bonuses
 - More frequent promotion cycles, earlier raises
- **Cushion margin where possible**
 - Continue to deliver remotely – less travel costs
 - Slowly implement modest price increases
- **Leverage automation**
 - RPA, scripts, templates
 - BPO, migration, delivery
- **Rebalance resources**
 - Subcontract
 - Near-shore
 - Shift to greater demand / higher margin areas

Long-Term Strategies

- **Heavier investments into university recruiting**
 - Experienced hires becoming costly
 - 12-18 month ramp up time for college hires
- **Cross-skilling / upskilling**
 - Legacy tech skills to cloud / SaaS
 - Convert business / industry users to IT
- **Training-as-a-service**
 - End customers looking to train internal employees
 - Can act as additional revenue stream for partners
- **Build capacity in nearshore locations**
 - LatAm for U.S. companies
 - Eastern Europe for EMEA



Impact to Vendors?

Potential impact on cloud / software vendors

- **Minimal impact to date on new software/cloud sales**
 - Could start to see some impact on vendors who recognize revs based on consumption / usage
 - New signings could start to be impacted if implementation costs go up
 - Most partners continue to pursue new deals – although starting to get more selective in which deals to chase
- **Vendors ramping hiring in their own pro services teams**
 - Potential for vendors to take more business direct due to fears of delayed delivery / shelfware
 - Also making incremental investments into training programs / paying for certifications
- **General sentiment is impact on software sales will be limited**
 - Vendors will do what it takes to continue to sell
 - Could see mid-market / lower enterprise deals start to go to more tier-2 SIs if GSIs limit pursuant of deals to the large opps (\$100M+)



Impact to Vendors?

Potential impact on cloud / software vendors

- **Vendors with most mature partner ecosystems, simpler deployments, and easier technical / training requirements likely most insulated**
 - *Vendors with more complex deployments and training, less mature partner strategy, and more direct service capabilities likely to be more impacted*
- **Salesforce, ServiceNow, Okta, Palo Alto, Atlassian all viewed as low-risk**
- **Public cloud, Oracle, Adobe, VMware, Splunk medium risk**
- **IBM, SAP, and Workday viewed as at high risk**

Risk Assessment of IT Labor Shortage				
Risk	Company	Partner Ecosystem	Complexity of Deployment	Technical Certification Difficulty
Low	Salesforce	Very strong. Top 3 investment area the past few years.	Medium. Single cloud deals easy to deploy, multi-cloud products more difficult.	Relatively easy. Partners find it easy to cross train from other disciplines.
Low	Shopify	Average. Large number of small agencies and app vendors.	Low complexity.	Very easy.
Low	Atlassian	Maturing. 1/3 of business through partners, good app ecosystem.	Low to medium complexity. Some cloud / infra needs.	Relatively easy. Cloud / infra skills plus Align harder to scale.
Low	ServiceNow	Strong. Top 5 investment area for partners, achieving scale.	Medium.	Moderate. Somewhat technical.
Low	Okta	In early stages, developing rapidly. Hearing Identity as priority investment area for many partners.	Low complexity for workforce identity, greater complexity for customer identity, PAM, & governance	Easy certifications relative to pre-existing vendors/solutions
Low	Palo Alto Networks	Strong - gaining traction with GSI contingent as a dedicated service line	Strata (on prem fw mature, time consuming - Cortex and Prisma growing familiarity	Easy certification - increasing amount of customer initiated sales opportunities

Source: Cleveland Research



Impact to Vendors?

Potential impact on cloud / software vendors

Risk Assessment of IT Labor Shortage				
Risk	Company	Partner Ecosystem	Complexity of Deployment	Technical Certification Difficulty
Medium	Microsoft	Very strong. Top vendor for most partners.	Varies. SaaS and PC easy, cloud more difficult.	Azure and security certs difficult, others easier.
Medium	AWS	Very strong. Top investment area for partners.	Medium to high. Certain projects easier (lift and shift), some more complex (refactoring).	Difficult. Takes a few months to prepare for test, get certified. Technical.
Medium	Google Cloud	Improving. Growing area of partner investment.	Medium to high. Certain projects easier (lift and shift), some more complex (refactoring).	Difficult. Takes a few months to prepare for test, get certified. Technical.
Medium	Oracle	Strong. Tends to be larger practice among partners; Fusion seeing good investments.	Medium to high. Complex migrations and upgrades.	Difficult for tech, average for apps.
Medium	Adobe	Weak. Partner ecosystem emerging, features several disparate tech stacks.	Mostly easy (for Digital Media); Digital Experience more complex.	More difficult compared to other CX platforms, longer training time
Medium	Vmware	Well developed - frustrations from DELL share gains vs. other partners	Increasingly difficult with hybrid and containers	Increasingly difficult and expensive
Medium	Splunk	Developed - growing antagonism toward vendor with attrition and misexecution	High complexity - requires customization, pro services, and education	Relatively easy - experienced engineers/sales transitioning to faster growth vendors
High	SAP	Strong. Among partners' largest practices.	High. Multi-year, complex deployments.	Medium. Mix of easier business process and some technical requirements.
High	IBM	Medium. Indirect channel mature, not main area of focus for GSIs. Big direct services team.	High. Most are hybrid, multi-year, complex deployments.	High. Complex product set.
High	Workday	Medium. Very tight ecosystem, limited ability for partners to expand quickly.	Medium to high. Have quick deployment for mid-market; LE takes 1-2 years	Relatively easy, mostly business process focused.

Source: Cleveland Research



Appendix

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