The Tech Sector's Talent Shake-Up: A Golden Opportunity For Specialist DSPs?

Specialist DSPs have had ongoing challenges in finding and retaining high-quality digital talent, particularly cloud, data and security experts. Although specialist DSPs are attractive employers for many of these professionals, global Big Tech companies and local digital leaders have invested heavily over the past few years in building and expanding their own digital specialist teams, while start-ups and institutional corporates have also competed for top talent.

Covid-19 created a spectacular talent shortage in 2020 and the two subsequent years, driving up employment costs for many specialist DSPs. However, recent months have seen technology organisations shake up their operations in the post-Covid world, with many reducing the staff numbers they had at the height of the pandemic.

Can this new talent surplus in the market help specialist DSPs improve their position as employers of choice, to attract and secure the very best employees? How can they differentiate themselves to these candidates in a still-competitive hiring market? And what do they have to do inside their organisations to present their best face to this talent?

In this, our second article on specialist DSPs, we review the current digital talent landscape in Australia. In particular, we examine the wave of recent layoffs across the sector and discuss the potential implications for those specialist DSPs that are looking to build up their own teams, and for the investors funding many of these businesses.

Pre-Covid, a tight talent market

Even before the Covid-19 pandemic, Australian businesses found it hard to attract and retain high-calibre digital talent. This was despite Australia's information and

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communications technology (ICT) workforce growing at an annual rate of 5.2% between 2014 and 2020; by 2019, the ICT workforce was over 772,000 strong,[1] consisting of a mix of local talent and skilled immigrants.
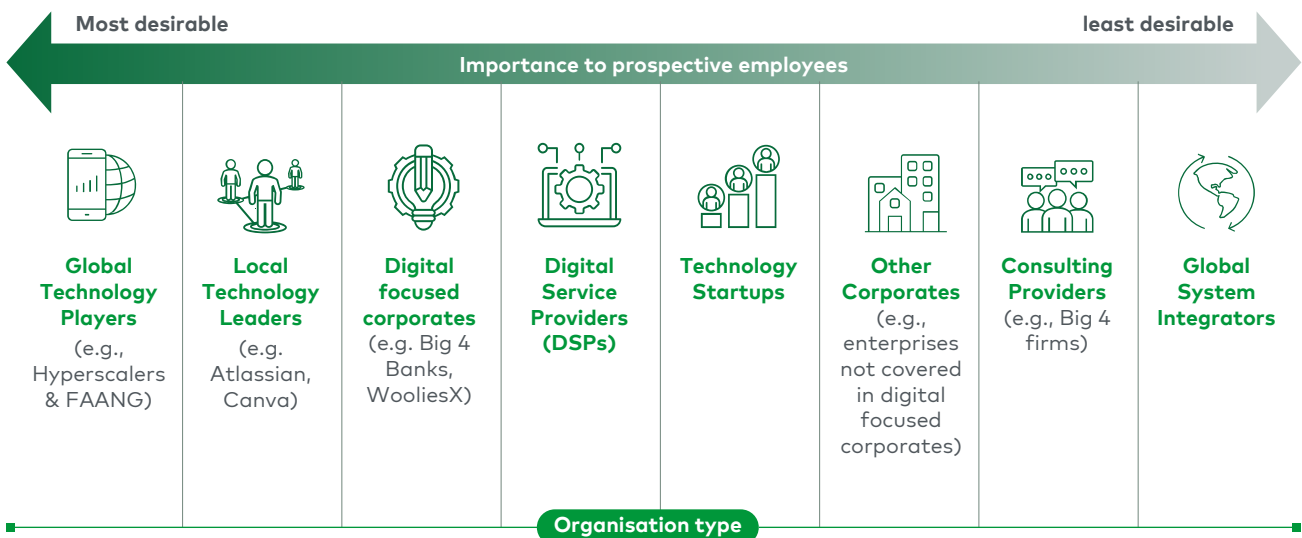
Alongside the annual growth of national ICT talent, the IT sector has accounted for about 20% of Australia's tertiary graduates in the science, technology, engineering and mathematics (STEM) disciplines. Meanwhile, the digital services sector has been growing at 10%-20% per annum, as have other markets such as the Infrastructure as a Service (Iaas) and Platform as a Service (PaaS) sectors.

By the second half of the 2010s, this created a shortfall of local talent, along with an influx of skilled digital consultants entering Australia to fill the gap. In each of these years, nearly 1,200 ICT-specific staff entered the country to join the labour market, mostly software engineers, developers, programmers and ICT business analysts.

However, despite this influx, specialist DSPs were not the first choice for all prospective employees at an 'expert' level. Our research, summarised in Figure 1 below, shows that they ranked middle of the employer pack in candidates' eyes, behind the Big Tech companies (for example, AWS and Google) and local tech leaders like Atlassian and Canva. These market leaders offered the allure of a strongly branded employer that could provide interesting work opportunities along with attractive compensation packages, equity (in some cases) and other competitive, non-remunerative benefits.

Specialist DSPs also sat just behind the digitally focused corporates such as leading national banks, but were still ahead of start-ups, larger ASX-listed corporates, larger broad-service digital consultancies and global systems integrators.

Figure 1
Digital Talent Employee Preferences

| Global Technology Players (e.g., Hyperscalers & FAANG) | Local Technology Leaders (e.g. Atlassian, Canva) | Digital focused corporates (e.g. Big 4 Banks, WooliesX) | Digital Service Providers (DSPs) | Technology Startups | Other Corporates (e.g., enterprises not covered in digital focused corporates) | Consulting Providers (e.g., Big 4 firms) | Global System Integrators |

Source: L.E.K. research and analysis

Specialist DSPs competed with the market leaders by offering comparable market salaries and remuneration packages, coupled with professional development opportunities and working cultures that seemed more attractive than their larger competitors. This helped them hold their own against their larger competitors and keep ahead of others in the fight for talent.

## Covid-19 rachets up the competition for digital talent in Australia

Then along came the COVID-19 pandemic at the start of 2020, leading to an even tighter talent landscape for digital employers in Australia, both in terms of supply and demand, and a consequent increase in remuneration costs for top talent.

Over this time, the demand for digital talent grew exponentially, thanks to many businesses speeding up their cloud transformation projects, to better enable working from home or in hybrid working environments for their employees. The rise of ecommerce as the dominant sales channel for many businesses saw these organisations very quickly adopting, or investing in, improved ecommerce capabilities and infrastructure.

Specialist DSPs were poised to do well from the pandemic: many organisations could not find the digital talent to bolster their own internal IT teams and looked to specialist DSPs and other technology consultants to provide them with an expert, scalable workforce to progress their digital transformation projects.

But at the same time, access to foreign talent dried up, as the government introduced border restrictions to avert the pandemic's spread. As summarised in Figure 2 below, between 2019 and 2021, the number of skilled digital working visas approved declined by a staggering 50%.

Figure 2
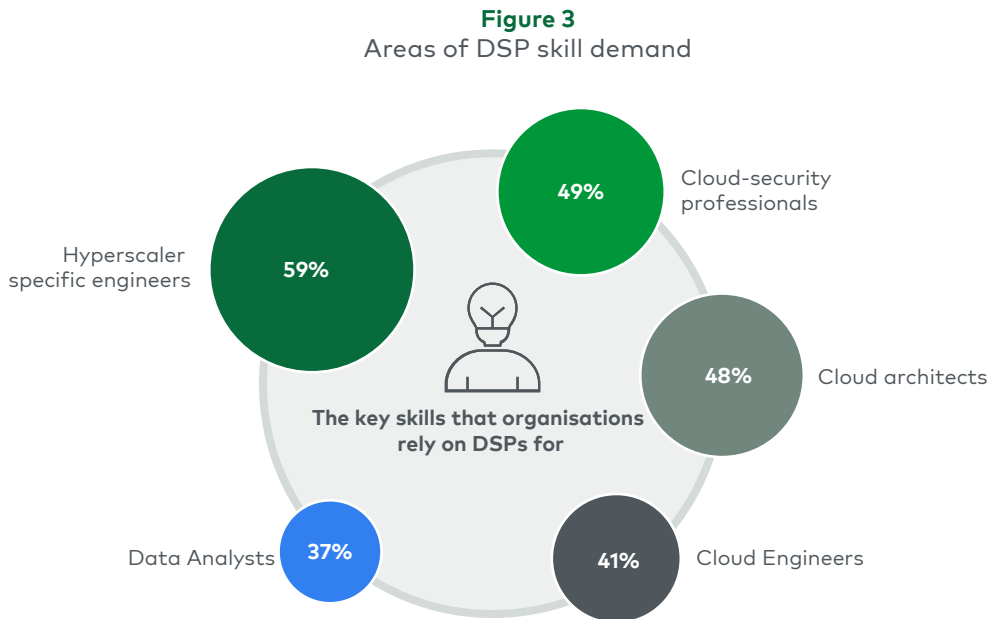Number of temporary digital 'skilled worker' residence visas* granted (2016-22)**
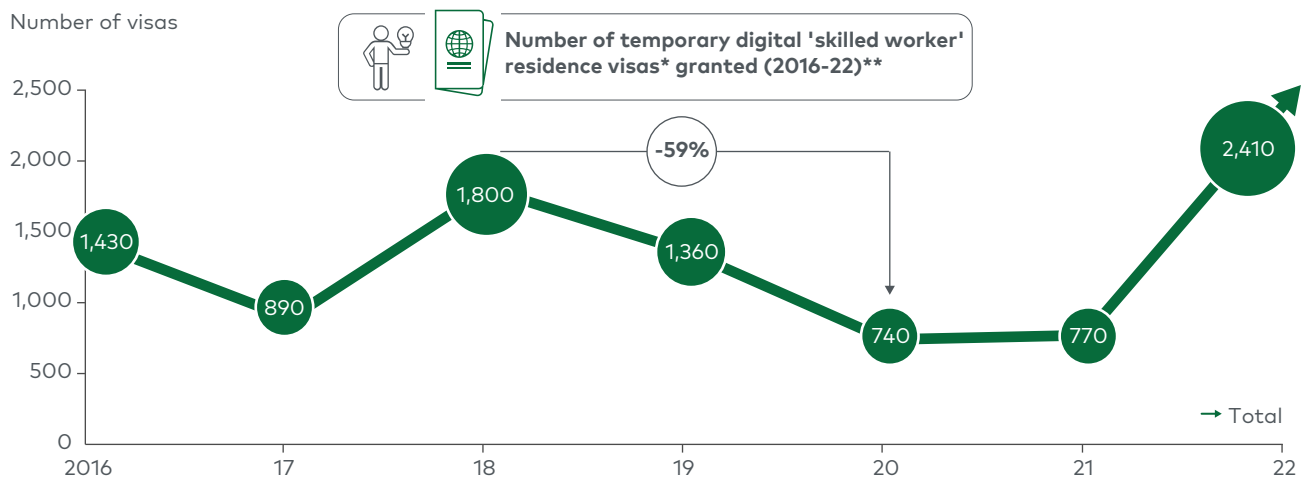
Note: * Includes temporary skill shortages (subclass 482), and Temporary Work Skilled (subclass 457); ** the total number of skilled visas includes the following skills: Software Engineer, ICT Business Analyst, Developer Programmer; *** Technology workforce estimated at c.800k in 2020
Source: Australian Government, Department of Home Affairs – Temporary resident (skilled) report 2017, 2019, 2021; Deloitte Economics; L.E.K. research and analysis

Fierce fighting in the war for talent

The even-tighter labour market saw digital specialists of all types and sizes fight even harder to recruit and retain high-calibre employees in a fiercely competitive labour market. This resulted in strong wage growth across the industry.

Summarised in Figure 3, L.E.K. Consulting's recent research in this space identified that most of the skills most in demand were engineers with cloud-specific skills as well as those specialists in cloud architecture and security.

Figure 3
Areas of DSP skill demand

Cloud-security professionals — 49%

Hyperscaler specific engineers — 59%

Cloud architects — 48%

The key skills that organisations rely on DSPs for

Data Analysts — 37%

Cloud Engineers — 41%

Q: What are the key skills / roles your company relies on cloud-based professional service providers for?
Note: * Includes Cloud security architects, engineers and / or consultants
Source: L.E.K. research and analysis, Survey (n=87)

Common tactics for digital employers fighting the pandemic's talent war were to 'offer more': higher wages, more bonuses and more non-monetary benefits. Salaries higher than 10%-30% above pre-pandemic levels were regularly offered to highly skilled digital specialists, and job-jumping became more frequent as employees moved from their current employers for better remuneration.

Again, the global and local technology market leaders had the upper hand here, but start-ups were also a popular destination for talented staff, who were attracted by offers of equity and salary packages that were enhanced by the venture capital funding backing many of these organisations.

In their own fight to attract talent over this time, specialist DSPs accepted that they needed to pay higher wages for good staff. Many did, but this proved hard to pass on to clients in the form of increased fees, creating some effect on their margins. However, some of the leading specialist DSPs created innovative fee structures and business models to absorb some of this cost.

It's not 'just about the money'

During this time, specialist DSPs also worked hard on enhancing their appeal to potential employees in non-remunerative ways. They made it clear that they were focused on enhancing staff skills through professional development programs, to build internal skills from scratch or upskill staff into new functions (from helpdesk to consulting roles, as an example). They could also provide their teams with more varied types of work across a diverse client base, enabling staff to align their individual skills and work to specific areas of interest.

Promoting culture as a differentiator was successful in many hires. In comparison to other, larger competitors, a specialist DSP could offer staff work in a fast-paced environment, with the promise of 'fun' at work. These employees could work alongside other top talent in their market and with a high degree of autonomy in a flat organisational structure.

A shifting labour market once again favours specialist DSPs

The end of 2022 and the start of 2023 has seen another shift in Australia's digital talent landscape, driven largely by the changing global macro-economic conditions. Since the end of last year, the total number of layoffs within the technology industry has skyrocketed, particularly at the major Big Tech corporations.

Between January and February 2023, over 119,000 employees have been let go by technology-related companies globally. In Australia, this trend has played out in different ways. As outlined in Figure 4 the, in 2022 start-ups laid off the greatest number of

Figure 4
Global vs local technology company layoffs
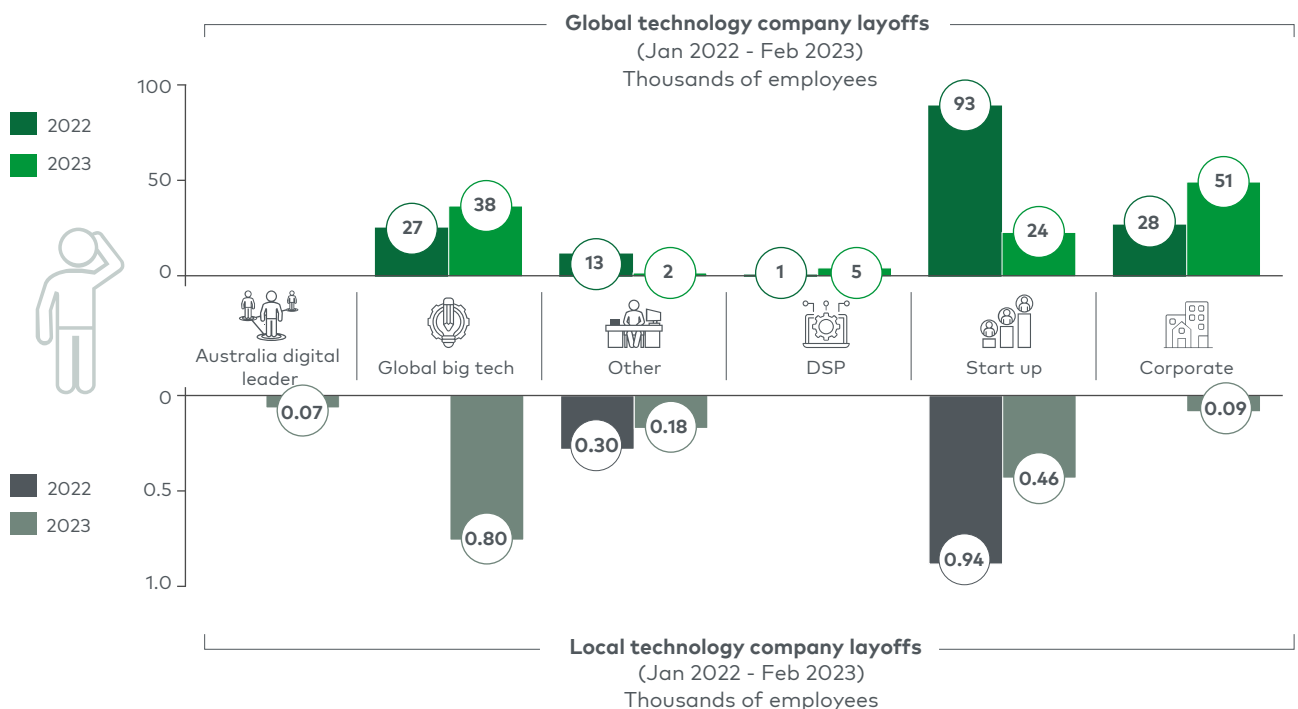
Source: Layoffs,fyi

digital staff, while in 2023 this has shifted to global big technology firms and corporate businesses. In Australia, roughly 2800 ICT staff were laid off between January and February 2023, with startups and big technology organisations being the most active organisations making workforce changes.

At the same time, Australia's opening borders have seen the government double the number of temporary skilled worker visas for software engineers, developers, programmers and ICT business analysts, with over 2,400 visas granted in 2022 (refer above).
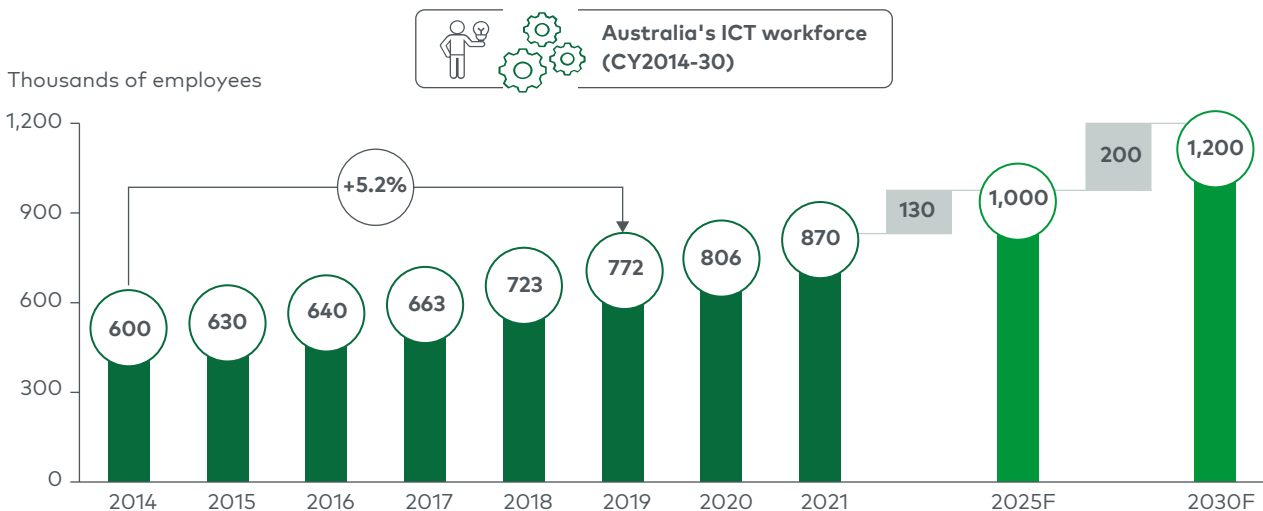
Fewer employment opportunities and more available talent now provide an opportunity for specialist DSPs and other digital services providers to find exceptional staff for a much more favourable cost. Those that have focused on sustainable growth — a steady pipeline and careful market expansion — will be well placed here, as the market contracts and businesses consolidate their workforces.

The local cloud-enabled digital transformation market is still strong

This labour advantage needs to be balanced by the state of the local market: Australia's digital landscape and its need for digital specialists will continue across this decade, even with a potential economic recession looming. The digital transformations that began in the Covid era will throw up even more work for digital specialists, thanks to the ongoing shift of many business functions into the cloud.

And even with more talent flowing into the workforce, Australia's shortage of digital specialists still exceeds the number of redundancies to date. As can be seen in Figure 5 below, the Tech Council of Australia predicts that by 2025 the economy will have over 1 million roles in this sector, while by 2030, this demand will contribute to nearly 1.2 million jobs in the tech sector.

Figure 5
Australia's ICT workforce (CY2014-30)

Australia's ICT workforce (CY2014-30)

Thousands of employees

Year	Value
2014	600
2015	630
2016	640
2017	663
2018	723
2019	772
2020	806
2021	870
2025F	1,000 (130)
2030F	1,200 (200)

+5.2%

Source: ABS Statistics

EXECUTIVE INSIGHTS

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Some of these roles will shift back to pre-pandemic type jobs: technology support roles are one example. But more of them will be jobs for the highly paid, highly specialised digital specialists underpinning the work of a typical specialist DSP.

Specialist DSPs can still benefit from all these factors. Starting from 2023, the increased flow of digital talent into the market will ease some of the headcount shortages experienced during the pandemic.

The workflow will be there to support increased staff numbers, but tighter overall economic conditions will reduce the cost of remuneration and increase the chance of skilled employees staying longer in their roles. Active job hunters will adjust their remuneration expectations accordingly, helping improve the DSPs' margins as salary packages start to readjust in this 'new normal'.

How can DSPs continue to be winners in the war for talent?

Finding and retaining high-calibre talent will continue to be vital for a DSP's success across the remainder of this decade, alongside developing and mentoring existing staff as they take on more challenging consulting roles with clients. The real winners here will be the fast-growing, award-winning specialist DSPs that can continue to provide interesting work and even more exciting professional development opportunities for their employees.

And as such, a decent salary, a great culture and a committed investment into professional development will remain important for employees looking to join these organisations.

Investors and backers of DSPs will need to look harder at their acquisition and investment targets. Does the DSP have a healthy, resilient workforce? Does it have the right management culture to understand the needs of its staff and develop them within a supportive, attractive working culture? What other investments can be made to acquire complementary talent pools that are matched in culture and productivity as well as expertise and services?

Once again, specialist DSPs and those who invest in the sector will need a clear strategy for human capital as much as for their other business aims, and advice from experienced consultants who understand this sector and the talent pool that drives its success.

For more information, please contact strategy@lek.com.

Endnotes

[1] Source: Australian Bureau of Statistics

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Aakash Gandhi is a Partner in L.E.K. Consulting's Sydney office. With more than 20 years of experience across technology and telecommunications, he advises clients on a range of issues, including technology and digital strategy, corporate growth strategy, new market development, product development and M&A. He has particular expertise in cloud computing, software/SaaS, data and analytics, digitization, communications and data centres. Aakash is also part of L.E.K.'s Major Capital Projects Advisory practice, advising major project stakeholders on digital and technology portfolio assets, including feasibility for major capital investment decisions and sustainable solutions in complex project turnarounds. Aakash holds a Bachelor degree in electronics and telecommunications engineering from MIT, University of Pune, India, an MS in network systems from Swinburne University of Technology and an Executive MBA from AGSM.

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