

Strength, Weakness, Opportunity or Threat?

A review of Australia's positioning in the regional ICT Services Marketplace

The ICT industry in Australia

ICT provided 4.6 per cent of Australia's Gross Domestic Product when last measured in 2002-03; according to the Australian Bureau of Statistics, in 2002-03 the ICT industry was responsible for generating more than \$36 billion a year – more than the agriculture, forestry and fishing, defence and education industries. [ABS 1310.0 Year Book Australia, 2008]

In May 2008, approximately 382 700 people were employed in ICT occupations, representing 3.6 per cent of the total Australian workforce. [DEEWR 2008]

- Strong long-term growth in employment of ICT Professionals is evident - 67 300 new jobs or growth of 47.6 per cent in the ten years to May 2008 - even though employment has risen only slightly in the past five years (up by just 3200 or 1.6 per cent). [DEEWR 2008]
- Over the past 20 years, employment in ICT occupations has shown long-term growth. ICT skills also play an increasingly vital role in almost all occupations, and contribute to productivity gains, innovation and job growth across all Australian industries. [DEEWR 2008]
- The strong ICT labour market has resulted in lower unemployment for ICT Professionals in recent years and ICT career prospects are good. Graduate outcomes have also improved with around 85 per cent of ICT graduates in full-time employment in 2007. [DEEWR 2008]

During 2006-07, total Industry value added (IVA) for ICT industries was \$44,184 million [ABS 8126.6, October 2008]

Research by the former Department of Communication, Information Technology and the Arts revealed that ICT contributed up to 85 per cent of productivity growth in the manufacturing sector and up to 78 per cent of productivity growth in the services sector over the last two decades, and identifies technological innovation as the main driver of long-term productivity growth.

IT Services in Asia/Pacific

It is widely accepted that despite slightly slower Asia/Pacific IT services market growth projections in the short term because of the global economic slowdown, India and China will continue to be the fastest-growing IT services markets in the region, growing more than 17% per annum during the next five years.

Software support and process management services will see the strongest demand in Asia/Pacific, each recording a compound annual growth rate (CAGR) of at least 11% through 2012.

The downturn itself will drive resilience in many areas

US figures released by IDC show the percentage of US companies planning to spend at least a quarter of IT budgets on SaaS applications will rise from 23% in 2008 to almost 45% in 2010. This is driven by a perception that SaaS represents an excellent investment in business efficiency and an easier road to expansion than more traditional strategies.

By the beginning of 2010, IDC also predict that almost 35% of worldwide SaaS revenue will come from outside the US. This represents a strong opportunity for Australia and the Asia Pacific in General.

Data center optimisation, consolidation services and utility services (including software as a service) also stand to benefit from business strategies seeking to counter the effects of a difficult economic climate.

Another area identified as booming by Gartner is the Business Intelligence market. Gartner estimates that the Australian BI market will grow around 17 percent from 2008 levels of \$149.6 million to \$174.8 million in 2009. It will potentially reach \$243.8 million by 2012, making Australia the biggest BI platforms software market in Asia-Pacific by revenue.

Key drivers for the ICT services sector

According to Gartner, the key demand-side driver will be the need of IT users to transform their business processes to drive top-line revenue or to achieve social/political objectives (for example streamlining government agency processes to facilitate e-government services) and achieve targeted cost savings.

Key supply-side drivers include the trend of outsourcing of large internal shared-service centers (SSCs) to established business process outsourcing (BPO) providers will improve their scale, reduce costs and improve service delivery.

- In other words, it is what ICT does to transform business across all sectors that defines its value in the current economic climate: nothing demands business transformation like a recession.
- The transformative nature of ICT will be as essential to the wider services sector as it will to other business sectors.

The future

Agile IT service providers will be focus more of their resources into these market segments during the slowdown, and many are already doing so.

The overall Asia/Pacific IT services market is forecast to grow at a CAGR of 9.5% from 2007 through 2012, with the highest services growth determined for Software Support (11.9%), Consulting (10.9%) and Process Management (11.0%)

See table below for a more detailed breakdown of the current Asia/Pacific IT Services markets:

Table 1. Asia/Pacific: IT Services Spending Growth by Service Line, 2007-2012 (Percent)

	2007	2008	2009	2010	2011	2012	CAGR 2007-2012
Hardware Maintenance and Support	12.7	8.6	7.5	7.6	7.7	8.3	7.9
Software Support	18.5	12.7	11.5	11.3	11.7	12.2	11.9
Total Product Support	14.7	10.0	8.9	9.0	9.2	9.8	9.4
Consulting	21.6	11.1	10.0	10.6	10.9	11.8	10.9
Development and Integration	16.6	9.3	8.6	8.6	8.7	8.8	8.8
IT Management	18.0	9.7	8.5	9.0	9.5	9.8	9.3
Process Management	20.9	12.1	10.1	10.7	10.8	11.2	11.0
Total Professional Services	18.3	10.0	8.9	9.3	9.5	9.9	9.5
Total IT Services	17.4	10.0	8.9	9.2	9.4	9.9	9.5

Source: Gartner (June 2008)

Australia's IT services growth rate is currently extremely competitive in the Asia Pacific region; in 2007 we tracked well above the Asia Pacific Average and in US dollar terms came second only to India.

However, there is a caveat.

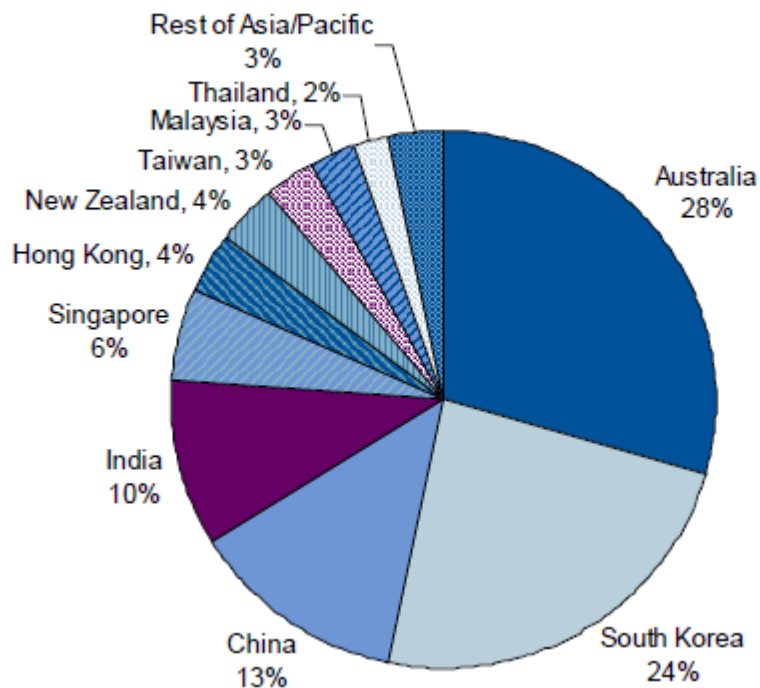
The predicted change in our growth rate between 2007 and 2012 is far from competitive. In fact, we track 9th out of 10 leading countries in the region and fall well below the Asia Pacific Average.

As we enter a global economy that is defined by the services economy, this is an extremely worrying trend – and a challenge that we share with many of the service sectors represented here today. The ICT industries ability to remain competitive – and by doing so, to successfully support the innovation and competitiveness of all Australian services sectors – is something that needs to be addressed as a priority.

We have a small window of opportunity

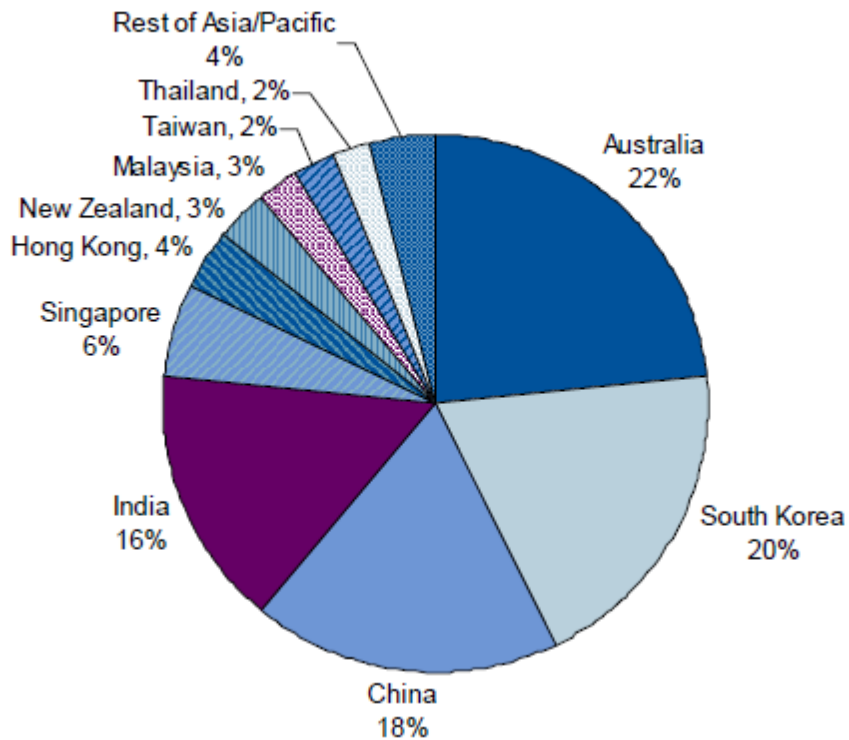
The good news – for both the ICT services sectors, and the service-based industries that rely on its health for support – is that there is a short window of opportunity here. We are working off a very strong base at the moment. Australia currently leads the region in the services market:

Asia/Pacific: IT Services Market Share by Country/Market, 2007



And even given the slow rate of growth in Australia compared to the excellent rates of growth enjoyed by many of our neighbouring economies, we will still likely top the Asia Pacific Market Share in 2012:

Asia/Pacific: IT Services Market Share by Country/Market, 2012



Based on current trends, however, this situation is probably unsustainable. Unless we can generate the growth required to maintain and build our share of this critical market, then we will have missed a significant opportunity to be a regional and global centre for high-value services excellence in a key 21st century growth marketplace.

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