

# TOP 3 PREDICTIONS FOR IT SERVICES IN 2022

**Sustainability — in talent, decarbonization and emerging tech — becomes the watchword for IT services**

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**Author:** Elitsa Bakalova  
([elitsa.bakalova@tbri.com](mailto:elitsa.bakalova@tbri.com)), Senior Analyst



## ▼ SERVICES IS STILL PEOPLE, EVEN AS COMPELLING NEW FORCES LIKE ESG AND EMERGING TECHNOLOGIES CHALLENGE IT SERVICES VENDORS

Even with a rush of emerging technologies and responses to the pandemic at the forefront of IT services vendors' strategies and client success stories, the fundamentals of IT services remain rooted in people — in recruiting, training and deploying the right talent to solve IT-related business problems and staff enterprise IT needs. The changes TBR expects in 2022, including new competitors in the war for talent, new opportunities around decarbonization and accelerated adoption of emerging technologies, will not substantially alter IT services vendors' business models. Differentiation among the vendors, in offerings, capabilities and financial performances, will come more through execution than strategy, at least in the near term. Vendors more adept at pivoting to new revenue streams and more patient with pressured margins will see greater success beyond 2022, provided they are able to adequately navigate talent challenges in the near term.

The vendors that were ahead of the game in 2019 in portfolio and resource expansion around next-generation technology-enabled solutions are experiencing revenue growth improvement in 2021. New growth initiatives, such as around product engineering, supply chain improvement and sustainability, along with steady investments in areas such as hybrid cloud, AI, security, IoT, blockchain and industry-specialized offerings, will continue to expand vendors' addressable market opportunities and support revenue growth acceleration into 2022. Virtual delivery enables increased productivity but pushes employee utilization to the limits and supports a surge in attrition. Managing talent to market demand, especially as macroeconomic conditions improve and digital exhaustion continues, will be key as IT services vendors strive to ensure service quality requirements are met.

While the COVID-19 pandemic remains an external factor that can negatively affect IT services spending, subsiding pressures thanks to global vaccine rollouts indicate a potential for continued revenue growth acceleration from the 6% year-to-year revenue growth during the full year 2021 for the 30 vendors in TBR's *IT Services Vendor Benchmark*. Moving into 2022, revenues will be driven by a mix of three activities: short-term projects around operational resilience and running businesses; larger transformational engagements that enable clients to improve their business models; and innovation engagements that allow clients to do something completely different — all supported through technology solutions and services.

## ▼ PREDICTIONS

### FOCUS ON TALENT MANAGEMENT, REFINED DURING THE PANDEMIC, WILL RECEDE IN A POST-PANDEMIC ENVIRONMENT

-  **Trend:** IT services vendors battled spiking attrition, challenges around both remote working and return to workplace, and imperatives around upskilling, even as new entrants competed for talent.
-  **Driver:** The increasing range of offerings within IT services and digital burnout exacerbated by the pandemic combined to make the ever-present war for talent even more contentious in 2021.
-  **Result:** In 2022 IT services vendors will manage talent issues with increasing success and diminished disruptions. However, they will face continued pressure from cloud and software giants building their own services capabilities and poaching traditional IT services vendors' talent.

For IT services vendors, none of the standard HR moves changed in 2021. Attract, retain, upskill, promote and reward — are all necessary HR motions that continued apace. The pandemic added virtual working arrangements and risks, productivity questions, burnout and hesitation around returning to the workplace. The success of pivoting almost entirely to virtual delivery in 2020 prolonged the challenges in moving fully to an acceptable hybrid model in 2021. Compounding these challenges, cloud and software giants, namely Amazon Web Services, Google and Microsoft, ramped up their recruiting of IT services talent, building out their benches and more aggressively pursuing IT services revenues attached to their cloud offerings. Certified talent looking to accelerate their career development could easily be tempted to jump to a hyperscaler or an IT services competitor offering a higher pay grade, adding a few more percentage points to across-the-board higher employee attrition rates, especially in 2Q21 and 3Q21, compared to 2020.

TBR believes IT services vendors will better refine their talent attraction, training, retention and promotion programs in 2022, expanding to more universities and developing apprenticeship programs as well as expanding geographic footprints, seeking new hires from outside the usual IT services talent hubs. Concurrently, IT services vendors will make their employment packages more attractive, including improved compensation and training offers, to stave off competition from hyperscalers and IT services, at least in the short term. By the beginning of 2023, TBR expects IT services vendors will shift to emphasizing margin improvement and talent programs will become a lower priority in corporate strategies.

## THE DECARBONIZATION SHIFT FROM PROMISES TO ACTUAL RESULTS OPENS A MASSIVE OPPORTUNITY FOR IT SERVICES

-  **Trend:** Enterprises, in responding to clients, governments, activists, investors and their own employees, have made wide-ranging (and not always clear) commitments around environmental, social and governance (ESG) goals. IT services vendors have done the same but have also offered services around meeting those commitments.
-  **Driver:** In particular, climate change and diversity & inclusion imperatives have compelled enterprises to more explicitly state their ESG commitments.
-  **Result:** Sustainability, as a subcategory of climate change, presents a massive revenue opportunity for IT services vendors, especially vendors focused on decarbonization.

Reduced travel, combined with interruptions in manufacturing, led to a decrease in carbon emissions during the height of the pandemic and global attention around race relations in 2020 led to greater attention on climate change and diversity and inclusion promises, respectively, in 2021. Notably, companies made promises without agreed-on standards, benchmarks or universally understood metrics for success. “Carbon neutral” and “net-zero carbon footprint” can be interpreted in many ways, creating an opening for IT services vendors and consultancies ready to help clients define those metrics and goals in a manner best-suited to the clients’ financial and organizational needs.

TBR believes 2022 will be the year IT services vendors and consultancies bring clarity to decarbonization, harnessing emerging technologies, such as blockchain, and established analytics and AI solutions. IT services vendors will assist clients in assessing, measuring and reporting decarbonization efforts, transparently and over time, setting track records useful to clients’ investors, partners and employees. In TBR’s view, sustainability, specifically decarbonization, will be a substantial new revenue stream for those IT services vendors with clearly defined offerings in this space, specific measures that track progress, and well-branded and promoted decarbonization commitments of their own that they can leverage as a use case with customers.

## BLOCKCHAIN WINTER ENDS AND 5G & EDGE BLOOM IN 2022, BRINGING NEW ENHANCED REVENUE STREAMS TO IT SERVICES VENDORS

-  **Trend:** Decentralized finance (DeFi) and government-backed digital currencies gained traction in late 2021, backed by blockchain solutions. Concurrently, 5G rollouts complemented by edge computing solutions supported manufacturing enterprises coming out of the pandemic.
-  **Driver:** Blockchain and 5G continued to evolve in tech functionality throughout the pandemic even as adoption stalled due to enterprises shifting focus to operations and talent management.
-  **Result:** Blockchain and 5G adoption will soar in 2022 as IT services vendors unlock the use cases that resonate across financial services and manufacturing.

Emerging technologies always provide fertile ground for IT services predictions. Ecosystem partners, including IT services vendors, hyperscalers and independent software vendors, all approach emerging technologies as the next great revenue stream, as soon as adoption accelerates. TBR follows emerging technologies across multiple research streams, including Digital Transformation, Devices and Cloud.

In the IT Services space, TBR sees the late 2021 accelerations around DeFi and government-backed digital currencies as providing a substantial lift to IT services vendors' blockchain initiatives. In addition, the slow rollout of 5G, which is becoming more powerful and less expensive, sets up IT services vendors with opportunities in manufacturing broadly, and IoT-enhanced environments specifically.

Even with myriad complications and roadblocks — such as regulations in DeFi and interconnectedness across IoT and 5G — TBR sees these two emerging technologies as on the cusp of wider adoption, fueled by use cases that resonate with banks, retailers and manufacturers, already key clients for the largest IT services vendors. Partnerships between IT services vendors and technology providers will be a key lever for increasing value of solutions and expansion of portfolio and client reach.

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