TOP 3 PREDICTIONS FOR PROFESSIONAL SERVICES IN 2023

Transparency, consistency and quality: 3 watchwords for 2023

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AFTER ALL THE EMERGING TECH HYPE, JUST BRING THE BEST IT SERVICES PEOPLE AND CONSULTANTS, EVERY TIME, AT A FAIR PRICE

After years of IT services vendors and their technology partners telling clients (and analysts) that "data is the new oil" and that "every company is a technology company," we are finally reaching a tipping point at which vendors cannot sell the promise of data but need to sell the results. Clients expect returns on their investments in digital transformation, analytics and cloud, pushing IT services vendors to deliver more transparently, with more consistency and at a higher quality.

Promises around the benefits of leveraging analytics and cloud no longer meet clients' demands for clear, tangible outcomes delivered through transparent engagements. IT services vendors must demonstrate upfront the business cases for emerging technologies and then deliver results. Vendors that invested in core services competencies, such as operational excellence and managed services, and in technology skills will continue to grow revenues, even if the global economy slows.

IT services vendors and consultancies undergoing organization changes — from branding to P&L to complete splits — must assure their clients they can meet their delivery commitments. Clients' needs and demands will continue apace, without regard to internal machinations by leaders at IT services vendors and consultancies. Competitors' upheavals may provide some new openings for opportunistic and nimble players, but the overall picture remains simple: Clients' IT spending will not disappear, and they will continue to look for vendors and firms that can consistently deliver.

Quality depends almost completely on people. Even as IT services vendors implement automation tools and management consultancies dabble in SaaS offerings, talent management remains the critical component to running an IT services or consulting business. And as individual vendors and firms win battles in the war for talent, the overall shifts will come from balancing increasing demands for highly skilled talent with business models that reward scale at the right locations.

Transparency, consistency and quality are hardly earthquake-like trends across the IT services and consulting space, but they will be the markers of successful vendors and firms through 2023.

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PREDICTIONS

ENOUGH WITH THE DATA LAKES AND PROCESS AUTOMATION — GIVE ME ROI

Trend: Consultancies and IT services vendors have ramped-up investments in skills and offerings tied to AI, automation and edge compute, frequently touting increased capabilities around data capture, real-time analytics and efficiency optimization. Improvements in the core technologies have led to a plethora of new use cases, giving vendors new openings to sell the digital component of digital transformation.

Driver: Familiarity and expectations drive increased adoption of AI, automation and edge compute as enterprise clients' consulting, IT services and digital transformation decisions reflect personal acceptance of these technologies, particularly AI, in everyday life. Following familiarity and comfort with the use of these technologies comes expectations of their benefits, particularly for enterprises that are pressured to cut costs and optimize operations.

Result: Newly developed edge, AI and automation use cases will show faster ROI as consultancies and IT services vendors provide enhanced data management, more tightly integrated solutions (the so-called "data fabric"), and improved ecosystems, allowing all parts of the multi-enterprise business network to take advantage of data proliferation. As usual, vendors that have invested in delivering around these core capabilities will benefit in 2023.

AI in a vacuum is useless: If you do not talk to Alexa, she cannot learn and will not help you. The vendors, their clients and the regulators will not fix data capture, storage, usage and security standards, AI bias, and other complications with automation and edge compute in 2023, but sustained progress toward longer-term benefits will come through collaboration and ecosystem participation from leading consultancies and IT services vendors, propelled by their clients. Any discussion around data leads to two truisms: Noisy data will always exist in any system, and no one will ever have enough data. With enterprises now more comfortable with AI, automation and edge compute — plus the now widely shared understanding that data is being collected with an acceptable level of risk — TBR expects a pronounced shift in expectations around the benefits of data. AI for AI's sake is not enough. Automating simple processes is not enough. Deploying edge compute is not enough. Clients will expect measurable results, particularly in relation to operational efficiencies and actionable insights.

IT SERVICES PROVIDERS' TOIL AND TROUBLE WILL NOT ALTER CLIENTS' BUYING BEHAVIORS, BUT WILL DISTURB ALLIANCES

Trend: Many IT services vendors and consultancies — even venerable stalwarts like IBM — are reconstituting in new forms, bringing some chaos to the digital transformation landscape and upending alliances.

Driver: As digital transformation and essential IT spending accelerate toward cloud and emerging technologies, vendors saddled with legacy capabilities and contracts look to offload underperforming businesses and align more closely to the expectations around a hyperscaler-driven future.

Result: Across the consulting and IT services spectrum, spinoffs, rebranding and strategic acquisitions will provide plenty of market churn without fundamentally altering the trajectory of clients' digital transformation and IT services spending. Cloud revenues for many vendors inch toward 50% while vendors peddling legacy IT services bet on long-tail, predictable revenues from managed services.

EY will likely split into a legacy audit and tax partnership and a consulting-centric IT services company, introducing into the market a direct competitor to Accenture and Capgemini, particularly if the new EY partners more closely with India-centric vendors and pursues new alliances with the hyperscalers. Concurrently, Atos is also in the process of splitting into two entities through the end of 2023, creating a digital transformation, big data and cybersecurity-focused company and a managed infrastructure services, digital workplace and professional services vendor, which will add further confusion for clients and alliance partners. Rebranding by Accenture, IBM Consulting and Capgemini, among others, will provide opportunities for marketing plays and new go-to-market strategies, but the cumulative effect of all the organizational changes on enterprises' spend on technology, consulting and IT services will be minimal. Clients will seek advice on business transformations, assistance deploying cloud and other technologies, and cheaper options for modernizing and running their applications and IT infrastructure from a slightly different set of vendors, but not at a different pace or scale than in previous years. In short, there are more options added to the menu. IT spending will not go away as IT is a necessity and means to drive revenue growth and cost savings in good and challenging times.

In the broader technology ecosystem, where alliances among hyperscalers, software vendors, consultancies and IT services have been in constant flux in recent years, TBR expects the organizational changes described above will create opportunities for restructured partnerships, new business units and potentially accelerated growth for those vendors that best leverage their ecosystem relationships.

THE TALENT WAR GRINDS ON, EVEN AS EMPLOYEE EXPERIENCE LOSES ITS LUSTER

Trend: Hiring across IT services vendors peaked in 1Q22, and a talent market that favored employees has shifted to one that puts employers back in the driver's seat. Pandemic-fueled efforts around employee experience have reverted to traditional concerns for keeping headcount growth aligned to revenue growth.

Driver: Human resources have always been the critical lever for running an IT services business, and the pandemic served to heighten that criticality. As early signs point to slower revenue growth for some IT services vendors and fears of global recession have gained steam, talent management has become less about using compensation packages and remote work options to stem attrition and more about finding highly specialized talent and right-sizing nonspecialized talent pools to establish resource benches to address demand for digital transformation.

Result: All the pressures on talent — automation, low-cost centers shifting to Tier 2 and Tier 3 cities, persistent attrition due to high jobs supply, and shortage of specialized technology skills — will force marginal changes in IT services vendors' and consultancies' workforces. However, the overall picture will remain the same for many: a heavy offshore presence delivering services that require people, not just software or platforms, balanced with high-touch onshore resources serving clients while seeking new opportunities to expand footprints and extend engagements.

For all the challenges around record-breaking attrition levels and the constant discussions about a "war for talent," the fundamentals in staffing for IT services vendors have not shifted significantly and likely will not in the near term. Two marginal shifts underway worth watching closely: talent leaving technology companies and startups for the relative safety and predictability of IT services vendors and consultancies, which are diversifying where they recruit for their constantly churning professional staff. As tech companies ramp-up layoffs or slow hiring, IT services vendors looking for people with skills in specific technologies, such as cloud and AI, may be better able to recruit top talent in part by offering more stability as well as greater opportunities for fast professional growth. Swings in desirability from high-risk and high-reward employers to massive, slower-moving and more steady companies will be neither absolute nor permanent, but 2023 could see a substantial repositioning of top tech talent from the cloud and software vendors into the IT services space.

At the consultancies, previous efforts to expand the recruiting pool beyond traditional MBA programs have often proved to be more marketing than reality, but two factors may force a more permanent change. First, younger consultants expect to see more diversity among their colleagues and want to find the most talented teammates, with or without an Ivy League degree. Second, more client decision makers have backgrounds beyond the standard MBA-to-C-Suite journey and want to work with consultants who understand and value more diverse perspectives.

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