IT Services and Consulting in 2024: Traversing GenAI Pressures, Talent Challenges, and Regulatory Waves

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Every Technology Revolution Comes Back to People and Taxes

As they say, nothing in life is certain except for death and taxes. And change. And data overload. And hype about technology and disruption. Predictions provide a perfect platform for big leaps and wild guesses, but at TBR, we are seeing more of the same for 2024, including taxes, data overload, and technology (read: generative AI [GenAI]) hype.

IT services and consulting stubbornly remain a people-centric business, despite advances in automation, analytics and AI, and vendors most adept at attracting and retaining good people continue to outperform peers. Keeping good people when the hype around GenAI suggests that many task-oriented jobs will disappear requires vendors offer training in new skills and develop new career paths.

Concurrent with these pressures on talent, GenAI will pressure contracts — with greater transparency comes greater opportunity to pay for exactly what you got. IT services vendors and consultancies that embrace outcome-based pricing models will increasingly find their clients, particularly those enamored with GenAI (although, who isn't?) open to creative pricing and reluctant to continue business as usual once GenAI has pushed the client's procurement office out the door.

Additionally, governments continue to lean into regulation to mitigate societal risks and to tame or unleash (depending on your political views) commercial activities. After the last three years of dealing with the pandemic, war, and the emergence of robot overlords (read: again, GenAI), we can reasonably expect governments will increasingly seek the security blanket of tighter regulations.

Add a splintering of global approaches to trade, finance and geopolitics, and companies face not just more regulations but also overlapping and potentially conflicting compliance obligations, varying wildly by jurisdiction. Death and taxes, indeed.

For IT services vendors and consultancies, 2024 looks a little boring. Reskill and train your people so you've got the right folks ready to deploy at scale to address your clients' toughest problems. Let someone else handle the easy problems until they get replaced by GenAI. Start baking outcomes-based pricing into every engagement, underpinned by AI and analytics that demonstrate unquestionably what value you are bringing your clients. And lean hard into governance, risk and compliance (GRC), unless you do not have those skills already, in which case, find a partner.

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Prediction: Companies with the Best People Will Win

Trend: To battle employee attrition and take back control, employers ramped up training and other retention-enabling investments. While many tech companies made news by shedding headcount, most global systems integrators (SIs) and consultancies have sought to keep trained and experienced talent, minimize turnover, and prepare for renewed growth from late 2023 into 2024.

Drivers: Attrition rates began an upward trend in 2Q21, peaked in 2Q22, and contracted to 16.8% in 2Q23. After such a tumultuous 2022, in which technology-centric companies struggled to retain talent and suffered record-breaking employee attrition rates, the emergence of GenAI in every discussion fueled employee concerns around job security, which some companies addressed with professional development and reskilling. As explained in TBR's October 2023 Global Delivery Benchmark, "While accounting for the implications of the advent of generative AI … vendors are focused on managing stakeholder trust and using training programs to expand the number of skilled resources who can deliver services in both CPU- and GPU-run data centers to demonstrate value around clients' large language model (LLM) development and management."

Result: The 2023 focus on reskilling and training will pay off in accelerated revenues in 2024 as IT services vendors will have the trained and certified professionals to staff what TBR expects will be growing IT services demand.

In our *3Q23 Infosys* report, we noted that Infosys' headcount growth had declined both annually and sequentially, signaling "the company will try to extract the most value from its existing workforce through training as productivity improved 70 basis points sequentially [during 1Q23]". Infosys, not surprisingly, has been an overall leader in TBR's *IT Services Vendor Benchmark.*

India-centric IT services vendor Wipro is planning to train all 249,000-plus of its employees as a part of its GenAI investments, including training 20,000 on Google Cloud's GenAI technologies.

Lastly, Tata Consultancy Services (TCS) has shifted its resource management strategy from hiring in bulk to focusing on training efforts that keep employees up to date on advanced technologies. The vendor is also developing career pathways such as through its Elevate program, which sets upskilling targets for employees at all levels in the company and provides a platform for completing training.

Prediction: GenAI Creates a Pivot to Outcomes-based Pricing

Trend: GenAI has been unavoidable, but the early 2023 hype has now been tempered by concerns around cost, technology challenges and ethics. To keep clients interested, IT services vendors and consultancies have pivoted from art-of-the-possible to business-backed use cases.

Drivers: Persistent challenges around deploying actual GenAI-enabled solutions at scale have not abated, even as IT services vendors, consultancies and their clients have become more familiar with AI's potential and limitations.

Result: Early investments by technology companies in hardware and software, by IT services vendors and consultancies in skills and business cases, and by clients in trying to understand how GenAI will change their business created a foundation for sustained opportunities around GenAI. However, accelerated adoption will not happen until costs come down and data management improves. Concurrent with efforts to address early challenges, TBR anticipates a shift by IT services vendors and consultancies from selling use cases to selling outcomes, an approach more aligned with the evolving IT services and consulting value proposition. As GenAI hype becomes a reality in 2024, outcome-based pricing as a preferred — and not occasional — commercial arrangement will accelerate. Vendors and their clients will expect AI, automation and analytics to provide greater transparency, which is always the most significant hurdle in outcome-based pricing arrangements.

At its core, GenAI depends on good data. Numerous surveys, including TBR's *Voice of the Customer,* indicate that only a small percentage of enterprises sufficiently collect, manage and understand their internal data. Efforts to adopt GenAI-enhanced solutions will persistently run into data issues, opening the door for consultancies and consulting-led IT services vendors to assist with data orchestration. Cleaner data will allow for greater transparency around enterprises' IT needs and the business results of GenAI-enabled digital transformations.

With greater transparency will come increased pressure — especially from C-Suite leaders sold on the promise of GenAI — for outcome-based pricing arrangements. Those IT services vendors and consultancies that are nimble enough with their business models and financially stable enough to take on risks will begin setting the standard, gradually — and then rapidly — replacing time and materials with an outcome-based pricing model.

Prediction: Regulations Become a Major Pain Point for All

Trend: Regulatory creep around cybersecurity, data privacy, GenAI, taxes, banking, intellectual property and supply chains, across multiple jurisdictions and in other areas, challenge even the best-managed IT services vendors and consultancies to stay current and assist their clients in navigating ever-changing governance and compliance risk.

Drivers: An increase in regulatory requirements and an expansion of the scope of commercial activities under enhanced scrutiny can be blamed on a range of forces, including growing economic nationalism and protectionism, fear of a dystopic GenAI future, and/or common-sense responses to systemic failures during and after the COVID-19 pandemic.

Result: The Big Four win big when GRC return to board-level issues. Combined with an emerging appreciation for tax as a cost-containment opportunity (see: PwC), these firms will enjoy accelerated revenue growth in 2024, particularly in those industries where Deloitte, KPMG, EY and PwC have already accumulated regulatory expertise and can credibly address GRC changes.

The Big Four do not have an oligopoly (cartel?) on all of these issues, and supply chain stands out as an area where numerous IT services providers invested in 2023 for growth in 2024. Capgemini and IBM (NYSE: IBM) are launching offerings around supply chain orchestration with AI-enabled solutions, targeting the consumer, healthcare and industrial sectors, and microelectronics supply chains for the U.S. government.

In the broader commercial sector, Accenture has invested in supply chain. Noted by TBR in our *3Q23 Accenture* report: "Accenture and Blue Yonder will collaborate on developing cloud-ready solutions leveraging Blue Yonder's Luminate Platform and Accenture's industry research and AI capabilities targeting clients seeking to enhance planning, order fulfillment and delivery of their supply chains.

Accenture also deepened its collaboration with SAP around developing and delivering transparent and sustainable solutions using SAP Business Network for logistics, procurement, supply chain and asset management. Further, Accenture acquired Norway-based Einr AS, bolstering its SAP supply chain and logistics capabilities and adding 42 professionals to its Nordics roster."

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