



2024 NORTH AMERICA
**PROFESSIONAL
SERVICES
INDUSTRY
OUTLOOK** ↗





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INTRODUCTION

Many described 2022 as the year of two halves; the first six months benefitted from the tailwinds of the busiest Professional Services market most have ever seen, and the latter six months saw dwindling activity as a more cautious sentiment took hold and remains today. This set the tone for 2023, a year that most Professional Services firms will not be sad to leave in their rearview mirror. Uncertain macroeconomic conditions (inflation, higher interest rates, and multiple ongoing wars) meant most services firms' clients retreated into "wait and see" mode, which reduced both the amount of work and the eventual scope of projects that were consummated for consulting & technology services organizations. This, in turn, led to the issue of lower utilization, which plagued these firms for much of 2023.

By the second half of last year, business performance seemingly recovered in several sectors, but feeling uncertain about their organizations' prospects, corporate leaders continued to hold the line on services spending. ZBB and other cost-containment measures replaced investments in heretofore priority arenas like ESG, while technology buyers showed less willingness to pay a premium for implementation programs. At the same time, consultancies, advisory shops, and other third-party services providers used this time to get their internal house in order via merger-integration, re-platforming, increased off / nearshoring, reducing the workforce to balance supply / demand, and increased automation / AI deployment.

As the calendar page turned to 2024, some light at the end of the tunnel could be seen breaking through, and a sense of optimism started to appear. Smaller firms – boutiques, upstarts, and new entrants – unburdened by the tumult afflicting larger scaled players, found smoother sailing in advancing their cause, attracting senior talent willing to take on some risk in considering lesser-known entities. Deal-making activity ticked up slowly with the promise of lower interest rates, leading private equity sponsors to enhance senior talent across their holdings. While far from a return to the prior bull market in Professional Services, many headed into 2024 with greater confidence that revenue targets could be met, now that most have accepted the gold-rush years of 2020-2022 were outliers and not the new normal.



ADAM PRAGER

**Co-Sector Leader,
Professional Services,
North America**



METHODOLOGY

All survey respondents are current Partners (or Partner-equivalent level) of varying tenures in Professional Services firms across the following market segments:

- Strategy Consulting
- Business & Operational Consulting
- Technology Services / Systems Integration
- Risk Advisory
- Transaction Advisory
- Tax & Accounting Advisory
- Turnaround & Restructuring Advisory

We balanced the number of leaders surveyed in each subcategory against the size of that category's market (e.g., there

are more Technology Services respondents than Restructuring Advisory respondents). Similarly, the respondents represent a variety of firms, including many of the most significant companies in Professional Services, such as those with \$50B+ in annual revenue. However, there are also representative participants from numerous boutique firms, including some whose annual revenue is in the \$50M-\$100M range. We weighted the survey numbers overall toward more prominent firms, simply because they feature more Partners (or Partner-equivalents).

We limited our inquiry to focus primarily on those whose business model is project-

based rather than outsourcing-based or managed services-based. Though our practices serves Professional Services providers in the BPO and Managed Services subsectors among other segments, the questions we asked were more geared toward senior Consulting and Systems Integration practitioners, so we chose to keep a unified grouping of responses in those markets.

To ensure the identity of each survey respondent was kept confidential, we have chosen not to share some specific data provided to us. In all, we collected 200+ responses over the course of a two-week period in January and February 2024.

HEADWINDS & OPPORTUNITIES



PRICING PRESSURE AND LOWER CLIENT DEMAND TOP LIST OF HEADWINDS

As Professional Services leaders look to the year ahead, we asked what headwinds they expected would most impact their firm. As a Big 4 Partner put it, “Clients are still hunkering down in the face of their own headwinds, so the biggest opportunity and challenge is helping them operate in such an environment.”

Of the significant challenges facing the Professional Services market, downward pricing pressure remains the most pervasive headwind. As leaders respond to demands by clients to lower their rates, they are also thinking through the interplay between the rates they charge and rapidly changing technologies:

“Clients are already asking for the ‘AI discount’ in some segments of the market,” said one Managing Partner at a Big 4 firm. “They expect AI to be priced in regardless of actual internal adoption rates. Most firms don’t recognize it, but Professional Services will be the ‘canary in the coal mine’ for what Generative AI does to the need for knowledge workers. Those who reimagine the Professional Services business model five years out will be more likely to cross a disruptive chasm than those who imagine they will be the same but with higher productivity of billable resources.”

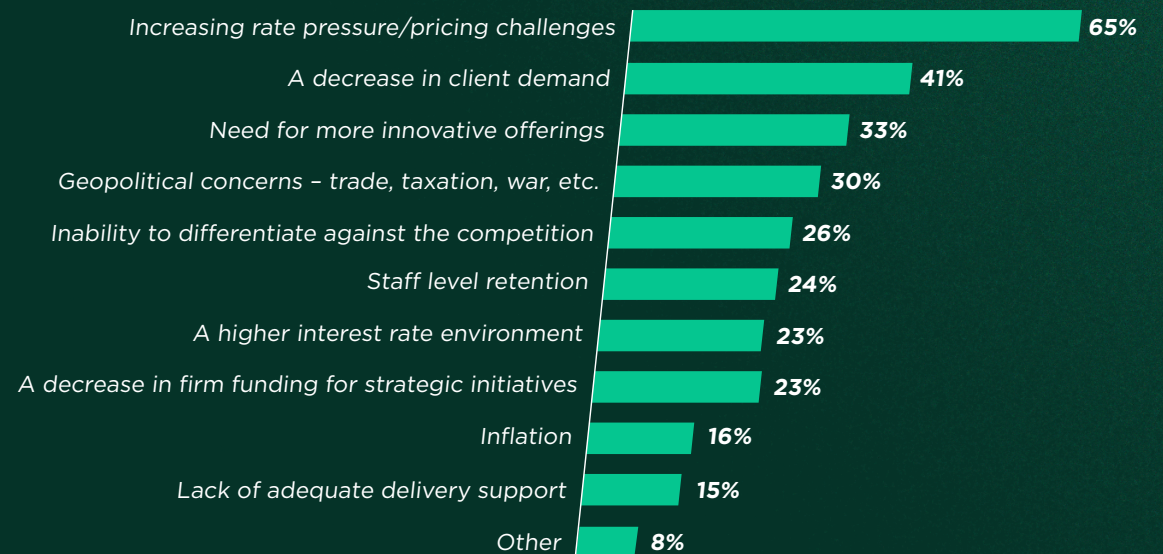
In other cases, new headwinds have emerged, and older ones have faded. Notably, the higher interest rate environment is on many leaders’ minds, whereas fears about inflation dropped precipitously. “The most prominent theme” this year, opined one Practice Leader, is “helping clients achieve growth in a financially constrained environment,” primarily due to interest rate increases.



“Clients are still hunkering down in the face of their own headwinds, so the biggest opportunity and challenge is helping them operate in such an environment.”

A Partner in a Big 4 Firm

What are the major headwinds you believe may impact your / your firm’s business over the next 12 months?

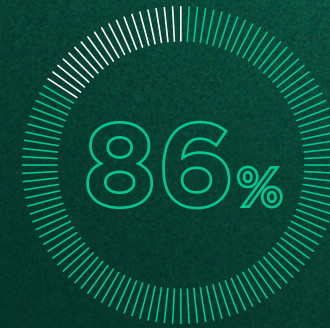


UTILIZATION REMAINS A PERSISTENT CHALLENGE

Last year, **83%** of Professional Services leaders believed that maintaining an appropriate level of utilization would be a significant or moderate concern in 2023.

This year, that concern has not diminished but in fact increased, as **86%** of respondents now state that they have significant or moderate concern that their firm will not be able to maintain high utilization in 2024, even with **63%** of leaders polled sharing that their firm reduced headcount in 2023.

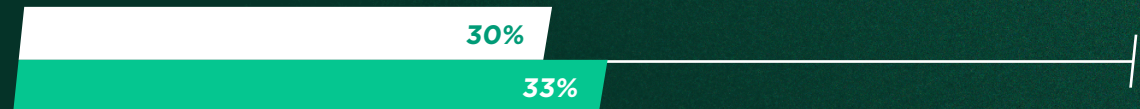
For many leaders, the persistent challenge of keeping their people busy is tightly linked to the skillsets that practitioners bring. As one Big 4 Partner put it, “our top talent related priority is centered on aligning skills with current market demand.” A Practice Lead in a publicly traded technology services firm echoed the remarks, saying “we need to increase utilization and billability of staff” by “training and reskilling our workforce on AI as well as other new technologies.”



of Professional Services leaders believe that maintaining an appropriate level of utilization will be a significant or moderate concern in 2024.

To what degree do you believe maintaining an appropriate level of utilization will be a concern over the next 12 months?

Significant concern



Moderate concern



Minimal concern



■ 2024 ■ 2023

Did your firm conduct a reduction in force last year?



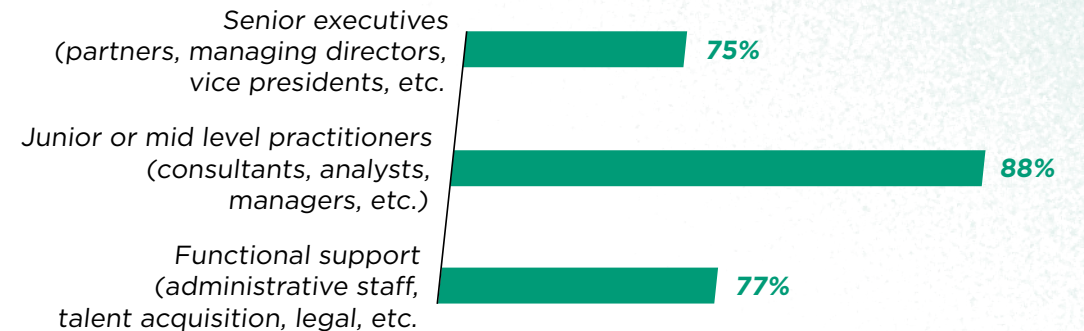
We overhired during the pandemic; then a change in demand for consulting firms occurred. We need to get better at adjusting to changes in client demand.”

Practice Leader in a large cap Professional Services firm

MOST FIRMS CONDUCTED A REDUCTION IN FORCE LAST YEAR

Layoffs were widespread across all subsectors of the Professional Services industry in 2023, with 63% of respondents sharing that their firm conducted a RIF. Notably, while this disproportionately impacted junior team members, Partners / Leadership and back-office functions were also impacted in significant numbers. One Practice Leader in a large cap Professional Services firm commented bluntly: “We overhired during the pandemic; then a change in demand for consulting firms occurred. We need to get better at adjusting to changes in client demand.”

If your firm did conduct a reduction in force in 2023, what areas of the organization were impacted?



HOWEVER, THE MAJORITY BELIEVE THAT A FURTHER RIF IN 2024 IS UNLIKELY

Despite the prevalence of layoffs across the Professional Services landscape in 2023, there is an equally widespread view among leaders that their firms will not conduct a RIF in 2024.

This is largely driven by most firm leaders feeling that their organizations have trimmed the workforce to be far leaner, and in tandem Q4 2023 and Q1 2024 showcase an upward trend in client demand and utilization.

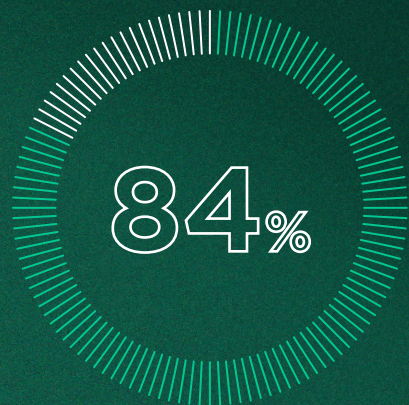
Do you anticipate that your firm will conduct a reduction in force over the next 12 months?





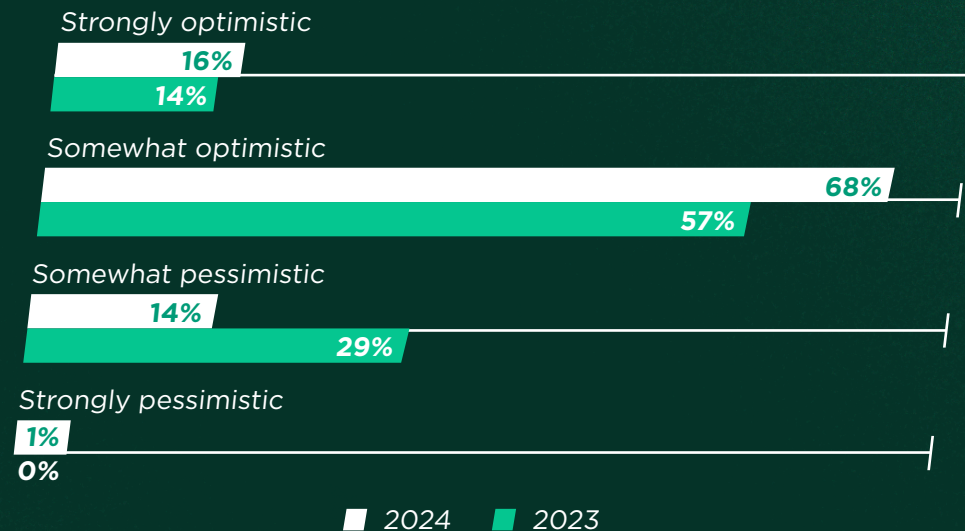
DESPITE UNCERTAINTY, A LARGELY OPTIMISTIC OUTLOOK PERSISTS

Over the last two years, leaders in Professional Services have responded favorably about their firm's prospects for the future. This year, the share of respondents who were somewhat to strongly optimistic rose from **71%** to **84%**, reflecting the widespread view that Professional Services firms will continue to play a significant role in the broader economy – even in the face of challenges on multiple fronts and an acknowledgment that much change is coming for the industry.



84% of Professional Services leaders are optimistic about their firm's prospects for the future in 2024.

Which of these best describes the mentality / mood in your firm in heading into the next 12 months?



ACQUISITION ACTIVITY IS EXPECTED TO HEAT UP

Last year, **over half** of Professional Services leaders polled responded that they believed their firms would slow down M&A activity in 2023. However, despite the continued capital constraints and higher interest rate environment of 2024, **80%** leaders believe their firm will accelerate inorganic activities.

Historically, consolidation in more challenging economic environments has been common within Professional Services. That's true today as well, but with many polled leaders citing the lack of AI skills within their respective firms, there is also an expectation that traditional advisory firms and others will obtain these capabilities through inorganic means.



of leaders believe their firm will either be more active or have the same level of M&A activity this year.

How active do you expect your firm to be in M&A over the next 12 months?

More active than last year



About the same level of activity



Less active than last year



I don't know



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CLIENT DEMAND



CLIENT SPEND OUTLOOK REVERSES IN 2024

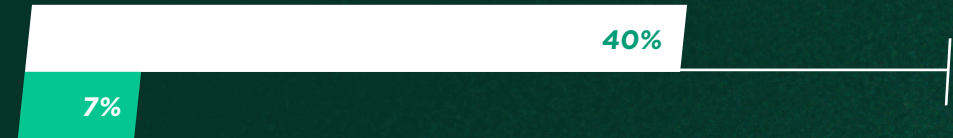
In stark contrast to their predictions in 2023, **4 in 10** respondents predict their clients will spend more in 2024 than in 2023. As one Consulting CEO put it, “Clients have to be comfortable operating with uncertainty, or else they risk getting left behind if they stick to the ‘wait and see’ attitude we saw for much of 2023”.



respondents predict their clients will spend more in 2024 than in 2023.

How do you expect your personal clients' spend on consulting / Professional Services to change in the next 12 months?

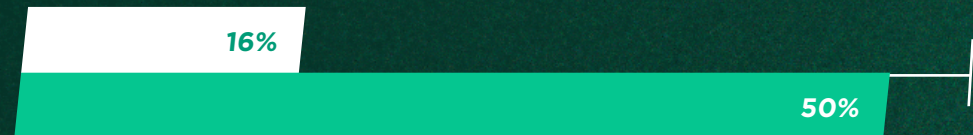
More client spend this year



About the same level of client spend

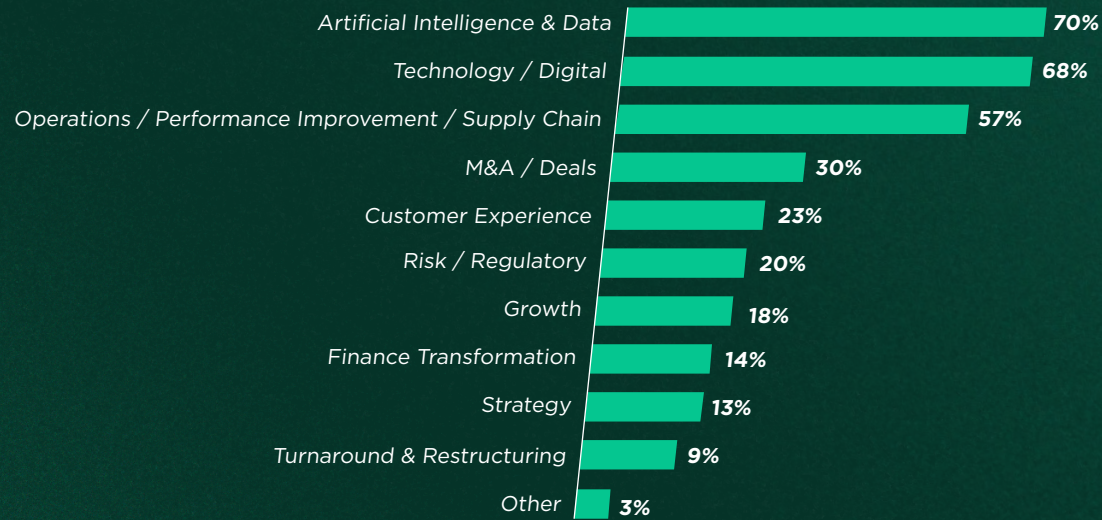


Less client spend this year



■ 2024 ■ 2023

Where do you anticipate the top priorities for client spend to be focused over the next 12 months?



The softening of the market and current geopolitics, nearshoring / regionalization of supply chains, managed services and cost takeout are re-emerging as themes within our market.”

Practice Leader at a Big 4 firm

AI WILL BE THE TOP PRIORITY FOR CLIENT SPEND

Over **70%** of respondents ranked Artificial Intelligence among the top three priorities for client spending, showing how far-reaching the effects of AI have spread since OpenAI launched ChatGPT, a large language model, a little over a year ago.

Similar to last year, Professional Services leaders predict that operational improvement & supply chain work and broader tech / digital transformation will also remain top priorities for many clients in 2024.

In perhaps a promising sign for the broader economy, the percentage of respondents who thought Turnaround & Restructuring engagements would top client agendas dropped precipitously from last year to this year, with only **9%** of respondents ranking it among the top three priorities for their clients (vs. 25% last year).



of respondents ranked Artificial Intelligence among the top three priorities for client spending.

ARTIFICIAL INTELLIGENCE PERSPECTIVES



AI WILL IMPACT BOTH CLIENT WORK AND INTERNAL OPERATIONS

In addition to survey respondents predicting that AI will be a large driver of client spend in 2024, **88%** of respondents stated that they believe AI will have a significant or moderate impact on their firm in the next 12 months.

In the Strategy Consulting segment, the Managing Partner of one global firm shared the two ways the firm will see AI drive change in the near term is through “internal productivity gains, while also helping clients differentiate their growth strategies with AI.”

For an AI practice lead in a publicly traded technology services firm, the key to gaining an edge in the market is through talent: “More data & AI upskilling and recruitment is our company’s top priority from a people perspective.”



More data & AI upskilling and recruitment is our company’s top priority from a people perspective.”

AI Practice Lead in a Technology Services firm



To what degree do you expect developments in AI to impact your firm over the next 12 months?

Significant impact

43%

Moderate impact

45%

Minimal impact

11%

IN THEIR OWN WORDS: PROFESSIONAL SERVICES LEADERS SHARE VIEWS ON AI'S IMPACT TO THE SECTOR

“Clients want AI now, but they don’t know how their crappy data reality impacts their lust for all things AI.”

CEO, mid cap consulting firm

“The hype around AI doesn’t currently match up to reality but it is leading to a tremendous number of important conversations with clients. AI expectations from the C-Suite are pushing investments that position clients to capitalize on AI later on. Some clients are successfully adopting AI but I’d say it is the early adopter crowd.”

Practice Leader, publicly traded technology services firm

“Innovating our delivery model to increase efficiencies and improve client experience, evaluating risks of client information and transparency, appropriate governance of AI usage balanced with innovation.”

Managing Partner, mid cap consulting firm

“AI is revolutionizing work at both our clients and our firm, fulfilling some of the long-standing promises for true automation of many perfunctory tasks. More importantly, it is also promising to create new insights and new business models that will reinvent much of what we do, how we do it and who does it. Discerning and prioritizing the most valuable of these is the puzzle that all are trying to solve, which ultimately will not be a cut and paste narrative even within an industry. For good reasons, there will be unique pathways for each organization.”

Partner, AI Consulting, Big 4 firm

“The biggest thing is that we need more AI talent, both on the software engineering side and customer experience / design side.”

General Manager, boutique digital agency

“For us, it’s about building AI skills. That means reinventing the way we work through accelerated digital enablement, AI-driven activities, and activation of high leverage workforce patterns (e.g., through more thoughtful use of offshoring). Those will ultimately be the differentiation that separates the leaders from the rest of the pack.”

AI Practice Leader, Big 4 firm

“Relevance with AI is the key. It is early, so how will consulting skills be augmented by AI and what is the advantage to clients? In particular, we are thinking through how we create an advantage for clients with AI in ways that don’t make us irrelevant, given clients can use AI in house as well.”

Practice Leader, large cap Professional Services firm

“Generative AI is pervasive across every client discussion. It will still take some time for it to permeate all parts of the business in a practical way, but it’s a major theme.”

Partner, large cap consulting firm

“We are investing heavily in AI use cases and we are seeing a great deal of interest at clients, like we saw at the start of cloud in the early 2010s. 2024 will continue to be for early adopters in AI but the rest are all testing out what will benefit the company.”

AI Practice Leader, large cap digital agency



RECRUITING, RETAINING, & DEVELOPING THE BEST TALENT

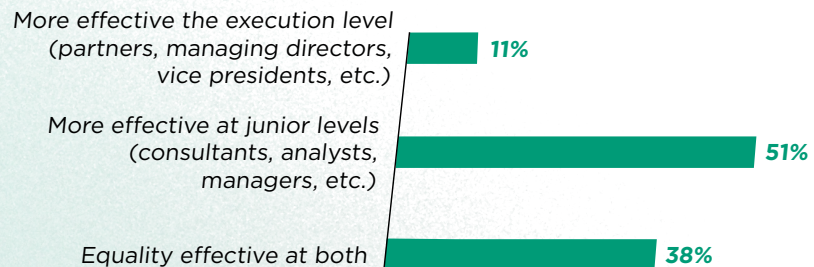


DIVERSITY RECRUITING SUCCESS APPEARS LEVEL DEPENDENT

Interestingly, while only **18%** of respondents believe that their firm needs to meaningfully improve efforts in recruiting and retaining traditionally underrepresented groups, diversity and inclusion continues to be top of mind from a talent perspective.

Of note, most leaders believe their firm is better at recruiting diverse talent at the junior and mid-levels rather than at the Partner / Executive Level—and respondents want to see improvement in diversifying their leadership ranks. One Practice Lead from a large Professional Services firm stated that her firm's top talent-related priority in the coming year was to drive "the promotion of women and other diverse employees, particularly to the Partner level."

Do you view your firm as being more effective at recruiting and retaining traditionally underrepresented talent at different levels?



How effective do you believe your firm is at recruiting & retaining talent from traditionally underrepresented groups?

Very effective

19%

Somewhat effective

63%

Somewhat ineffective

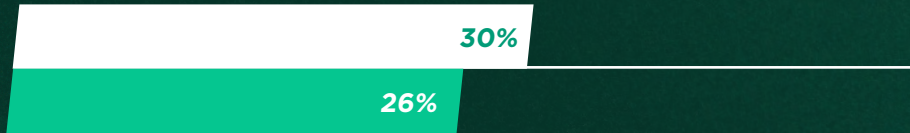
16%

Very ineffective

2%

Is it getting easier or more difficult to recruit & retain high quality entry / staff level talent?

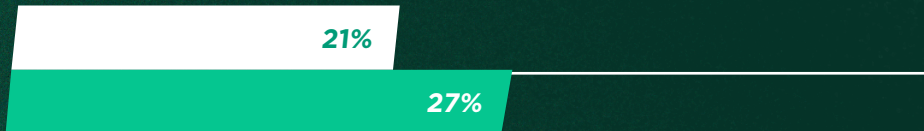
More difficult



About the same



Easier



■ 2024 ■ 2023

HIRING ENTRY-LEVEL CONSULTANTS ISN'T GETTING ANY EASIER

Last year, the market was evenly split on whether it was getting easier or harder to bring in the right talent at the bottom of the pyramid. Though things haven't changed dramatically, the percentage of leaders who believe it's getting more difficult to attract early-career stars is on the rise.



CAREER PATH QUESTIONS IN THE EARLIER TENURE CONSULTING POPULATION

Nearly half of Professional Services leaders are minimally concerned about the growing sentiment within the ranks of younger consultants that pursuing the Partner path may not be for them in the long run.

Still, for some leaders, this is a major problem on the horizon. One Big 4 Partner tied the issue to the convulsive hiring market of the last few years. She believes that “burn out is significant within the firm. In part, that’s because we hired into the demand curve in 2021 and 2022, which created quality concerns. Now, we have a situation where younger talent is ambivalent toward the idea of progressing up the ranks of the firm.” For her, that’s going to be “a huge problem” in the years ahead.

How concerned are you about a lack of interest by future generations (Gen Z and younger) in pursuing the Partner (or Partner-equivalent) path as a sought-after career pinnacle?

Significant concern

15%

Moderate concern

39%

Minimal concern

46%

“

Burn out is significant within the firm. In part, that’s because we hired into the demand curve in 2021 and 2022, which created quality concerns. Now, we have a situation where younger talent is ambivalent toward the idea of progressing up the ranks of the firm.”

Partner at a Big 4 firm

Has your firm implemented (or does it plan to implement) a partial or full return-to-office mandate?



“

The majority of younger talent still wants to be remote – and they are getting less development. How can firms get back to in-person training while balancing the new reality of the office and client site? That is the challenge.”

Practice Leader in a large cap firm

IN-OFFICE WORK MAKES A COMEBACK

The Covid-19 pandemic disrupted traditional ways of working for Professional Services businesses, including an era of remote work. Now, legacy models are returning as many want their people back in the office, with more than half of Professional Services leaders stating their firms have return-to-office plans in place, or in the near future.

One CEO of a business consulting firm placed particular emphasis on person-to-person interactions in the office setting: “We are focused on ensuring our culture remains strong, and believe it will be most effective with human connection. So while we have a hybrid approach to work, we absolutely do want our people to be in the office more than they are not.”

Another CEO of a consultancy agreed and said that the firm’s plan is to implement “three days per week in-person for Directors and above, and two days in-person for those below Director level.”

Even if executive leadership—virtually all of whom have spent most of their careers working in-office—are pushing for a return-to-office, there is also widespread recognition of the challenge in getting younger generations to move to 100% in-person work, some of whom have never been domiciled in an office full time. For one Partner in a mid cap Professional Services firm, this dynamic is the firm’s top talent challenge: “most importantly, we need to maintain and build culture when younger consultants don’t value in-person interactions.” He went on to say that the challenge exists on the client side too because “clients are happy to have people be remote vs. having to allocate office space, which hurts relationship-building and ultimately business development,” in addition to the missed development opportunities for younger talent internal to the organization.

AUTHORS

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HUGH RAMLOW
Search Consultant,
Professional Services,
Data & AI



YAZDI DEBOO
Senior Client Partner,
Professional Services



MIKE DESIMONE
Co-Sector Leader,
Professional Services



ADAM PRAGER
Co-Sector Leader,
Professional Services



MARIA MILLIKEN
Senior Client Partner,
Professional Services



CHELSEA FOSTER
Principal,
Professional Services



MAX KERSHNER
Principal,
Professional Services
& Cybersecurity



GEREMY CEPIN
Principal,
Professional Services



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