

B2B Services Trends 2024

Key headwinds
and adaptation modes

Foreword

The Business-to-Business (B2B) Services landscape has experienced remarkable and sustained expansion during the past decades. This growth stems from a fundamental shift in the approach of businesses as growing numbers of companies choose to focus on their core competencies while entrusting non-core activities to specialised service providers. This strategic reorientation has driven the growth of the Business Services markets and led to profound changes within these industries.

The Business Services sector is undergoing significant transformations driven by several key trends.

Demographic shifts and automation are creating a talent crunch, rising legitimate concerns on talent retention and upskilling the workforce, especially in areas with increasingly demanding service requirements.

Furthermore, the current inflationary environment presents businesses with a "scissor crisis". As inflation triggers increases in wages and salaries, it puts pressure on profitability while clients seek reduced costs. To navigate this challenge, Business Services companies need to demonstrate their client value to justify price increases and adopt cost-tracking activities to ensure sustainable profitability. Additionally, refining pricing strategies becomes critical for revenue growth.

A longstanding driving force for corporate processes, digitalisation has reached operations and emerges as a major lever for operational efficiency and adaptation, especially for decentralised Business Service companies. The tech transformation of Business Services is here to stay, fueled by evolving customer needs and the potential of artificial intelligence.

This historically fragmented sector, with numerous local players often established through spin-offs and facing low barriers to entry, has been undergoing a wave of consolidation for the last 4 years. Business Services companies are pursuing M&A to achieve various objectives, such as the expansion of their geographic reach and service offerings, the need to address new segments like digital services, the search for efficiency with economies of scale, and the implementation of "multiple arbitrage" strategies.

In this short piece, we look at the transformative forces that will be shaping the Business Services markets in 2024 and onwards. We explore the importance of specialisation, consolidation and digital transformation as drivers of success in this dynamic industry and take a close look at the impacts of skilled labour shortage and pressured margins on the industry. By taking a closer look at these trends, we aim to provide insights into how companies can navigate and thrive in the rapidly changing Business Services landscape.

We hope that you find it useful.

B2B Services team

Summary

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New constraints on skilled labour

New constraints on skilled labour

As the working world undergoes profound and structural changes, particularly driven by changes in labour demographics, companies are recognising the need to rethink their management of human resources including the importance of talent retention and acquisition. As labour intensive Services become increasingly demanding, companies must be prepared to tackle churn rates & upskill their workforce.

A perspective of complex labour demographics

The issue of population ageing presents a major challenge to the European Union, with the median age set to rise from 44 years old in 2002 to 52 years old by 2100.

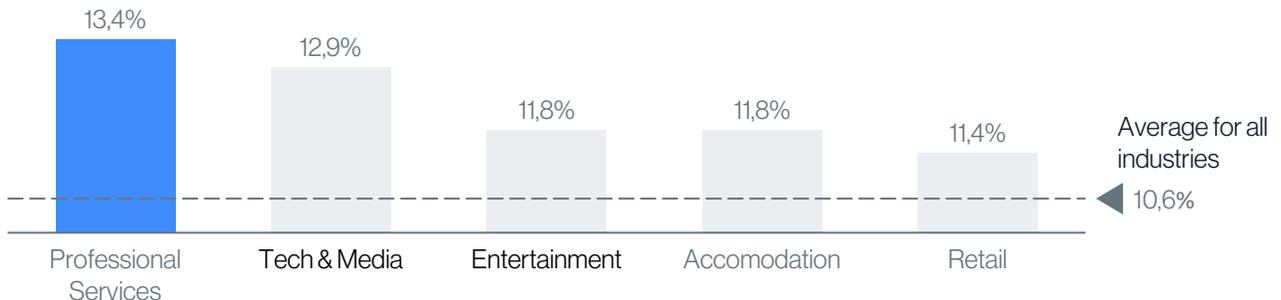
The EU's working population across the 20- to 70-year-old cohort is forecast to decline from 64% of its total population in 2023 to 56% by 2100.

This erosion of the traditional labour market cohort is a dominant macro trend that will shape the strategies of Business Services groups in the coming decades.

In addition to this long-term trend, Business Services groups are also witnessing sub-sector specific labour challenges:

- IT and Consulting Services are seeing increased competition for skilled individuals from other sectors such as Tech and alternative employment types such as Freelancing. According to a 2023 survey, 66% of consultants believe their peers will increasingly choose freelance employment over permanent employment(1);
- Due to strong competition among players, especially strong in BPO and Agency based Services firms, Business Services groups suffer higher than average turnover.

Average turnover rate across industries globally, 2022



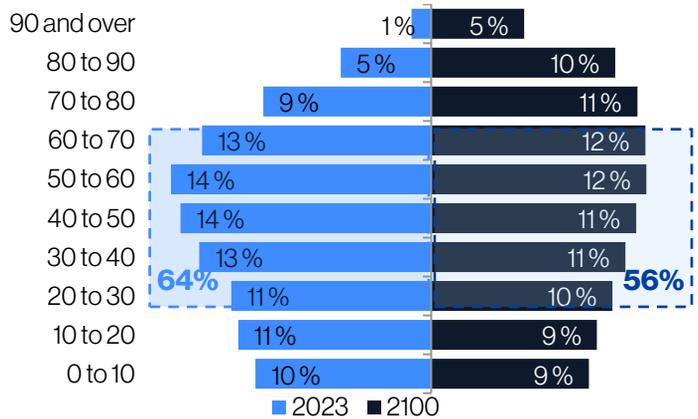
Source: LinkedIn Insights 2022

The acceleration of industrialised labour management

In order to expand operations in a contracting labour market, Business Services groups are reinforcing the need for workload- and labour-management and are taking steps towards a more comprehensive industrialised management system.

Workload planning and forecasting are becoming must-haves in labour-intensive sectors where such constraints on recruitment exist. Companies are building extensive activity forecasting and planning models, including partnering with tech companies to optimise planning and limit sub-contracting costs. AI functionality is increasingly used to reinforce activity forecasting, particularly as the correlation with external activity factors (traffic, sick leave, ...) is facilitated via increasingly abundant data.

Population pyramid
2023 – 2100, European Union



Source: Eurostat 2023

New constraints on skilled labour

In order to build a robust planning model, processes and tasks are increasingly being standardised, further reinforcing the importance of in-house training.

Business Services groups are increasingly investing in internal academies to build a common way of working and ensure high levels of quality, whilst simultaneously offering employees a broader range of training. The inclusion of “softer” skills (e.g., negotiation, leadership, etc.) in addition to “hard” skills both upsills the workforce and elevates the employer’s brand image. By way of example, a leading French on-site Services and facility management provider launched, in 2021, its own in-house academy with training offers for all employee levels addressing both hard and soft skills.

To address short-term demands and shortages, skill management models are shifting toward developing a “multi-skilling” approach. Flexible teams are increasingly becoming a key component of Business operating models, responding to both employees’ desire for increased autonomy and client demands for flexibility. Target organisations include experienced, mobile and highly responsive teams that enable Business Services companies to align with the changing needs of their clients.

From entrepreneurship to “extrapreneurship”

To address a rising demand for autonomy and profit from a shift in employee motivations, Business Services firms are increasingly helping employees to start their own Businesses.

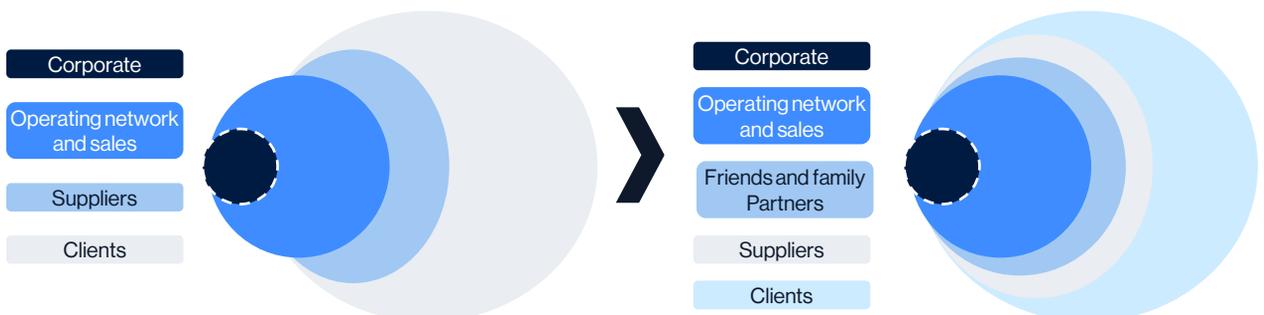
This move - from building up internal start-ups, towards nurturing a network of Businesses owned by former employees - helps foster innovation and improves talent retention. As internal start-ups grow however, they also tend toward typical larger company practises, becoming less innovative and stymying employee autonomy.

On the contrary, encouraging and supporting external entrepreneurship helps foster employees’ creativity in their journey towards their Business-owner life. This experience also sheds new light on potential improvements to ways of working, processes or strategic decisions and helps accelerate organisational change, in turn benefiting other employees in their search for more autonomy at work.

Finally, supporting employees’ new ventures is a powerful lever for flexibility and productivity within the firm. As these ventures expand, they replaces existing vendors with new “Friends and Family” partners. The company wins trained, plug-and-play Business partners, with deep knowledge of its own processes and client needs.

These “Friends and Family” partners deliver productivity gains once external to the company fostering them, as they seek to maximise recognition and drive costs down via increased flexibility.

Transitioning from protective Operating Model to a trust ecosystem of Friends and Family Partners





Pressure on margins

Pressure on margins

The current inflationary environment has raised concerns about a possible "scissor crisis" in various industry segments. While clients' indirect procurement departments are scrambling to reduce costs and improve profitability, Business Services firms are struggling with the impact of wage inflation.

In this challenging scenario, the ability of service providers to create value that justifies passing costs through and to improve their cost structures flexibility becomes critical, while at the same time improving their pricing strategy to grow their revenue.

Activity Tracking: a key to unlocking Cost Excellence

Leading Business Services companies deploy an activity-based cost monitoring approach across their operations and invoice a maximum of cost overruns to clients to improve financial performance. This demands strong focus on tracking of both activities and the cost structure. By meticulously tracking activities across teams and projects, the Business gains invaluable insight into resource allocation, time management, and an improved view of cost per operation.

This precious information becomes the fuel for smarter sales and invoicing strategies: identifying inefficient areas allows companies to optimize workflows, eliminate unnecessary tasks and negotiate pricing with newfound confidence.

Activity tracking doesn't just save costs, it can also unlock new revenue streams. By pinpointing high-performing activities, Business Services companies can offer targeted Services and build stronger client relationships through data-driven recommendations. For instance, one agency-based TIC Business managed to reduce operational inefficiencies by 10% as a result of finer monitoring of its numerous sub-activities and implementation of ad-hoc operational performance improvement levers.

Pursue the profit at the source

For leading Business Services companies, effective supplier management goes beyond mere cost reduction. It's about building strategic partnerships that contribute to the overall Business success, improve operational efficiency and provide a competitive edge.

Companies should take a comprehensive approach to their supplier management process from rationalizing their supplier base to capture innovative solutions unlocking new Services and quality to end customers. For instance, waste companies have been partnering with sensor companies to monitor and optimize waste collection costs and limit nuisance on public and traffic.

The complex pricing of X-as a Service

As Business Services companies develop flexible and often technology-driven offers to address clients facing uncertain situations, they are challenged in their capacity to obtain the right price for tailored Services.

As demand for increasingly specific Services rises, Business Services firms have been quick to deepen their range of offerings, adapting to deliver new and qualitative Services in a timely manner. As an illustration, a global player in testing and certification developed its sector expertise to sustainability, technology and cybersecurity to become a one-stop-shop for its global customers.

Pressure on margins

This dedication to adapt to client needs can however have an adverse margin impact. Pricing the components of a diversified service has become a major challenge, since clients' purchasing departments may view these tailored Services as an "addendum" to the regular service as opposed to an entirely separate service.

To clearly differentiate their offering and to overcome this challenge, some Business Services groups have chosen to build dedicated activities. By way of illustration, some construction-related Services companies have developed training centers for professionals, to remove their clients' potential requests of training as part of other Services.

To escape this "addendum" trap, Business Services groups have to provide transparency to clients on the value delivered and cost of responsiveness.

In order to do this, Business Services groups are developing capabilities to track, quantify and detail the value and complexity of specific Services. Thanks to activity, responsivity and quality tracking, Business Services companies will be able to build analytical pricing models highlighting the value created by each component of their offer to the client and pass on the cost of their flexibility.



Continued digitalisation

Continued digitalisation

Digitalisation has become a critical factor for operational efficiency and adaptation in Business Services firms, especially decentralised ones. For years, Businesses have been using digital tools and technologies to improve their operations, meet changing customer needs while delivering greater value to them. This trend is currently accelerating due to both evolving value propositions to customers and rapidly changing possibilities offered by AI.

Improving client satisfaction through offer customisation

The digital revolution has irrevocably altered the Business Services landscape. Achieving client satisfaction through offer customization is at the forefront of this landscape. Just as we witnessed the shift towards client-centricity in B2C, digital tools are now empowering Business Services clients live demand and continuous feedback.

This acceleration of customisation through digital tools translates into three main trends for Business Services companies to adapt to this new normal:

- Meeting shifting client needs: clients increasingly expect offerings tailored to their unique and changing requirements with real-time responsiveness, pushing Business Services firms to shift from standardised to customised solutions.
- Offering the right omnichannel experience: clients move seamlessly between online and offline touchpoints, requiring companies to deliver a frictionless journey across all channels and build flexible processes.
- Adapting sales engineering: clients dictate the pace and demand customised solutions, so sales teams need to adopt a more hands-on approach and leverage technology to tailor their offerings.

Moving towards data-driven decision-making

Digitalisation has unleashed a flood of data, but the true value lies in being able to effectively harness its potential. Using advanced analytics, Business Services firms transform information, often from numerous sources, into actionable insights which capture value and be shared across the company. Selected initiatives should address key components of the Business, such as forecast planning or activity profitability tracking, and exist at all levels of the organisation.

Beyond the numbers, advanced data analytics enable Business Services firms to make more informed decisions. It is all the more important since companies are often multi-local or the result of incompletely integrated acquisitions. As a consequence, data is often heterogeneous in nature, quality and management.

Move beyond gut feelings and make data-driven decisions at every level of the company, from strategic investments to marketing campaigns. For example, temporary employment agencies improved their job application rate through data-driven website redesign.

- Push performance optimisation by identifying strengths and weaknesses, pinpointing bottlenecks and uncovering hidden customer preferences and trends. For example, several B2B distribution groups we work with have started to organise information sharing across geographies, using a variety of tools to inform decisions on product portfolio management, procurement optimisation and resource allocation across products, Services and clients.
- Enable Businesses to personalise their offers and products and to optimise internal processes for maximum efficiency.

Continued digitalisation

Refining corporate strategy on game-changing technologies

Over the last few years, Business Services firms have progressively adopted slow burner technologies, such as the Internet of Things to generate valuable data streams, increase interoperability and reduce costs. Moreover, the adoption of Blockchain has improved data security and transparency, notably on B2B distribution.

We are now witnessing the widespread adoption of game-changing technologies, such as Generative AI and Machine Learning. These technologies could expose new market opportunities and unlock significant productivity gains, which can be used to improve customer satisfaction or increase margins. For example, Business Services companies can apply these technologies for customer interactions and offer customisation, or process automation and predictive maintenance (e.g., utilities maintenance Services use AI-powered predictive maintenance to reduce downtime and optimize maintenance resource allocation).

Navigating the potential of these new technologies will be key for Business Services firms in the coming years, and two course of actions are available to them:

- They can take on pioneer roles and reach for market dominance by being first. However, these firms will have to prioritise use cases to keep control over both their financial and managerial return on investment.
- Firms can follow and benchmark use cases as they mature to minimise their opportunity costs, at the risk of losing market share.

For example, nimble startups and digitally native companies are already challenging incumbents with innovative Business models and technology-driven solutions.

Their ability to adapt quickly to changing market dynamics has given them a distinct advantage by disrupting the traditional practices of main players and reshaping customer expectations. As an illustration, a French temporary employment start-up achieved €100m revenue within 8 years from inception, achieving a 2% absentee rate on first day for its temp workers (vs. 10% to 20% as industry standard) through AI-based profile matching solution for its clients and free e-learning for the temp workers.



B2B Services
2024 trends



Consolidation

Consolidation

The Business Services sector has historically been characterised by fragmentation, with different sub-segments made up of local companies often created through spin-offs from larger companies and sometimes with low barriers to entry. Also, the financial logic of multiple accretion makes acquisitions in this sector very value-creating: M&A is then treated as organic growth. However, a wave of consolidation is changing the landscape as companies seek to expand their geographic footprint and service offerings, capitalise on attractive new segments and digital offerings, leverage economies of scale for operational efficiency and adopt "multiple arbitrage" strategies.

External consolidation

After two busy years in 2021-2022, Business Services has remained an active market segment.

Whilst slowing down, the consolidation trend debuted in the aftermath of the pandemic remains strong with 2,400 deals in the sector in 2023.

Sub-segment consolidation has been particularly dynamic in the consulting sector where established companies are looking to strengthen their market share or address specific sectors via the acquisition of specialist companies.

Behind the longevity of this trend, lie drivers pushing Business Services groups to resort to acquisitions to maintain or grow their Business, as barriers to entry for certain businesses are low and foster entrepreneurship:

The need to diversify their expertise to broaden their offering for existing clients

A decisive selection criterion for target identification has been the potential to articulate with the organic offer and extend existing engagements with clients, from a service or geographical standpoint.

As an illustration, 60% of the Business Services companies asked in the Eight Advisory Post-Merger Integration survey quote revenue stream diversification as a key acquisition rationale, versus 57% of companies across all other sectors.

The search for diversification from competition through technology and IP integration

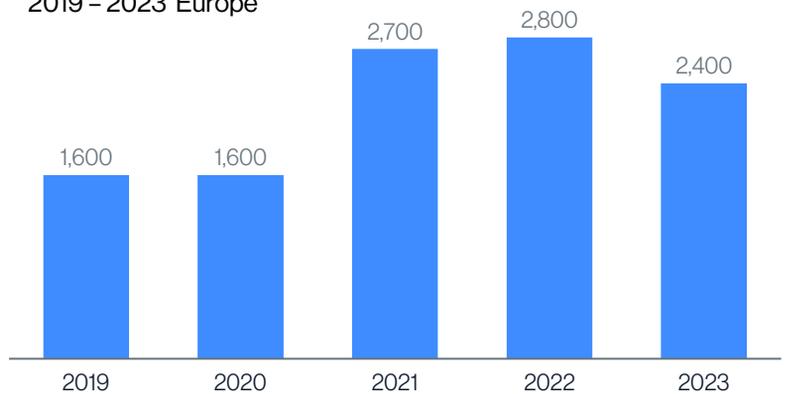
In a rapidly transforming client ecosystem, Business Services groups are quick to invest and secure new technological solutions entering their market to capture a decisive advantage from competition and maintain their innovative image with clients. These solutions increasingly include innovative, often dematerialised ways to perform the company's core operations (e.g., distance certification).

The need to tailor their network to the needs of their key accounts

As key accounts procurement strategies become increasingly demanding, Business Services groups are using international external consolidation as a lever to showcase their robustness as global partners in a move to secure volume, limit competition and mitigate price reduction demands.

By way of example, a global player in testing and certification Services acquired 60+ companies in the last ten years to geographically expand and match its offer portfolio with its clients' footprint and needs.

Volume of Business Services deals
2019 – 2023 Europe



Source: Merger Market, Acquisition and Merger Deals per year. B2B Services sector include Industrial Maintenance, IT Consulting, Freight and Transport.

Consolidation

Closer and stronger together: increased centralisation to sustain growth

Waves of external acquisitions or investments allow for Business Services groups to capture new geographies and markets. As these newly opened or acquired regions reach maturity and normalise their key accounts relationships, these companies look to consolidate their footprint and their organisations to seize performance opportunities.

After investing in support functions and allowing for the development of heterogenous processes to facilitate integration. Support functions such as finance, HR, quality control and procurement are most often part of the initial wave of regional or central integration. On top of the cost reduction impact of mutualising resources, centralisation drives the implementation of efficient standard processes as well as best practices sharing. This move also accelerates the rise in service delivery and quality of service in key Business support areas.

Centralisation also typically drives retention and revenue from multi-geography key accounts and multi-site clients looking for streamlined interactions with suppliers and standard quality of service. Local revenues, on the other end, benefit from the refocus of local teams and managers on local relationships management, operations and sales.



How we can help

How we can help

Our global group helps companies solve complex problems by providing the right technical expertise and a human approach to finding concrete solutions. The below seven types of Business Services companies display common commercial and operational value drivers. We have expertise, across our service lines, on each of these subsectors' specifics.

Network-Based Services

Network-Based Services includes companies whose Business is based on a network of branches and mobile staff, in commercial and/or operational functions. Common value creation levers for these types of companies may include commercial efficiency to address a large customer base, optimisation of routes and manpower, and finding an optimal balance between network autonomy and centralisation of certain functions.

BPO & On-site Services

Business Process Outsourcing and On-site Services comprises companies offering Services based on fixed employees performing relatively standardised Services in a given site, either on the company's or on its clients' premises, notably standardised BPO, client relationship management, facility management, and catering. Common value creation levers can involve enhancing service offerings towards more added value, finding the optimal balance between client proximity and offshoring, standardising tasks and leveraging technology to increase employees' effectiveness.

IT & Professional Services

IT and Professional Services includes companies providing project-based Professional Services to their clients, potentially with varying project durations and/or a diverse set of project types. This sector includes consulting companies, IT Services, engineering companies, marketing agencies, etc. Value creation levers common to these types of Businesses may include employee utilisation optimisation, right-shoring, optimisation of pricing and invoicing models.

Equipment Rental

Equipment Rental comprises companies whose main activity consists in providing equipment temporarily to other Businesses, on short-term rental and/or long-term leasing. Common value creation levers can involve optimizing equipment utilisation, reducing procurement costs of such equipment, providing higher value-added Services complementing the existing offering, reducing the cost of equipment maintenance.

B2B Distribution

B2B Distribution comprises companies whose main activity is the sale and distribution of goods to other companies, usually without producing the goods in question. Common value creation levers in this market may include reducing procurement costs, creating a cost-efficient distribution network with a high quality of service.

Human Capital Management

Human Capital Management comprises companies whose main activity is to provide their clients with temporary, contract and permanent employees. They include employment agencies and recruitment companies. Common value creation drivers in this market may include finding new sources of quality candidates, leveraging new technologies to improve job matching, implementing best processes in terms of cost, key experience and candidate experience.

Transport & Logistics

Transport and Logistics comprise companies whose main activities are the storage, inventory, delivery, and distribution of specific goods or Services. It is an integral element of the whole supply chain and it involves proactive procedures to safely and efficiently move products from the manufacturers, to the sellers, and up to the end users or the consumers.



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