



Meeting High Expectations

2022 Digital Services Outlook

Introduction



Report Summary

As predicted by owners in our last outlook report, 2021 was a banner year. Digital shops delivered average revenue growth rates of 25% with stable net margins of 17%. Studio and Small shops lead the way with above-average growth and profit margins. Revenue per employee also increased for the third year in a row.

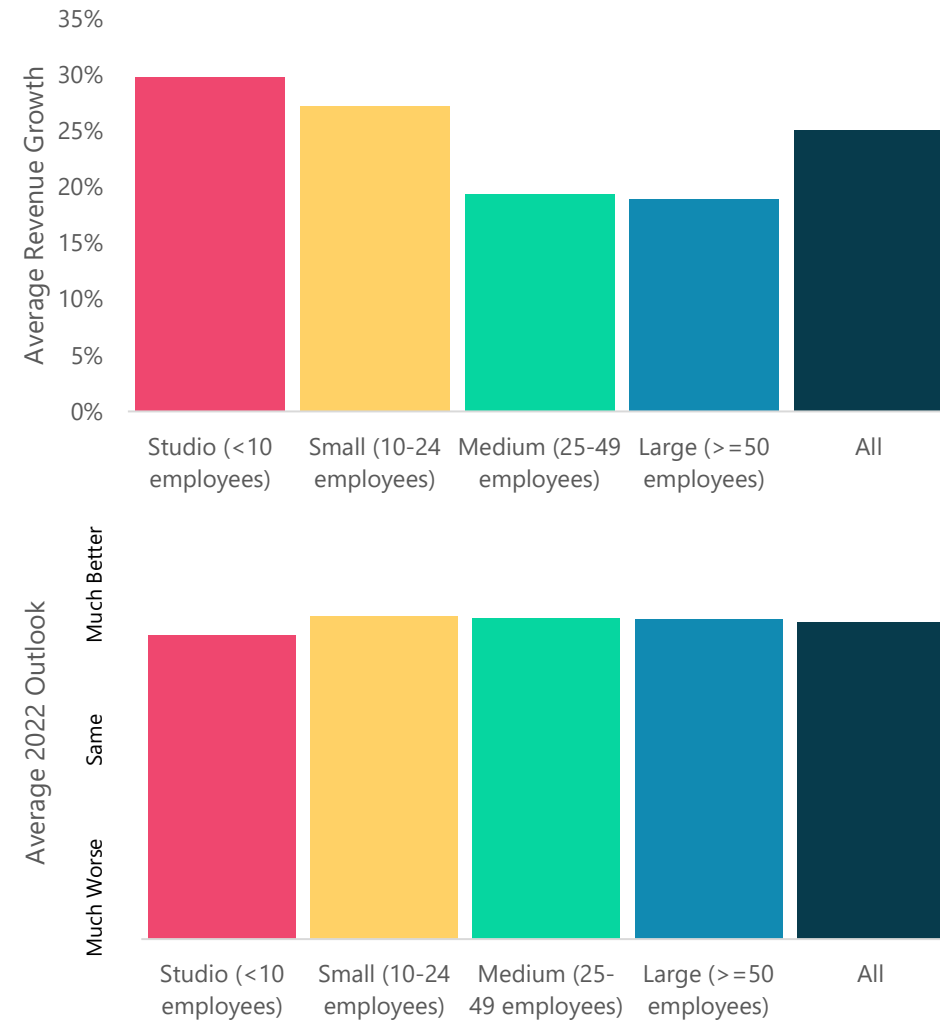
The average digital shop brought in one new client a month in 2021 and this scaled linearly with firm size.

40% of shops raised prices last year and those that did grew revenues 20% faster. The most common hourly rate band shifted upward to \$175-199/hr at the start of 2022.

Again, roughly half the shops surveyed identified as specialists with most of them specializing by industry served. They grew only slightly faster than the generalists but reported lower net margins.

Owners remain optimistic with 2022 outlooks coming in just as rosy as last year. Expected headcount growth is up 40% though with most owners expecting a more challenging labor market. This lack of labor could dampen revenue growth for the year, especially when over half of the owners are worried about retaining their mid and senior-level talent.

Solving the talent question will be the key to growth in 2022.



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Promethean Research

Promethean Research builds data-backed growth strategies for digital shops. They help owners answer some of their toughest questions like:

Which niche should we target?

Is our pricing competitive?

Should we acquire another shop or grow organically?

They've been partnering with management teams to drive reliable growth and profitability since 2015. Their proprietary research has covered over 30,000 digital shops across 24 countries.

More about [how Promethean helps digital shops](#).



About The Author

Nicholas Petroski is a Managing Partner at Promethean Research. Since 2015, Nick has helped digital firm owners better understand their industry and chart more effective paths to success. Prior to cofounding Promethean, Nick worked as an equity analyst at a Wall Street firm where he covered the enterprise software and semiconductor industries. When he's not in the office, you can find him backpacking around the Midwest or making elaborate firewood in his woodshop.



2021 In Review

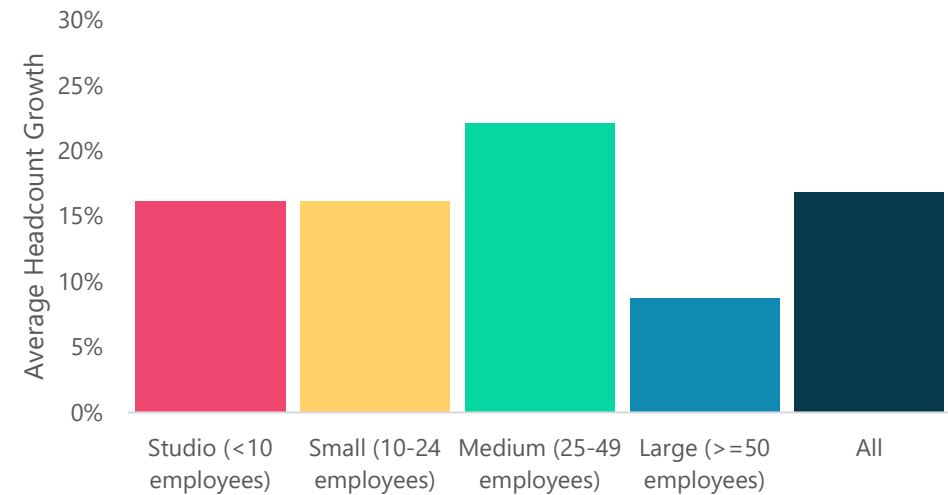
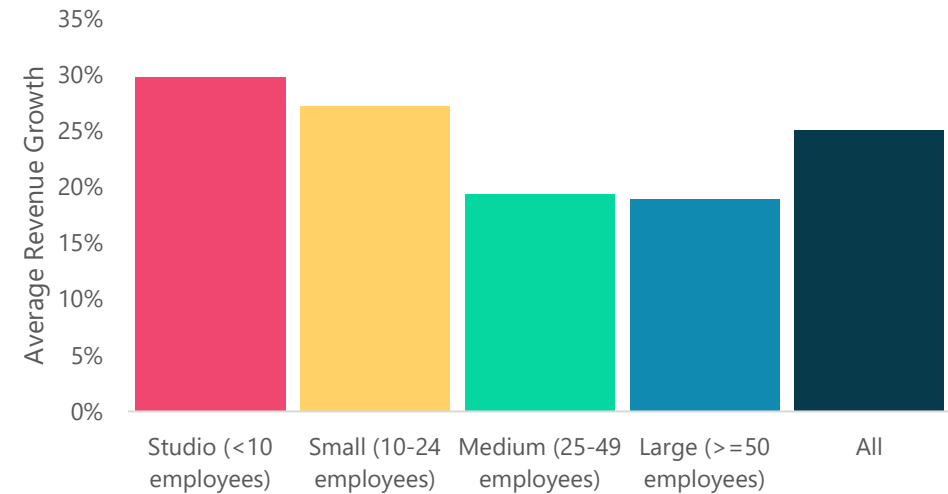


2021 In Review: Growth

Following a slower 2020, digital shops hit the accelerator in 2021. The average shop reported revenue growth of 25% Y/Y driven by the massive acceleration of their client's digital transformation plans. This growth rate almost exactly matches owner's expectations from our 2021 outlook survey.

Studio and Small shops grew faster than average at rates of 30% and 27% respectively. Medium and Large shops both grew revenues more slowly by 19%.

Revenue per employee averaged \$167k/employee, up from \$156k in 2020 and \$142k in 2019. We believe this jump is more likely due to the increased pricing rather than efficiency gains.



2021 In Review: Pricing

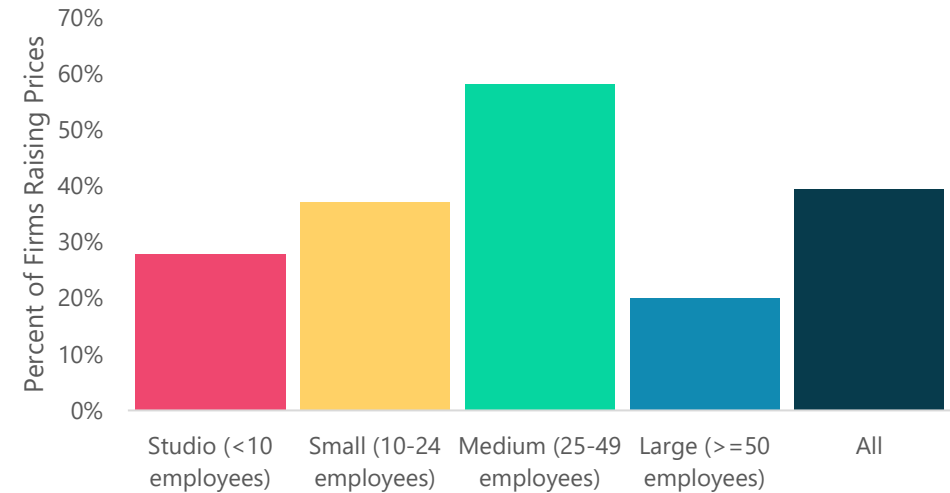
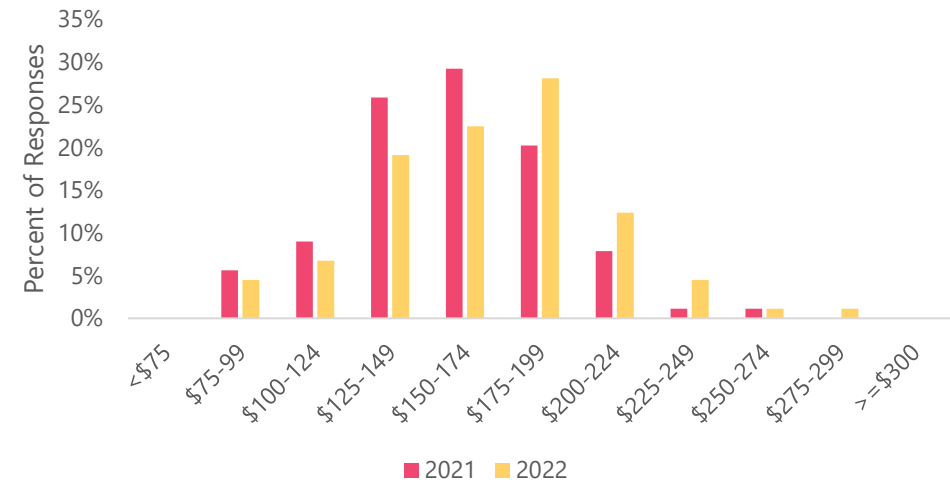
40% of the shops in our survey raised prices last year. In 2021 the most common hourly rate fell in the \$150-174/hr band, but by the start of 2022, this shifted to the \$175-199/hr band. This was driven by Medium-sized shops where 58% increased pricing last year.

When comparing shops that raised prices vs. shops that didn't, those that raised grew revenues 20% faster on average.

Respondents were asked to select all the pricing methods their firm employs. Again, the average shop employed three methods of pricing their services. Retainers were used by 79% of firms, while Time and Material pricing was used by 68%, Fixed Bid was used by 63%, and only 32% used Value-based.

Growth rates and profitability were all clustered around average for firms using Time and Materials, Fixed Bid, and Retainer pricing methods. Those employing Value-based pricing grew faster than average at 29% Y/Y and were slightly more profitable with an 18% average net income in 2021.

Since 2018 the average growth rate of firms that employ Value-based pricing has varied widely. VBP appears to be correlated with faster-than-average growth when the market is growing and underperforms during times of turbulence. Shops employing T&M and Retainer pricing tend to have more stable growth rates.



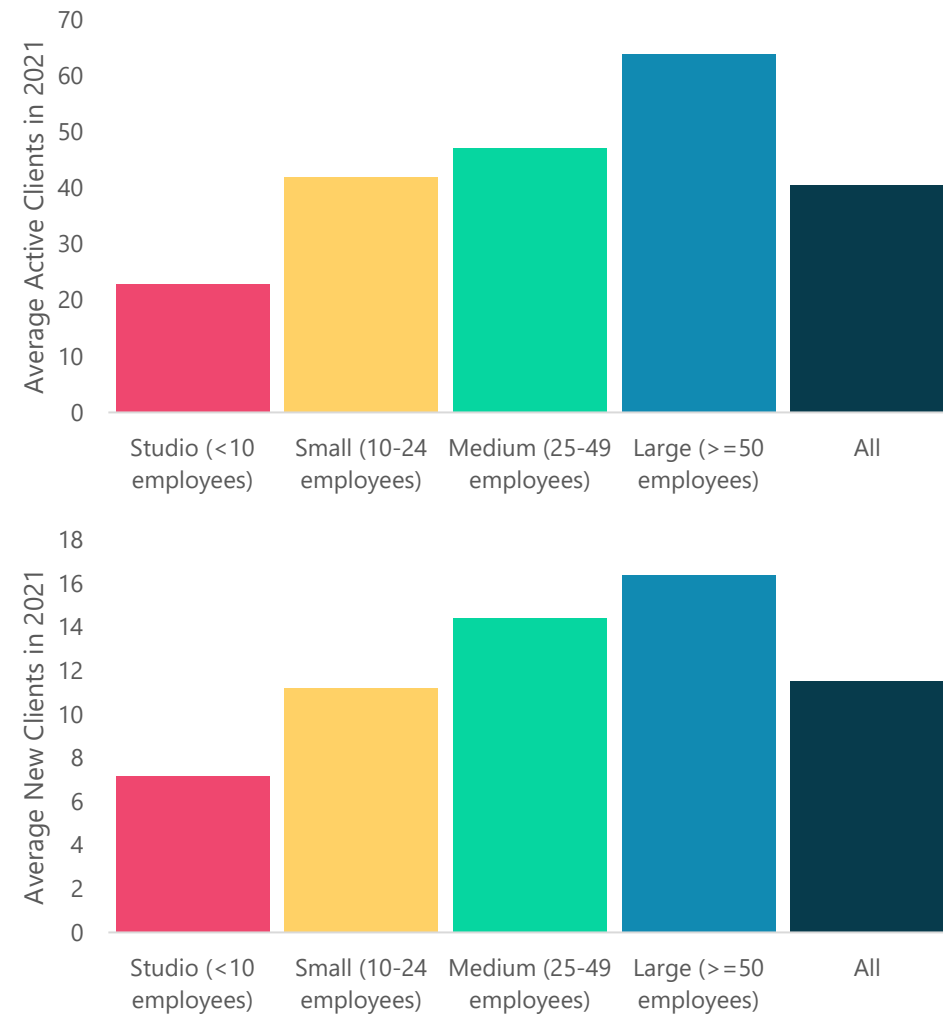
2021 In Review: Clients

While the average digital shop had 41 clients, it varied directly with company size. This trend also held true for the average number of new clients acquired in 2021 with the average shop bringing in one new client a month.

New client acquisition tends to be boom-or-bust for many shops. They need work so, through some heroic efforts, the owners go out and land new accounts. Then their focus shifts to managing the new projects and they ease up on sourcing new clients. This inevitably leads to a lull in leadgen and they once again are forced to go out and drum up new business.

The Medium shop size is where they will typically bring on some help in both sales and marketing. Our prior research shows that an average 25-person digital shop will have 1-2 salespeople plus a marketing lead.

Standardizing the sales process from leadgen through closing and account management is what allows shops to grow from Small to Medium and then from Medium to Large. This is evidenced by the growth in salespeople as a percent of employees from our 2021 Outlook Report. Unfortunately, we see many digital shops underinvest in their sales and marketing during this stage which results in choppy growth. Shifting up a few percent from the industry-average 6-7% can mean another few FTEs for Medium-sized shops.

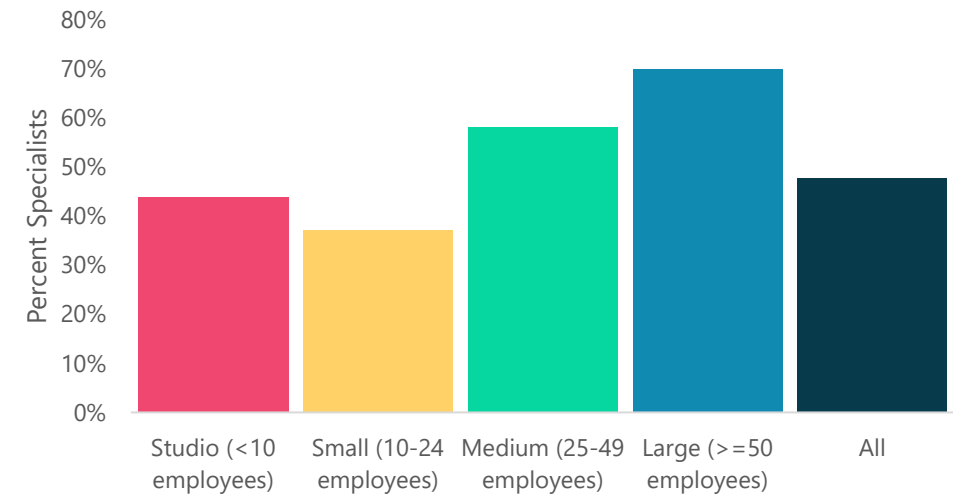
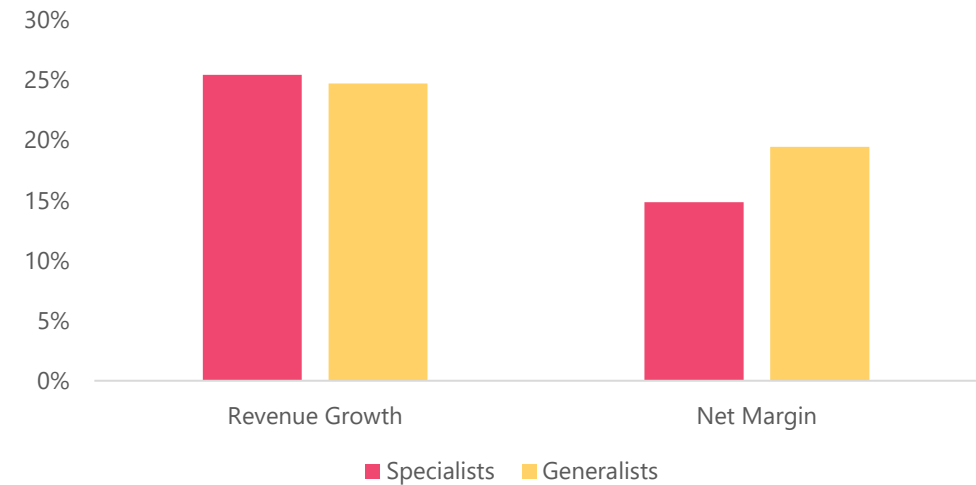


2021 In Review: Specialists

48% of the shops in our survey identified as specialists which is down slightly from 52% in last year's survey.

Self-identified specialists (either by service, industry, or geography) in our survey grew only slightly faster than generalists last year.

The majority of the specialists identified as specializing in a specific industry rather than a specific technology or service. This is further enforced by the count of the services offered by each. The average specialist offered an average of 6.0 services while the average generalist offered an average of 5.6 services.



2021 In Review: Profitability

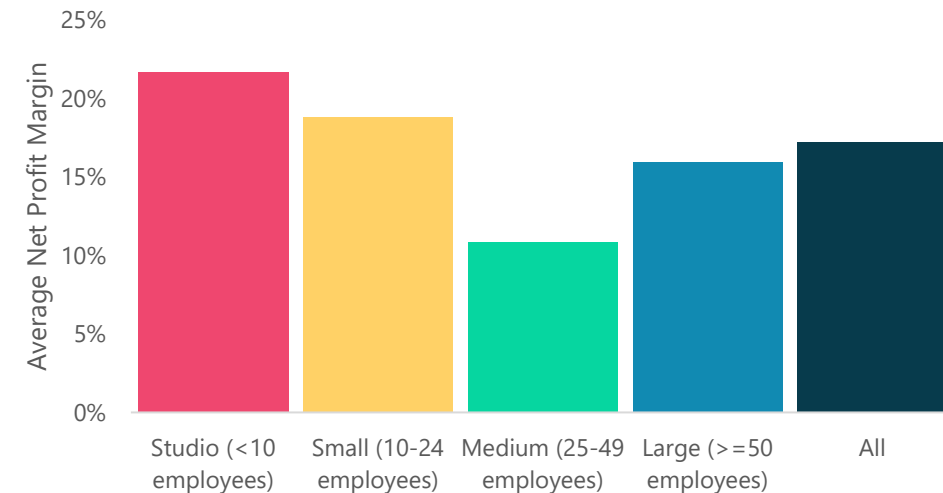
The average shop generated net profit margins of 17% in 2021. This was up slightly from the average 16% last year, 16.5% in 2019, and down from 18% in 2018.

Although specialist shops grew only slightly faster than generalists, they reported slightly lower than average profit margins.

Looking at the profit margins of shops that raised their prices last year vs. those that didn't, the ones that raised had slightly lower average profit margins.

Highly profitable shops (1 standard deviation above average) had average client tenures of 31 months, 65% longer than low-profit shops. They were also significantly more efficient with an average Revenue/FTE of \$235k – 84% greater than low-profit shops.

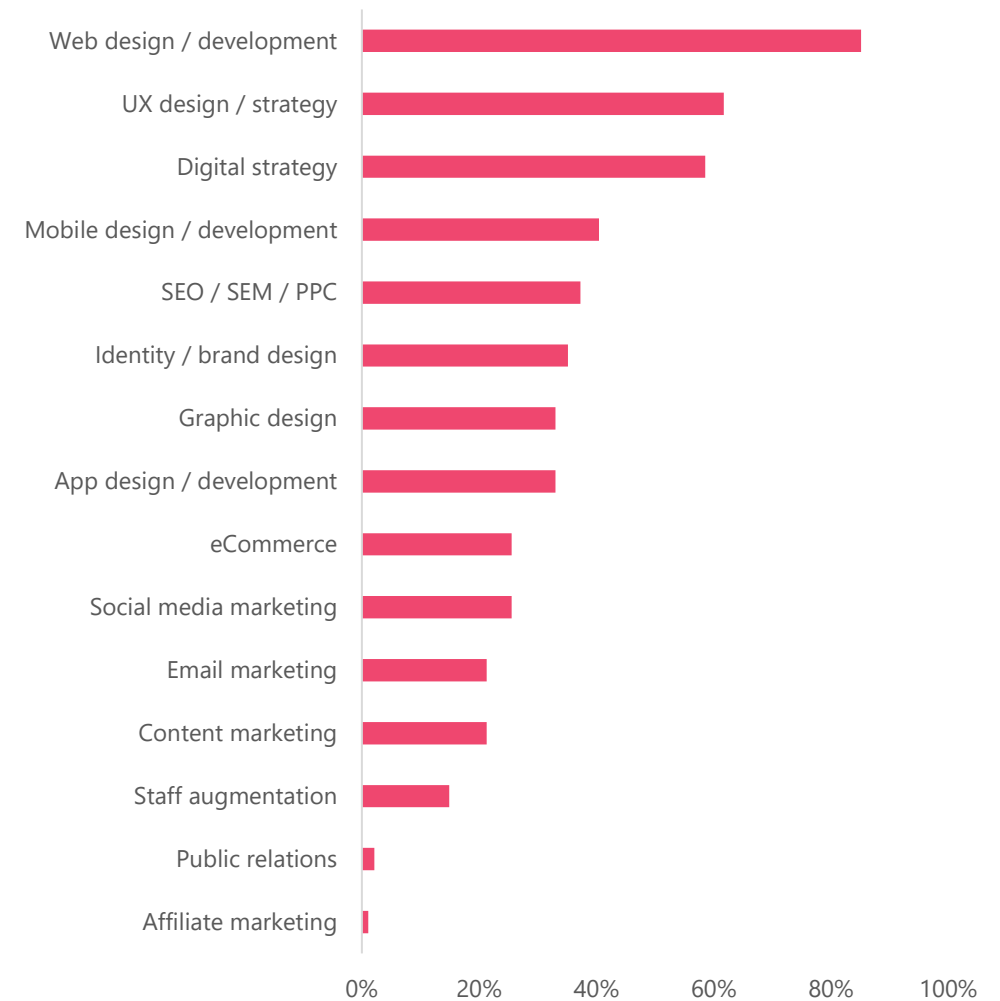
Shops offering Content marketing and Staff augmentation earned above-average margins, while those offering UX design / strategy, Identity / branding, and Graphic design earned the lowest.



2021 In Review: Services

The average firm offered 5.7 distinct services in 2021, up from 5.3 in 2020. The expansion in service offerings came from Studio and Small shops offering more services this year. Studio shops offered an average of 5 services. Small and Medium shops offered an average of 6 services each while Large shops offered an average of 5 services.

The most commonly offered services were Web design / development, UX design / strategy, and Digital strategy. App design / development fell from the fifth most common service to eighth and was replaced by more shops offering SEO / SEM / PPC / PPC services.



2022 Outlook



2022 Outlook: Overall

Overall, owners are as optimistic about 2022 as they were going into 2021. This is compared to our survey which took place in February of 2021. Shops are expecting 2022 revenue and headcount growth of almost 30%.

Studio shops are more measured this year with revenue growth expectations falling in line with averages. They're still expecting significant headcount growth but this is off a single-digit base.

Small, Medium, and Large shops' expectations were all relatively in line, although Large shops are expecting slightly lower headcount growth.

This level of optimism comes from a combination of owners expecting another great year tempered by how much they can grow off a fantastic 2021.

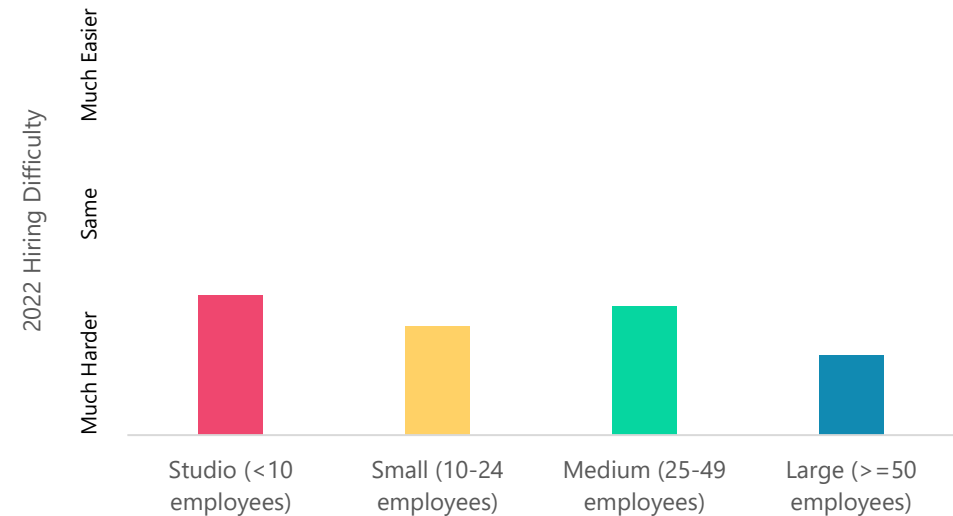
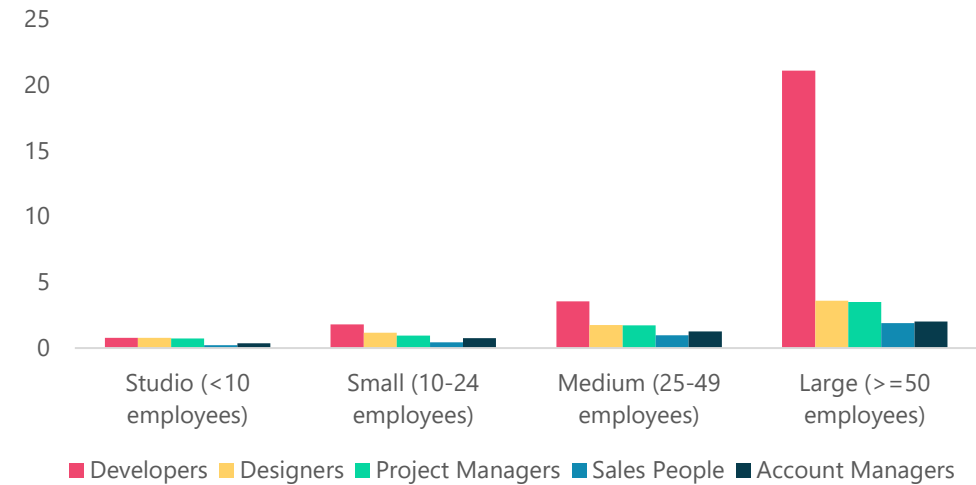


2022 Outlook: Hiring

Digital shops plan on increasing their headcounts by an average of 29% in 2022. We saw hiring expectations of 21% last year translate to 2021 being one of the best years for digital shops in recent memory. If this ~40% increase in hiring expectations holds, 2022 could be even better.

Developers are expected in the highest demand followed by Designers and Project Managers.

Overall, owners are expecting it to be more difficult to find qualified employees in 2022 with Large shops having the most pessimistic outlooks.



2022 Outlook: Retention

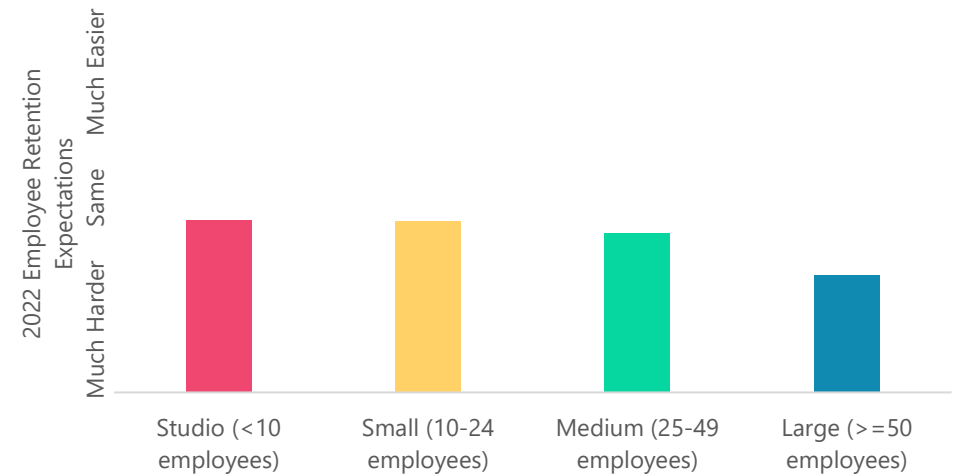
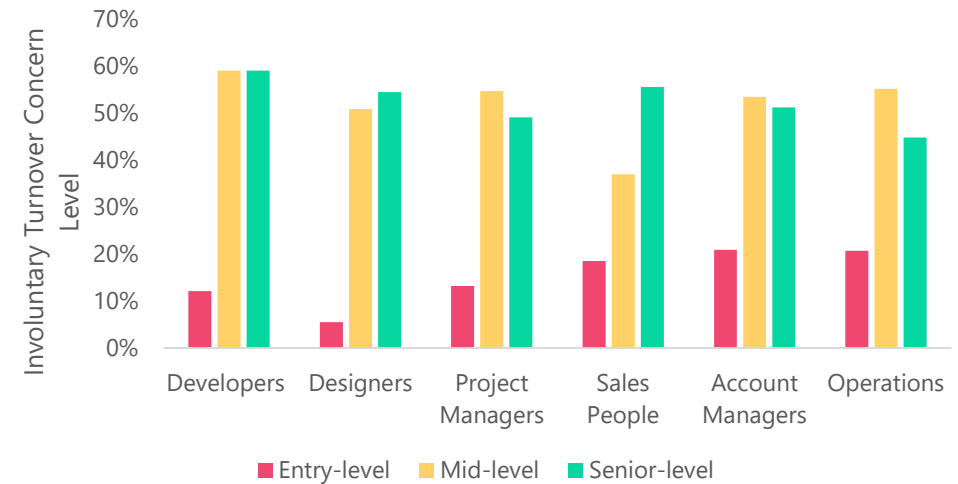
While most shops are worried about losing any Senior-level talent, regardless of position, owners are most concerned with losing senior Developers and least concerned about losing Entry-level Designers.

When asked what they're doing to improve retention, most owners responded that they'll be raising compensation levels. They're planning to raise salary levels plus add incentives like profit sharing, bonuses, and additional benefits to attract and retain talent. Be sure to check out our [Digital Service Salary Guide 2022](#) for all the compensation details.

Other more experimental retention tactics that owners mentioned included things like:

- Moving to a 4-day workweek.
- Focusing on professional development and internal promotions.
- Hiring a Head of People to manage culture beyond traditional human resources.

While almost everyone is expecting it to be slightly more difficult to retain talent this year, the larger a shop was, the more difficult they're expecting it'll be.



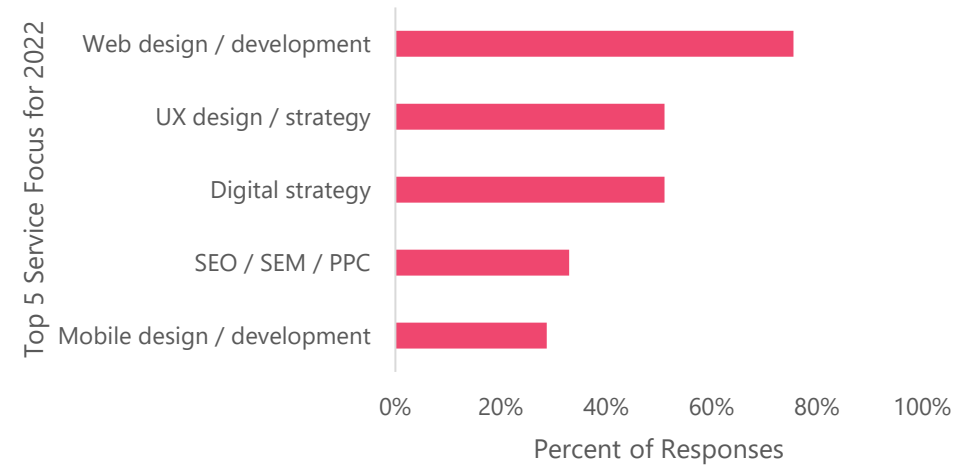
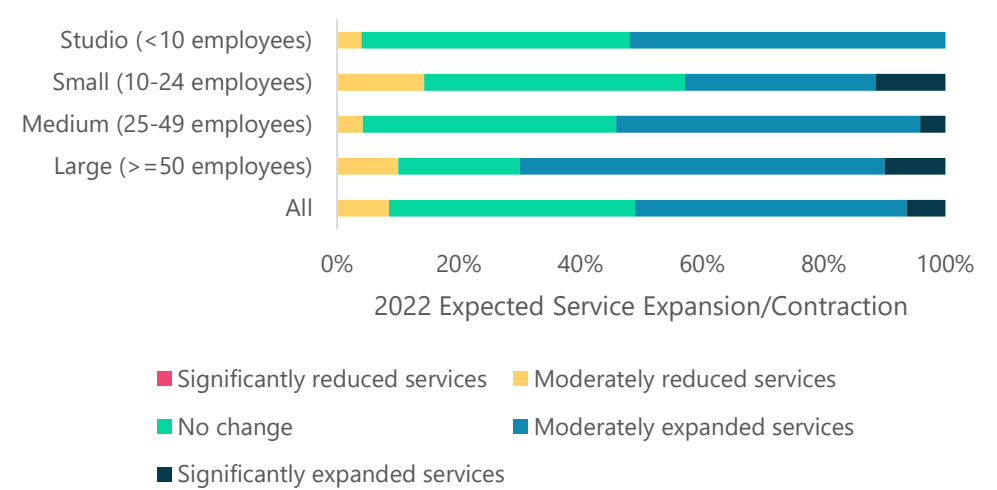
2022 Outlook: Services

Similar to last year, 51% of shops are planning to expand their services in 2022, with Large shops planning the most aggressive expansions.

Shops still expect to focus on Web design / development, UX design / strategy, and Digital strategy this year while App design / development fell out of the top 5.

The top three services owners are expecting to decline in popularity over the next few years are Web design / development, Social media marketing, and Graphic design. Interestingly, owners expected Graphic design to continue its fall in 2021 (we wrote about the commoditization of this service in last year's report) but it held steady at 33% of shops offering it.

The Web design / development service's demise has been predicted for years. Since 2018 it's bounced around the mid-80s as a percent of firms offering the service. Furthermore, it has continuously been the highest revenue-generating service by firms in our surveys. While a large portion of digital transformation happens in back-office processes, a significant portion of the work lies in making those processes accessible via the web. As long as new web-based capabilities are developed and need implementation, there'll be a spot for this cash cow in the service mix.





**Methodology &
Demographics**

About This Report

This report is a joint project between the Bureau of Digital and Promethean Research.

The objective of this report is to provide a high-level understanding of the digital services market in 2021 and gauge owner expectations for 2022.

This report was published in March 2022.

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Respondent Demographics

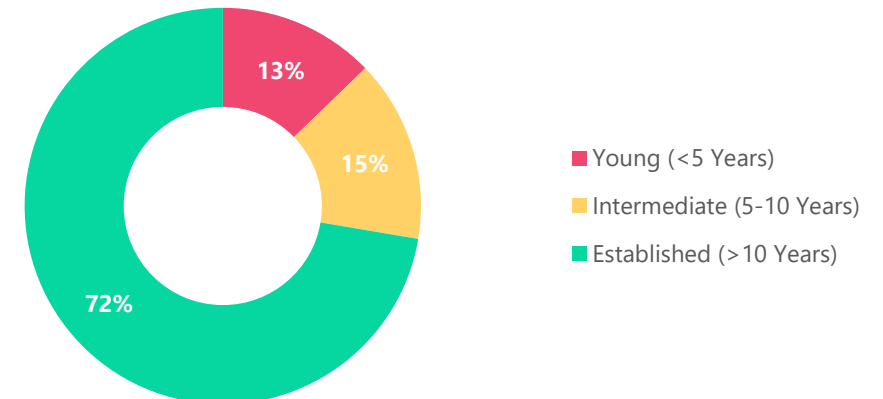
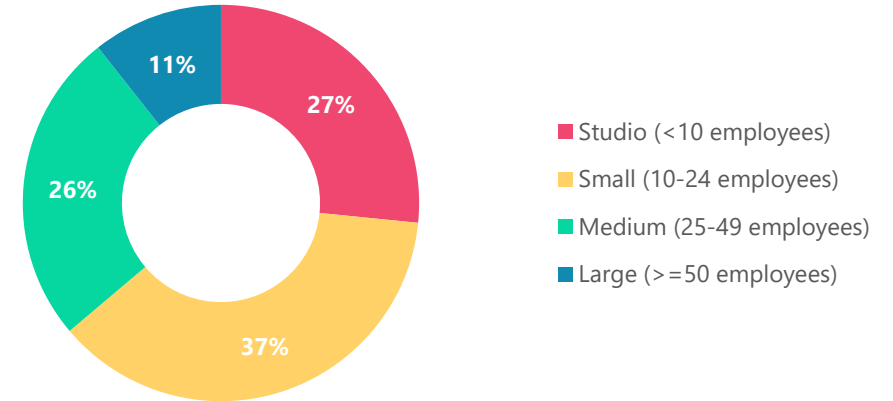
This report is a compilation of responses from owners across North America. An online survey was conducted of digital service company owners during February 2022 to collect insights across many key performance indicators.

94 executives completed the questionnaire.

Average size: 30 employees

Median size: 16 employees

Average age: 15 yrs old



Thank you to everyone who participated in this year's survey!

For more information, including research and resources for digital shops, visit [Promethean Research](#) and the [Bureau of Digital](#).