



# Navigating the Future:

Insights and Trends from the Commercial Service Industry for 2023





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# Executive Summary

ServiceTitan surveyed<sup>1</sup> more than 1,000 commercial service contractors across the country, from a variety of trades, not solely limited to ServiceTitan customers, on their business performance in 2022 and their expectations for 2023. Results indicate that during these trying times, businesses are finding a continued source of stability in repeat customers and view technology as an important tool for staying ahead of the competition.



## Summary findings

The Past	The Present	The Future
<p><b>2022 was a challenging year for the industry</b></p> <p>Only 30% of contractors saw an increase in revenue, and only 37% saw an increase in profits</p>	<p><b>Survey respondents have a mixed outlook for 2023</b></p> <p>With concerns about a possible recession, ongoing labor issues, and increasing costs, this year's main business goals will focus on customer retention and revenue growth.</p>	<p><b>Modernization is essential to achieving business goals</b></p> <p>66% of contractors consider digital transformation important to their operations, and roughly 30% of businesses surveyed have already incorporated artificial intelligence (AI) into their processes.</p>

<sup>1</sup> The survey was conducted on behalf of ServiceTitan by [Thrive Analytics](#), an independent third-party research provider and a leading digital marketing research firm.

# The State of Commercial Service Contractors in 2023

The commercial service industry faces an uncertain landscape. Although business growth lagged when comparing 2022 to the previous year, contractors still saw profits and maintained a healthy cash flow.

But what does this evolving environment mean for 2023 and how should businesses adapt their goals and tactics to the current economy?

## Key findings

ServiceTitan's analysis reveals how commercial service contractors fared in 2022 and the industry's goals for the current year. Survey results indicate that:

- **During 2022, most contractors (70%) did not see an increase in revenue.** 31% of respondents reported no change, while 39% suffered a decrease in their revenue.
- In terms of profitability, **only 37% saw an increase in their margins.**
- Customer retention played a big factor for contractors in 2022, with **repeat customers representing the highest volume of work (69%)**. After returning customers, the highest revenue channels were facilities and property management solutions and marketing/SEO.
- **Commercial service contractors have a mixed outlook for 2023**, with 56% having neutral expectations, 22% feeling positive, and 22% having negative views. The biggest risks for the year, as identified by survey respondents, are a possible recession, labor issues, and rising costs.
- As businesses gradually return to the office but remote work remains prevalent, **53% of contractors** experienced an increase in cancellations/holds for their service agreements.
- **66% of contractors see digital transformation as an important tool to reaching their goals.** Hoping to boost efficiency, roughly 24% of businesses surveyed have already incorporated some form of artificial intelligence (AI) into their current operations and 80% of those have seen positive results from implementing these systems.

# Looking Back at 2022

With only 30% of contractors reporting revenue growth for 2022, ServiceTitan took a deeper dive into the entire data sample to determine which channels drove the highest volume and the most income last year.

**45%**

respondents reported no change in profits in 2022

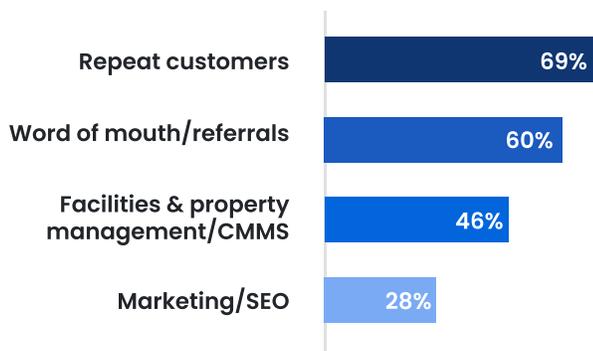
**18%**

had a decrease in profits

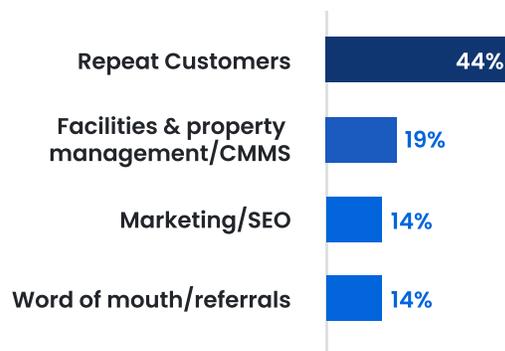
**Consistent with typical business cycles, the survey found that repeat customers were the biggest source of income during this economic downturn.**

Data also indicates that in response to this trend, business owners continue to focus on customer retention and revenue growth.

## Highest volume of business



## Most revenue



# Looking Ahead to 2023

When ServiceTitan asked commercial contractors about their revenue expectations for 2023, survey answers reflected the uncertainty that many trades businesses experience today: 30% expected revenue to stay the same, while 30% hope for an increase and 40% fear a decrease in their income.



**56%**  
of respondents stated that they feel neutral about the market in 2023

While overall business conditions remain in flux, profit expectations remain fairly positive and the greater majority (83%) of businesses don't expect a decrease.

**36%**

expect a profit increase

**47%**

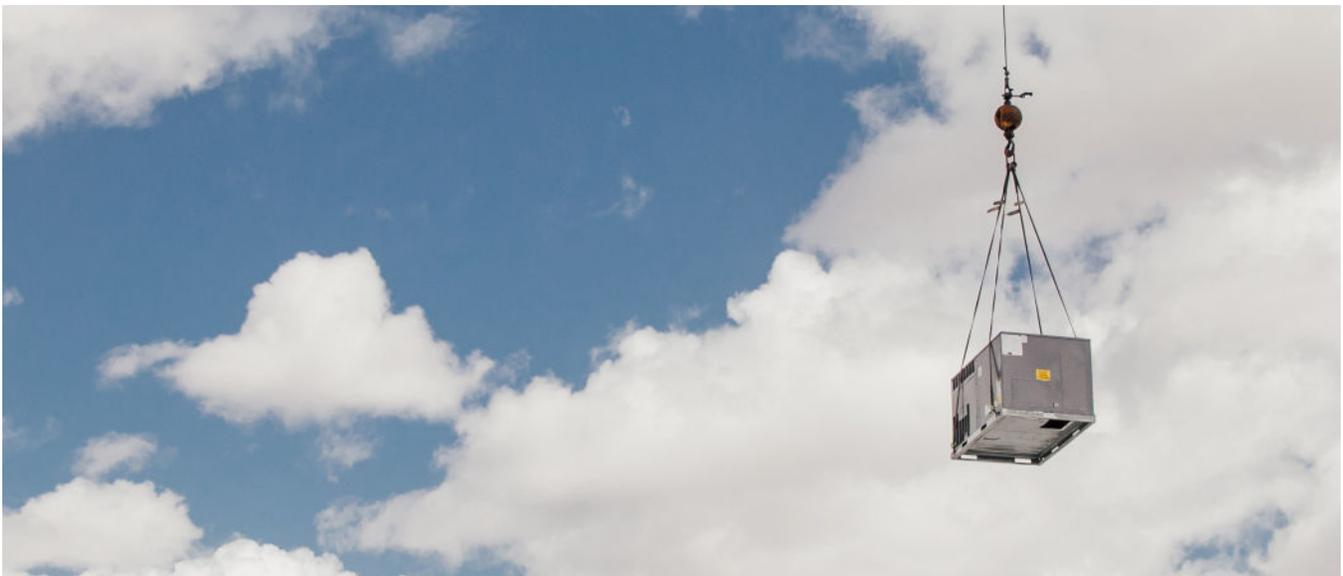
expect to make the same profit

**17%**

expect a decrease

## Shop size matters

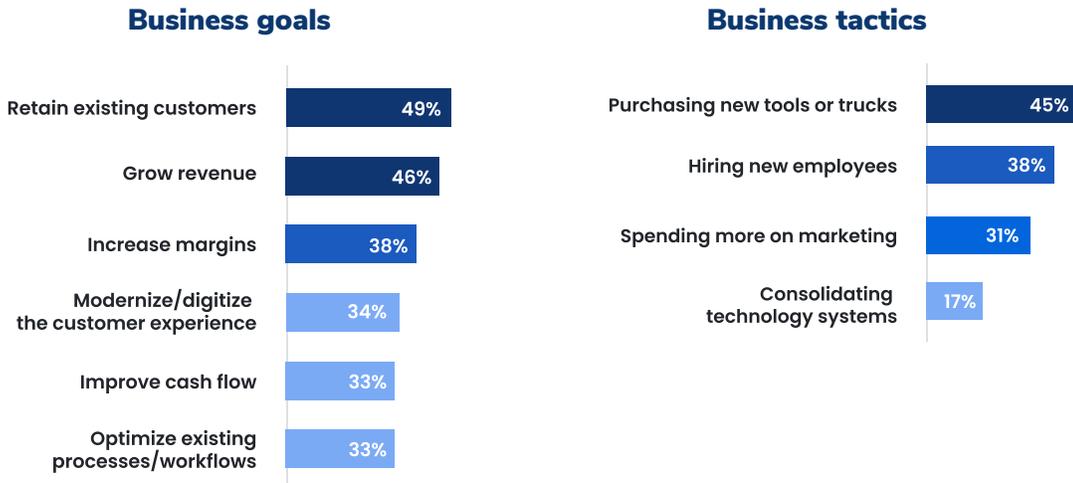
The outlook for 2023 varies depending on respondent income level. The greater the revenue, the more positive the outcome for the contractor. While only 39% of shops with revenue over \$25M expected decreases in their revenue this year, 51% of those who made less than \$5M expect their revenue to decline.



## Strategic resource allocation

As commercial service contractors aim to improve customer retention and grow their revenue in 2023, businesses have become more strategic about how they invest their resources.

45% plan to purchase new tools or trucks, 38% will hire new employees, and 31% will increase their marketing spend.

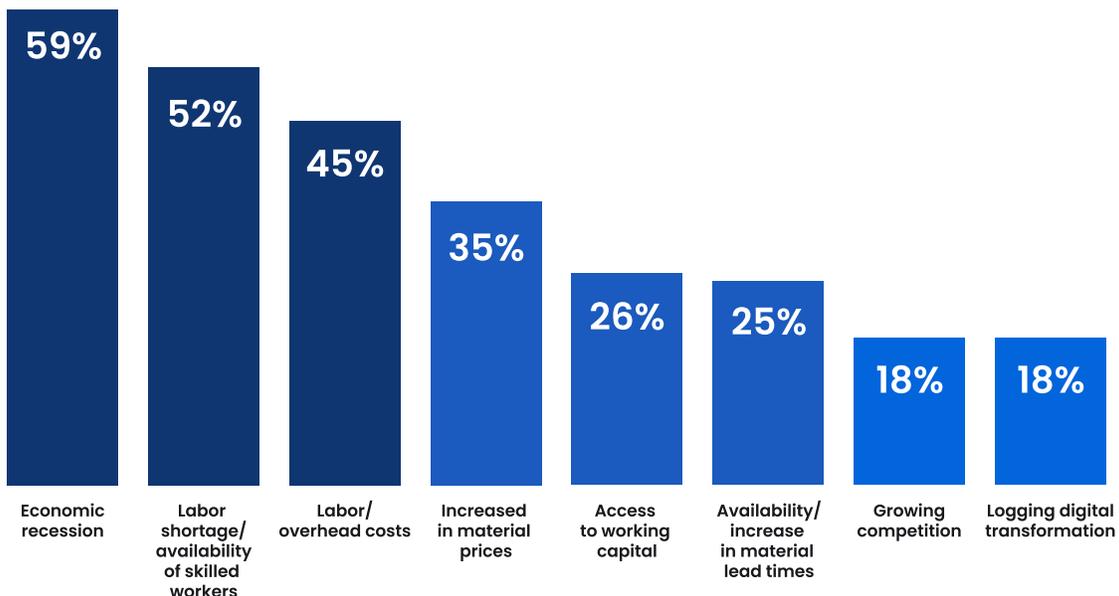


## Top risk factors

While the business objectives of respondents are based on and in line with current economic conditions, contractors still anticipate challenges in reaching these goals in 2023.

From economic recession to a lagging digital transformation, macroeconomic and operational risks are the biggest concerns for the industry.

### Biggest risks to meeting goals in 2023



# Emerging Trends in the Commercial Service Industry

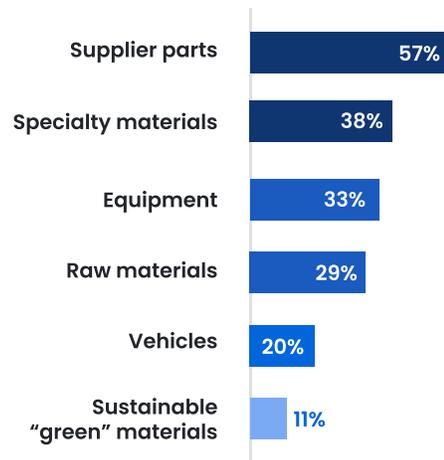
Continued supply chain issues and macroeconomic conditions present challenges for the commercial service industry. But amid these difficulties, there are positive developments. As the industry moves further into the digital age, it's more important than ever for contractors to stay nimble.

## Lingering supply challenges

Survey responses indicate that parts, specialty materials, and equipment are the most difficult supplies to come by.

In an effort to keep up with demand and navigate supply shortages, contractors have begun purchasing from multiple sources instead of their usual suppliers.

### Hard to get supplies



56%

of surveyed contractors have opted to buy directly from the supply house



22%

currently purchase from the manufacturer



22%

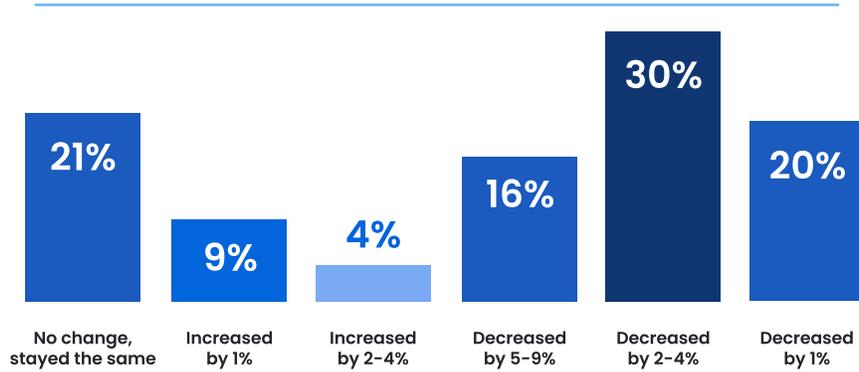
buy from the vendor

**Key takeaway:** Supplier diversification is an effective strategy that can help contractors create a more resilient supply chain and could help increase profits.

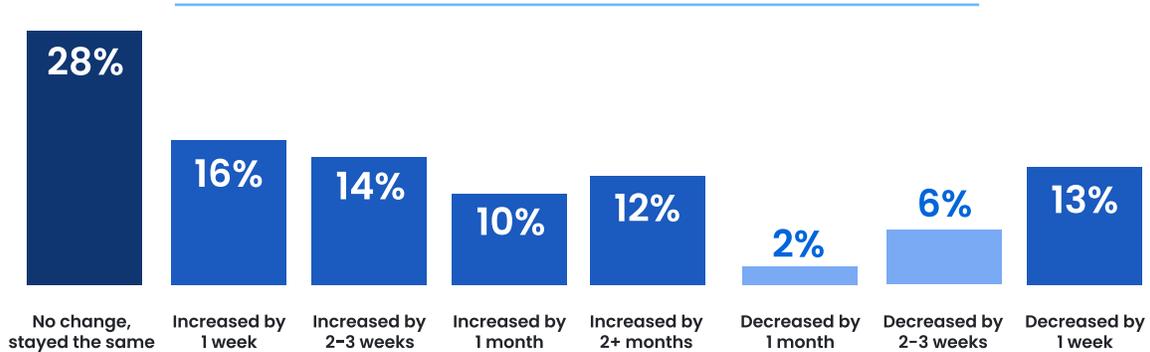
## Material prices and lead time

Most contractors (66%) stated that material prices have stabilized or decreased over the past six months, with 16% seeing price drops between 5 and 9%. But according to 52% of respondents, material lead times for some items have increased anywhere from one week to more than two months.

### Material prices



### Material lead times



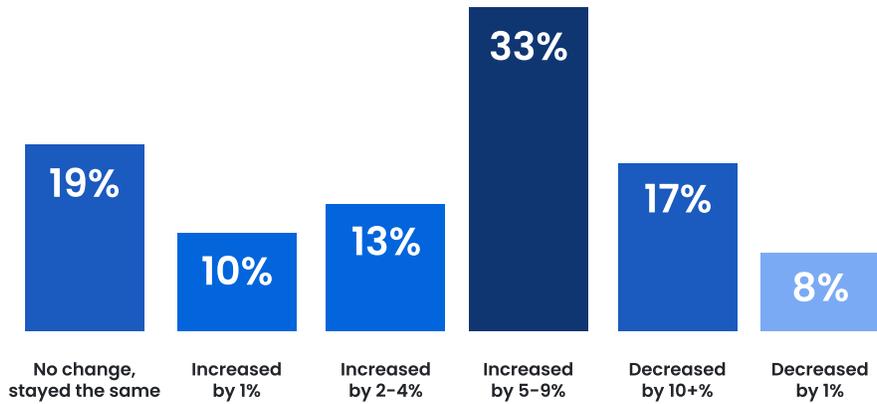
**Contractors in the Northeast region have seen the greatest increase in material lead changes, with 26% seeing delays longer than one month.**

**Key takeaway:** To ensure enough supplies for upcoming work, contractors should plan further ahead or purchase more, as the increase in lead times suggests a delay in receiving materials. Having systems in place to track current stock against what is needed for upcoming projects becomes vital in making sure work can be completed on time, especially in light of ongoing shipping delays.

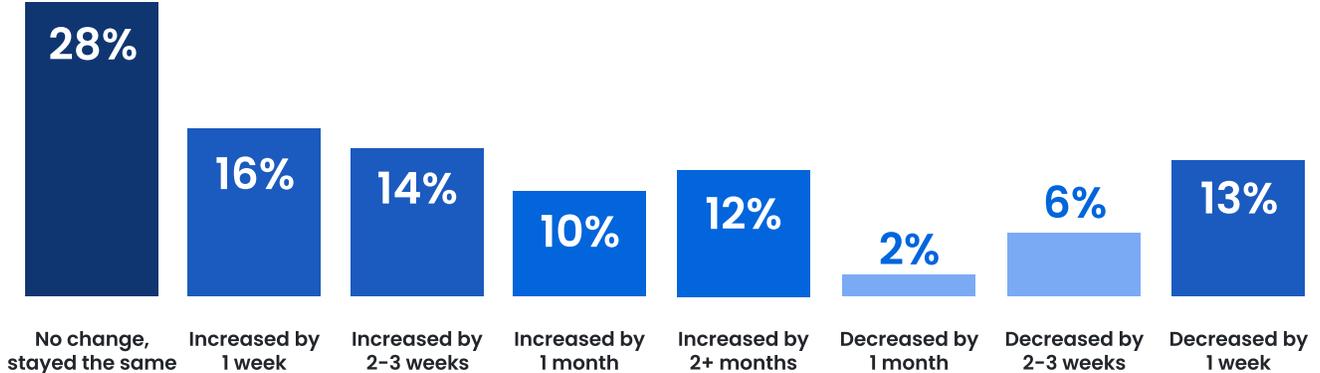
## Equipment prices and lead time

When it comes to equipment, both prices and lead times have gone up for the commercial service industry. The survey data shows that 73% of businesses have seen price hikes over the last 6 months, and 65% said lead times have also increased during the same time period. This is especially true for HVAC-related businesses, given upcoming or current changes in equipment efficiency requirements, such as the minimum SEER requirements.

### Equipment prices



### Equipment lead time



 **17%**  
of contractors said equipment prices increased by 10% or more

Highest equipment lead-time changes have occurred in the Northeast region, where 42% of businesses have seen equipment lead-time changes of 1+ month.

# The Impact of Remote Work on the Commercial Service Industry

The adoption of remote work has led many sectors to shift their operations to virtual environments. As the delay in the “return to office” continues to reduce building maintenance needs, 53% of contractors have experienced an increase in cancellations/holds for their service agreements.

 **53%**  
of contractors have experienced an increase in cancellations/holds



**Key takeaway:** Until businesses return to the office, contractors should identify ways to add value to their current contracts and customers. Two strategies to achieve this are tracking pull-through work during standard maintenance visits and creating a seamless experience for customers. Both of these approaches can increase renewal rates and maximize the value obtained from every contract.

# How Late Payments and Collections Affect Businesses

Having a steady cash flow is crucial to the success of a commercial service business—especially during economic downturns. Survey results reveal that contractors invoice and collect payments in a timely manner.

**60%**  
of respondents send invoices immediately after completing work

**71%**  
send invoices within one day



As a result of good invoicing practices, 65% of contractors collect payments on time and in line with the terms established. Only 8% struggle with invoice collections and receive payments one month or longer after agreed-upon terms.

## How do payment wait times differ based on building type?

Our research shows 71% report that retail businesses have the longest payment delay, while offices seem to remit the fastest (44%) and multi-family buildings follow closely behind at 34%.

**Longest delay**

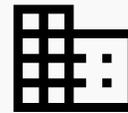
**71%**



**Retail**

**Fastest pay**

**44%**



**Office**

# Digital Transformation: A Promising Solution

In the face of rapidly changing economic climates, many businesses see modernizing the customer and operational experience as answers to evolving challenges.



67%

of contractors consider technological transformation important to their success

## Tapping into technology

Current use of software is high for contractors across the board. According to the survey data, 61% use a Field Service Management (FSM) solution and 47% have added integrated accounting software to their operations.

59%

of businesses surveyed use 4+ software solutions to manage their operations

16%

Despite the clear trend toward innovation, there is still a group of contractors who hesitate to adopt technology. They comprise the 16% of contractors who say they don't use any software solutions for their business.

**Key takeaway:** As technology plays a larger role in business management, finding the right solution is more important than ever. With a more robust software that can integrate and consolidate disparate systems, contractors can streamline processes, connect data, and lower overhead.

# The Future of Artificial Intelligence (AI)

The industry continues to explore AI as a solution to streamlining operations and enhancing the customer experience.

**24%**  
of respondents have already incorporated AI into their operations

**80%**  
of businesses using AI state it has improved their performance

These are the areas where respondents expect AI to have the most business impact:

 Call booking: 40%

 Field operations: 33%

 Marketing: 27%

 Invoicing: 38%

 Dispatching: 32%

 Customer experience: 27%



**Key takeaway:** Early adoption of AI can give contractors a competitive advantage while helping business leaders make better decisions based on AI predictions.

# Industry Benchmarks

During times of economic slowdown, benchmarks can help contractors determine how well their business is performing relative to their peers.

## Current hourly tech wages by region and expertise

With today's labor shortages, finding skilled workers can be a daunting task for many employers in the industry. The high demand for skilled labor and limited supply have led to competition among businesses to attract the best workers. This is where understanding how your field staff's salaries compare in the local market becomes crucial.

The following are the average hourly wages for technicians in different regions of the country:

	Northeast	West	Midwest	South
<b>Apprentice/Helpers</b>	\$18.23	\$17.96	\$16.44	\$15.55
<b>Journey or equivalent</b>	\$29.93	\$28.95	\$27.23	\$27.65
<b>Master or equivalent</b>	\$32.96	\$32.10	\$29.74	\$28.72

**73%**

of respondents plan to increase wages

**43%**

plan to increase by 5%+

**7%**

plan to increase by 10%+

## Gross margins by building type

As a key indicator of profitability, gross margin lets you know how well your business manages increasing costs in an inflationary environment. According to the survey data, gross margins were fairly consistent across businesses of similar sizes and trades.

Building Type	Average gross margin
<b>Industrial warehouse</b>	26.23%
<b>Retail</b>	32.31%
<b>Office</b>	26.06%
<b>Institutional</b>	31.07%
<b>Multi-family</b>	29.71%

**Key takeaway:** Offering competitive wages is not only important for attracting new talent, but also to retain existing employees. Wage increases can help mitigate the effects of inflation and keep employees motivated.

# Survey Takeaways

Key takeaways have emerged after analyzing the responses from more than 1,000 businesses across the commercial service industry.<sup>2</sup> These insights offer guidance into the challenges and opportunities facing the industry today, as well as the strategies that businesses are employing to stay competitive:

- Supplier diversification is an effective strategy that can help contractors create a more resilient supply chain and could help increase profits.
- To ensure enough supplies for upcoming work, contractors should plan further ahead or purchase more, as the increase in lead times suggests a delay in receiving materials. Having systems in place to track current stock against what is needed for upcoming projects becomes vital in making sure work can be completed on time, especially in light of ongoing shipping delays.
- Until businesses return to the office, contractors should identify ways to add value to their current contracts and customers. Two strategies to achieve this are tracking pull-through work during standard maintenance visits and creating a seamless experience for customers. Both of these approaches can increase renewal rates and maximize the value obtained from every contract.
- As technology plays a larger role in business management, finding the right solution is more important than ever. With a more robust software that can integrate and consolidate disparate systems, contractors can streamline processes, connect data, and lower overhead.
- Early adoption of AI can give contractors a competitive advantage while helping business leaders make better decisions based on AI predictions.
- Offering competitive wages is not only important for attracting new talent, but also to retain existing employees. Wage increases can help mitigate the effects of inflation and keep employees motivated.

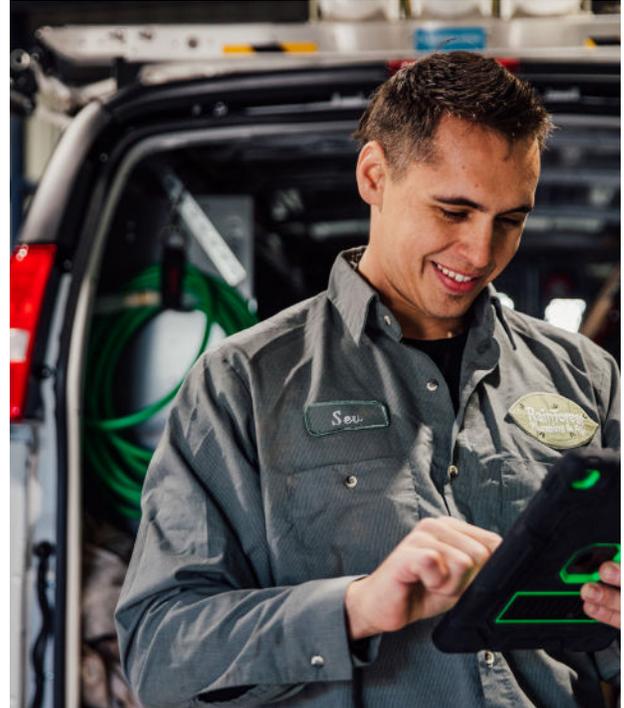
<sup>2</sup> For the purposes of this survey, a "commercial service contractor" is defined as any business generating 75% or more of their revenue from commercial services.

# Methodology

To understand the state of commercial service contractors and their perceptions, ServiceTitan partnered with Thrive Analytics to survey more than 1,000 commercial service contractors. This sample included respondents from a variety of trades, broken down as follows:

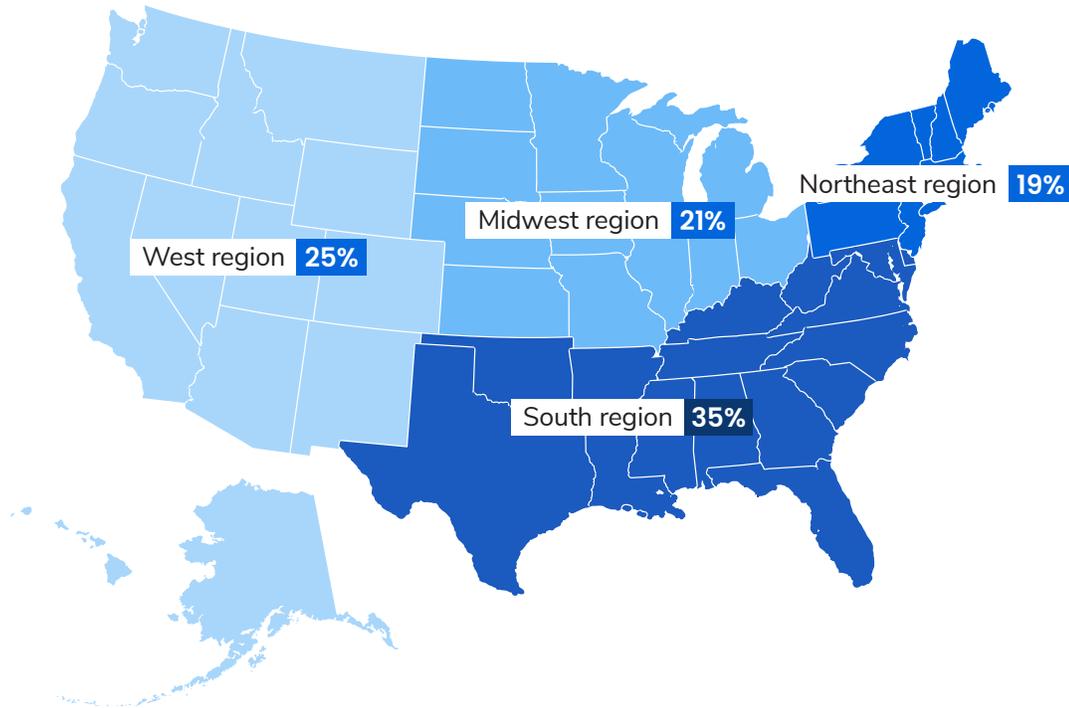
Trade	Responses*
Mechanical/Refrigeration	312
Electrical	310
Plumbing	223
Septic/Water Treatment	146
Fire/Safety	117
Sheet Metal	107
Commercial Food Equipment Service	104
Commercial Doors	101

\*Some businesses have multiple trades.

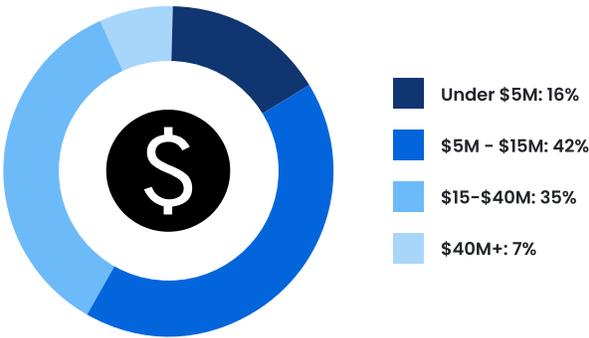


Survey respondents were also representative of geographical region, business growth stage, and revenue levels:

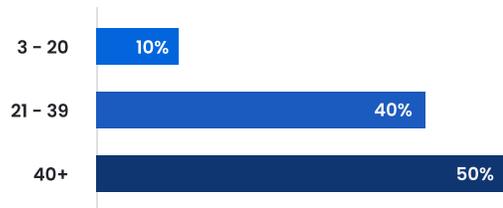
### Respondents by region



### Respondents by revenue



### Respondents by technicians



This white paper is for informational purposes only and ServiceTitan provides no assurances (express or implied) with respect to the accuracy of the survey data.



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**Commercial**

ServiceTitan is the leading cloud-based software platform powering commercial service and specialty contractors. Our all-in-one solution gives contractors complete control of their business by seamlessly integrating all operations in one place. By bringing an integrated SaaS platform to an industry historically underserved by technology, we are equipping tradespeople with the technology they need to keep the world running. Used by hundreds of thousands of service professionals, ServiceTitan helped commercial customers in 2022 drive 19% revenue growth, a 21% increase in agreement renewals, and a 9% revenue growth per tech.\*

Learn more at [servicetitan.com](https://servicetitan.com)

\*Commercial customers include customers who perform 25% or more of their jobs at commercial locations. Results are not guaranteed and may vary.