



PROVIDER STRATEGY PAPER / AAO-127

AI and the Global Outsourcing Industry

Briefing for Vendor Leadership

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October 2026

AI is moving outsourcing value away from labor faster than vendors have learned to manage the work that replaces it.

Executive Summary

Spending. As-a-service spending rose 53% to \$59.2 billion in the first half of 2026, and managed services rose 2.7% to \$22.1 billion.

Pricing. Vendors are handing AI productivity back to clients, and clients expect gains of 30% to 40% where most providers commit to 6% to 15%.

Operating model. Buyers want to pay for outcomes, vendors are restructuring their workforces, and clients are building their own captive centers.

Results. Scaled results from agentic AI remain rare, and Gartner predicts 70% of enterprises will abandon agentic AI built by vendor forward-deployed engineering by 2028.

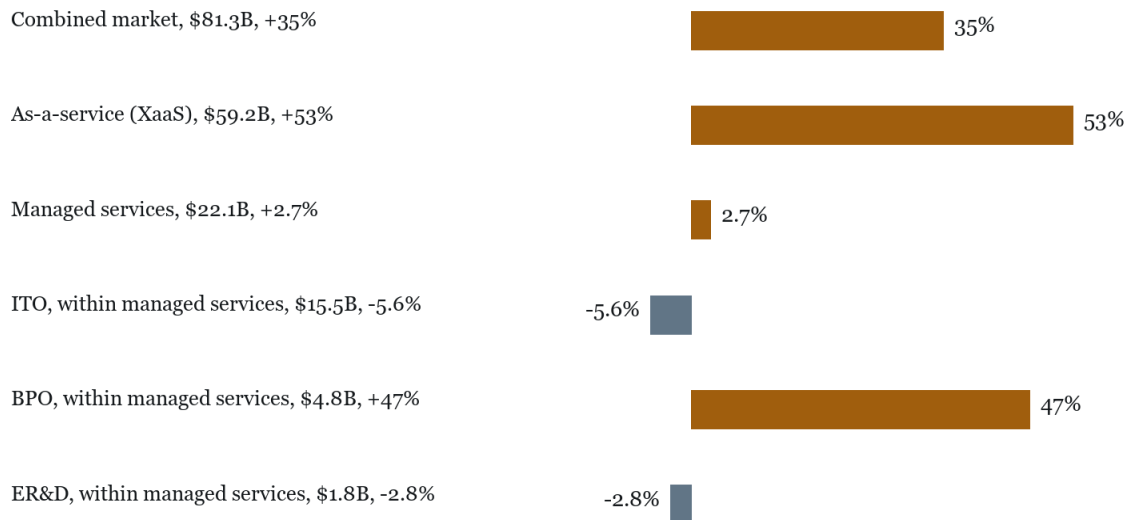
Delivery. In 150 engagements at Tier 1 financial institutions, delivery staff rated readiness, co-management, and vendor capability far worse than the AI technology, and frontline staff held the work together by hand.

The market evidence comes from company results, analyst research, and US policy records available at the date of this briefing. The study covers Tier 1 financial institutions only. Its evidence is what vendor staff reported.

In the first half of 2026, as-a-service spending rose 53% to \$59.2 billion, and managed services rose 2.7% to \$22.1 billion.

ISG tracks the annual contract value of commercial outsourcing and as-a-service contracts. In the first half of 2026 the combined market rose 35% to \$81.3 billion. As-a-service rose 53% to \$59.2 billion.

Managed services, where the labor-based vendor model sits, rose 2.7% to \$22.1 billion, and inside it ITO fell 5.6% to \$15.5 billion while BPO rose 47% to \$4.8 billion. ISG's own reading is that much of the activity is work moving between providers, not new demand. In 2025, managed services grew 1.3% to \$43.4 billion, its slowest growth since 2020.



1.3% Growth in managed services contract value in 2025, its slowest since 2020, to \$43.4 billion

“Much of this activity appears to reflect work moving between providers and changing operating models rather than entirely new outsourcing demand.”

ISG Index, July 2026

Source: ISG Index, Q2 2026 release (9 July 2026) and Q4 2025 release (15 January 2026). Annual contract value of commercial contracts. XaaS is cloud infrastructure and software as a service. Managed services is ITO, BPO, and ER&D. [Source record 1](#) [Source record 2](#)

Contract value for labor-based application work is falling as AI takes over routine tasks.

Application development and maintenance is the largest area of ITO. ISG's analysts name coding, testing, and documentation as the routine work where AI is deflationary. ISG reported standalone ADM contract value down 20% in the first quarter of 2026 and said in July that AI-led work ate into the contract value of labor-based models.

ISG also reported that enterprises are consolidating vendors, bundling towers, and taking cost out to fund AI.

-20%

Standalone application development and maintenance contract value, the largest area of ITO, Q1 2026

-5.6%

ITO contract value in the first half of 2026, to \$15.5 billion

“Application development and maintenance (ADM) services remained under pressure, as AI-led work ate into the ACV of labor-based models.”

ISG Index, July 2026

“... traditional labor-intensive work is increasingly displaced by LLMs.”

ISG Index, July 2026

“We believe AI is deflationary to routine, pattern-based work where LLMs excel: coding, testing, documentation, etc.”

Stanton Jones and Steve Hall, ISG, April 2026

Source: ISG Index, Q1 2026 release (16 April 2026) and Q2 2026 release (9 July 2026). ISG Index Insider, 24 April 2026. [Source record 1](#) [Source record 2](#)

Revenue at six large listed IT services vendors grew 0.9% to 7% in the latest quarter, and the four based in India grew least.

Five of the six quarters run April to June 2026. Accenture's runs June to August 2026. Revenue growth is year on year in constant or local currency, as each company reports it.

TCS employed 593,798 people at the end of June, 19,271 fewer than a year earlier, although 9,279 more than in March. HCLTech's 223,889 people were 3,292 fewer than in March and 738 more than a year earlier. Accenture reports about 814,000 people against about 779,000 a year earlier, both figures rounded by the company.

Wipro said its headcount fell by 2,500 in the quarter outside the Mindsprint acquisition.

Vendor	Latest quarter	Revenue growth, year on year
Accenture	June to August 2026	7%
Cognizant	April to June 2026	4.1%
TCS	April to June 2026	3.2%
HCLTech	April to June 2026	2.6%
Infosys	April to June 2026	2.4%
Wipro	April to June 2026	0.9%

Vendor	People at quarter end	Change on the year	Change on the quarter
Accenture	About 814,000	About +35,000	Not stated
Cognizant	356,700	+12,900	-900
TCS	593,798	-19,271	+9,279
HCLTech	223,889	+738	-3,292
Infosys	Not stated	Not stated	Not stated
Wipro	Not stated	Not stated	-2,500, excluding an acquisition

TCS grew revenue 3.2% while employing 19,271 fewer people than a year earlier. Accenture and Cognizant grew faster and added people.

Source: company results releases and earnings call transcripts for each vendor's latest quarter. Growth is in constant currency (Accenture: local currency). Headcount changes computed from the companies' own figures. Infosys's latest headcount appears only in secondary reports and is not shown.

Vendor leaders now say openly that AI productivity is being handed back to clients.

These are the vendors' own executives on their own earnings calls. TCS's chief executive put the productivity passed on at around 10% to 15% in most places. Wipro's chief financial officer was speaking about large operations deals where the client's priority is cost take-out, and said newer AI work can carry a premium.

HCLTech's chief executive tied the revenue reduction to a bet on a larger share of the client's wallet. On the same April call, Infosys's chief executive said, "We are definitely seeing the compression."

"One quantification I can give you is in most places, the productivity gain passed on is around 10% to 15% range."

K Krithivasan, Chief Executive Officer, TCS, July 2026

“... the competitive intensity in the market has gone up and the productivity will get passed back to the client largely.”

Jayesh Sanghrajka, Chief Financial Officer, Infosys, April 2026

“... there will be a lot of productivity, forward productivity that gets baked into deals.”

Aparna Iyer, Chief Financial Officer, Wipro, July 2026

“And it will mean some reduction in revenue for us. And we are okay with that.”

C. Vijayakumar, Chief Executive Officer, HCLTech, July 2025

Source: earnings call transcripts. TCS Q1 FY27 (9 July 2026), Infosys Q4 FY26 (23 April 2026), Wipro Q1 FY27 (16 July 2026), HCLTech Q1 FY26 (14 July 2025).

Clients expect agentic AI to deliver productivity gains of 30% to 40%, and most providers commit to 6% to 15%.

BCG surveyed both sides of the market. Enterprises expect productivity improvements of 30% to 40% from agentic AI, while most providers commit to 6% to 15%. Nearly 60% of enterprises report no measurable improvement in total cost of ownership yet in deals that include agentic AI.

The fee stayed fixed while the agents changed the work, so the vendor absorbed the cost of the extra reviewers.

30% to 40%

Productivity improvement enterprises expect from agentic AI

6% to 15%

Productivity improvement most providers commit to

Nearly 60% of enterprises in BCG's survey of more than 115 executives report no measurable TCO improvement yet in deals that include agentic AI.

Persistent Systems' chief executive told Reuters that clients were demanding the same work for 25% to 30% less.

“In June we were asked to add two more allocation reviewers and were told the fee is fixed on the numbers agreed last year, which nobody has revisited since agents took half the run. So we absorbed it.”

Engagement Manager, BPO, Trade, settlement and reconciliation

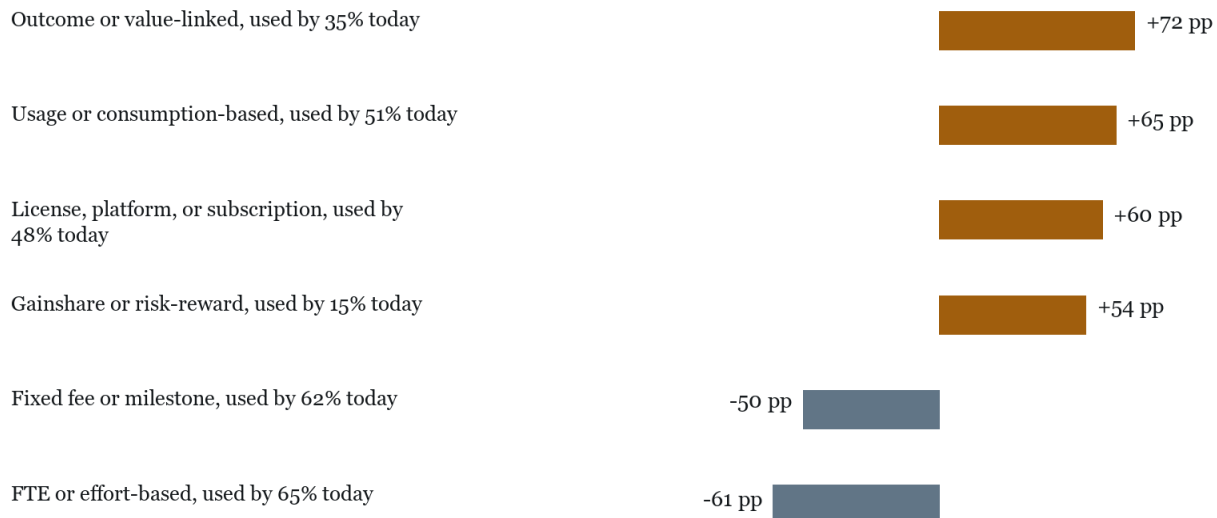
Source: BCG, The \$200 Billion AI Opportunity in Tech Services (20 February 2026), surveys of more than 115 enterprise executives and over 75 provider executives. Reuters via Yahoo Finance, 20 August 2026. Study: Outsourcing 2026: Agentic AI and Tier 1 Financial Institutions, Akholi. [Source record 1](#) [Source record 2](#) [Source record 3](#)

Buyers want to pay for outcomes, and most providers still price effort.

HFS asked 202 senior enterprise leaders how they expect each pricing mechanism to change over the next two years. FTE or effort-based pricing is the most used today, at 65%. It also has the most negative outlook, with 70% expecting less of it and 9% expecting more.

Outcome or value-linked pricing is used by 35% today, and 75% expect more of it. BCG finds the same split from the other side. Buyers prefer outcome-linked models, while about 60% of providers still use time and materials or fixed price for agentic AI services.

Expected change in use over the next two years (net percentage points)



IDC expects 30% of all contractual engagements with service providers to be outcome-based by 2029.

More than 70% of enterprise decision makers in BCG's survey prefer output- or outcome-linked models for customer experience and BPO

About 60% of service providers still rely on time and materials or fixed price for agentic AI services (BCG)

“We must stop pricing this as if it were bodies on a floor.”

Portfolio Director, ITO, Technology engineering and operations

Source: HFS Research Enterprise Pulse Study 2026, 202 senior enterprise leaders at organizations with \$1 billion or more in revenue. Net is the share expecting more use minus the share expecting less. BCG, 20 February 2026. IDC, 11 May 2026. Study: Outsourcing 2026: Agentic AI and Tier 1 Financial Institutions, Akholi. [Source record 1](#) [Source record 2](#) [Source record 3](#)

Vendors are spending heavily to restructure their workforces around AI.

Accenture recorded \$923 million over six months for business optimization actions it described as part of executing its talent strategy, with the latest quarter's \$308 million primarily severance. Its chief executive said the firm is exiting, on a compressed timeline, people it cannot reskill for the skills it needs. Cognizant, Capgemini, and TP have all booked or guided restructuring costs, and Capgemini ties its program directly to AI.

The Stanford study uses US payroll data and finds the decline concentrated in early-career workers in occupations where AI automates rather than augments the work. The counterweight comes from Nasscom. India's tech industry was still a net hirer in FY26.

\$923 million

Accenture: on business optimization actions over six months to execute its talent strategy (reported December 2025)

\$200 million to \$270 million

Cognizant: of severance and other personnel costs under Project Leap, substantially all expected in 2026

About €700 million

Capgemini: of restructuring costs over two years, most of it in 2026, citing a technology shift primarily driven by AI

€120 million to €140 million

TP: of restructuring costs expected in 2026

About 12,200 jobs

TCS: or 2% of its workforce, mainly middle and senior management (announced July 2025)

US workers aged 22 to 25 in AI-exposed occupations saw 16% relative employment declines (Stanford, November 2025).

India's tech industry still added people in FY26, with headcount up 2.3% (Nasscom).

“We are exiting on a compressed timeline, people where reskilling, based on our experience, is not a viable path for the skills we need.”

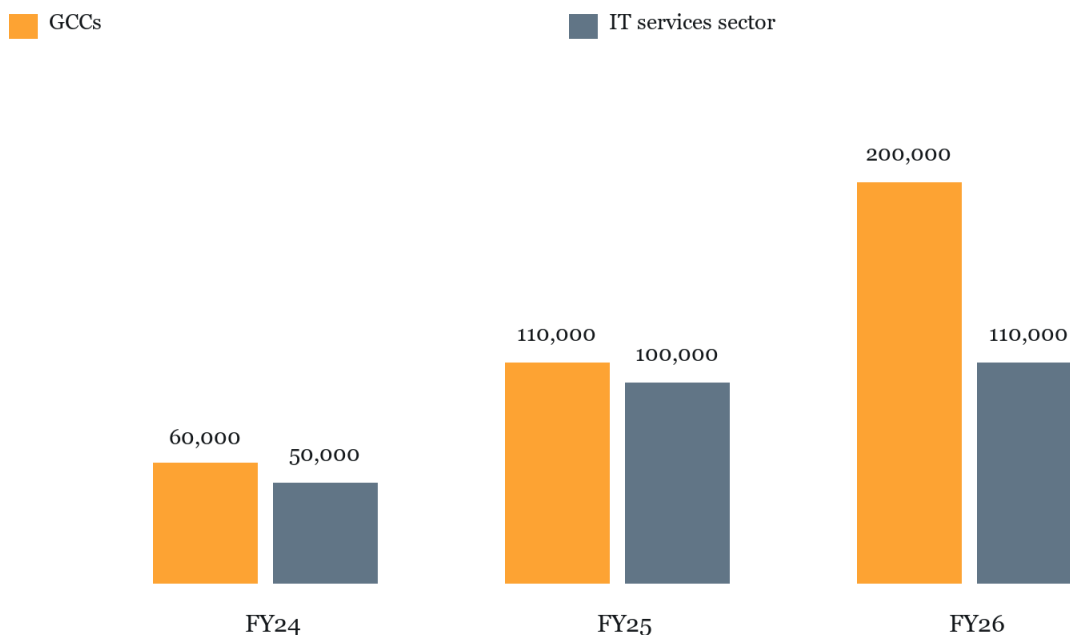
Julie Sweet, Chair and Chief Executive Officer, Accenture, September 2025

Source: Accenture Q1 FY26 call (18 December 2025) and Q4 FY25 call. Cognizant Q1 2026 results. Capgemini full-year 2025 results. TP H1 2026 results. Reuters, 27 July 2025. Brynjolfsson, Chandar, and Chen, Stanford Digital Economy Lab, 13 November 2025. Nasscom Strategic Review 2026. [Source record 1](#) [Source record 2](#)

Enterprises are moving more of the work into their own captive centers.

Global capability centers are enterprises' own offshore operations. In India their net hiring has outpaced the IT services sector for three years running, and in FY26 they added about 200,000 people against 110,000 for the IT services sector. The hiring figures come from staffing firm Xpheno as reported by Business Standard.

ISG's survey of 250 senior decision-makers found 90% planning to widen the scope of their GCCs within a year.



2,117 GCCs in India, employing about 2.36 million professionals (FY26)

90% of 250 senior decision-makers plan to increase the scope of work handled by their GCCs in the next 12 months (ISG)

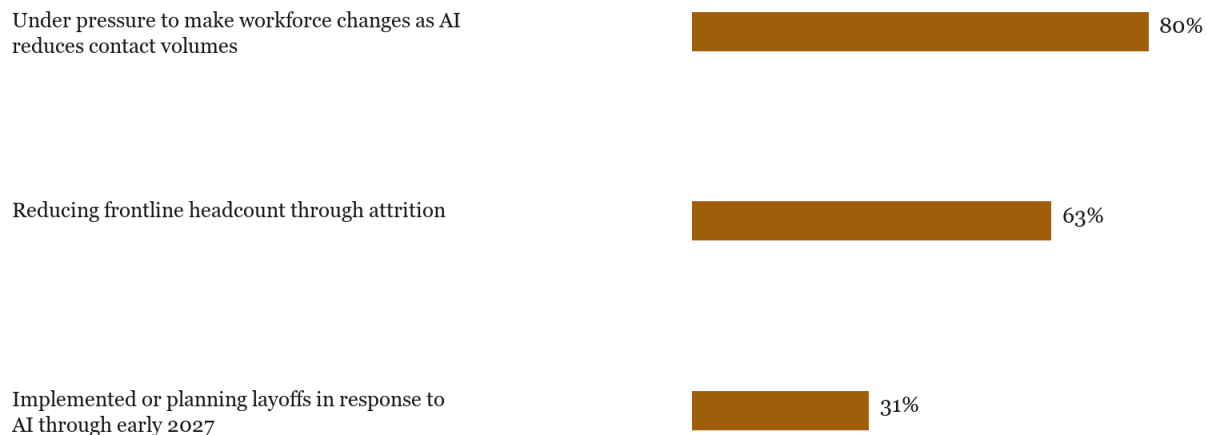
Source: Xpheno data reported by Business Standard, 20 May 2026. Nasscom and Zinnov GCC Landscape Report, 2 July 2026. ISG State of BPO Report, 17 June 2026, survey of 250 senior decision-makers. [Source record 1](#) [Source record 2](#)

Revenue is contracting at Concentrix and TP as automation cuts customer contact volumes.

Concentrix and TP are both customer experience vendors. Concentrix's revenue fell 0.5% in constant currency in its third quarter, and its guidance implies a steeper decline in the fourth. TP's revenue fell 1.7% like for like in the first half, and it named accelerated automation as the cause of the decline in Trust and Safety.

Gartner's survey of 321 service leaders shows how clients are handling it. Most are shrinking frontline headcount through attrition, and 31% have implemented or are planning layoffs. The Philippine industry body has cut its 2028 jobs forecast.

The balancing fact is that BPO contract value rose in the first half of 2026, so part of this is work changing hands.



Work is also moving between providers. ISG reports BPO contract value up 47% to \$4.8 billion in the first half of 2026, and Concentrix says 50% of its revenue now comes from businesses built in the last three years.

-0.5% Concentrix revenue in Q3 2026, constant currency. Its guidance implies a full-year decline of 0.3% to 0.8% and a fourth-quarter decline of 3.0% to 5.0%.

-1.7% TP revenue in the first half of 2026, like for like, to €4,883 million, with Trust and Safety in “sharp decline due to accelerated automation”

1.85 to 2.14 million Philippine IT-BPM jobs IBPAP now expects by 2028, downside to best case, against the 2.5 million it projected in 2022. The industry employed 1.89 million people in 2025.

Source: Concentrix Q3 2026 results (29 September 2026) and earnings call transcript (TradingKey). TP H1 2026 results (30 July 2026). Gartner, 28 April 2026. IBPAP 2026 industry overview and GMA News (14 July 2026). ISG Index, 9 July 2026. [Source record 1](#) [Source record 2](#) [Source record 3](#)

Analysts expect AI service costs to rise, and some AI-driven job cuts are already being reversed.

Gartner expects the cost of AI in customer service to rise as data center costs climb, AI vendors move from subsidized growth to profitability, and use cases consume more tokens. By 2030 it expects generative AI cost per resolution to exceed \$3, higher than many offshore human agents. Its October 2025 survey found 20% of 321 service leaders had cut agent staffing due to AI, and it predicts half of the companies that cut staff because of AI will rehire for similar work by 2027.

Commonwealth Bank of Australia is an early public case of a reversal.

Over \$3

Gartner forecast for generative AI cost per resolution in customer service by 2030, higher than many B2C offshore human agents

20% of 321

customer service leaders had reduced agent staffing due to AI (Gartner survey, October 2025)

50%

of companies that attributed headcount cuts to AI will rehire for similar work under different job titles by 2027 (Gartner forecast)

Commonwealth Bank of Australia Reversed the cut of 45 customer service roles it had attributed to AI, called the decision an “error” and apologized after finding the roles were not redundant (August 2025).

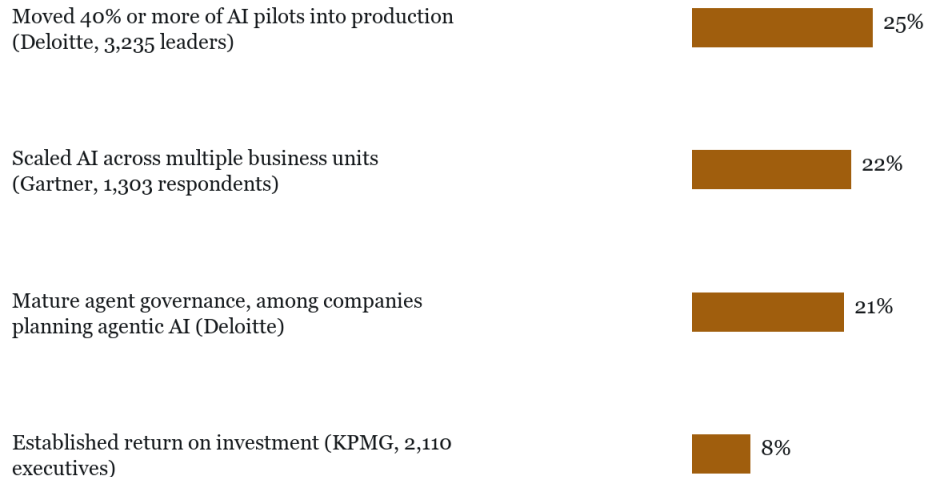
Source: Gartner press releases of 26 January 2026 (cost forecast), 2 December 2025 (survey of 321 leaders, October 2025) and February 2026 (rehire forecast). ABC News, 21 August 2025. [Source record 1](#)

Close to three quarters of companies plan to deploy agentic AI within two years, and scaled results remain rare.

Plans are widespread. Deloitte found close to three quarters of companies planning to deploy agentic AI within two years. Results at scale are not.

Only 25% of Deloitte's respondents had moved 40% or more of their pilots into production, and 21% of the companies planning agentic AI have a mature model for governing agents. Gartner

found 22% had scaled AI across multiple business units, and KPMG found 8% reporting established return on investment. Workday's survey found nearly 40% of the time AI saves is lost to rework.



Nearly 40% of AI time savings are lost to rework (Workday survey of 3,200 employees, November 2025)

Over 40% of agentic AI projects will be canceled by the end of 2027 (Gartner forecast, June 2025)

Source: Deloitte, State of AI in the Enterprise 2026, 3,235 business and IT leaders. Gartner, 1 September 2026, 1,303 respondents. KPMG Global AI Pulse, Q1 2026, 2,110 senior executives. Workday, 14 January 2026. Gartner, 25 June 2025. [Source record 1](#) [Source record 2](#)

Gartner predicts 70% of enterprises will abandon agentic AI built by vendor forward-deployed engineering by 2028.

Forward-deployed engineering means vendor engineers embedded with the client to build agentic AI. Gartner predicts most enterprises will abandon what those teams build, because it becomes too costly to run and the client cannot evolve it alone. It also warns of FDE washing, where consulting services are relabeled as forward-deployed engineering, and of vendors charging premium fees without the delivery depth to justify them.

70%

of enterprises will abandon agentic AI built by vendor forward-deployed engineering by 2028, trapped by soaring costs and unable to evolve it on their own (Gartner forecast)

Less than 20%

of forward-deployed engineering engagements will turn recurring customer needs into capabilities in the vendor's core product through 2028 (Gartner forecast)

About 130

of the thousands of agentic AI vendors are real, by Gartner's estimate in June 2025

“Some charge premium fees without the delivery depth, program management, or change management maturity to justify them.”

Gartner, September 2026

“The sales team pitched our dev kit we built as being optimized for AI. No one in sales checked if it was.”

Portfolio Director, ITO, Technology engineering and operations

Source: Gartner press releases of 29 September 2026 and 25 June 2025. Study: Outsourcing 2026: Agentic AI and Tier 1 Financial Institutions, [Akholi](#). [Source record 1](#)

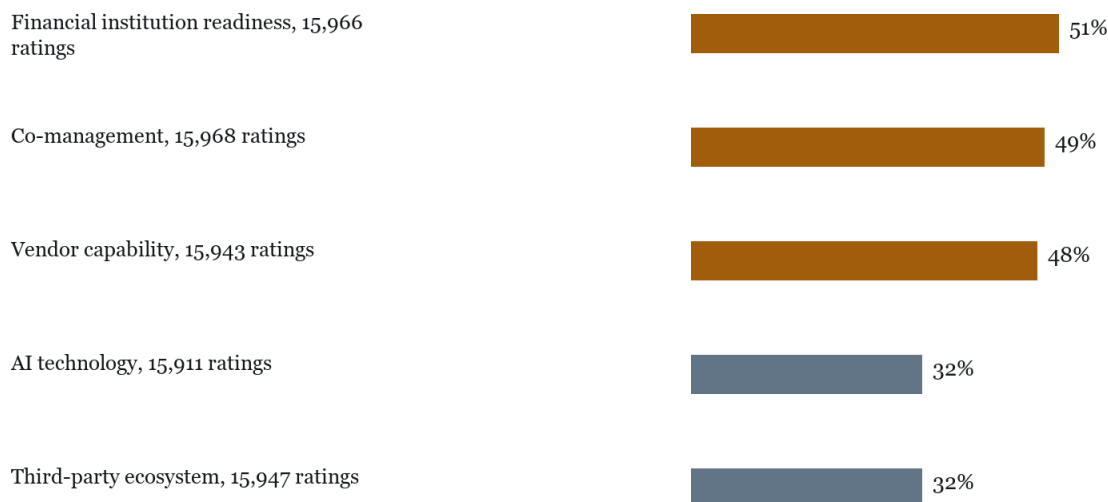
Delivery staff rated readiness, co-management, and vendor capability far worse than the AI technology.

This is the inside view. The respondents are the vendor's own delivery staff. Every figure is what they rated or wrote.

Five areas carry 20 indicators each. The three areas about people and process sit within three points of each other, at about half of all ratings distressed, and they are not ranked against each other. The AI technology and the third-party ecosystem sit at about a third.

By the study date, 56 of the 150 engagements had been canceled.

Share of ratings distressed at 3 or below out of 10



56 of 150 engagements (37%) had been canceled by the study date

850 vendor delivery staff rated and described 150 agentic AI outsourcing engagements at Tier 1 financial institutions in the first half of 2026.

“There is nothing joint about it. Two firms in one weekly call, each waiting for the other to make a decision that neither of them owns.”

Engagement Manager, KPO, Corporate and back-office functions

Source: Outsourcing 2026: Agentic AI and Tier 1 Financial Institutions, [Akholi](#). Vendor-side testimony from 850 delivery staff on 150 engagements. Distressed means a rating of 3 or below on a 1 to 10 scale. Bases count the ratings given. [Source record 1](#)

Vendors are learning agentic delivery on live client engagements.

Every respondent in the study had one year or less of agentic AI experience. Most worked for employers that had delivered agentic AI outsourcing for a year or less. Nearly half were on their first agentic engagement.

The written answers say the same in the vendor's own words. In 123 of the 150 engagements, staff faulted the vendor's management, playbook, knowledge, or production experience for this work.

82% of 571

respondents said their employer had delivered agentic AI outsourcing for one year or less

793 of 793

respondents had one year or less of personal agentic AI experience

46% of 799

respondents were on their first agentic AI engagement

123 of 150

engagements drew written answers faulting the vendor's agentic management, playbook, knowledge, or production experience

Written answers from 105 of 150 engagements (70%) faulted the vendor's quality assurance, platforms, or operation of agents at scale.

“Nobody in my company has run alert triage live before. Not one person.”

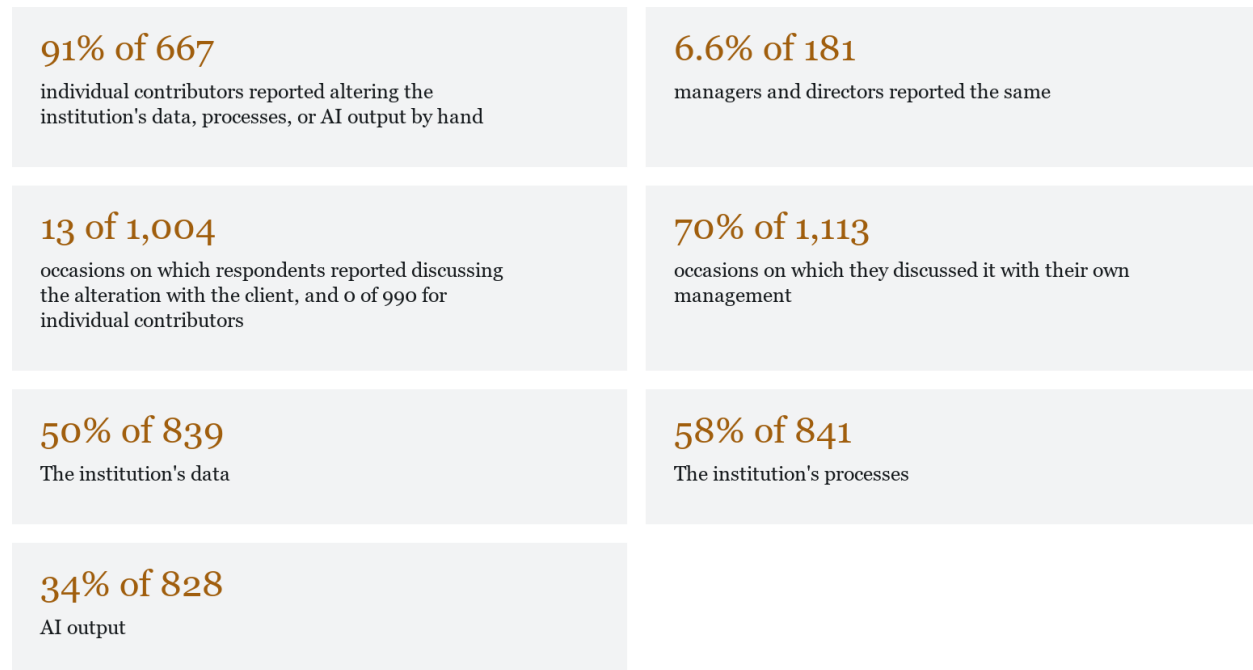
Individual Contributor, ITO, Technology engineering and operations

Source: Outsourcing 2026: Agentic AI and Tier 1 Financial Institutions, Akholi. Bases count the respondents who answered each question. Written answers counted where a coded answer about the respondent's own engagement scored the named indicators below zero. [Source record 1](#)

Frontline staff hold engagements together by fixing work by hand, and they rarely tell the client.

The people closest to the work are the ones changing it by hand. Nearly all individual contributors reported altering the institution's data, processes, or AI output, against a small share of their managers. When they did, they told their own management on most occasions and the client on 13 of 1,004.

This is what vendor staff reported doing. The study does not show what the client learned by other routes. For a vendor, the point is that the delivery the client sees depends on fixes the vendor's own reporting may not show.



Written answers from 136 of 150 engagements (91%) faulted human review or change control.

“It won't give the same answer twice, and I can't sign my name to something that won't hold up. So I fix the Output myself.”

Individual Contributor, ITO, Technology engineering and operations

Source: Outsourcing 2026: Agentic AI and Tier 1 Financial Institutions, [Akholi](#). Alteration shares use the respondents who answered yes or no. Disclosure counts pool the yes-or-no answers on three of the alteration methods. [Source record 1](#)

The delivery workforce is under strain, and AI skills are now the hardest to hire worldwide.

More than half of the respondents expect members of their team to leave within a year. Written answers from 96 of the 150 engagements were marked tired or stressed. Replacing them is harder than before.

ManpowerGroup's 2026 survey found AI skills have overtaken engineering and IT as the hardest for employers to find globally.

54% of 799

respondents rated members of their team likely to leave within 12 months (7 or above on a 1 to 10 scale)

96 of 150

engagements drew written answers marked tired or stressed

20% and 19%

of 39,063 employers in 41 countries named AI model and application development, and AI literacy, as hard to find. The two now lead the global ranking (ManpowerGroup 2026).

“Its just there was five of us doing the work of twelve and that grinds you down”

Individual Contributor, CXM, Client servicing and communications

Source: Outsourcing 2026: Agentic AI and Tier 1 Financial Institutions, [Akholi](#). ManpowerGroup 2026 Talent Shortage Survey (26 February 2026), 39,063 employers in 41 countries, fieldwork October 2025. [Source record 1](#)

US policy now targets the outsourcing model directly, and the courts have so far blocked its main measure.

The administration's measures name outsourcing firms directly. The \$100,000 H-1B payment has been extended to September 2027, but two federal courts have vacated the agency policies that carry it out, and USCIS is not collecting it while those orders stand. A court in Washington, D.C. upheld it in December 2025, so the courts are split and appeals continue.

DHS is now pursuing a \$103,265 fee through formal rulemaking, which is still a proposal. The HIRE Act's 25% tax on outsourcing payments has not moved since its referral to committee.

19 September 2025 A proclamation requires a \$100,000 payment for certain new H-1B petitions.

6 October 2025 The HIRE Act, a proposed 25% tax on outsourcing payments, is referred to the Senate Finance Committee. No further action is recorded.

December 2025 The federal district court in Washington, D.C. upholds the proclamation in a case brought by the U.S. Chamber of Commerce.

8 June 2026 A federal court in Massachusetts vacates the agency policy implementing the payment.

24 July 2026 The First Circuit refuses to pause that ruling.

25 August 2026 DHS proposes a \$103,265 fee on all cap-subject H-1B petitions.

18 September 2026 An executive order names employers with “outsourcing business models,” whose top six users held over 25,000 H-1B cap registrations in FY2026.

23 September 2026 The \$100,000 payment is extended to 21 September 2027.

30 September 2026 A federal court in California vacates the agency policies under both proclamations.

USCIS is not collecting the \$100,000 payment while the court orders stand.

Source: Federal Register via GovInfo (23 September 2026 and 25 August 2026). Congress.gov bill status, S. 2976. White House, 18 September 2026. First Circuit order No. 26-1699. Yale OISS. CUPA-HR. KJZZ, 24 December 2025. Forbes, 1 October 2026. [Source record 1](#) [Source record 2](#) [Source record 3](#) [Source record 4](#)

Decisions in front of vendor leadership

AI is moving outsourcing value away from labor faster than vendors have learned to manage the work that replaces it.

Pricing

How much AI productivity to pass back to clients, and when to move off effort-based pricing.

Delivery

Whether to build the agentic delivery playbook, quality assurance, and change control before selling the work.

Visibility

How to make hand-fixing visible inside the firm and to the client.

Co-management

How to settle joint decision rights with the client at the start of each engagement.

Workforce and policy

How to protect the people carrying the work, and how to plan the onshore and offshore mix against the US scenarios.

The market evidence shows value leaving labor-based work and moving to platforms and outcomes. The delivery evidence shows vendors learning the replacement work on live engagements, with frontline staff carrying it by hand.

The ask of this leadership team is to decide each one deliberately, with an owner and a date, rather than let renewals and client demands decide it.

About Phil Hatch

Phil Hatch is a senior global outsourcing executive with more than 30 years of experience. He built and led ManpowerGroup's outsourcing unit and advises banks, service providers, enterprises, and governments. He is the author of Outsourcing 2026: Agentic AI and Tier 1 Financial Institutions.

About Akholi

Akholi is a research-led advisory firm focused on outsourcing, service engagements, and global capability centers in the agentic AI era. Its work draws on primary evidence from the people delivering outsourced services.

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company results releases and earnings call transcripts for each vendor's latest quarter. Growth is in constant currency (Accenture: local currency). Headcount changes computed from the companies' own figures. Infosys's latest headcount appears only in secondary reports and is not shown.

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