

AI Services Evolution: Realize New Value Beyond Digital Execution

How to capture value by migrating from commoditized digital services to real-world, physical AI outcomes



The AI services market is splitting in two

As hyperscalers and software vendors dominate digital execution and providers lead in experience-based, physical AI services, digital offerings are becoming commoditized.

Current AI services market

80% By 2030, 80% of people will engage with physical AI on a daily basis (up from less than 10% in 2026).

Physical AI and experiences

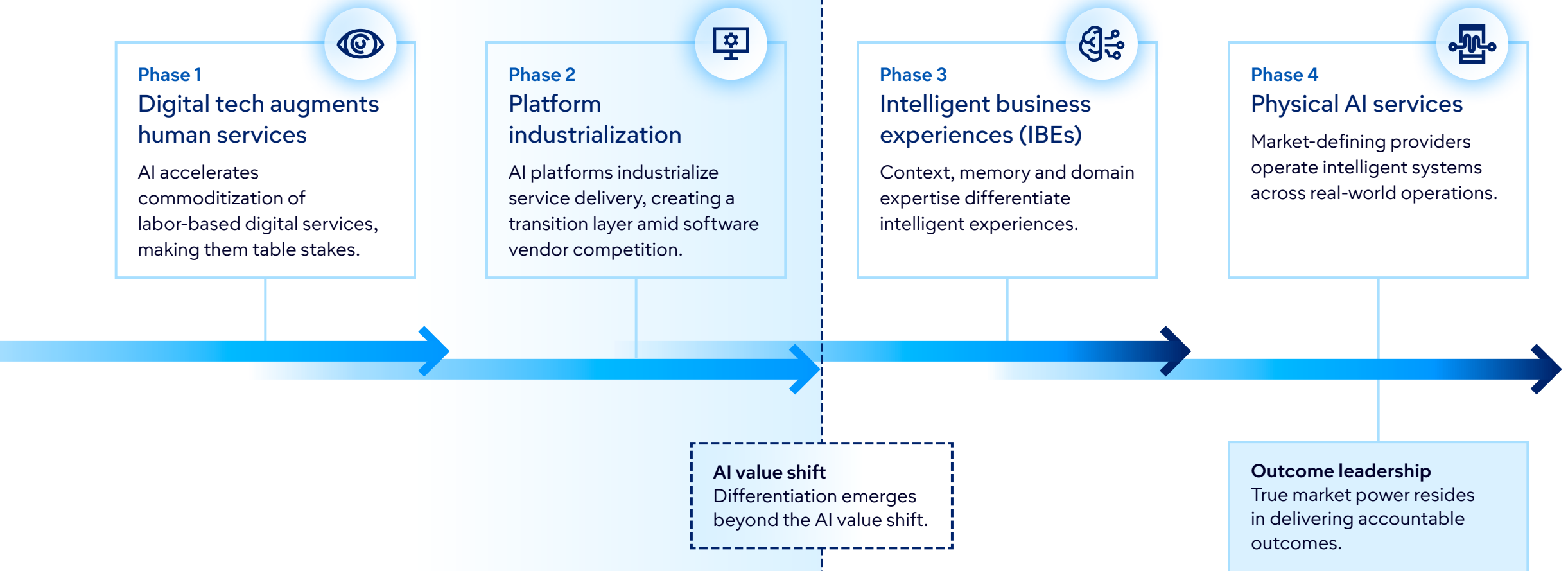
- Higher value, higher margin
- Provider territory
- Outcome-based, AI-operated services

Digital execution

- Higher value, lower margin
- Software vendor territory
- Commoditized table stakes

The AI value shift

Four phases reshaping value, differentiation and market power in AI services.





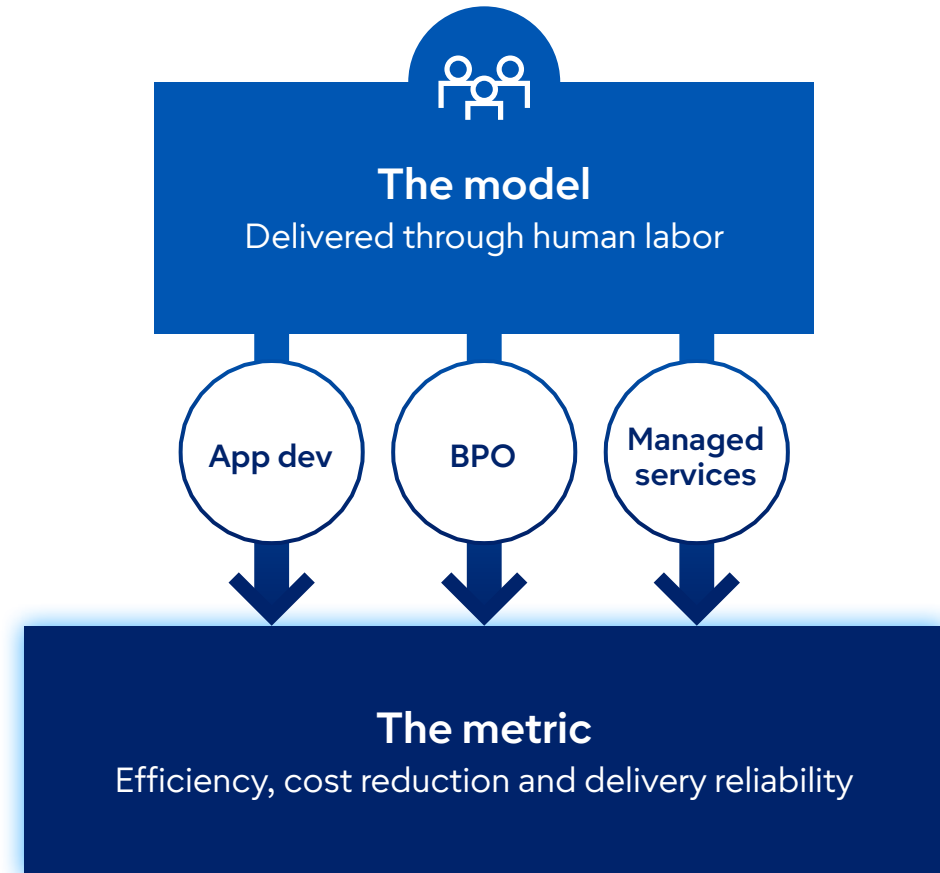
Phase 1

Digital technology augments human services

Traditional technology services like application development, business process outsourcing (BPO) and managed services are mainly done by people, sometimes helped by automation.

The commoditization threat

Hyperscalers and AI are making these services more generic and less valuable by automating tasks and lowering costs. This reduces profits and strategic importance. While these services will remain necessary, they won't drive growth or competitive advantage. For example, ServiceNow automation now handles up to 50% of help desk tickets, replacing much of the human work.





Phase 2

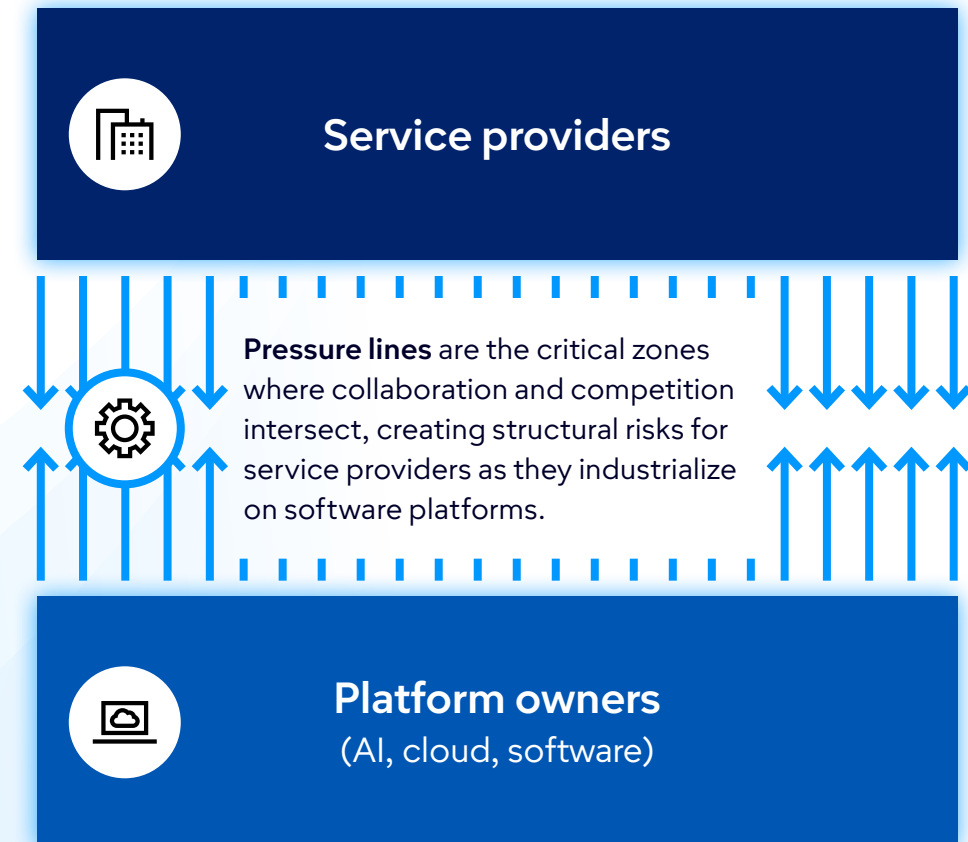
Platform industrialization

AI platforms now automate and standardize service delivery, letting providers scale without adding people. The focus shifts from managing people to managing systems and delivering results.

The transition

Providers must decide whether to use these platforms to move up the value chain or risk becoming interchangeable and dependent on the big platforms. Ongoing “co-opetition” with software vendors often leads to lower prices and thinner margins.

This model also disrupts the traditional talent pyramid, reducing the need for junior roles while increasing demand for those who can manage and orchestrate automated systems.





Phase 3

Intelligent business experiences

The focus changes from doing tasks to creating better experiences and outcomes. Providers use AI, data and smart workflows to turn one-off transactions into ongoing, personalized interactions.

The value shift

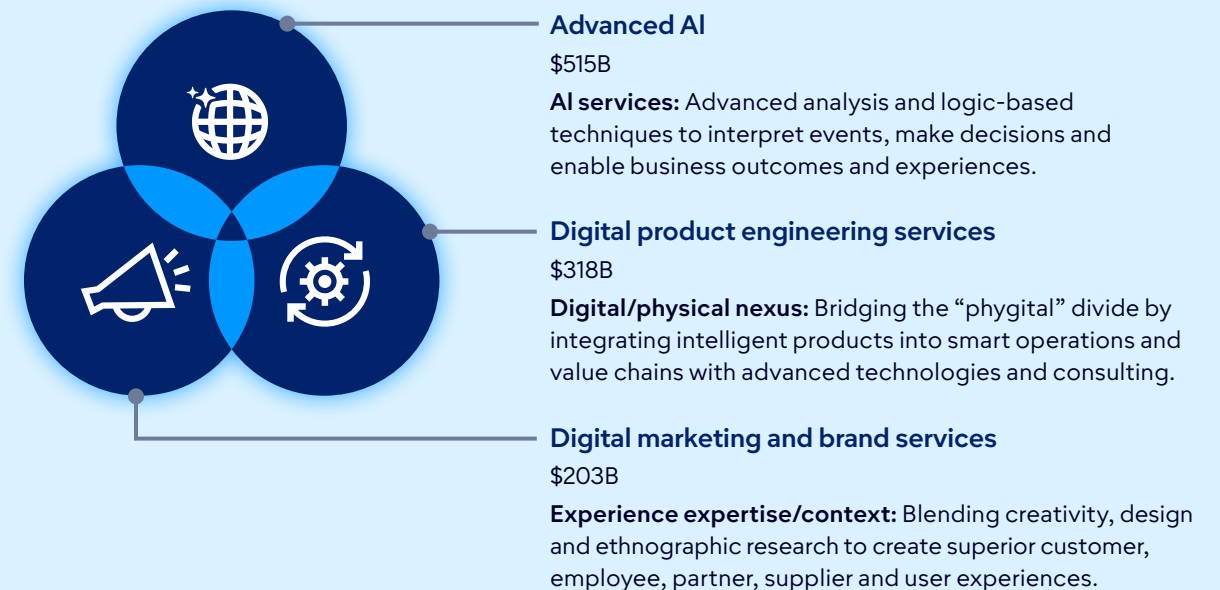
Differentiation is restored as isolated transactions become ongoing learning interactions via persistent agent memory and cross-domain integration. This shifts the value to experience and outcomes.

Strategic planning assumption

75% By 2030, 75% of technology service providers that stake their strategies on IBEs for highly digital, opex-intensive industries (like banking) will fail to gain market share.

Even IBEs in purely digital realms face fierce headwinds. Providers must inject deep domain context and creative design to survive here.

Competitive forces create distinct go-to-market responses for IBEs



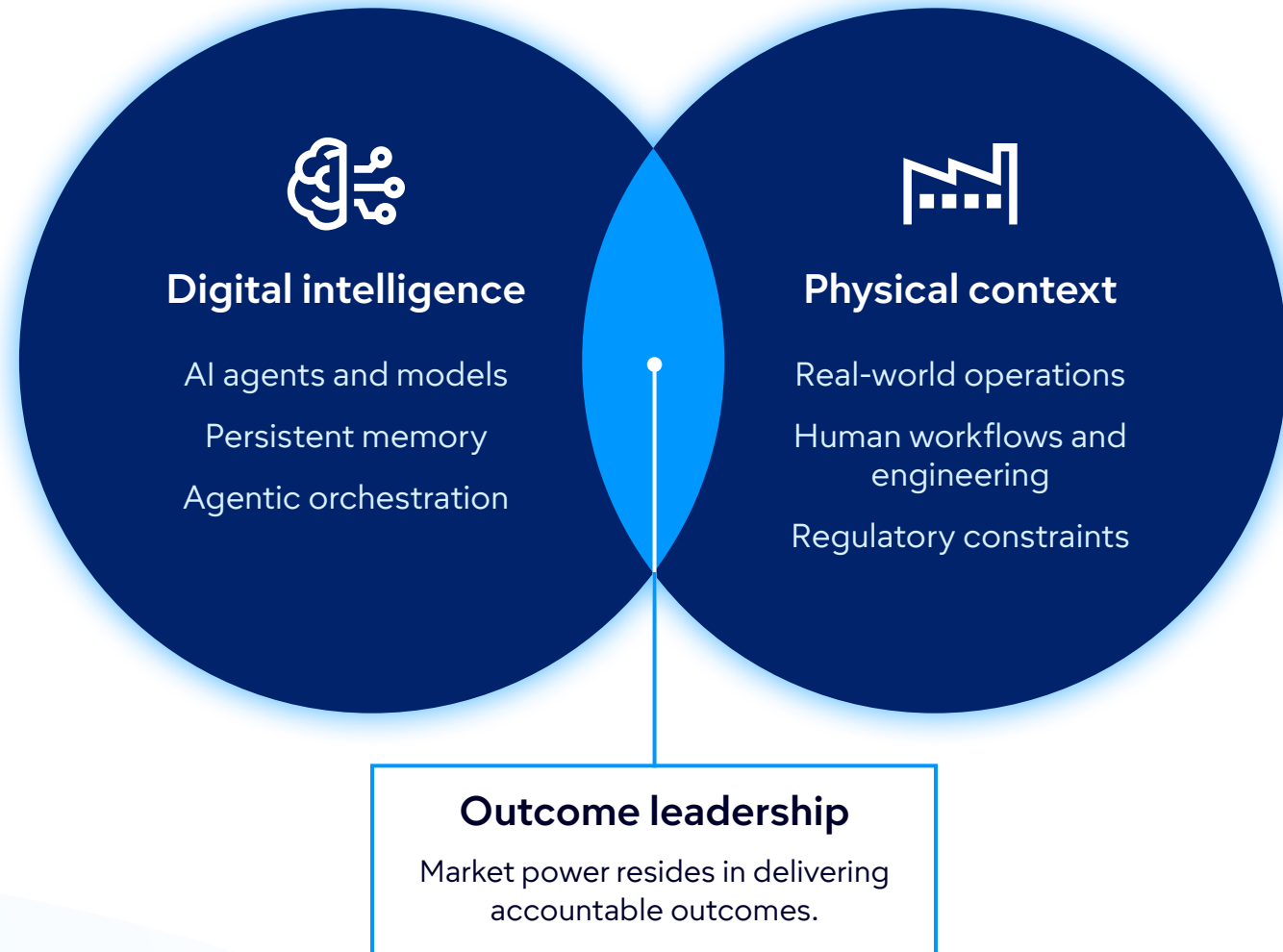
Note: 2029 projections
Source: Gartner



Phase 4

Physical AI services

At the leading edge, AI services move beyond digital experiences to directly impact real-world operations — like manufacturing, healthcare and logistics.



The executive mandate for tech services leaders



Step 1

Reposition digital services

Explicitly separate how work gets done (platforms, agents) from why clients pay (outcomes, expertise). Make digital execution the embedded enabler, not the primary offering.



Step 2

Prioritize physical AI

Shift investments to use cases where AI interacts with human workflows and physical operations. Build capabilities software vendors cannot easily replicate.



Step 3

Assume risk and accountability

Transition away from the capacity and effort pricing. Embed governance and observability to progressively assume execution risk as your ultimate competitive moat.

Actionable, objective insights

Explore these additional complimentary resources for tech services leaders:

Insights

Navigating the \$94.6B Banking AI Race

Lead with high-value banking AI use cases.



Download Now

Insights

Navigating the \$90B Manufacturing AI Race

Scale growth through manufacturing AI use cases.



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Insights

Navigating the \$47B Healthcare AI Race

Capture value with healthcare AI use cases.



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