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

Gartner®

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

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

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

The AI value shift

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

Phase 1
Digital tech augments human services
AI accelerates commoditization of labor-based digital services, making them table stakes.

Phase 2
Platform industrialization
AI platforms industrialize service delivery, creating a transition layer amid software vendor competition.

AI value shift
Differentiation emerges beyond the AI value shift.

Phase 3
Intelligent business experiences (IBEs)
Context, memory and domain expertise differentiate intelligent experiences.

Phase 4
Physical AI services
Market-defining providers operate intelligent systems across real-world operations.

Outcome leadership
True market power resides in delivering accountable outcomes.

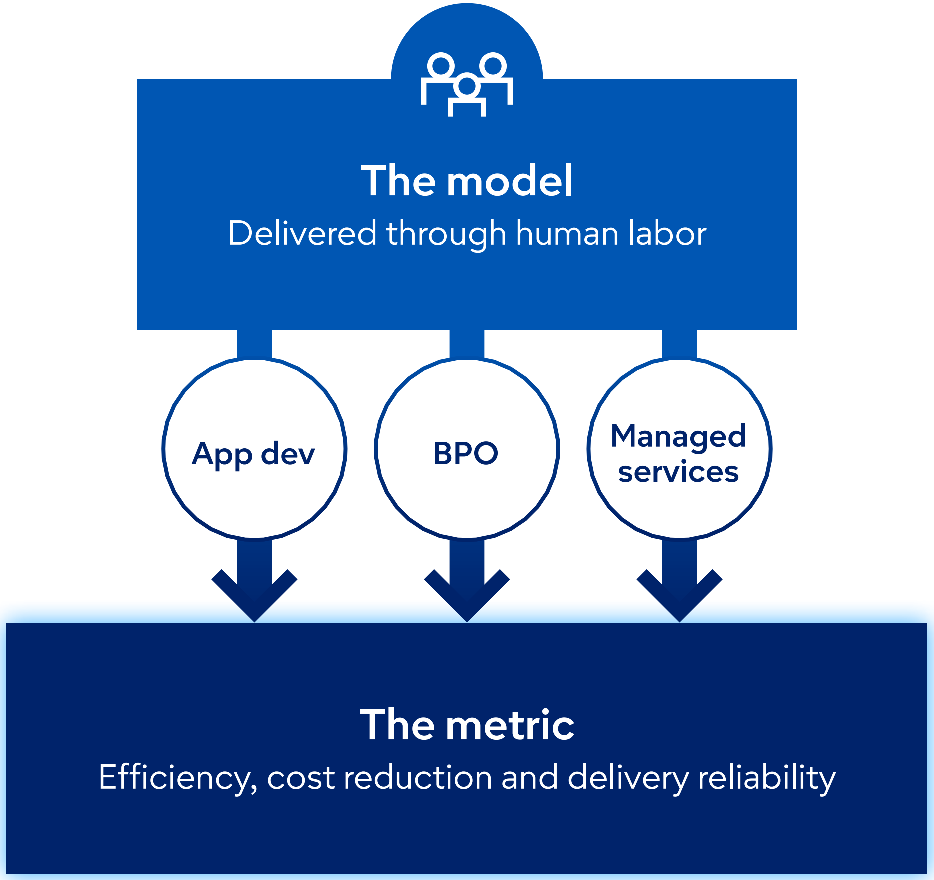
Phase 1

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

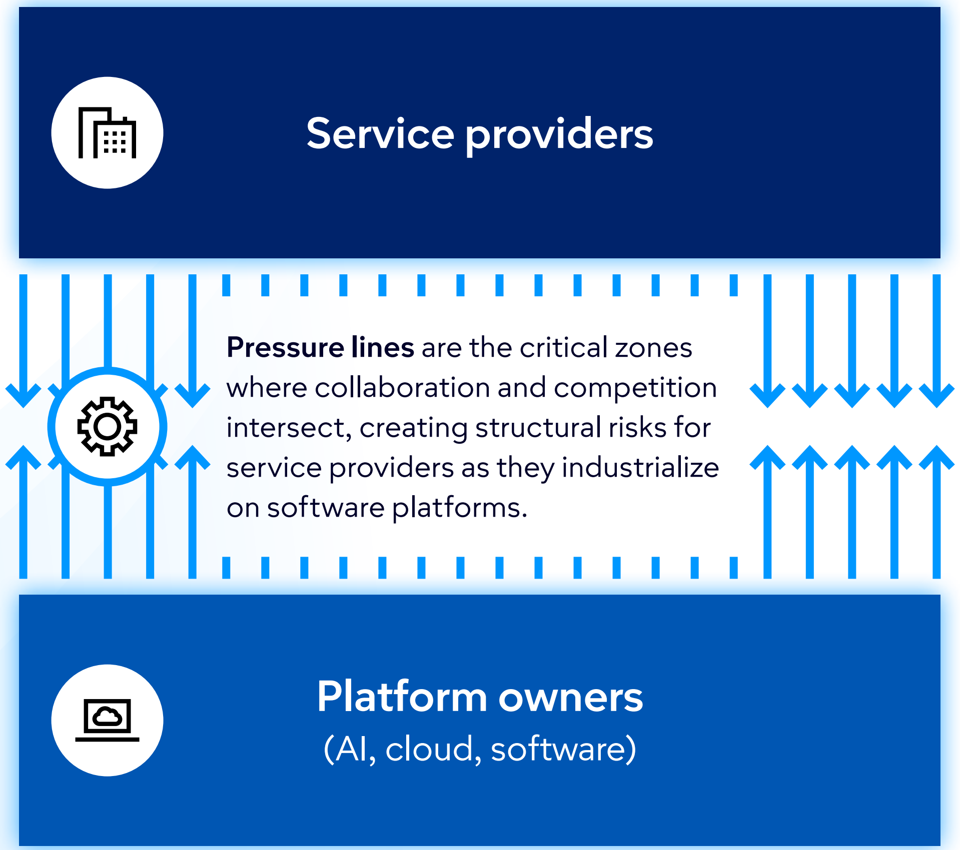
Platform industrialization

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

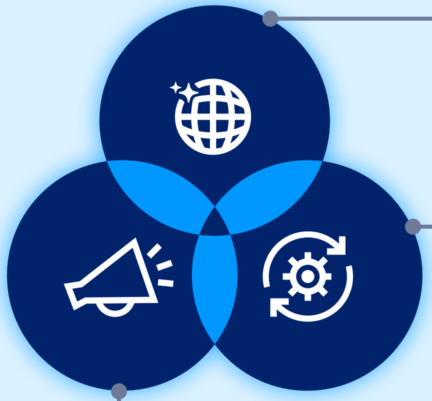
Differentiation is restored as isolated transactions become ongoing learning interactions via persistent agent memory and cross-domain integration. This shifts the value to experience and outcomes.

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



Advanced AI

$515B

AI services: Advanced analysis and logic-based techniques to interpret events, make decisions and enable business outcomes and experiences.

Digital product engineering services

$318B

Digital/physical nexus: Bridging the “phygital” divide by integrating intelligent products into smart operations and value chains with advanced technologies and consulting.

Digital marketing and brand services

$203B

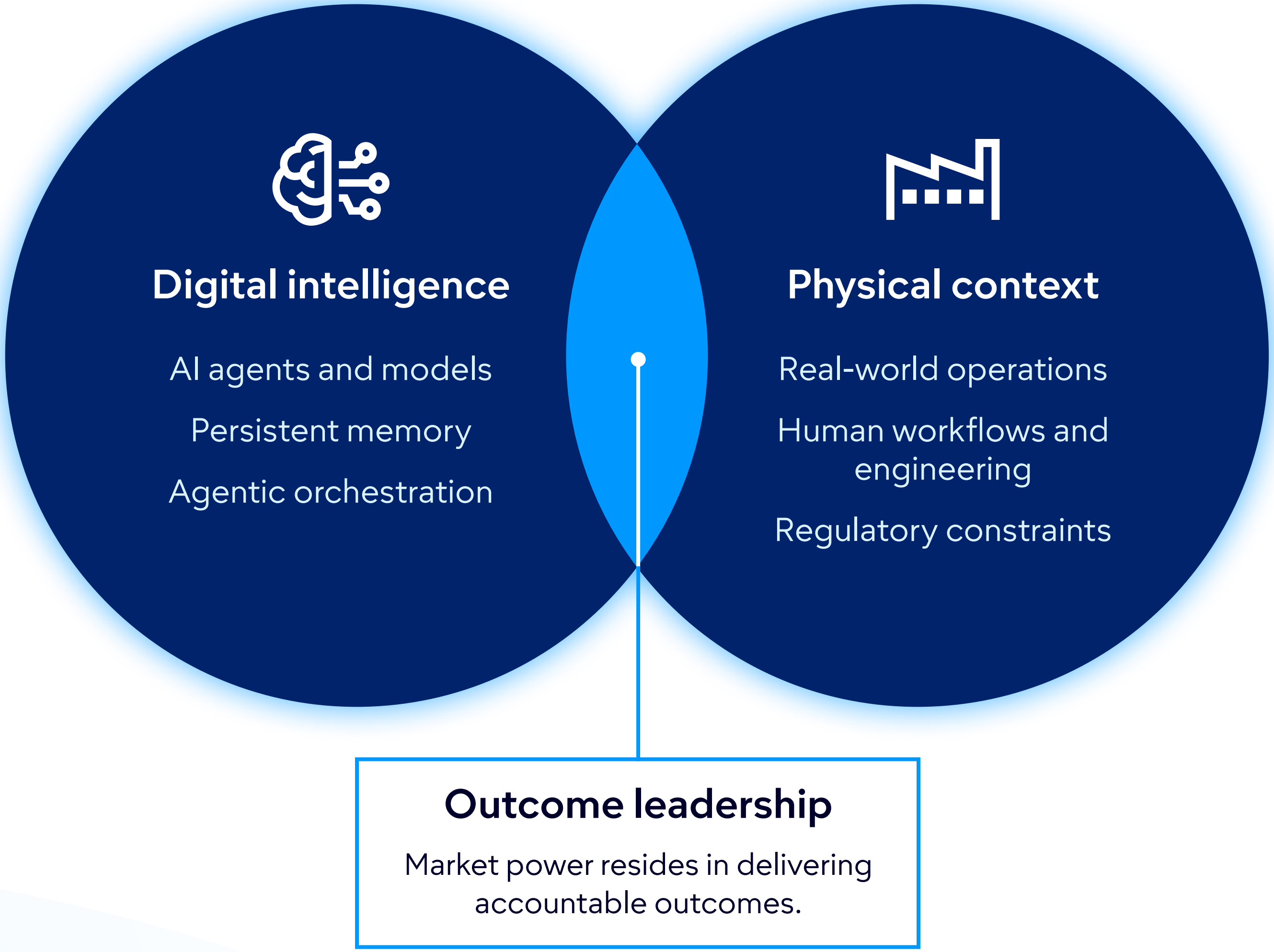
Experience expertise/context: Blending creativity, design and ethnographic research to create superior customer, employee, partner, supplier and user experiences.

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.
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Insights
Navigating the $90B Manufacturing AI Race
Scale growth through manufacturing AI use cases.
Download Now

Insights
Navigating the $47B Healthcare AI Race
Capture value with healthcare AI use cases.
Download Now

Insights
From AI Adoption to AI Value: Five Signals for Outcome-Based Pricing
Know when to bet on outcome-based pricing.
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