



VALUE-BASED CONTRACTING AND AI-LED MANAGED SERVICES

Transform the US IT Services Landscape

APRIL 2026



Contents

Executive Summary	03

Market Overview	04

Macro Drivers	05

Emerging US IT Services Trends	06

Operationalizing AI in the US IT Services Industry	08

Key US IT Services Deals	09

Key Private Equity Deals Tombstones	10

IT Services Upcoming Events	10

Executive Summary



The US IT services industry is undergoing a structural evolution driven by enterprise demand for efficiency, innovation, and scalable digital capabilities. The market is estimated at \$490.9 billion in 2025 and is projected to reach \$525.3 billion by 2026, expanding at a 7% CAGR, supported by sustained investments in cloud, artificial intelligence (AI), cybersecurity, and enterprise modernization initiatives.

\$525.3 billion

is the projected market size of US IT Services by 2026, as per Mordor Intelligence

Generative AI is emerging as a central disruptor, fundamentally reshaping delivery models and economics. Automation is reducing dependency on labor-intensive workflows while improving speed, accuracy, and productivity across service lines. This is accelerating the transition from traditional effort-based models toward outcome-oriented engagements, where value delivered becomes the core pricing metric. Notably, the industry is already witnessing 20% reductions in project hours due to generative AI, highlighting a growing disconnect between effort and pricing structures.

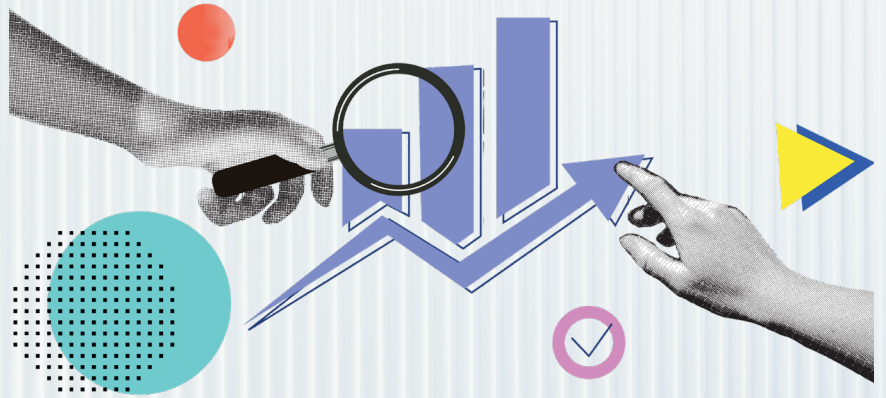
87%

of the US tech leaders report hiring challenges, as per Robert Half

At the same time, structural talent shortages continue to reinforce outsourcing demand. 87% of US tech leaders report hiring challenges, with about 317,700 annual tech job openings, pushing enterprises to rely more heavily on external IT service providers for specialized capabilities.

Overall, the industry is transitioning toward a leaner, AI-enabled, and value-driven model, where providers that successfully integrate automation and high-skill capabilities are best positioned to capture long-term growth and margin expansion.

Market Overview



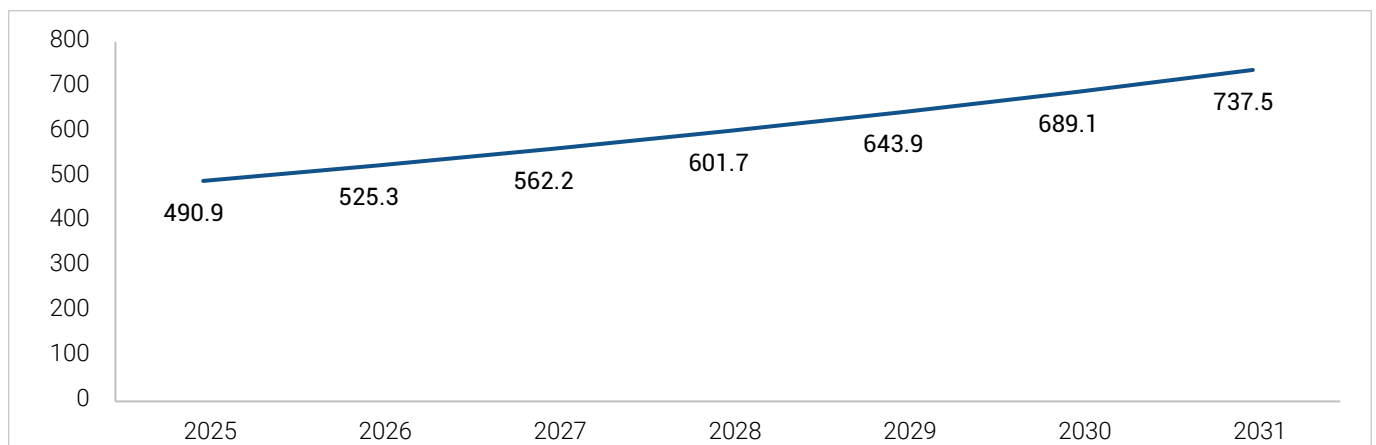
The US IT services industry delivers technology-enabled services to enterprises, governments, and mid-market clients across five segments: Diversified Global Systems Integrators (GSIs), IT solutions providers, digital engineering firms, business process outsourcing (BPO) providers, and value-added resellers/distributors (VARs), with service providers acting as integrators between technology vendors and end enterprises.

According to Mordor Intelligence, the US IT services market is estimated at \$490.9 billion in 2025 and projected to reach \$737.4 billion by 2031 at a 7% CAGR, reflecting structurally driven growth supported by enterprise modernization, cloud, AI, and cybersecurity demand. Cloud and platform services grew 11.3% in 2025, managed services account for 27.7% of revenue, and cybersecurity is the fastest growing segment at 8.4% CAGR through 2031.

Profitability varies significantly across segments, with digital engineering firms leading at 34.3% gross margins, followed by BPO at 31.6%, GSIs at 30.5%, IT solutions providers at 24.5%, and VARs at 11.6%. Labor remains the key cost driver, with talent shortages in AI, cloud, and cybersecurity pressuring margins. Leading vendors include Accenture, IBM, Cognizant, Tata Consultancy Services, and Microsoft. Pricing power is shifting toward IP-led and outcome-based models, while commoditized services face margin pressure, with managed services improving revenue visibility and stability.

The US IT services sector facilitates digital transformation through various specialized providers, bridging the gap between vendors and organizations. Growth stems from cloud adoption and security needs. While labor shortages impact costs, firms are transitioning toward outcome-based models to enhance profitability and stability across diverse service segments.

Figure 1: US IT Services Market Size (in \$Billions)



Source: Mordor Intelligence

Macro Drivers



Generative AI and Agentic AI Adoption

Generative and agentic AI are at scale, increasing demand for AI services while compressing labor-based models. 78% of enterprises use AI and 71% use GenAI regularly, with agentic AI expected to generate up to \$200 billion in IT services value globally over five years and reduce delivery layers by 10–20% over two years, accelerating the shift to higher-value services.



Structural IT Talent Shortage Driving Outsourcing

Talent shortages are driving enterprises to externalize capabilities, making outsourcing and managed services a structural need. 87% of US tech leaders report hiring challenges, with about 317,700 annual tech job openings, sustaining demand for IT services providers.



Remote and Hybrid Work Persistence

Remote and hybrid work remains structurally embedded, with 52% of remote-capable U.S. employees working hybrid and 27% fully remote in 2025, sustaining demand for cloud, collaboration, and secure access services.



Cloud Optimization and Efficiency-Led Spending

Cloud adoption is shifting to cost optimization and efficient multi-cloud operations, driving demand for optimization and managed services. 84% of CIOs rank cost optimization as a top priority, while global cloud spending is projected to reach \$877 billion in 2026, highlighting the need for efficiency at scale.



Cybersecurity as a Non-Discretionary Spend Layer

Cybersecurity has become mandatory spending, driven by rising threats and regulations, creating recurring demand for managed and compliance services. 77% of executives expected budgets to increase in 2025, with 30% anticipating 6–10% growth, reinforcing its role as a resilient IT services driver.

Emerging US IT Services Trends



Transition from Time-and-Material Billing to Value-Based Contracting

The US IT services industry is witnessing a structural shift away from traditional time-and-material (T&M) billing, where revenue was historically tied to hourly rates or full-time-equivalent (FTE) effort. As AI and automation compress delivery effort, this model is increasingly viewed as misaligned with value, since it penalizes efficiency and limits the ability of vendors to capture productivity gains. In response, the industry is moving toward outcome-based contracts where fees are linked to measurable business or operational KPIs such as ticket deflection, resolution time, or cost per transaction.

This transition is being accelerated by the growing disconnect between effort and pricing. UpperEdge's 2025 analysis highlights that systems integrators are already seeing about 20% reductions in project hours due to generative AI, while client-visible cost reductions remain limited to 8–10%, creating pressure on vendors to renegotiate commercial models. If providers continue with T&M structures, they risk either over-earning relative to perceived value or being forced into rate cuts that compress margins.

Early signals from the market show this shift taking hold. IBM's consulting business, for instance, is seeing generative AI contribute about 12% of consulting revenue and over 20% of its backlog, with engagements increasingly structured around measurable efficiency outcomes rather than effort. This reflects a broader industry pivot toward pricing models that align with delivered value, reinforcing that the decline of T&M billing is not cyclical but a fundamental reset of how IT services are priced and delivered.

20%

reductions in project hours due to generative AI, as per UpperEdge

8–10%

client cost savings highlight the growing mismatch between effort and pricing, as per UpperEdge

Precision Hiring Replaces Volume Expansion as US Tech Talent Strategy Recalibrates

The US IT services labor market is entering a phase of disciplined recalibration, moving away from aggressive headcount expansion toward targeted, skills-first hiring. According to Experis' 1Q26 Tech Talent Outlook, the Net Employment Outlook (NEO) declined to 33%, down 10 percentage points sequentially and 19 points YoY, marking the first instance of the US trailing the global average of 35%. This reflects a structural cooling across mature tech markets rather than a demand-side contraction. Hiring intent remains intact, with 49% of employers still planning to add staff versus only 16% anticipating reductions, indicating that the slowdown is driven by execution constraints rather than weakening end-market demand.

Fundamentally, firms are replacing broad-based hiring with precision hiring focused on high-impact, immediately deployable skills. Persistent shortages in AI, cloud, and data capabilities are forcing firms to optimize for quality over quantity, reshaping workforce strategies across the industry. Companies are increasingly investing in internal capability building, with 32% prioritizing upskilling and reskilling, while 26% expanding access to alternative talent pools and 25% adjusting compensation structures to remain competitive. This transition signals a long-term structural move toward a specialized mid-heavy workforce that prioritizes expertise and productivity over sheer scale.

Shift from Traditional ITO to AI-Led and High-Value Managed Services

The US IT services market is undergoing a structural split within managed services, where traditional IT outsourcing tied to infrastructure, help desk, and application maintenance is declining, while higher-value segments such as business process outsourcing (BPO) and engineering research and development (ER&D) are expanding. Enterprises are moving beyond cost-driven outsourcing toward outcome-based models, where providers are accountable for business performance rather than system uptime. AI-led productivity gains are accelerating this shift, reducing reliance on labor-intensive information technology outsourcing (ITO) and pushing demand toward operations-as-a-service models.

This divergence is evident in recent data. In 4Q25, the annual contract value (ACV) of US-managed services ITO declined 6%, while BPO grew 13% and ER&D rose 28%, as per ISG. At the same time, Infrastructure as-a-Service (IaaS) ACV expanded 33% globally in 2025. This reflects a broader reallocation of enterprise IT budgets toward platform-based consumption and higher-value service. Leading firms are already repositioning. Accenture reported about \$43 billion in managed services new bookings in FY25, surpassing consulting bookings, signalling a shift toward run-and-transform models. Similarly, Capgemini's acquisition of WNS highlights a strategic focus on AI-driven intelligent operations. This is a structural reset. Legacy ITO positioning will continue to lose relevance, while outcome-linked, AI-native managed services will define future growth and margin expansion.

33%

NEO in 1Q26, down 19 percentage points YoY, as per Tech Talent Outlook

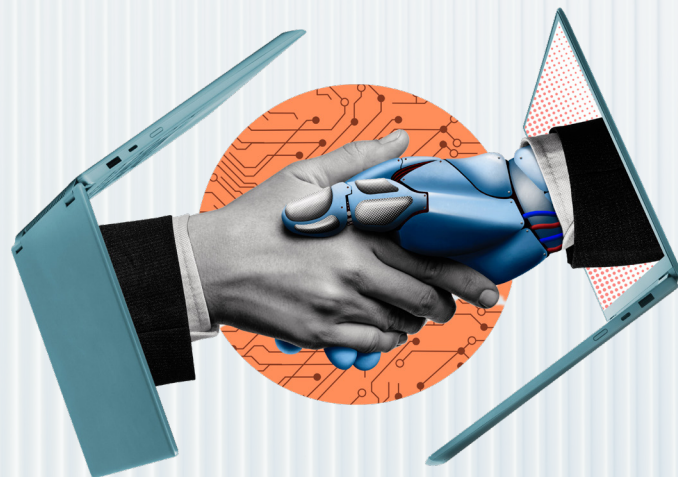


28%

growth in ER&D ACV leads managed services expansion, as per ISG



Operationalizing AI in the US IT Services Industry



Internal AI Adoption Reshaping IT Services Delivery and Operations

US IT services firms have moved beyond AI experimentation to large-scale internal deployment, with measurable impact across productivity, cost structures, and workforce models. The most advanced use case is software engineering automation, where firms such as IBM, Accenture, and Infosys have embedded AI into coding, testing, and DevOps workflows. Productivity gains are emerging across players, with IBM reporting 45% higher developer productivity, while Infosys has achieved 5-15% average cycle time reduction on bug fixes, and 40% faster test generation in isolated modules. These improvements are translating into tangible cost outcomes, as IBM targeted \$4.5 billion in AI-driven savings by end-2025.

AI adoption extends beyond engineering into core enterprise functions. In HR, IBM's AskHR automates 94% of routine queries, while firms like TCS and Wipro use AI-driven platforms for workforce planning, onboarding, and skill development. Accenture has trained 550,000+ employees on GenAI and scaled its AI and data workforce to 77,000 professionals, embedding AI usage into performance management and career progression.

AI is also improving internal operations such as knowledge management, contract oversight, and delivery tracking. Platforms like IBM's WatsonX and Accenture's SynOps enable real-time decision-making and operational optimization. This is reflected in Accenture's \$865 million optimization program targeting over \$1 billion in savings, highlighting early workforce restructuring.

From an investor perspective, AI is already driving cost compression and productivity gains at scale. Firms that successfully embed AI into internal operations are improving operating leverage and margin resilience, while those lagging risk structural disadvantage in an increasingly AI-native delivery model.

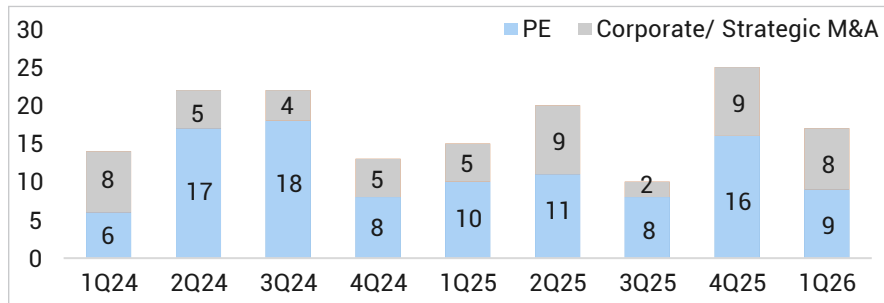
45%

higher developer productivity is achieved through the use of AI by IBM

Major US IT service providers have transitioned from pilot programs to large-scale internal AI integration. By embedding automation into engineering and core corporate functions, firms are achieving significant productivity gains and operational efficiencies. This structural shift enhances margin resilience and creates a competitive advantage through AI-native delivery models.

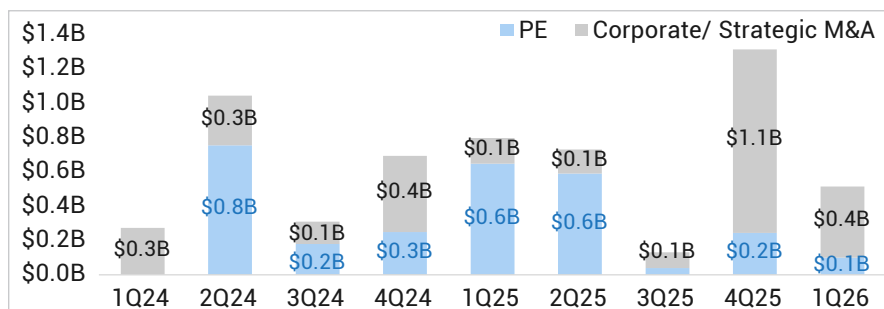
Key US IT Services Deals

Figure 2: IT Services Lower Middle Market and Middle Market Deal Count



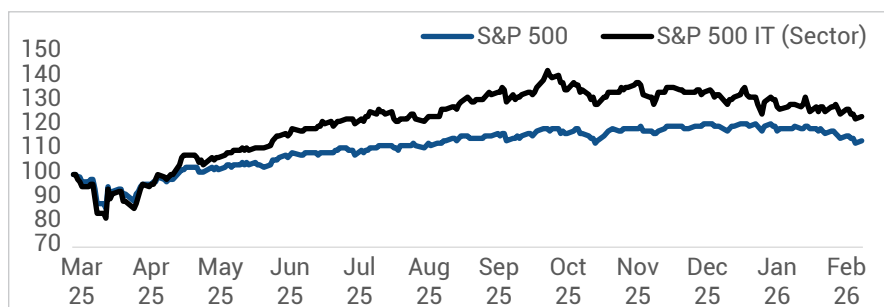
Source: PitchBook, data as of March 31, 2026

Figure 3: IT Services Lower Middle Market and Middle Market Capital Raised



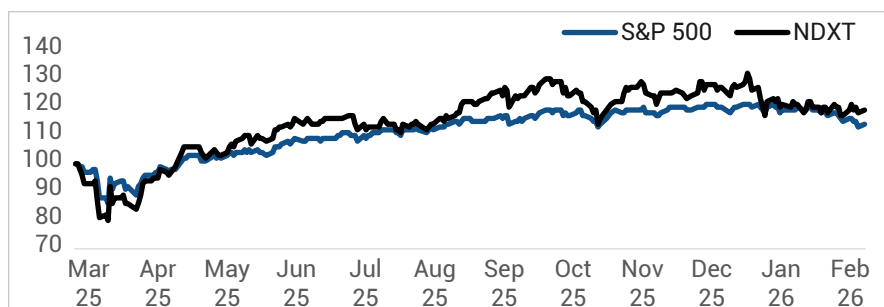
Source: PitchBook, data as of March 31, 2026

Figure 4: S&P 500 IT (Sector) YTD Performance



Source: Investing.com, data as of March 23, 2026

Figure 5: NASDAQ-100 Technology Sector (NDXT) YTD Performance



Source: Investing.com, data as of March 23, 2026

US IT Services Lower Middle Market and Middle Market Deal Summary

147
Companies

159
Deals







205
Investors

83
Exits



\$1B
Largest Deal

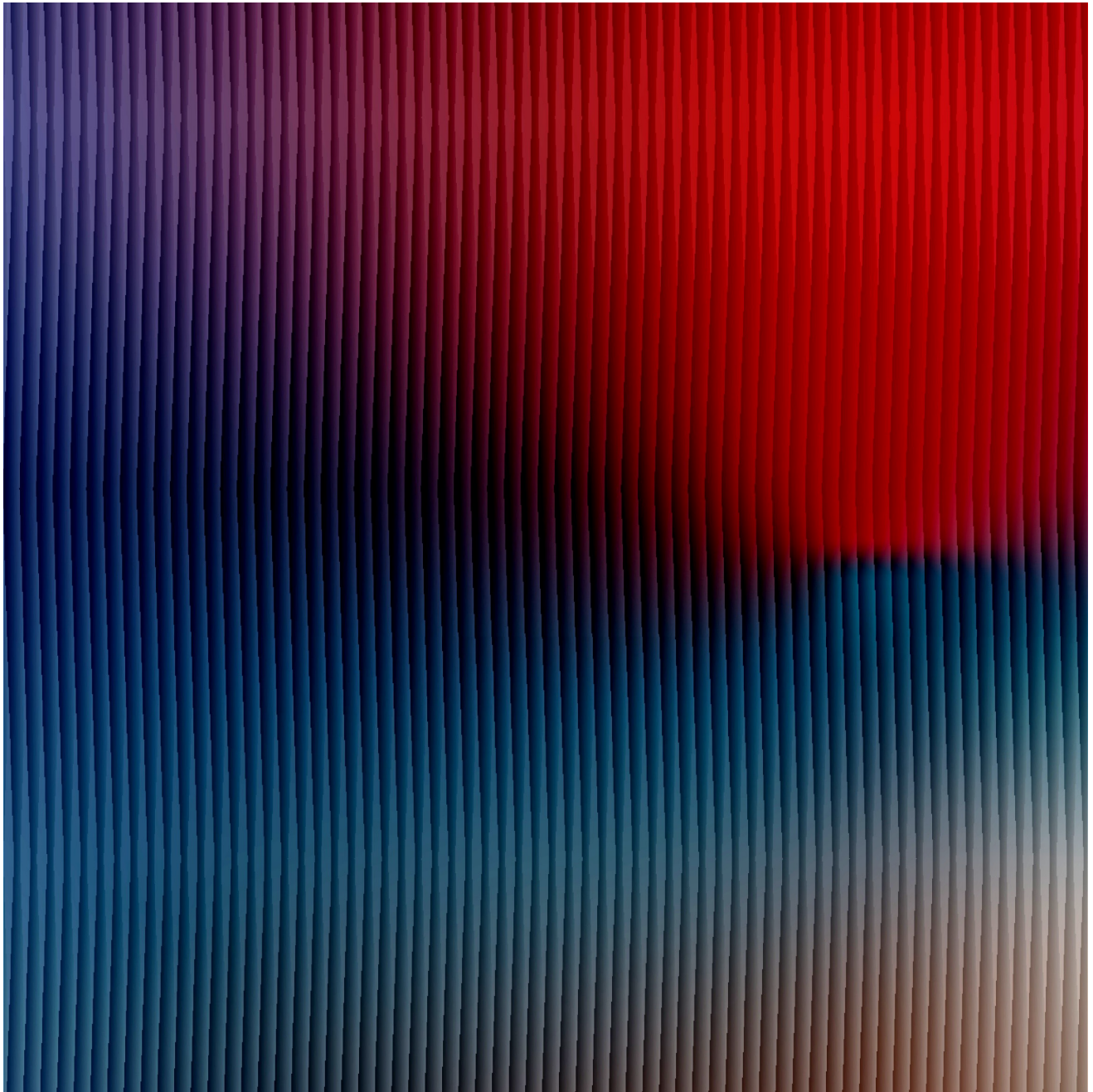
\$6B
Capital Invested

Key Private Equity Deals Tombstones

<p>February 17, 2026</p> <hr/> <p>Future Standard Acquire (Majority Stake)</p>  <p>VELONEX TECHNOLOGIES</p> <p>a provider of multi-regional managed services, for an undisclosed amount</p>	<p>February 16, 2026</p> <hr/> <p>AEA</p> <p>Invests (Majority Stake)</p>  <p>magna⁵</p> <p>a provider of managed IT, cybersecurity, and cloud-based services, for an undisclosed amount</p>	<p>December 17, 2025</p> <hr/> <p>BROADWING CAPITAL</p> <p>Acquires</p>  <p>CLOUDSCALE 365</p> <p>a provider of managed IT, cloud, hosting, and security solutions, for an undisclosed amount</p>
<p>May 27, 2025</p> <hr/> <p>COALESCE CAPITAL</p> <p>to Acquire</p>  <p>DAShealth HEALTH IT & MANAGEMENT SOLUTIONS</p> <p>a provider of IT, cybersecurity, revenue cycle management, and business solutions, for an undisclosed amount</p>	<p>April 16, 2025</p> <hr/> <p>KKR</p> <p>to Acquire (Take-Private)</p>  <p>DATAGROUP</p> <p>provider of IT infrastructure, distribution, consulting, and end-to-end digital solutions, for approximately \$508 Million</p>	<p>January 9, 2025</p> <hr/> <p>RECOGNIZE</p> <p>Invests (Majority Stake)</p>  <p>Sprout</p> <p>a provider of IT asset disposition, for an undisclosed amount</p>

IT Services Upcoming Events

		
<p>Channel Partners Conference & Expo 2026</p>	<p>April 12–16, 2026</p>	<p>The Venetian, Las Vegas, Nevada</p>
<p>ASCII Edge 2026</p>	<p>April 22–23, 2026</p>	<p>Newark Airport Marriott, Newark, NJ</p>
<p>Google Cloud Next</p>	<p>April 22–24, 2026</p>	<p>Mandalay Bay Convention Center, Las Vegas</p>



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