



The Global State of BPO Report

How AI is Redefining the Future of
Business Process Services

JUNE 2026

Executive Summary

Enterprises continue to use business process outsourcing (BPO) to reduce cost, improve efficiency and access operational expertise. However, buyer expectations are changing. Enterprises now want providers to increase output, improve service performance and support transformation without proportional increases in provider or internal headcount.

Providers face pressures as well. Contract values continue to decline, forcing executive teams to improve sales productivity and reduce cost to serve at the same time.

The current BPO delivery and commercial model is also showing strain. Transformation activity is widespread, but value is uneven. And while service-level metrics often show compliance, operational pain remains.

Enterprises also have a number of alternatives today to traditional BPO. They can use AI-enabled insourcing, global capability centers, software platforms and new categories of service providers to run and optimize work that was once only the realm of traditional BPO providers.

ISG believes the next phase of BPO growth will depend on whether providers can move from simply running operations to improving them.

Providers will need to move beyond the labor-era control model and toward a new AI-focused model that improves industry- and domain-specific KPIs. Providers that can help clients make that shift will be better positioned for the next wave of BPO growth.

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BPO Is Under Pressure

BPO bookings are below 2019 levels. However, this market weakness is not uniform. Industry-specific BPO has expanded, while customer experience and back office remain below or near their earlier levels. That mix suggests that growth is concentrating in places where process knowledge, regulatory context and domain execution are critical.

The market performance data also points to a second issue. BPO award values are falling even as deal counts remain steady. This means providers are competing for a market where award volumes are holding up but contract size is shrinking. Capital markets are reflecting the same concern: BPO-centric providers are being discounted even where profitability and productivity metrics have improved.

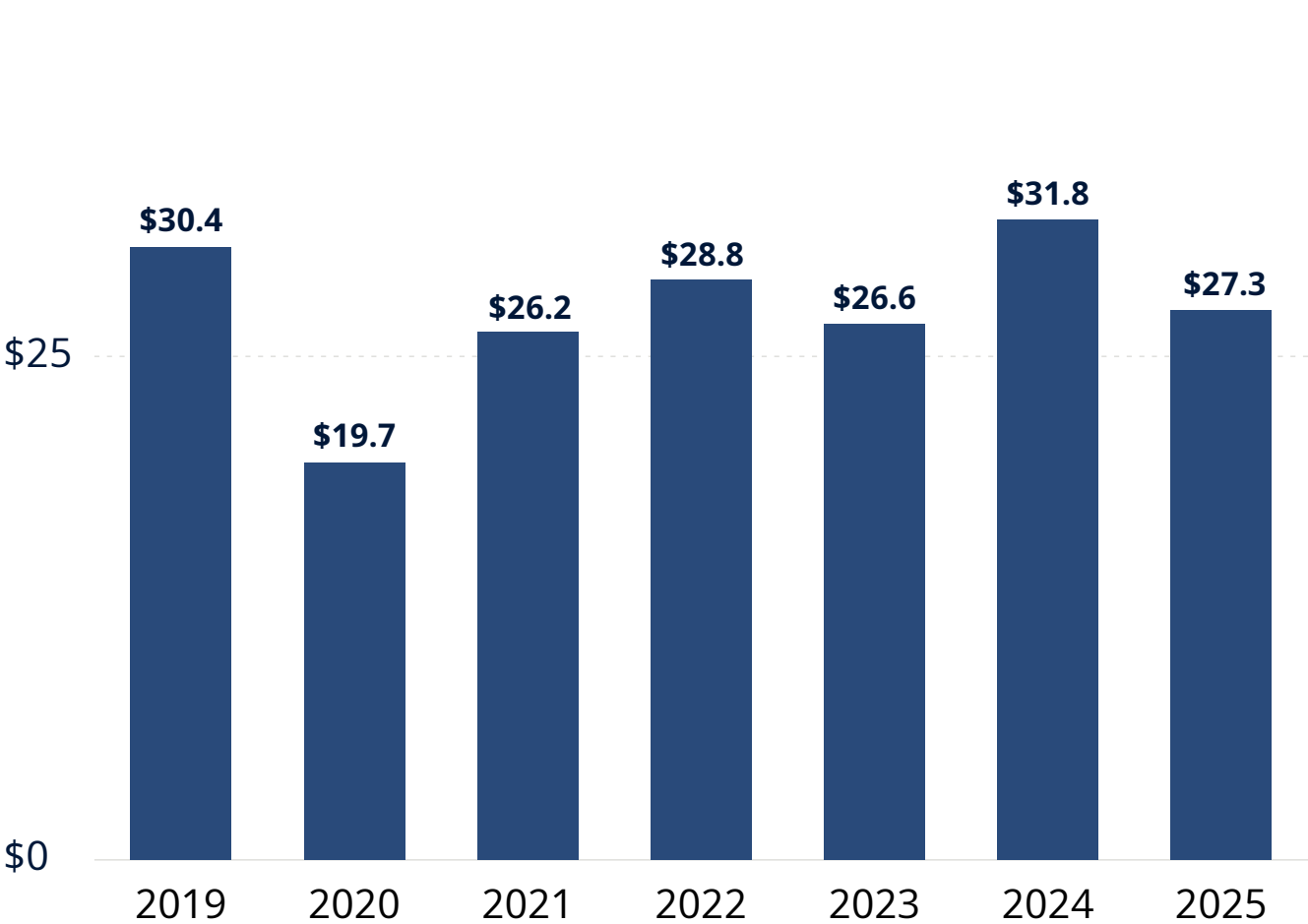
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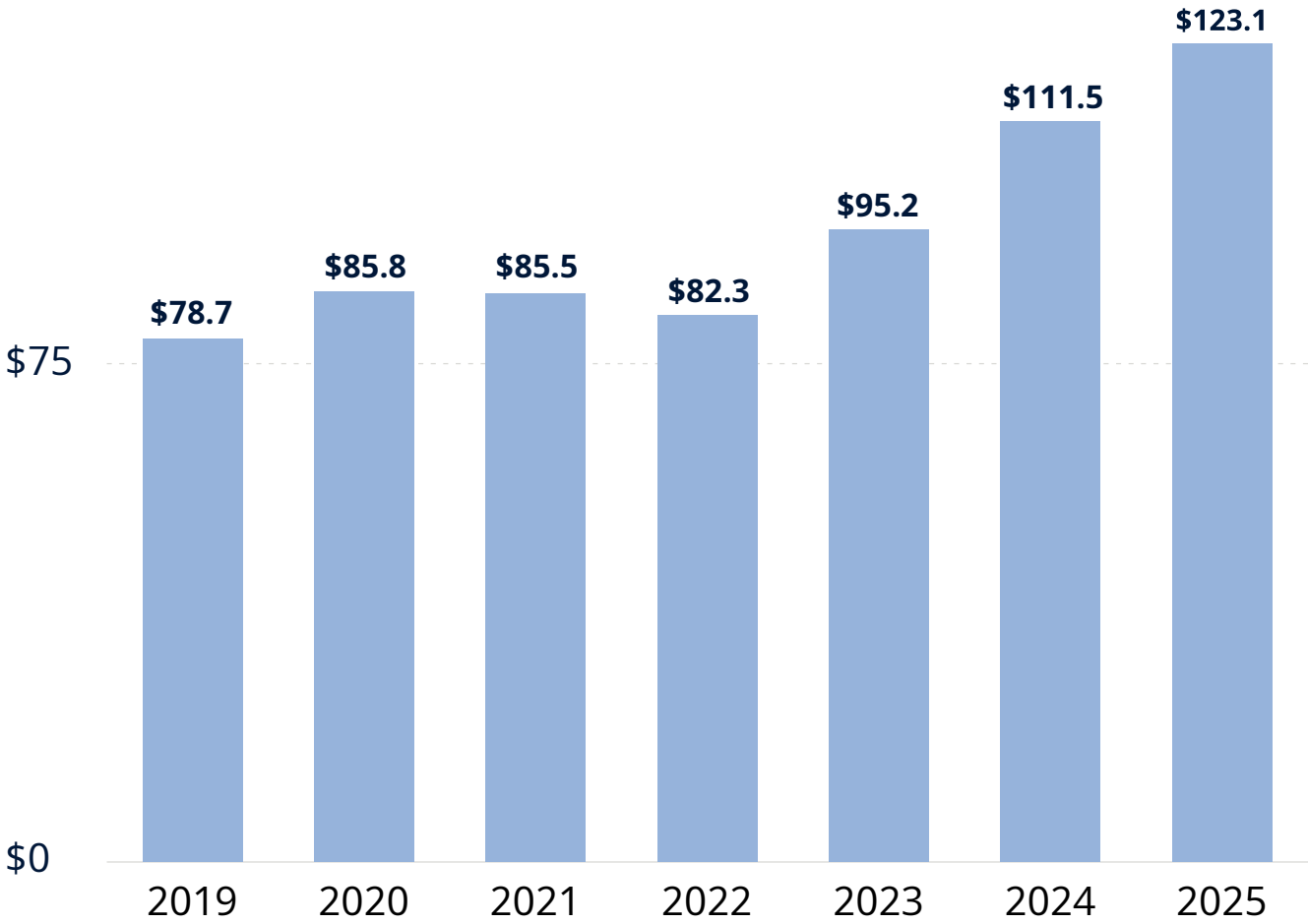
BPO Bookings Are Below 2019 Levels, While ITO Bookings Are up by More Than 10%

BPO Total Contract Value (\$B) 2019 - 2025



BPO rebounded from 2020, but 2025 TCV still trails 2019

ITO Total Contract Value (\$B) 2019 - 2025

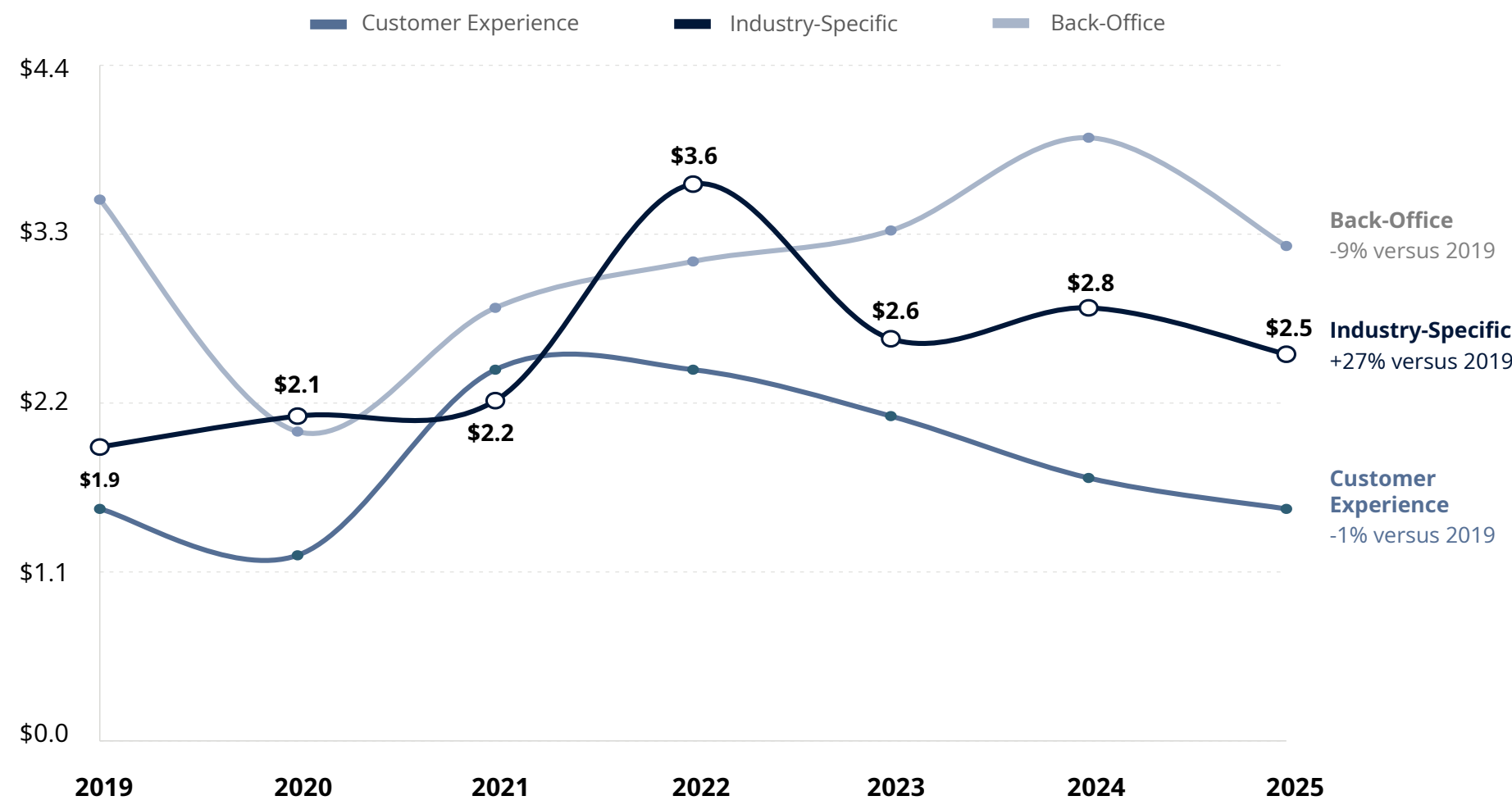


ITO TCV has expanded steadily since 2022

Source: ISG Market Lens™, 2026

Industry-Specific Is the Only BPO Segment That Has Seen Bookings Growth Versus 2019

BPO Annual Contract Value by Segment (\$B) 2019 - 2025



Source: ISG Market Lens™, 2026

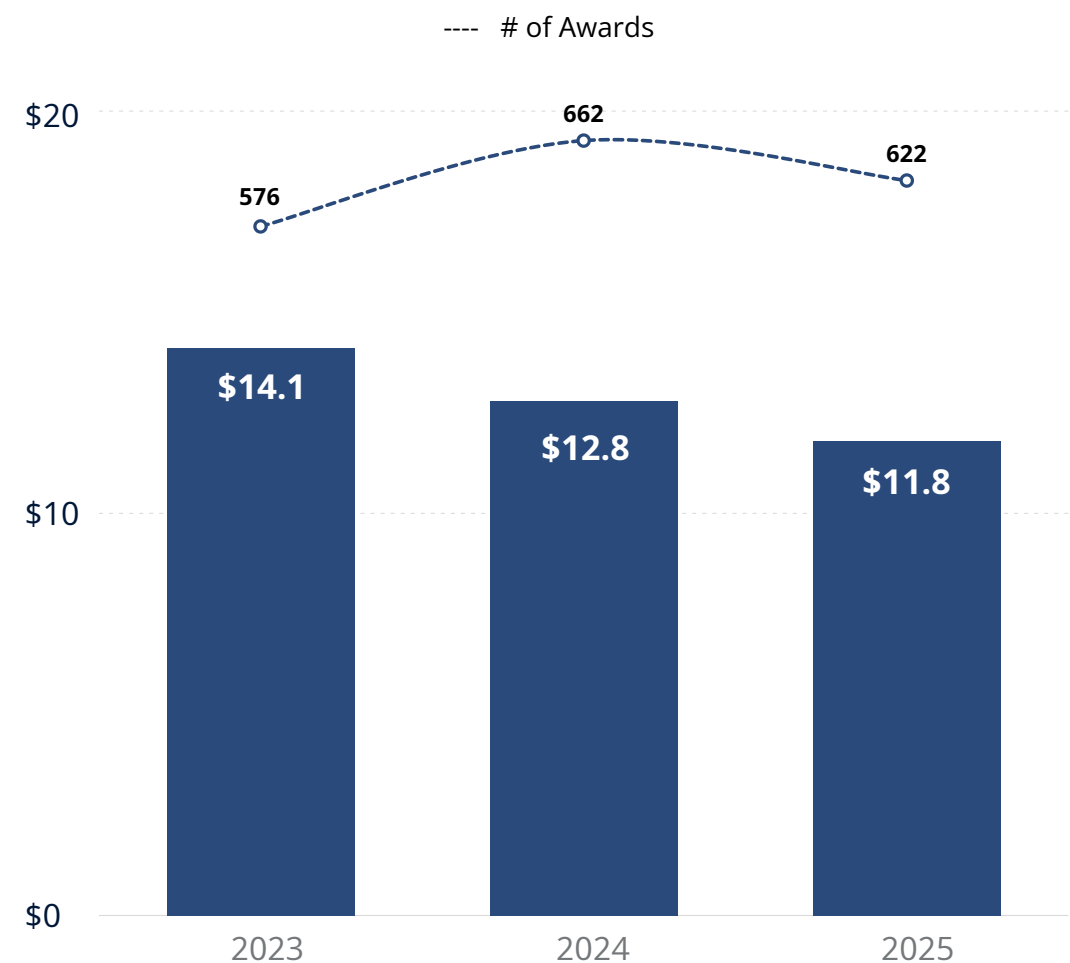
Customer experience BPO remains the segment most exposed to AI, self-service and shift-left initiatives. Contact-center platforms are increasingly taking on more of the CX process, putting pressure on a historically FTE-heavy market.

Industry-specific BPO is the strongest growth category, up 27% versus 2019. This suggests BPO growth is shifting toward domain-specific operating models, especially in regulated and complex verticals where industry context shapes the work.

Back-office BPO remains below 2019 ACV, although contracting activity is holding up. Enterprises are still pursuing cost reduction through AI-enabled transformation, but ACV remains under pressure as automation changes the cost to serve.

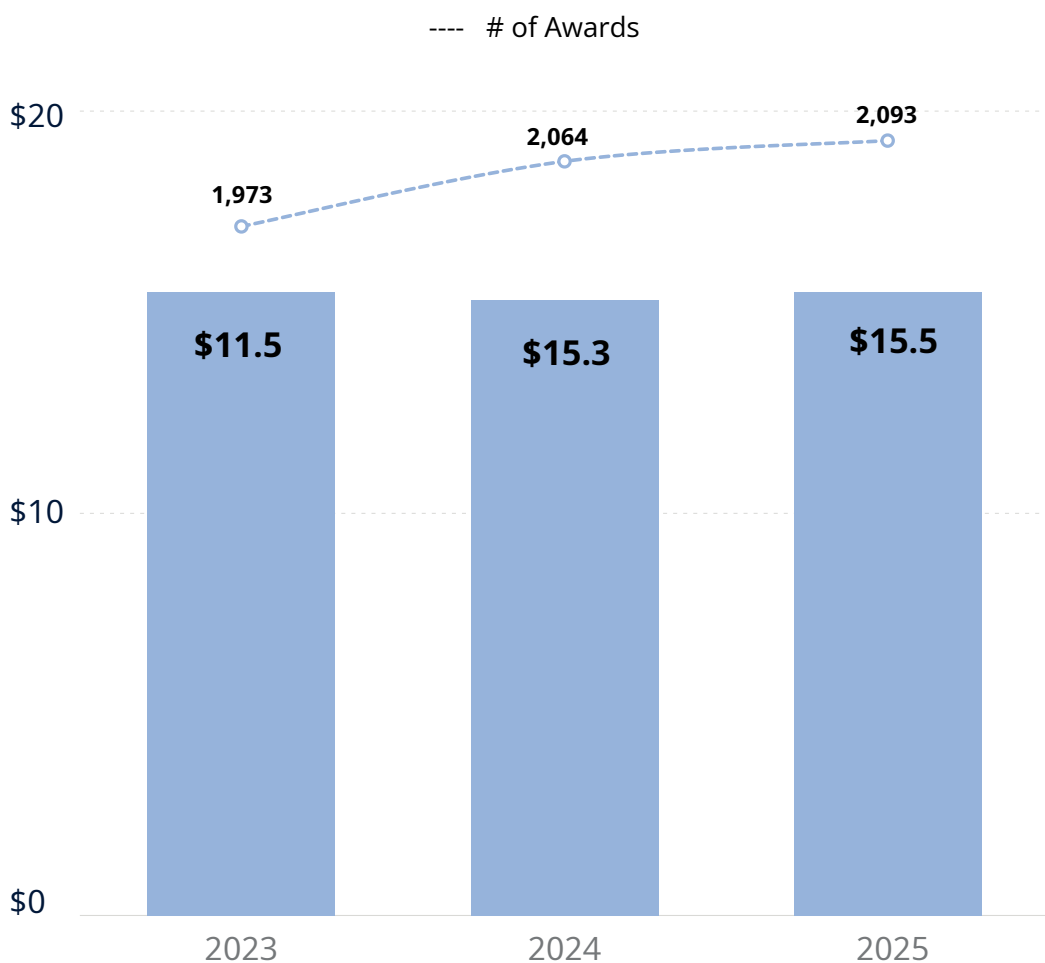
BPO Award Values Are Falling Even as Deal Activity Holds Up

BPO Annual Contract Value (\$M) 2023 - 2025



BPO award count is holding up, but average award value is falling.

ITO Annual Contract Value (\$M) 2023 - 2025

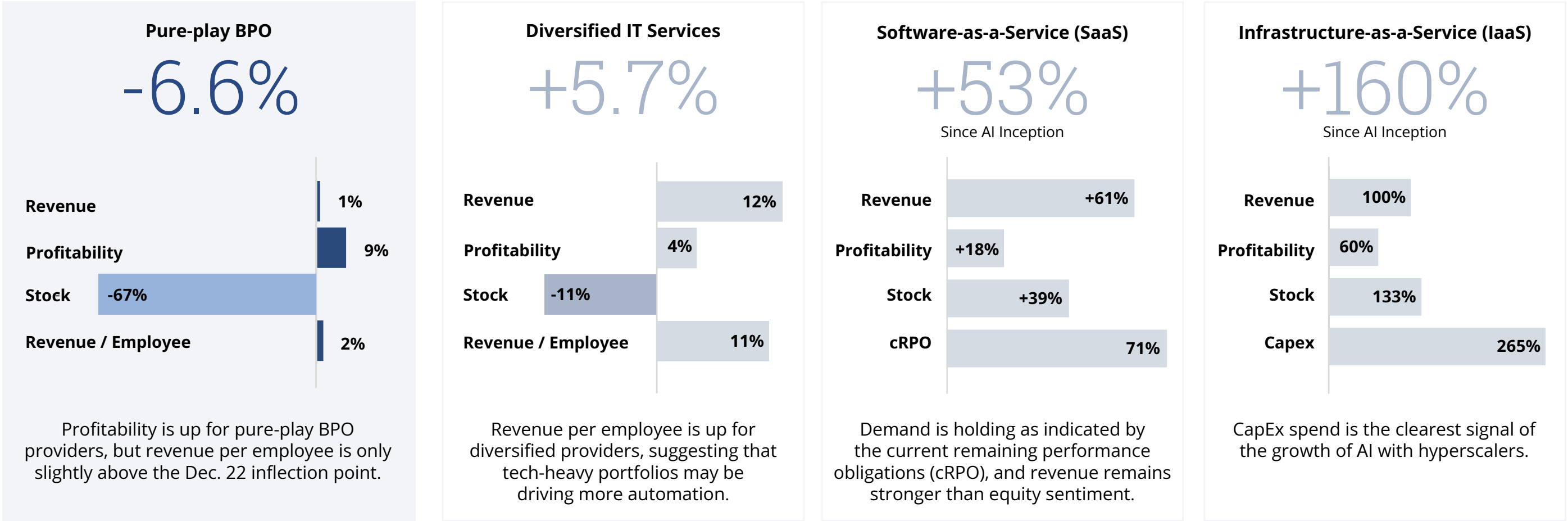


ITO award count is rising while average award value stays flat.

Source: ISG Market Lens™, 2026

Equity Markets Are Concerned About the Impact of AI on Pure-Play BPO Providers Despite Profitability Growth

The ISG AI Index™ measures AI's commercial impact on global technology and business services. Higher values indicate a more positive impact from AI.



Data is anchored to a December 2022 inflection point and tracked quarterly across technology infrastructure, software and services. Each segment blends revenue, profitability and stock performance with one forward AI indicator. Services: Revenue per Employee, SaaS: cRPO, IaaS: Capex. Diversified IT Services includes IT-centric providers with meaningful BPO revenues.

Buyer Expectations Are Exposing Gaps in the BPO Delivery Model

Cost optimization remains the primary reason enterprises use BPO, and buyers still value efficiency, capacity and expertise. But the current model is showing strain. Legacy SLAs can signal compliance while operational pain persists, and transformation programs are underway without consistently proving value.

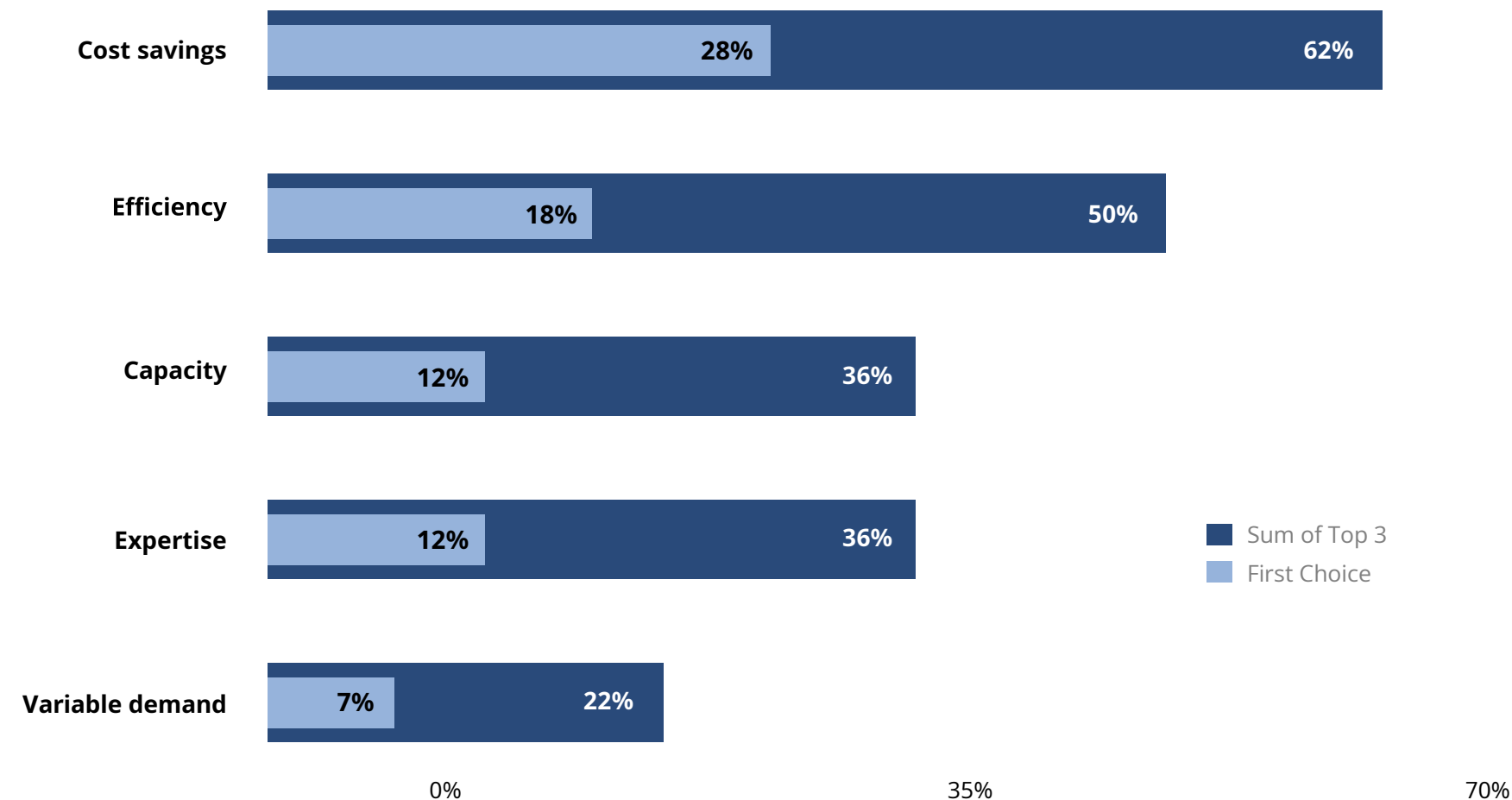
The pressure is likely to build as buyers expect more from BPO providers: more work, broader scope and more innovation without an equivalent increase in staff. As automation handles more routine work, buyers will expect providers to prove productivity, service quality and business impact in ways traditional controls were not built to measure.

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Cost Optimization Remains the Primary Motivation for BPO Buyers

Primary motivations for outsourcing to a managed services provider



Source: ISG Market Lens™ BPO Study, 2026; n=250

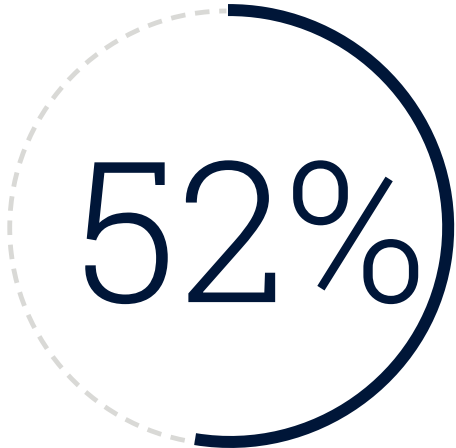
Cost optimization is the mandate.
Cost savings is the top motivation for BPO buyers. Enterprises are using BPO to create savings, which can fund AI-related transformation.

Efficiency is the second demand signal.
Efficiency is the second-most-cited choice. Buyers expect lower cost and more work delivered for each dollar spent.

Expertise is a differentiator.
Expertise becomes more important where work requires domain knowledge, regulatory context or process judgment.

BPO Service Levels Are Measuring Compliance, Not Necessarily the Operating Reality

Share of respondents agreeing with selected statements about BPO service levels and automation

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52%

SLAS ARE MET, BUT OPERATIONAL ISSUES PERSIST

52% say SLAs are met by their BPO provider, but operational issues persist. This points to a consistent problem in today's BPO agreements: controls can show compliance while missing operational problems.

A circular gauge with a dashed outer ring and a solid dark blue inner ring. The inner ring is filled with the percentage 50% in a large, dark blue font. The gauge is positioned above a light blue rectangular box containing text.

50%

SERVICE LEVELS ARE TOO TRANSACTION-ORIENTED

Half of respondents say that service levels are too transaction-oriented. Buyers are signaling that BPO controls need to shift from activity tracking toward exception resolution, automation impact and business outcomes.

A circular gauge with a dashed outer ring and a solid dark blue inner ring. The inner ring is filled with the percentage 50% in a large, dark blue font. The gauge is positioned above a light blue rectangular box containing text.

50%

AUTOMATION SHOULD REDUCE SLA TARGETS

Half of respondents say automation should reduce or lower the targets set in BPO contracts. If automation handles more routine work, the contract should measure fewer activities and focus more on exceptions, outcomes and whether automation is improving cost, speed and quality.

Source: ISG Market Lens™ BPO Study, 2026; n=250

Most BPO Transformations Are Underway, but Maturity Varies by Segment

Percentage of respondents in each status group

Transformation Status	Overall	Customer Experience	Industry Specific	Back Office
Manual / labor-led	43%	29%	58%	44%
AI-enabled efficiency	43%	49%	36%	42%
AI-first outcomes	14%	22%	6%	14%

BPO has largely moved past pure labor arbitrage.

Only 43% of respondents remain in manual or labor-led models, while more than half report either AI-enabled efficiency or AI-first outcome delivery. This suggests transformation is underway, but most activity is still concentrated in efficiency improvement rather than an AI-first approach.

Customer experience is further along.

Customer experience has the lowest manual share at 29% and the highest advanced AI-first approach share at 22%. This fits the broader report theme that CX is often the tip of the spear of BPO modernization, where automation, analytics and AI can be tied more directly to service quality and response speed.

Industry-specific services trail.

Industry-specific services remain the least AI-enabled category: 58% are still manual or labor-led, and only 6% have reached AI-first outcomes. This may indicate a harder transformation path where domain complexity, risk controls and process variation slow standardization.

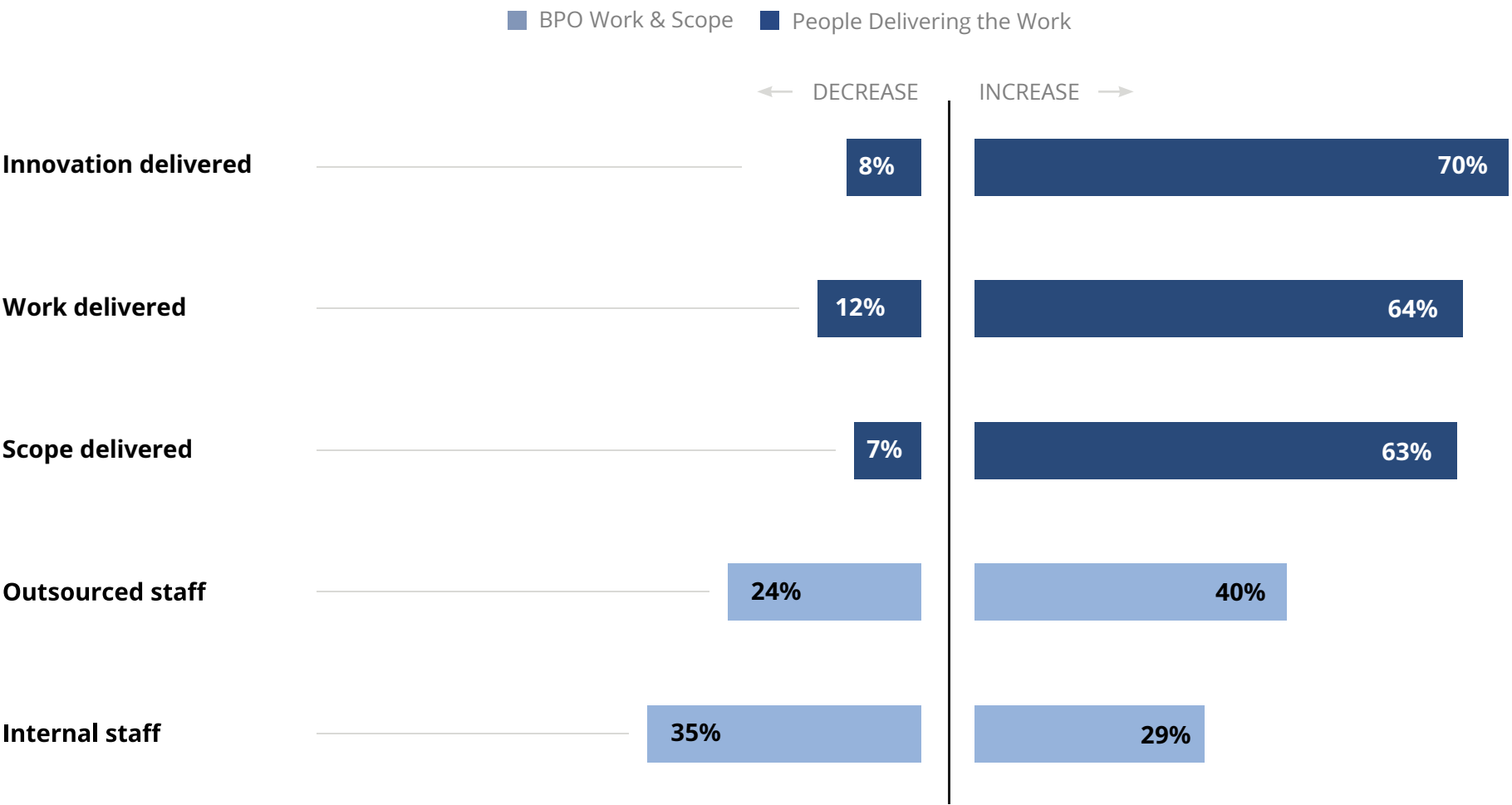
Back office sits near the market average.

Back-office results closely match the overall pattern: 44% manual or labor-led, 42% AI-enabled efficiency and 14% AI-first outcomes. The data suggests back-office transformation is active but still weighted toward cost and cycle-time improvement rather than outcome-based redesign.

Source: ISG Market Lens™ BPO Study, 2026; n=250; Responses grouped from six transformation status options; original response text not shown.

BPO Buyers Expect More Work and Broader Scope Without Adding More Staff

Expected change in BPO delivery through year-end 2027



Buyers expect BPO to do more.
70% of respondents expect their providers to deliver more innovation, 64% expect work delivered to increase and 63% expect scope delivered to increase through year-end 2027.

Staffing not expected to rise at same rate as the work.
Only 40% expect outsourced staff to increase, and only 29% expect internal staff to increase. Buyers are signaling they want more output without an equivalent increase in people.

Growth is expected to be less tied to headcount.
The data points to a model where BPO expands through automation, AI-enabled execution and exception management, rather than simply adding more staff.

Source: ISG Market Lens™ BPO Study, 2026; n=250

Competition, AI Driving BPO Providers to Commit to Deeper FTE Reductions

Cumulative committed FTE reduction by the end of the contract, by BPO segment



Source: Benchmark Data from ISG advised BPO awards

Recently, service providers began committing to greater FTE reductions than in the past.

In ISG’s view, this is due to a continued focus on automation, intense competition and the anticipated benefits of large language models.

In human resources, increasingly centralized HR operations combined with an AI-enabled system are lowering volumes, reducing the need for human intervention.

In finance and accounting, AI-supported orchestration across multiple ERP systems is improving significantly, with fewer FTEs doing high-level review and decision-making tasks.

In procurement, AI in sourcing, intake management and transaction processing is reducing manual effort with fewer FTEs needed for administrative and review-heavy tasks.

BPO Providers Now Compete Against a Broader Set of Delivery Options

Enterprise demand for operational improvement across the front, middle and back office remains strong. The difference is that buyers now have more ways to drive those improvements.

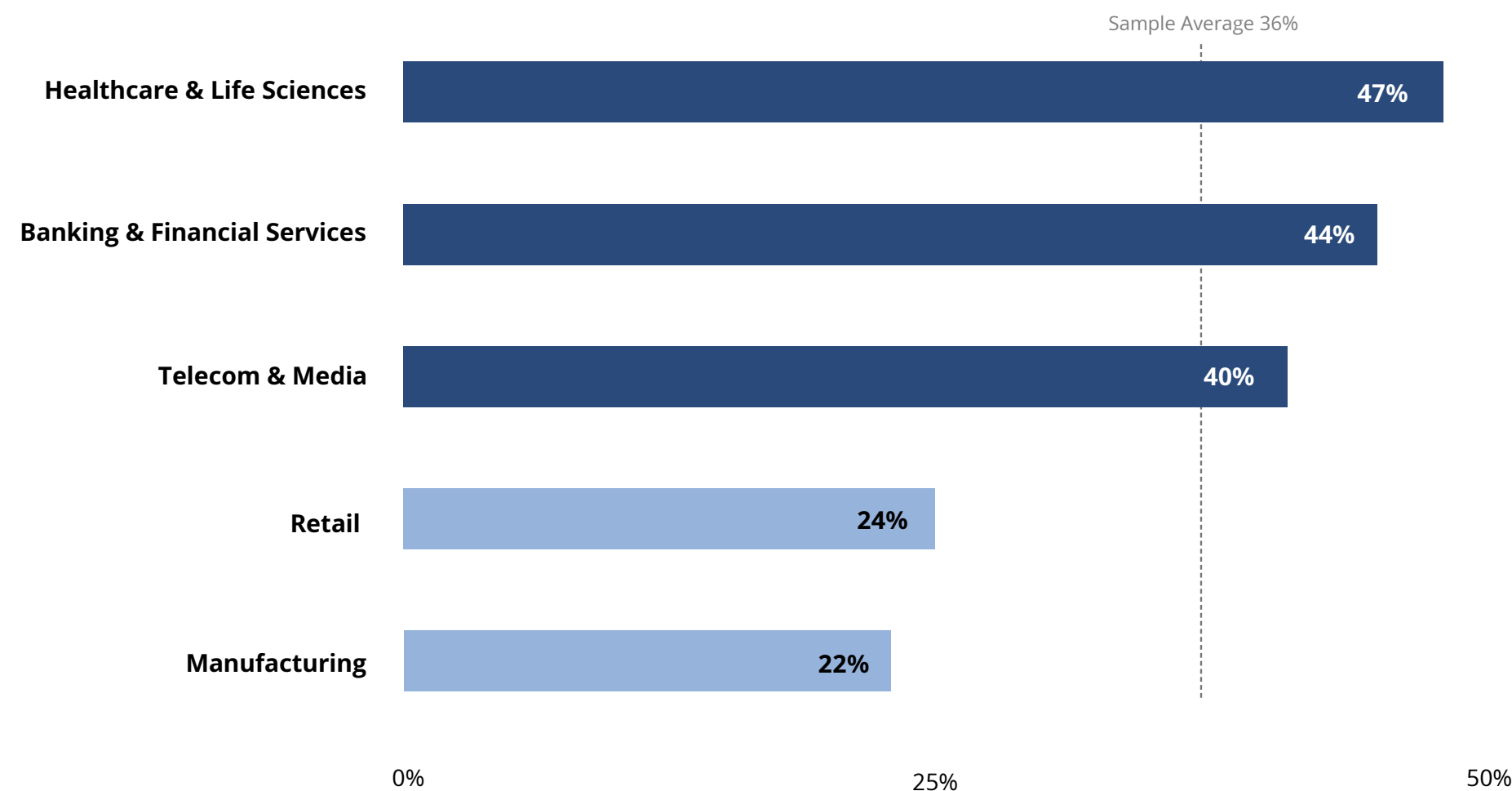
Delivery models like GBS and GCCs, AI-enabled insourcing and software platforms give enterprises more options to optimize process work across internal and external delivery. This will put pressure on BPO providers to prove how their domain expertise, commercial models and governance are better than the alternatives.

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Enterprises Expect AI to Create Another Route to Meet Their BPO Objectives

Share actively seeking to insource AI-deliverable activities, by industry



Source: ISG Market Lens™ BPO Study, 2026; n=250

Enterprises are seeking internal AI delivery.

Overall, 36% of respondents are actively seeking to insource activities that AI can deliver, showing that buyers are exploring internal delivery for some BPO work.

Regulated and data-in industries show strong demand.

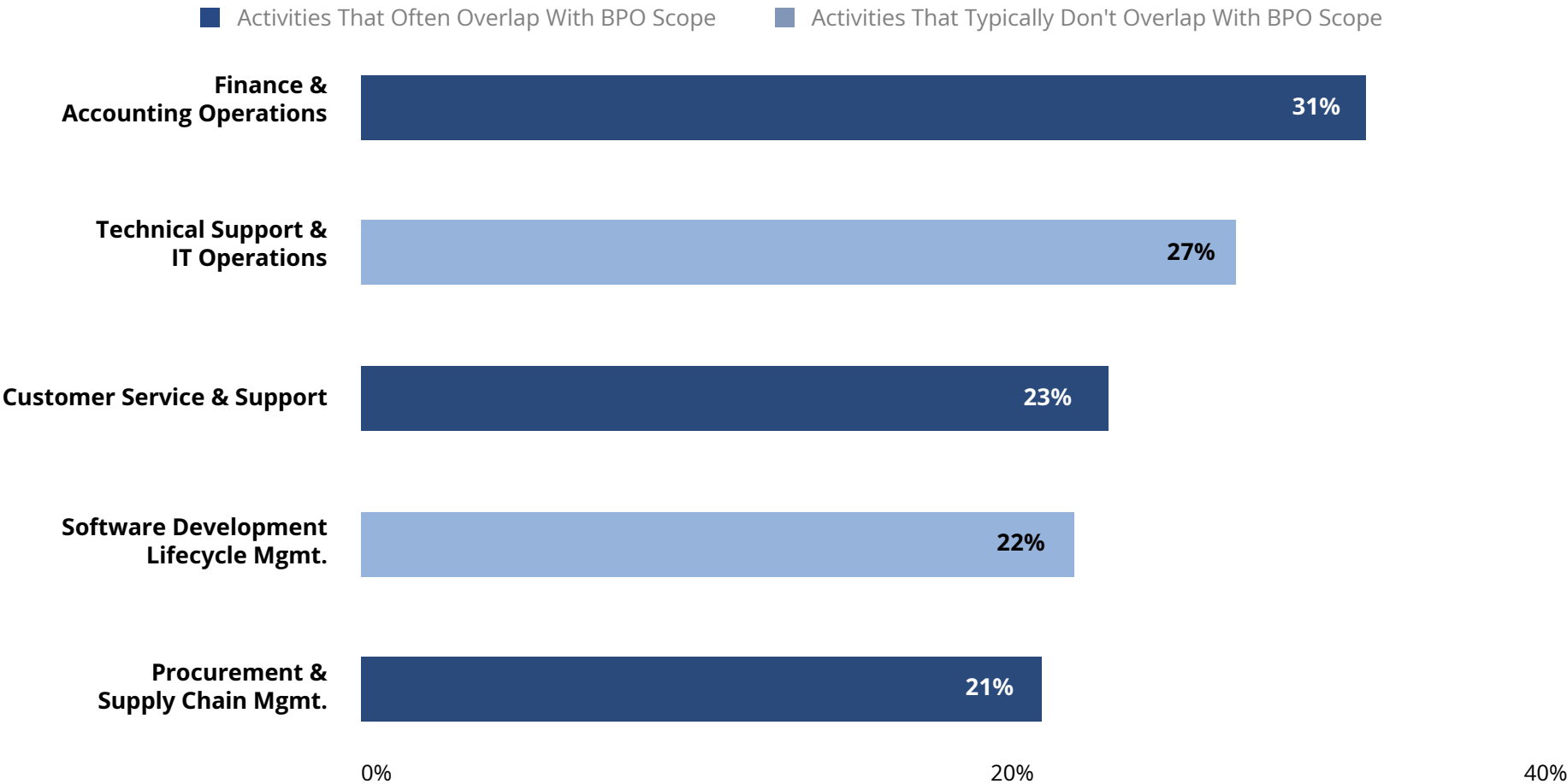
Healthcare and life sciences (47%), BFSI (44%) and telecom and media (40%) are looking more seriously at internal AI delivery than other industries. These industries have large data assets, complex workflows and regulatory pressure, which may make AI-enabled internal delivery more attractive.

Retail and manufacturing show less demand.

Retail (24%) and manufacturing (22%) sit below the sample average, suggesting less demand for AI-enabled insourcing in asset-heavy industries.

Enterprises Are Using GCCs Across the Front, Middle and Back Office

Top current GCC activities



GCCs are moving beyond technical delivery.

Offshore delivery centers are not limited to engineering and IT support. Finance and accounting operations (31%), customer service and support (23%) and procurement and supply chain management (21%) are all among the top five current GCC activities.

Three of the top five activities overlap with BPO scope.

GCCs are already handling work that often sits inside BPO contracts. In addition, 90% of respondents say they plan to increase the scope of work handled by their GCC within the next 12 months.

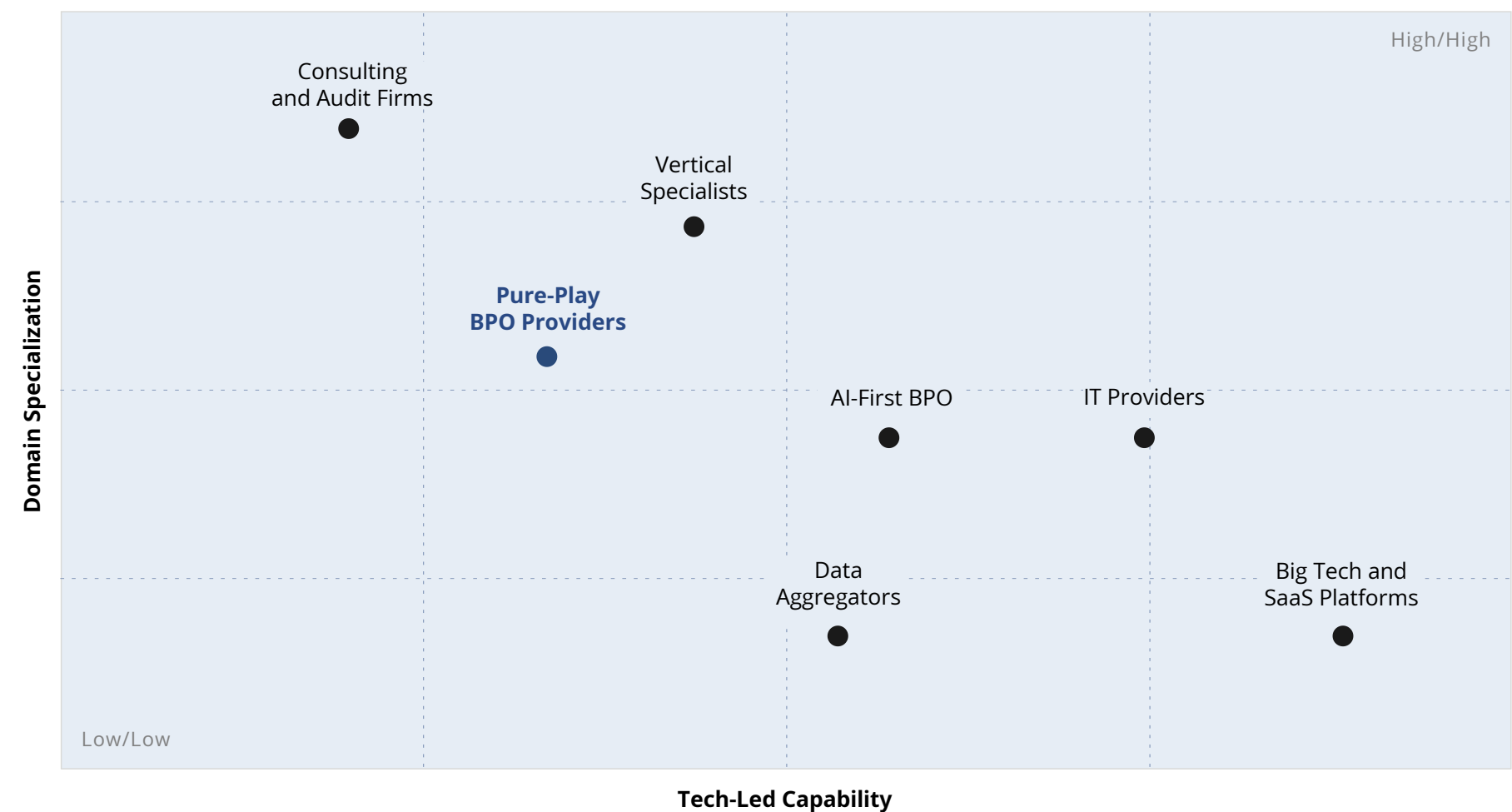
GBS models are becoming the coordination layer.

Enterprises are increasingly moving toward integrated GBS models that coordinate work across GCCs, internal teams, software platforms and external providers.

Source: ISG Market Lens™ GCC Study, 2025; n=200; Firms that have set up a GCC within the last two years or plan to within the next two years.

BPO Providers Face Competition from Every Side of the Delivery Ecosystem

Provider archetypes by domain specialization and tech-led capability, 2026



Pure-play BPO providers have significant process knowledge and delivery experience. But those strengths are now being challenged by adjacent competitors with different advantages.

Domain pressure
Consulting and audit firms and vertical specialists bring advisory depth and industry context into business operations work.

Technology pressure
IT providers and AI-first BPO firms bring automation-heavy delivery, integration capability and accelerators into process operations.

Platform pressure
Big Tech and SaaS platforms are increasingly focusing on workflow automation outside of IT.

Data pressure
Data aggregators bring mature data, analytics and AI capability but usually with narrower delivery breadth.

Source: ISG Provider Lens, 2026

AI-Led BPO Needs Stronger Controls and Measurable Business Impact

Enterprise buyers increasingly expect BPO providers to lead AI adoption, but many do not have the internal skills to govern AI-enabled delivery themselves. That helps explain why AI-led innovation is uneven in many BPO relationships. Providers that cannot define and track AI value will struggle to govern it, price it or expand it.

A new provider-led control model is needed. As AI takes on more of the work, providers will need to manage exceptions, measure automation impact and remain accountable for AI model performance. Providers that can connect this control model to industry-specific KPIs will be better positioned to prove value and expand client relationships.

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Buyers Want Provider-Led AI, But Few Are Ready to Govern It

Provider-led AI expectation versus buyer governance readiness

EXPECTATION

67%

Expect BPO providers to lead AI adoption.

READINESS

21%

Have the internal skills to govern AI-enabled BPO.

46-pt
Expectation-Readiness Gap

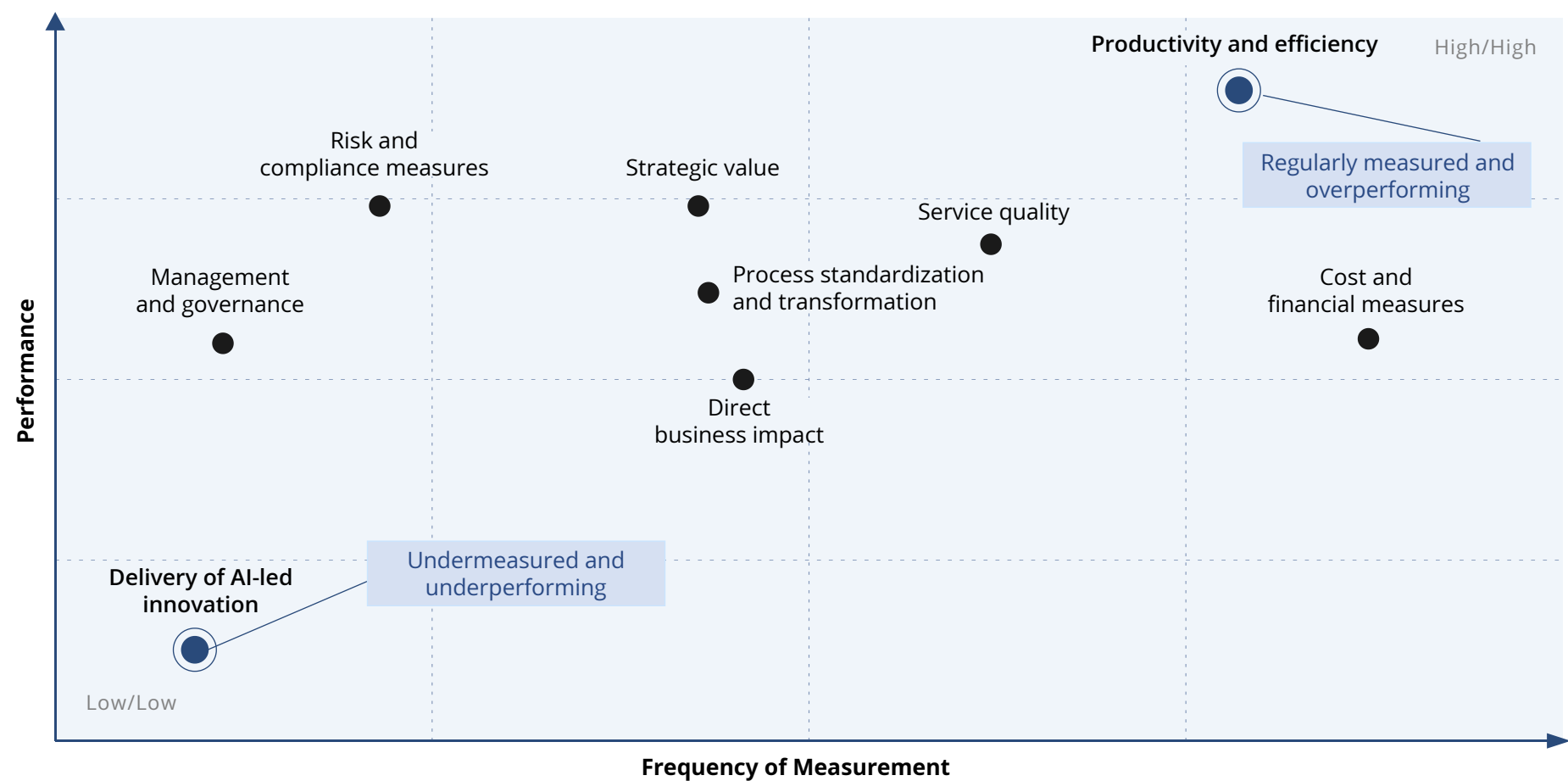
Enterprise BPO buyers increasingly expect service providers to lead AI adoption in BPO, but most are not ready to govern AI-enabled delivery themselves. 67% expect BPO providers to lead AI adoption, while only 21% say they have the internal skills to govern AI-enabled BPO.

That gap creates an opportunity for BPO providers that can bring the governance model, controls and performance transparency clients need to manage AI-enabled workflows.

Source: ISG Market Lens™ BPO Study, 2026; n=250

AI-Led Innovation Is Undermeasured and Underperforming in BPO ROI

Performance and frequency of ROI measures in outsourced BPO delivery



AI-led innovation is not yet measurable enough.
AI-led innovation sits in the low-frequency, low-performance corner. Buyers are not measuring it as consistently as traditional ROI dimensions, and performance is also below expectations.

Productivity is the primary metric.
Productivity and efficiency are the most measurable AI-adjacent ROI dimension and one of the stronger performers. That gives providers a practical way to prove the “more for less” case before broader AI-led innovation is consistently measured.

Measurement limits commercialization.
The data points to a measurement problem, not only a delivery problem. If buyers and providers cannot define and track AI value, it becomes harder to govern, price and renew AI-enabled BPO.

Source: ISG Market Lens™ BPO Study, 2026; n=250

AI-Enabled BPO Needs a New Control Model

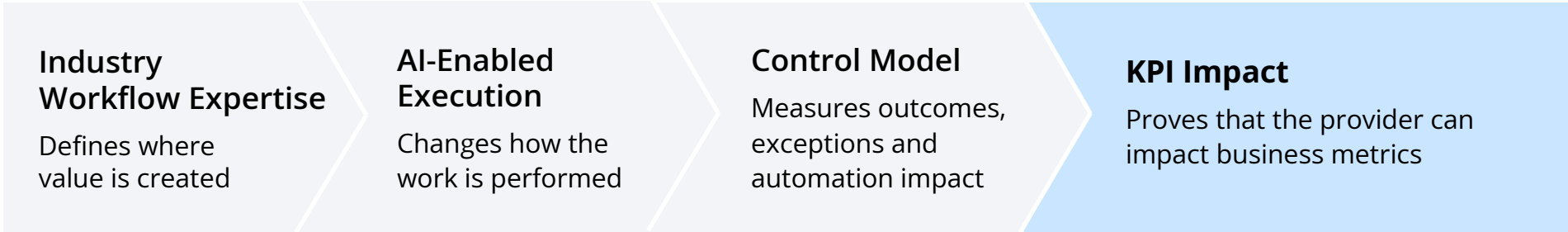
How governance and pricing shift as AI performs more of the work

Labor-Era Control Model	AI-Enabled Control Model
Transaction completion	Outcome achievement Measures whether the process improves a business result.
SLA compliance	Exception resolution Tracks how quickly nonstandard work is identified, routed and resolved.
Effort accountability	Automation impact Shows how AI changes cost, cycle time, quality, capacity or productivity.
Scope protection	Model accountability Governs AI accuracy, drift, escalation paths and human review.
Manual oversight	Governance intensity Matches controls to the autonomy level and risk of the process.
Labor-based pricing	Autonomy-level pricing Prices work based on who performs it and who owns the risk.

As AI performs more of the work, BPO governance will shift from tracking activity and effort to managing exceptions, driving automation, ensuring model performance and proving outcomes.

What's Next: Business Process Optimization via the New AI Control Model

How industry expertise, execution controls and workflow KPIs convert into measurable outcomes



Industry	Workflow Chain			KPI Impact
Healthcare	Patient access ↔	Prior authorization ↔	Revenue cycle	Denial rate, days in A/R, clean-claim rate
Insurance	FNOL / intake ↔	Claims adjudication ↔	Subrogation	Cycle time, leakage, straight-through processing
Banking	Client onboarding ↔	KYC / AML review ↔	Remediation	Completion time, exception rate, remediation backlog
Manufacturing	Order management ↔	Supply planning ↔	Supplier management	Forecast accuracy, expedites, supplier cycle time

Business process optimization means applying the new AI control model to repeatable industry-specific workflows and proving impact through industry KPIs.

Methodology and Research Approach

Enterprise buyer behavior data

We interviewed 250 senior decision-makers in large global organizations with 1,000 employees or more. To qualify, enterprises had to have signed or renewed a BPO contract with annual value of \$2 million or more in the previous 24 months. The BPO operations studied equate to approximately \$3 billion in annual BPO contract value.

Market activity data

Using the ISG Contracts Database, we analyzed commercial sector contract bookings with an annual contract value (ACV) of at least \$5 million.

BPO pricing data

Using ISG Benchmark data, we analyzed ISG-advised BPO contracts to determine the percentage committed FTE reduction during the term of the agreement.

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