

EvoNova Advisors

The Automation Dividend

Why Your Managed Service Contract Is Leaking the Value Your AI Creates

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The Invoice That Told the Truth

In early 2025, the head of Global Business Services at a Fortune 200 consumer goods company sat across from her outsourcing provider's delivery lead and asked a question that would reshape a \$45 million managed service relationship. The provider had just deployed an AI-powered invoice matching engine across the company's accounts payable operation. Touchless processing had jumped from 31% to 68% in four months. Cycle time per invoice dropped from nine days to under three. By any operational measure, the deployment was a triumph.

Then she looked at the bill. The monthly fee had not changed. The FTE count on paper had not changed. The provider was delivering the same work with roughly half the human effort—and billing at the legacy rate. She did the math in the margin of her notebook: the AI had created approximately \$8.2 million in annual productivity gains. The provider was capturing every dollar.

We had invested two years negotiating what we thought was a world-class contract. It turned out we had negotiated the right to pay full price for work a machine was doing.

That GBS leader is far from alone. Across the \$65 billion Finance and Accounting outsourcing market, a pattern is emerging that should alarm every CFO and GBS executive who signed a managed service agreement before 2024. The contracts that govern how work flows between buyer and provider were designed for a world of labor-based delivery. AI has broken that world—but the contracts haven't caught up. The result is a massive, largely invisible transfer of value from buyers to providers, hidden inside commercial structures that measure the wrong things.

The central argument of this article is direct: **the managed service contract—not the technology, not the provider, not the operating model—has become the primary mechanism through which GBS organizations either capture or forfeit the value of AI.** And in 2026, the majority of contracts are forfeiting it.

The Automation Arbitrage Problem

The F&A Business Process Outsourcing market reached approximately \$65 billion globally in 2025 and is growing at 8–9% annually, according to Grand View Research and Technavio. By 2028, it will approach \$90 billion. Meanwhile, the broader managed services category—encompassing IT, security, and business process services—hit \$370 billion in 2026, expanding at nearly 15% CAGR. These are not declining markets. They are booming.

But growth is masking a structural problem. ISG's Q4 2025 Index revealed that BPO annual contract value fell 14% in 2025 to \$7.3 billion—the lowest since 2020—even as the *number* of deals held relatively steady. Translation: buyers are signing contracts at lower unit prices, but providers are

compensating by capturing productivity gains that AI enables. Deal durations rose 14% and total contract value climbed 8%, signaling that enterprises are consolidating spend into fewer, larger, longer relationships. Providers love this arithmetic. The longer the contract, the more automation cycles they can execute before the buyer rebases the commercial terms.

The Hackett Group's 2026 Key Issues research quantifies the demand side of this equation: GBS workload is rising 15% while staffing and budgets lag significantly, creating the widest productivity gap in years. Finance teams specifically face a 5.3% productivity squeeze. Yet 76% of organizations report that AI is already delivering 25% or greater improvement in key performance metrics. The gains are real. The question is who captures them.

HFS Research frames the dynamic bluntly. Reliance on FTE-based commercial models is expected to fall from 42% of BPO contracts today to 28% within three years, while outcome-based and shared-revenue models are projected to rise from 20% to 39%. Phil Fersht, CEO of HFS Research, describes the shift as moving from **“pay-per-FTE toward consumption-based pricing where clients are charged on an outcome basis instead of headcount.”** But procurement teams, he notes, remain **“wedded to predictable, FTE-led pricing and resist outcome-based or subscription models, even when automation fundamentally alters delivery economics.”**

This resistance creates what we call **automation arbitrage**: the systematic capture of AI-driven productivity gains by providers operating under legacy commercial structures. The provider deploys automation. Cycle times drop. Headcount comes down internally. But the contract says “250 FTEs at \$X per month,” and nobody rebases until renewal. The buyer pays for labor it no longer needs. The provider pockets the difference.

The Three-Layer Contract

The contract architecture that solves automation arbitrage is not complicated in concept—but it requires a fundamental departure from how most GBS deals are structured. We call it the **Three-Layer Contract**, and it begins with a simple insight: not all F&A work responds equally to automation. Treating an entire outsourced scope as one commercial unit—one price, one SLA tier, one governance cadence—guarantees that the buyer will overpay for the automatable portions and under-invest in the portions that create strategic value.

The Three-Layer Contract decomposes every outsourced F&A process into three distinct commercial tiers, each with its own pricing model, SLA structure, and automation trajectory (see Exhibit 1).

Exhibit 1:**Next-Generation Contracts Shift Value From Provider Margin to Buyer Outcome**

Legacy FTE-based vs. layered contract architecture across six critical dimensions

Dimension	Legacy FTE-Based Contract	Three-Layer Contract Architecture
Pricing Mechanism	Cost per FTE / headcount	Blended: unit, fixed, outcome per layer
Automation Gains	Provider retains 100% of gains	Structured dividend: 40/60 or stepped rebasing
AI Governance	Silent – no contract coverage	Drift monitoring, bias testing, retraining rights
SLA Structure	Operational only (timeliness, accuracy)	Three-tier: operational + efficiency + outcome
Contract Duration	Fixed 5-year, renegotiate at renewal	3-5 year with annual commercial rebase windows
IP & Exit Rights	Provider owns all automation IP	Buyer retains process IP, scripts, model access

Source: EvoNova Advisors analysis based on ISG, HFS, KPMG, and Hackett research, 2025-2026

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Layer One: Touchless Work — priced per unit. This is the work that AI handles end-to-end with no human intervention: standard invoice matching, automated three-way matching, routine payment runs, straight-through journal entries. Ardent Partners benchmarking data shows that best-in-class AP operations already process at \$2.78 per invoice with 3.1-day cycle times, compared to \$9.40 and 9.2 days at the median. The right commercial model for this layer is per-transaction pricing with volume bands and declining unit rates as automation coverage expands. The provider’s incentive is to maximize touchless rates. The buyer’s benefit is that unit costs fall automatically as automation improves.

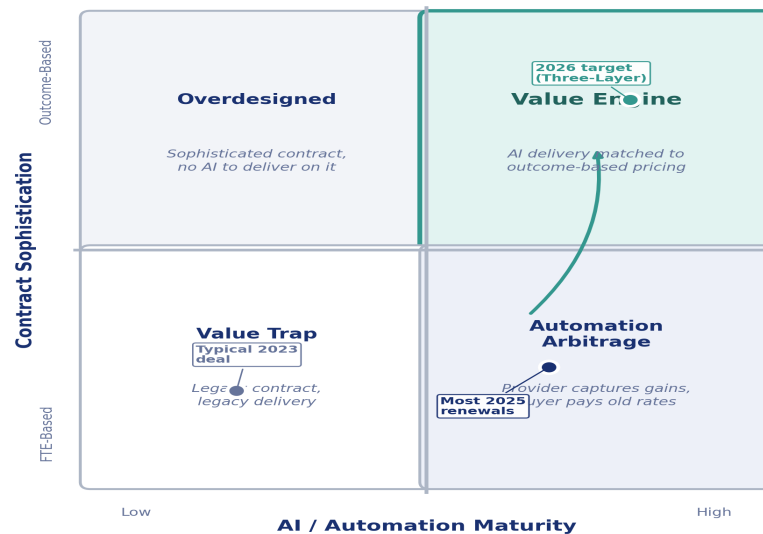
Layer Two: Exception Work — fixed managed service fee. Exceptions—invoices that fail matching, accounts requiring manual reconciliation, vendor disputes—need human judgment assisted by AI-driven triage and routing. This layer is best priced as a fixed monthly fee for a defined scope, with SLAs tied to exception resolution time, first-pass resolution rate, and exception-to-volume ratios. The fee covers a committed capacity; if automation reduces exception volumes faster than projected, the annual rebase window adjusts the fee downward.

Layer Three: Judgment Work — outcome-based with gainshare. The highest-value work in F&A outsourcing—working capital optimization, strategic cash forecasting, discount capture, close acceleration—produces measurable business outcomes. This layer should be priced against those outcomes. A DSO reduction of two days across a \$3 billion revenue base generates roughly \$16 million in working capital release. An outcome-based contract that pays the provider 20–30% of realized benefit aligns incentives completely. ISG analyst materials report that one AI-enabled O2C

deployment delivered a two-day DSO improvement and approximately \$100 million in working capital benefit within the same fiscal year, with AI deployed in 8–10 weeks. That is the speed at which outcome-based models can prove themselves.

Why does this layering matter so much? Because most GBS organizations are stuck in the worst possible position on what we call the **Contract Value Matrix** (Exhibit 2). The horizontal axis represents AI and automation maturity—how much of the outsourced scope is actually being delivered by machines. The vertical axis represents contract sophistication—whether the commercial model captures value from that automation or ignores it.

Exhibit 2:
Most GBS Organizations Are Trapped in the Lower Right —
Paying Legacy Rates While Providers Capture AI Gains
 Contract architecture vs. AI maturity: where value is created and where it leaks



Source: EvoNova Advisors, 2026

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The lower-left quadrant—**Value Trap**—is where deals lived five years ago: low automation, low contract sophistication. Few organizations remain here. The dangerous quadrant is the lower right: **Automation Arbitrage**. This is where providers have invested heavily in AI-enabled delivery—touchless processing, intelligent document capture, automated reconciliation—but the contract still pays on a per-FTE or fixed-headcount basis. The provider captures the entire productivity dividend. KPMG’s 2025 survey of 1,215 global professionals found that 81% of companies now expect providers to be strategic collaborators and 75% seek transformational outcomes. Yet most contracts reward neither.

The upper right—**Value Engine**—is where the Three-Layer Contract operates. Automation maturity is high. Contract sophistication matches it. Each layer captures its share of the automation dividend through a pricing mechanism designed for that type of work. This is not aspirational. It is where the sharpest GBS organizations are moving their 2026 renewals.

When Contracts Drive Outcomes

A \$12 billion manufacturer restructures AP across three layers. In 2025, a multinational manufacturer renegotiated its managed AP services contract—previously a flat-rate, 180-FTE agreement—into a three-layer structure. Layer One (touchless invoices) moved to cost-per-invoice pricing at \$3.10, declining to \$2.50 as automation coverage expanded. Layer Two (exception management) became a fixed monthly retainer with SLA-tied credits. Layer Three introduced a gainshare on discount capture, targeting early payment discounts that the operation had historically failed to pursue. Within eight months, touchless processing rose from 34% to 71%. The unit cost on Layer One dropped 42%. The provider earned more on Layer Three—the gainshare—than it lost on Layer One, which kept the relationship commercially viable. The buyer saved \$4.8 million annually while unlocking \$11 million in previously uncaptured discounts.

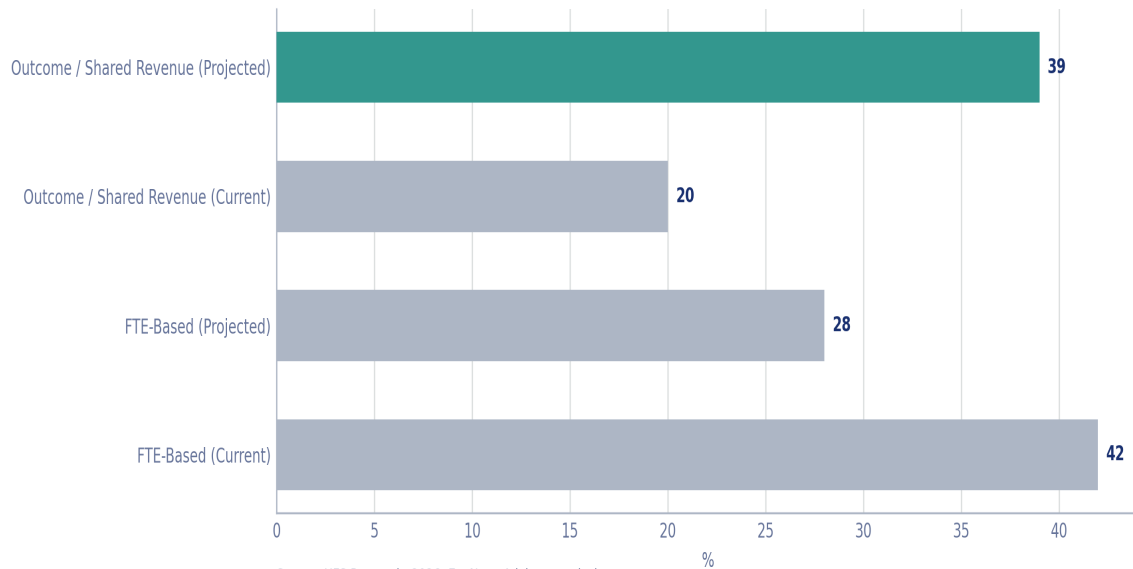
The case illustrates a critical design principle: **the three layers must balance.** If the buyer squeezes all three layers simultaneously, the provider has no profit pathway and the relationship destabilizes. Layer Three—the outcome-based tier—is the release valve that makes aggressive Layer One pricing sustainable.

A global insurer converts to outcome-based collections and cuts DSO by 57%. A published order-to-cash case study reported that an insurance broker achieved a 57% DSO reduction through an automation-led, outcome-based managed service model. The provider absorbed initial build costs—an investment structure that only works when the contract ties fees to realized outcomes rather than hours worked. The provider's confidence in the technology was backed by contractual accountability. When the provider's revenue depends on whether DSO actually moves, it deploys its best people and its strongest AI. When it depends on headcount, it deploys bodies.

The broader data confirms the directional shift. HFS Research projects that FTE-based pricing will fall from 42% of BPO contracts today to 28% within three years, while outcome and shared-revenue models nearly double (Exhibit 3). Up to 60% of F&A outsourcing deals are not renewed when tied to outdated headcount models, according to industry research from KPMG and Auxis. The market is voting with its feet.

Exhibit 3:**FTE-Based Pricing Is Collapsing – Outcome Models Will Dominate by 2029**

Share of BPO commercial models by type, current vs. projected (%)



Source: HFS Research, 2026; EvoNova Advisors analysis

Five Moves for Monday Morning

First, decompose your outsourced scope by layer before your next renewal. Map every process in the managed service agreement to one of three categories: touchless-eligible, exception-driven, or judgment-dependent. Most GBS leaders have never done this explicitly. Without the decomposition, you cannot price by layer—and without layer pricing, you cannot capture the automation dividend. Use your provider’s own data to do it: request touchless processing rates by subprocess, exception volumes with root-cause categorization, and cycle time distributions—not averages. If the provider resists transparency, that resistance is itself a data point.

Second, benchmark your unit economics against the public anchors that exist. Ardent Partners reports a best-in-class AP cost of \$2.78 per invoice and cycle time of 3.1 days. The median is \$9.40 and 9.2 days. Hackett’s digital world-class benchmarks show 42% lower process cost and 41% faster close-to-report cycles. These numbers are your negotiating BATNA. If your provider cannot credibly beat them—after transition, governance, and margin—the deal must justify itself on risk reduction, compliance, talent access, or transformation scope.

Third, write an AI governance addendum into every contract signed after today. The managed service agreements most organizations signed in 2021 or 2022 say nothing about model drift, bias testing, retraining responsibilities, or algorithmic accountability. HFS Research identifies these as mandatory governance elements for 2026 deals. At minimum, require quarterly reporting on AI model performance, define who owns fine-tuned models and process-specific prompts, and

establish the buyer's rights to audit any AI-driven decision that touches financial reporting. This is non-negotiable.

Fourth, insert annual commercial rebase windows—not five-year renewal cliffs. ISG's data shows deal durations rising 14% as enterprises seek stability. Stability is fine—but not at the cost of commercial rigidity. A three- to five-year base term with annual rebase windows lets both parties adjust pricing as automation coverage expands, volumes shift, or new AI capabilities come online. KPMG's framing is apt: outsourcing deals should be “living documents” that support optimization, not static agreements that lock in yesterday's economics.

Fifth, protect your process IP and exit rights explicitly. As providers embed AI into delivery—custom automation scripts, fine-tuned language models, process-specific workflows—the question of who owns that intellectual property becomes critical. KPMG advises creating explicit safeguards for AI enablement, performance measurement, and the company's intellectual property. Termination assistance clauses must now include data extraction tooling and model artifact transfer rights—particularly for any fine-tuned language model or automation script built on the buyer's process data. Audit trail preservation deserves its own clause, not a line item. The cost of a poorly governed exit is measured in months of disrupted operations and millions in transition expense.

Where This Framework Breaks

The Three-Layer Contract works best in high-volume, standardized F&A operations: accounts payable, accounts receivable, general accounting, and financial close. It is less applicable to advisory-intensive work—tax planning, treasury strategy, FP&A insight generation—where outcomes are harder to isolate and the labor component reflects genuine expertise rather than processable transactions.

It also presumes a level of data maturity that not all organizations have achieved. Decomposing scope into three layers requires reliable volume data, exception categorization, and touchless processing metrics. Hackett's research notes that 79% of GBS organizations lack in-house digital skills today, and data fragmentation remains the top barrier to GenAI adoption, cited by 20% of respondents. If your organization cannot measure its own touchless rate, it is not ready for per-unit pricing—and a provider will happily charge per-FTE while it automates behind the scenes.

Finally, the model requires a provider willing to participate. Not all will. Providers with large FTE-based revenue streams have structural incentives to resist transparency on automation coverage and productivity metrics. The KPMG survey finding that 81% of buyers want strategic partners is aspirational. The reality in many deal negotiations is a provider who talks transformation in the pitch and reverts to headcount in the contract. The buyer's leverage is simple: walk away from any provider that refuses to decompose scope by automation eligibility. The market has enough

alternatives—Everest Group counts 250+ providers above \$50 million in revenue—that no single provider is indispensable.

The Contract Is the Strategy

The GBS leader at the consumer goods company—the one who discovered \$8.2 million in productivity gains flowing entirely to her provider—did not fire the provider. She rewrote the contract. Within six months, the relationship moved to a three-layer structure. Layer One captured the AI dividend on a declining cost-per-invoice curve. Layer Two stabilized exception management at a fixed fee. Layer Three introduced gainshare on working capital improvement. The provider's total revenue from the account actually *increased* by 11%—earned on Layer Three outcomes that neither party had pursued under the old model. Both sides won. But only because the contract made winning possible.

The organizations that will extract the most value from GBS and managed services over the next three years will not be those with the most advanced AI, the lowest-cost delivery locations, or the most sophisticated governance frameworks. Those things matter. But they are table stakes. The differentiator is the contract—the commercial architecture that determines whether AI-driven productivity gains flow to the buyer, the provider, or into the gap between them.

In the age of AI, the most important document in your GBS operation is not your technology roadmap. It is your managed service agreement. Design it to capture value—or watch someone else capture it for you.

About the Author

EvoNova Advisors is a management consulting firm specializing in finance and accounting transformation, intelligent automation, and enterprise operating model design. Our research practice produces original thought leadership on the intersection of technology, process, and commercial strategy.

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