Large enterprises are doubling down on tech spend, repurposing 70% of budget for AI: McKinsey's Noshir Kaka

Customers are coming for vendor consolidation and while bundling their work and spend, they are also expecting 20-40% productivity gains, Kaka tells Moneycontrol

Noshir Kaka, senior partner, McKinsey & Company.

AI Powered Summary

Clients of IT services industry are continuing to increase their overall technology spending, majority of which is driven by artificial intelligenceled demand, Noshir Kaka, senior partner, McKinsey & Company, has said.

The comments come at a time when IT stocks are being hammered in India and other parts of the world amid fears of AI-led disruption.

Citing a recent McKinsey survey of 600 chief information officers (CIOs) of large enterprises globally, Kaka said, "Nobody is pulling back from overall tech spending. Around 72-73 percent of the CIOs surveyed of very large companies are actually doubling down on their tech spending between 2026-2027."

"Now if you look at the areas they're spending on including capturing digital and technology benefits, or meeting business demand for tech, or modernizing the tech infrastructure, these are all services heavy segments," he told *Moneycontrol* in an interview on the sidelines of Nasscom Technology & Leadership Forum (NTLF).

"Nobody is saying, oh I want to implement a new LLM, or I want to buy a new bunch of chips."

While tech spending is doubling, and aligned with services, as much as 70 percent of this budget is getting repurposed for AI-related work, Kaka said . This would further include adjacent AI-related opportunities such as creating data foundation, data as a service to name a few. "All of this is massively exploding," he said.

AI changing IT business models

Even though AI will bring more business to IT services companies, automation will inherently shift the way the Indian IT firms operate, Kaka said.

The transition would mean existing legacy spends are compressing significantly faster, causing a huge operating model change for IT firms. The other big challenge is reskilling of workforces as customers are seeking for outcome-based pricing models.

"It is one of the biggest transitions since going offshore… The focus of system integrators will now move to integrating more platforms, third-party software components than you have ever done before," Kaka said.

Kaka's views echoed HCLTech CEO and MD C Vijayakumar's concerns. The chief executive of country's third largest IT firm said the industry is undergoing a "painful" AI transition but it will emerge more relevant as the current inflection will make the sector significantly "reinvent" itself.

"This transition different from the other transitions (referring to Y2K, cloud and digital transitions. It's going to be a painful transition, painful reinvention, but this time the inflexion is really making a lot of what we do, a lot more efficiently and with significant speed," Vijayakumar said at NTLF.

"We have amazing talent, amazing leaders, very, very differentiated companies. So I feel very confident that as an industry, we would emerge much more stronger and, relevant to clients."

'RoI on AI spends still elusive'

Ultimately, the big technology spending towards AI is not moving linearly with the return on investments (RoI). Clients have only started pivoting to AI. In terms of demand, IT companies continue to see vendor consolidation deals, expansion across both large and small deals – along with pricing and productivity pressure.

"The RoI on AI still tends to be elusive. I'm seeing significant pricing and productivity pressure – customers are expecting 'AI discount' to show up," said Kaka.

"Customers are coming for vendor consolidation; and while bundling their work and spend, they are also expecting for 20-40% productivity gains.

The surplus realised through productivity gains is what the customers are looking to reinvest in the year."