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AI Disruption Inside and Out: Professional Services Under Pressure

Executive Summary

Professional services are being hit by a fresh wave of AI-driven disruption from both inside and outside. In the past 48 hours, top consulting and law firms have revealed new AI partnerships and a shift toward outcome-based pricing, as clients increasingly bring advanced AI in-house. Meanwhile, AI-native startups and even tech giants are moving directly into advisory work, forcing traditional firms to redefine their value in an era when much of their old work can be automated.

AI and the End of the Billable Hour

(www.thestreet.com [1])This week brought reports that the world’s elite consulting firms are being pushed to abandon their beloved billable-hour model. According to the Financial Times, clients now want consultants to link fees to measurable outcomes like cost savings and market share gains — not hours worked (www.indiatoday.in [2]). At a recent media briefing, McKinsey’s UK managing partner Michael Birshan confirmed the shift, noting the firm is doing far more "performance-based" deals at clients’ insistence (www.thestreet.com [3]). About a quarter of McKinsey’s global fees are already tied to such outcome-based pricing (www.thestreet.com [4]).

For decades, top firms justified multimillion-dollar fees by deploying armies of junior analysts to conduct research, run spreadsheets, and churn out reports (www.thestreet.com [5]). Now that model is bending. Generative AI tools can perform core consulting tasks — data analysis, slide generation, writing — in a fraction of the time (www.thestreet.com [6]). McKinsey’s internal AI assistant "Lilli" reportedly handles over 500,000 prompts per month, and consultants credit it with cutting up to 30% of their time spent on knowledge work (aiweekly.co [7]). When algorithms absorb so much of the labor, hourly billing becomes hard to defend. Clients understand that if AI can analyze in minutes what used to take consultants days, they’re no longer willing to be billed for those lost hours (www.indiatoday.in [8]).

The implications for margins are significant. Efficiency gains from AI threaten to erode revenue under the old model — unless firms change how they charge. Professional services firms across the board are facing pressure to pass along AI-driven efficiency savings to customers (www.indiatoday.in [9]). In practical terms, this means shifting from billing for time to billing for results. Forward-looking industry insiders are urging firms to adjust pricing and leverage models accordingly, recognizing that productivity-boosting AI should enable delivering the same (or greater) value with fewer billable hours (www.inc.com [10]). The writing on the wall is clear: the billable hour must evolve or die.

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Clients Bring AI In-House, Reducing Dependency

The disruption isn’t only coming from within firms — it’s also driven by clients learning to do for themselves what they used to outsource. Nowhere is this trend more apparent than in the legal field. A new survey finds that generative AI use in corporate legal departments has more than doubled in a year, from 23% to 52% (www.joneswalker.com [1]). Even more striking, 64% of in-house counsel say they expect these AI tools will let them rely far less on outside law firms going forward (www.joneswalker.com [2]). In other words, many corporate clients are directly integrating AI into tasks like legal research, contract review, and document drafting — and anticipating a reduced need to pay external lawyers for routine work.

The same dynamic is playing out in other advisory domains. Chief Financial Officers, for example, have emerged as champions of AI adoption within their enterprises (aiconference.london [3]), applying automation and analytics to financial modeling, forecasting, and compliance tasks that might previously have required external consultants or accountants. When a company’s own teams can instantly generate business insights or audit their data using AI, they are far less inclined to call in high-priced outside experts to do it for them. This client-side empowerment is fundamentally altering the economics of professional services demand.

Providers are starting to feel the squeeze. Consultants and lawyers who once expected a steady stream of billable work from routine analysis now see some of that work evaporating as clients handle it internally. One unintended consequence: if advisory firms openly tout how much of their work is done by AI, they risk accelerating this trend. As a Forbes commentator dryly noted, calling AI bots “employees” might teach clients that much of what they pay for is easily automated (www.forbes.com [4]). Professional service firms must walk a fine line between showcasing their technological prowess and giving clients more reasons to cut them out.

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Incumbents Double Down on AI (and Marketing It)

Established firms are not taking these shifts lying down. On the contrary, the Big Four accounting firms and top law and consulting firms are in an AI arms race to transform their own operations and client offerings. Many are going beyond pilot projects to full-scale deployment of AI across service lines. EY, for instance, has embedded "agentic" AI capabilities into its global audit software to enhance 160,000 audits per year, modernizing how teams analyze data and identify risks (www.ey.com [1]). These internal AI upgrades — often built in partnership with tech companies — promise greater accuracy and speed, and firms are making sure clients know about them. PwC recently unveiled a suite of AI-powered customer service agents (built with OpenAI's tech) that aims to cut costs while freeing human advisors to focus on complex, "high-empathy" tasks requiring judgment and trust (www.prnewswire.com [2]).

Global law firms are likewise heavily publicizing their AI investments. Just this week, New York-based firm Willkie Farr & Gallagher became one of the first to partner directly with OpenAI, announcing a firmwide rollout of ChatGPT Enterprise and co-developed proprietary AI tools to "transform frontier AI technologies into [the firm's] proprietary platforms" (www.willkie.com [3]). Back in April, London's Magic Circle firm Freshfields entered a multi-year collaboration with Anthropic to deploy its Claude model throughout the firm. Freshfields' innovation lead said the decision to go "wall-to-wall" with Claude was the clearest signal yet that the era of enterprise AI in law had arrived (www.freshfields.com [4]). Not to be left out, the big strategy consultancies (McKinsey, BCG, Bain) have each announced their own AI assistants or alliances to augment their teams – and frequently highlight these moves in marketing to reassure clients they're on the cutting edge.

Meanwhile, the Big Four are using their deep pockets to leap ahead in AI. Together, Deloitte, PwC, EY, and KPMG have poured more into AI systems in the last two years than most mid-sized companies spend on their entire IT budgets (chatfin.ai [5]). They're deploying thousands of "AI agents" across audit, tax, and consulting services to automate everything from document review and risk analysis to invoice processing. KPMG, for example, has committed $2 /billion over five years (in partnership with Microsoft) to infuse AI across its audit, tax, and advisory practices (chatfin.ai [6]). Deloitte has introduced a proprietary AI platform called "Zora" (built with Nvidia) to handle large-scale finance tasks like invoice processing and trend analysis automatically (chatfin.ai [7]). The immediate effect of these investments is a leaner leverage model, as repetitive work that used to occupy entry-level staff is now handled by machines. This trend is already evident: graduate hiring by some Big Four firms fell over 30% in the wake of their AI rollouts (chatfin.ai [8]).

Beyond internal efficiencies, incumbent firms also see a new revenue opportunity in helping clients govern their own use of AI. Sensing rising regulatory scrutiny, the Big Four are racing to devise "AI audit" and assurance services that validate the fairness, safety, and compliance of clients' algorithms (imp.news [9]). Just as they did with cybersecurity and ESG reporting, these firms want to set the de facto standards for AI oversight and become the go-to external validators for AI systems (www.gfmreview.com [10]). In short, the established players are striving to both leverage AI to protect their margins and sell new AI-driven services — all while loudly signaling their commitment to technological leadership.

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AI-Native Challengers on the Rise

It’s not only traditional competitors that professional service firms have to worry about. A new generation of AI-native startups and solutions is targeting the very tasks that once filled consultants’ and lawyers’ timesheets. One prominent example is Harvey, a young legal AI platform that recently secured $200 /million in funding at an eye-popping $11 /billion valuation (www.prnewswire.com [1]). Harvey’s “AI lawyers” — specialized GPT-4-based agents — are already being used by more than 100,000 lawyers across 1,300 client organizations worldwide (www.prnewswire.com [2]). The platform, backed by the OpenAI Startup Fund, automates high-volume legal work such as due diligence, contract analysis, and research, allowing in-house teams and law firms to get answers and draft documents in seconds.

Startups like Harvey aren’t the only new entrants. The AI creators themselves have also moved into the business of delivering AI solutions directly to enterprises, effectively bypassing traditional consultants. OpenAI shook the industry last year by launching its own strategic consulting arm to embed top AI engineers with corporate clients, an approach dubbed “AI-as-a-Service” (thefinancestory.com [3]). This month, Microsoft announced a $2.5 /billion investment in a new “AI deployment” division with 6,000 specialists, explicitly promising an "outcome-driven" engineering organization to implement AI for clients (techcrunch.com [4]). Amazon Web Services quickly followed by pledging $1 /billion to a similar initiative focused on forward-deployed AI engineering teams (techcrunch.com [5]). Cloud providers and AI labs are effectively moving into implementation services, leveraging their deep technical expertise (and direct access to advanced AI models) to capture value that might once have gone to consulting firms or systems integrators.

This outside competition presents a new challenge to the professional services value proposition. When a Fortune 500 company can contract directly with the likes of Microsoft, OpenAI, or an AI-driven startup to solve a problem, traditional advisors must ask: what unique expertise are we bringing that these tech firms and tools don’t? The old playbook of parachuting in an army of junior staff to grind through analyses is being rendered obsolete. To avoid disintermediation, consultancies, law firms, and accountants will need to carve out roles that complement and leverage the new AI solutions rather than compete head-on with them.

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The Evolving Role of Human Judgment

The wave of automation sweeping professional services is provoking a fundamental question: what is the true value of human experts in an AI-driven world? As routine analytical work gets commoditized by algorithms, the answer lies in a higher level of value creation. AI has made many once-premium deliverables — detailed reports, financial models, legal briefs — as ubiquitous and inexpensive as white T shirts (www.forbes.com [1]). Clients increasingly view these artifacts as baseline outputs, not high-value advice. If artificial intelligence can do the analysis, they ask, why should we pay a premium for a firm's army of human number-crunchers (www.forbes.com [2])?

The truth is that the enduring demand is for judgment, not just information. The coming era of "AI + human" consulting will elevate the role of the expert to one of validator, strategist, and trusted counselor. Instead of assembling data or writing first drafts, humans will ensure that the right problems are being solved and that AI-driven insights make sense in a messy real-world context (www.forbes.com [3]). Their work will shift toward identifying which questions to ask, discerning credible signals from noise, and making nuanced decisions about risk and trade-offs (www.forbes.com [4]). These are tasks algorithms cannot perform well, especially when solutions must navigate complex human, ethical, or political considerations.

Professional advisors who embrace this shift are positioning themselves as what one former consultant calls the "judgment layer" on top of AI (strategycase.com [5]). They recognize that while AI may replace large swaths of research and analysis, it is "not replacing the judgment, client trust, and accountability that clients actually pay for" (strategycase.com [6]). Leading firms are accordingly retraining their workforce to develop these irreplaceable human skills — such as emotional intelligence, creativity, and domain-specific expertise — and to work alongside AI tools effectively (www.inc.com [7]). In a transformed professional services landscape, the competitive advantage will belong to those who can best combine smart machines with savvy human insight.

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Key Statistics

- 25% /— Share of McKinsey's global fees now coming from outcome-based (results-linked) pricing instead of hourly billing ([www.thestreet.com](https://www.thestreet.com/markets/ai-is-forcing-mckinsey-bcg-bain-to-rethink-consulting-fees#:~:text=managing%20partner%20Michael%20Birshan%20said%2C,rally%20IBM%20CEO%20sends%20blunt))
- 40% /— Organization-wide AI adoption in professional services in 2026, nearly double the 22% rate in 2025 ([www.thomsonreuters.com](https://www.thomsonreuters.com/en-us/posts/technology/ai-in-professional-services-report-2026/#:~:text=professional%20services%20%E2%80%94%20Organization,

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- 64% /— In-house legal teams expecting to reduce their reliance on external law firms due to generative AI adoption ([www.everlaw.com](https://www.everlaw.com/press/release/acc-report-2025/#:~:text=64%25%20of%20In,by%20the%20ACC%20in%20partnership))
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KEY TAKEAWAY

AI is upending professional services from within and without. Leaders must adapt their business models: integrate AI for efficiency, shift to outcome-based fees, and double down on the unique human judgment and strategic insight that machines can't replace.

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