

The New Pyramid: Leverage is Becoming More About AI, Not People

The traditional consulting pyramid—where a wide base of junior consultants supports a narrowing hierarchy up to partner level—has long been the backbone of the industry. It is the basis of the traditional leverage model where seniors sell in large numbers of juniors to generate the firm's profits. However, in recent years, this structure has come under pressure and the future is perhaps less of a pyramid and more of a "diamond" shape, with fewer juniors, a bloated middle, and a narrowing at the top.

The Diamond-Shaped Reality

Traditionally, consulting firms hired large intakes of junior consultants, expecting many to leave within a few years. This natural attrition created space for those who remained to rise through the ranks. Yet various factors have disrupted this equilibrium over the last 15 years:

- **Over-Hiring and Reduced Attrition:** Firms have hired aggressively at the junior level, expecting many to leave, but attrition has slowed. The post-pandemic economy has made it harder for consultants to find alternative opportunities, leading to fewer exits and an overcrowded middle tier.
- **Market Stagnation:** The consulting model relies on strong market growth to fuel promotions into partner roles. But with growth slowing, partners are forced to do more with less. Leaner practices mean that even if revenue increases, it doesn't necessarily translate into more senior positions, leaving fewer opportunities for ambitious mid-level managers.
- **Creation of Non-Equity Roles:** Many firms have introduced positions like directors or non-equity partners. While these roles offer seniority, they lack the financial and decision-making power of equity partner roles. This "bumping

up" of middle managers may create the illusion of progression, but it's a far cry from the autonomy and rewards that a partner role traditionally offered.

- **Price Pressure and Margin Compression:** Fee pressures have intensified as firms compete for work, driving down margins. This diminishes the economic appeal of partnership—long hours no longer result in the same financial returns as they once did, further reducing the motivation to chase the elusive partner title.

AI and Automation: A Disruptor to the Pyramid

Another challenge to the pyramid is the rise of AI and automation, which threatens to reduce the need for large numbers of junior consultants. Traditionally, junior staff handled research, data analysis, and other time-intensive tasks. Now, AI can perform these functions more efficiently, making the need for a large base of juniors less pressing.

- **Automating Routine Work:** AI is increasingly taking over the repetitive tasks that were once assigned to juniors, such as data gathering, analysis, and report generation. This removes a significant chunk of work from junior consultants, questioning their place in the traditional pyramid structure.
- **Demand for Higher-Order Skills:** As routine work is automated, the need for human consultants shifts to skills like creativity, problem-solving, and client management. This shift accelerates the move towards a more diamond-shaped structure, with fewer entry-level positions and a focus on mid-level expertise.

Leverage and the Diamond

The emergence of a diamond-shaped consulting structure has profound consequences for a firm's leverage model—something David Maister, the guru of professional services, highlighted as crucial to profitability. Leverage in consulting refers to the ratio of junior to senior staff on projects. In a highly leveraged firm, juniors do the bulk of the work, supervised by a few senior consultants. This model has traditionally been the source of high margins because the work done by juniors is billed at a premium, while their costs remain relatively low.

However, the diamond model threatens to undermine this foundational principle. Fewer juniors means less capacity to leverage their time and efforts into profit, forcing firms to rethink how they structure projects.

- **Reduced Profit Margins:** With a smaller base of juniors, firms lose the ability to extract the same profit margin from projects. Typically, more margin is made on juniors than seniors. Senior consultants are expensive, and without enough junior staff to handle the grunt work, firms are left with higher costs per project. This threatens to squeeze profitability unless firms find new ways to maintain or enhance efficiency, such as through better use of technology or smarter project management.
- **Specialisation vs. Scale:** High-leverage models work best when tasks are routine and repeatable. But with the pyramid flattening, firms may find themselves focusing more on highly specialised, bespoke work. While this can justify higher fees, it also limits the ability to scale—since bespoke work requires more senior input, it's harder to systematise and spread across teams.

The Future of Leverage

The shift towards a diamond-shaped structure requires firms to rethink their approach to leverage. As David Maister pointed out, highly leveraged firms are the most profitable when they can delegate efficiently. But with fewer juniors and an expanding middle tier, firms must innovate to stay competitive.

- **Invest in Technology and AI:** By harnessing AI to take over more routine tasks, firms can restore some of the leverage lost by the shrinking junior tier. AI tools can act as "virtual juniors," enabling mid-level and senior staff to remain focused on higher-value work without sacrificing efficiency.
- **Increase Specialisation:** With fewer juniors, firms need to move away from generalist consulting and focus on specialised, high-value services. Specialised work can justify higher fees, compensating for the reduced leverage while allowing firms to compete on expertise rather than scale.

- **Shift in Career Structures:** For consultants, the diamond shape means fewer opportunities to move up the ladder in a traditional sense. Instead, career progression may need to focus more on specialisation and thought leadership than on climbing towards partnership. This shift could foster a new breed of consultant—one who's highly skilled in niche areas but not necessarily looking for the "partner" title.

Conclusion: Evolving, Not Broken

The traditional consulting pyramid isn't broken, but it is evolving. The pressures of over-hiring, changing market conditions, AI, and client demands are reshaping the structure into something closer to a diamond. While this new shape limits upward mobility and undermines traditional leverage models, it also opens new avenues for innovation.

Consultancy firms will need to adapt by embracing technology, refining their leverage strategies, and focusing on high-value, specialised services. Consultants, on the other hand, must develop unique skills and expertise to stand out in this changing landscape. The pyramid may be shrinking, but for those who adapt, especially in using AI intelligently, there are still plenty of opportunities for success.