

Why McKinsey's \$1,000-an-Hour Empire Is Quietly Killing the Billable Hour

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Note: the original article is provided as a separate file (attached to the email or downloadable from the website).

1. Reading Passage

It is impolite to compare elite management consultants to call-centre bots. But at the top of McKinsey & Company, the comparison is becoming uncomfortably apt – at least when it comes to how clients want to pay. The world's most famous consultancy is under pressure to tie its fees to the outcomes it delivers – lower costs, higher profits, bigger market share – rather than to the hours its consultants spend producing advice. Charging for results, however, makes revenue less reliable, which helps explain why the firm will shunt a bigger share of partners' pay into equity and husband more cash.

The drive partly reflects the way billable hours are becoming less useful as a yardstick, thanks in part to consultants' own use of artificial intelligence for tasks such as data analysis and diagnosis. If a junior analyst's week of work can now be done by an AI tool in an afternoon, charging by the hour starts to look both stingy and absurd. More broadly, clients are questioning the value of advice while growing more accustomed to tariffs based on successful task completion. Fin, an AI customer-service agent, charges 99 cents for each case its bot resolves; iDenfy bills £1 per identity verification; Salesforce lets customers pay per task for activities like updating records. Pay-per-task makes budgeting predictable for both vendor and buyer.

Some industries are old hands at this kind of billing. Think 'no win, no fee' legal ambulance chasers. Even consultancies have history on the front: Alvarez & Marsal used similar pricing when working on Rolls-Royce's 2018 restructuring. McKinsey and its professional-services peers will still try to keep the bulk of work on billable hours, and giants of AI such as OpenAI still prefer subscriptions for some of their products, given the appeal of recurring, predictable revenue.

But here's the catch with paying for results: the results may turn out worse – or better – because of forces well beyond the consultant's control. Wars, tariffs, and stubborn line managers at the client firm can all kibosh the best-laid plans in, say, procurement or supply chains. One workaround might be to align consultants' incentives to the very metrics that determine the client executives' own bonuses, so both sides are pulling in the same direction.

Billable hours, subscriptions and flat fees will always remain part of the equation. But the proportion of outcome-based pricing will undoubtedly expand – and that goes down as a definite tick in the column under the benefits wrought by AI for the consulting business. For students eyeing a future at McKinsey or its rivals, the takeaway is sobering. The job once promised a steady climb from analyst to associate to partner, paid for in hours logged on slide decks. The job of tomorrow looks more like that of an investor: you make a bet on your client's success, and you only get paid handsomely if the bet pays off. The romance of the billable hour, in other words, may not survive the decade.

2. Explanation

For a century, elite consultants sold one product: their time. Now AI can do an analyst's week in an afternoon – so McKinsey is racing to sell something far riskier instead: results.

What's Going On?

McKinsey & Company, the world's most famous management consultancy, is changing the way it charges clients. Instead of billing for the hours its consultants spend on a project, it is increasingly tying its fees to outcomes – things like lower costs, higher profits, or bigger market share for the client.

The trigger is artificial intelligence. AI tools now handle a lot of the grunt work – data crunching, diagnostics, drafting – that junior consultants used to bill for. That makes 'hours worked' a weaker measure of value, and clients have started pushing back. The whole consulting industry, worth more than \$700 billion globally, is rethinking its pricing model in response.

How To Think About It

The cleanest way to understand this shift is to ask: are you paying for effort, or paying for results? Consultants have always sold effort. AI is making effort cheap, so they have to start selling results – which is a fundamentally different (and scarier) business.

- Think of personal-injury law firms that work on 'no win, no fee' – they only get paid if the client wins the case. The Lex column flags this as the closest existing analogue to where consulting is heading.
- Or think of a soccer striker's contract: a base salary plus bonuses per goal scored. The base is the safe income; the bonuses align the player's incentives with the team's actual objective. McKinsey wants its pay to look more like the bonuses, less like the base.

Key Things To Know

- About a quarter of McKinsey's global fees now come from outcomes-based pricing rather than billable hours, according to the firm's UK managing partner Michael Birshan (reported by Business Insider in November 2025).
- AI startups are already pricing this way: the article notes Fin charges 99 cents per resolved customer-service case, and iDenfy bills £1 per identity verification – pay-per-task, not pay-per-hour.
- The model is risky for consultants. Outcomes can swing on things they don't control – wars, tariffs, a client CEO who won't execute the plan – so results-based revenue is less predictable than hourly billing.
- Expect McKinsey to push more partner pay into equity rather than cash, so the firm holds a bigger cushion for years when client outcomes (and therefore fees) underperform.
- What most people get wrong: this isn't a story about consultants getting cheaper. It's a story about consultants becoming more like investors – taking on risk in exchange for a bigger upside when things go right.

Why It Matters

Consulting has been one of the top destinations for ambitious graduates for decades — McKinsey, Bain, BCG and Deloitte hire thousands of new analysts every year, and the path runs straight through top universities. If AI is eating the entry-level work, the on-ramp to those careers changes too: fewer 22-year-olds building spreadsheets, more 25-year-olds expected to own measurable business outcomes from day one. That's a real shift for anyone thinking about business school, internships, or a 'safe prestige' career path.

The Bigger Picture

The billable hour ruled professional services — law, accounting, consulting, advertising — for roughly a century. If AI breaks it in consulting first, law firms and ad agencies are next; their work is just as exposed to AI-driven productivity gains. Watch for two second-order effects: clients demanding outcome guarantees from any service vendor, and consultancies starting to look more like private-equity firms, taking equity stakes in the projects they advise on rather than just sending invoices.

3. Key Terms Glossary

Billable hours

The traditional pricing model in consulting, law, and accounting where the client pays a set rate for every hour a professional works on their project.

Outcomes-based pricing

A fee structure where payment depends on whether agreed results – like cost savings or revenue growth – are actually achieved, rather than on time spent.

Management consultancy

A firm that companies hire to advise on strategy, operations, and big organisational changes. McKinsey, Bain and BCG (the 'MBB') are the elite tier.

Equity (in a partnership)

Ownership stakes in the firm itself. Partners who are paid more in equity than cash get rewarded when the firm thrives over years, not just from this year's invoices.

Recurring revenue

Income that arrives on a predictable schedule – like a monthly subscription – making it easier for a business to forecast and plan.

Procurement

The corporate department that buys goods and services for a company and negotiates contracts with vendors, including consultants.

Contingent fee

Payment that depends on a specific result – for example, 'no win, no fee' lawyers who only collect if their client wins damages.

4. Reading Comprehension Quiz

Circle the best answer for each question.

Q1. The passage most directly argues that:

- A) McKinsey is shrinking because AI has made management consultants obsolete.
- B) AI is pushing elite consultancies to shift from billing for time to billing for results.
- C) Clients have lost faith in McKinsey's strategic advice and are turning to AI vendors.
- D) Outcomes-based pricing will completely replace billable hours within the next year.

Q2. According to the passage, billable hours have become a weaker yardstick for consulting value mainly because:

- A) Consultants themselves are using AI to do tasks like data analysis and diagnosis.
- B) Clients can no longer afford the hourly rates McKinsey charges its partners.
- C) Governments are regulating how professional services firms set their fees.
- D) Younger employees prefer flat salaries to hourly compensation structures.

Q3. Which choice best describes the structure of the passage?

- A) It catalogues complaints from McKinsey clients and then dismisses them as unfounded.
- B) It introduces a pricing shift, explains its causes and parallels, then weighs its risks.
- C) It compares McKinsey unfavorably with newer AI-native firms throughout the piece.
- D) It traces the personal career of one McKinsey partner across several decades of work.

Q4. As used in the passage, the word 'yardstick' most nearly means:

- A) Wooden tool
- B) Boundary
- C) Standard of measurement
- D) Physical distance

Q5. As used in the passage, the word 'kibosh' most nearly means:

- A) Improve
- B) Derail
- C) Predict
- D) Replace

Q6. Which statement about partners' pay at McKinsey can most reasonably be inferred from the passage?

- A) Partners will earn less money overall under the new pricing model.
- B) Partners' pay will be paid out more slowly and held back as firm equity.
- C) Partners will lose voting rights over how the firm allocates revenue.
- D) Partners will be banned from owning equity in client companies they advise.

Q7. The passage suggests that the biggest weakness of outcomes-based pricing is that:

- A) Clients refuse to define what counts as a successful outcome in advance.
- B) Outcomes can be affected by forces beyond the consultant's control.
- C) AI tools cannot accurately measure whether outcomes have been achieved.
- D) Most consulting firms lack the technology to track client performance data.

Q8. The author's tone in the passage is best described as:

- A)** Alarmed and warning of imminent industry collapse
- B)** Analytical, with mild scepticism about the new model's risks
- C)** Enthusiastically promotional toward McKinsey's strategy
- D)** Nostalgic for the traditional billable-hour era of consulting

Q9. Which statement about AI startups like Fin and iDenfy can most reasonably be inferred from the passage?

- A)** They will soon overtake McKinsey as the largest professional services firms.
- B)** Their pricing models offer a template for what task-based billing can look like.
- C)** They are owned by McKinsey as part of its outcomes-based pricing strategy.
- D)** They charge clients exclusively in cryptocurrency rather than national currencies.

Q10. Which choice provides the best evidence for the answer to the previous question?

- A)** The sentence noting that AI is forcing consultants to rethink billing.
- B)** The sentence stating that clients are 'growing more accustomed to tariffs based on successful task completion.'
- C)** The sentence describing wars and tariffs as forces beyond the consultant's control.
- D)** The sentence predicting that outcomes-based pricing will 'undoubtedly expand.'

My Score: _____ / 10

5. Answer Key with Explanations

Q1. The passage most directly argues that:

Answer: B

The passage's central claim is that AI is forcing McKinsey and its peers to move from hours-based billing toward fees tied to client outcomes. D overstates the timeline – the passage says outcomes-based pricing will 'expand,' not fully replace hourly billing (TRAP: right scope, wrong magnitude). SAT Tip: when a question asks for the central idea, beware of options that are TRUE-but-too-strong; the SAT loves to slip absolute words like 'completely' or 'never' into otherwise tempting answers.

Q2. According to the passage, billable hours have become a weaker yardstick for consulting value mainly because:

Answer: A

The passage states explicitly that billable hours are becoming less useful as a yardstick because consultants use AI for tasks such as data analysis and diagnosis. B is a real-world plausible claim but the passage never mentions affordability (TRAP C: true-sounding but unsupported). SAT Tip: 'According to the passage' questions reward literal reading – find the exact sentence, don't reason from outside knowledge.

Q3. Which choice best describes the structure of the passage?

Answer: B

The passage opens with the pricing shift, explains AI as the cause, draws parallels to 'no win, no fee' lawyers and pay-per-task AI startups, then closes by acknowledging risks like wars and tariffs that could derail results. C is wrong because while the passage mentions firms like Fin and iDenfy, it never frames them as unfavourable comparisons to McKinsey (TRAP B: uses the passage's vocabulary in a wrong combination). SAT Tip: structure questions are about the order and function of paragraphs, not their content – sketch a one-word label for each paragraph before picking.

Q4. As used in the passage, the word 'yardstick' most nearly means:

Answer: C

In context, billable hours are described as a 'yardstick' for the value of consulting work – meaning a way to measure value. The literal meaning (a wooden ruler) is the tempting wrong answer (TRAP: common meaning vs. passage meaning). SAT Tip: on vocab-in-context, substitute each option into the sentence – the right answer keeps the sentence's meaning intact, the common dictionary meaning often doesn't.

Q5. As used in the passage, the word 'kibosh' most nearly means:

Answer: B

The passage uses 'kibosh' to describe how wars, tariffs and uncooperative line managers can ruin a consultant's best-laid plans – so the word means to derail or wreck. A reverses the meaning entirely (TRAP A: right scope, wrong direction). SAT Tip: when a sentence lists negative forces ('wars, tariffs, stubborn managers'), the verb attached to them is almost always negative – let the surrounding sentiment narrow your options first.

Q6. Which statement about partners' pay at McKinsey can most reasonably be inferred from the passage?

Answer: B

The passage states that less reliable revenue 'helps explain why the firm will shunt a bigger share of partners' pay into equity and husband more cash,' which implies pay is being shifted into equity and held back. A is unsupported

– the passage never says total compensation will fall (TRAP C: plausible in the real world, not stated). SAT Tip: 'most reasonably be inferred' means a small logical step from text, not a creative leap – if the option requires extra assumptions, it's wrong.

Q7. The passage suggests that the biggest weakness of outcomes-based pricing is that:

Answer: B

The passage explicitly names wars, tariffs, and stubborn line managers as forces outside the consultant's control that can wreck results. C describes a measurement problem the passage doesn't raise (TRAP C: a real concern in the industry, but not in the text). SAT Tip: on 'the passage suggests' questions, check whether the wrong option introduces a NEW concept not in the text – if it does, it's almost always the trap.

Q8. The author's tone in the passage is best described as:

Answer: B

The author calmly walks through the change, acknowledges its appeal, but also flags 'the biggest catch' and other complications – a measured, analytical tone with some scepticism. A overstates the emotional intensity; the passage never warns of collapse (TRAP: right direction, wrong magnitude). SAT Tip: tone questions are about the author's adjectives and verbs, not the topic – disruption can be discussed in a calm tone, and the SAT punishes readers who confuse the two.

Q9. Which statement about AI startups like Fin and iDenfy can most reasonably be inferred from the passage?

Answer: B

The passage uses Fin (99 cents per resolved case) and iDenfy (£1 per verification) as examples of how clients are growing used to per-task pricing – i.e., a template. A and C invent relationships the passage never establishes (TRAP C: unsupported real-world-sounding claims). SAT Tip: when a passage uses specific examples, ask 'what job is this example doing for the argument?' – that's usually the inference being tested.

Q10. Which choice provides the best evidence for the answer to the previous question?

Answer: B

Option B is the line that directly supports the inference that Fin and iDenfy illustrate per-task pricing clients are growing comfortable with. D is about the future of outcomes-based pricing in general, not about the startups specifically (TRAP B: right vocabulary, wrong target). SAT Tip: on evidence-pairing questions, lock in your answer to the previous question first, find the exact supporting line in the passage, then match it to the option – don't pick the option that just 'sounds important.'