MARK WOODRUFF CONSULTANCY

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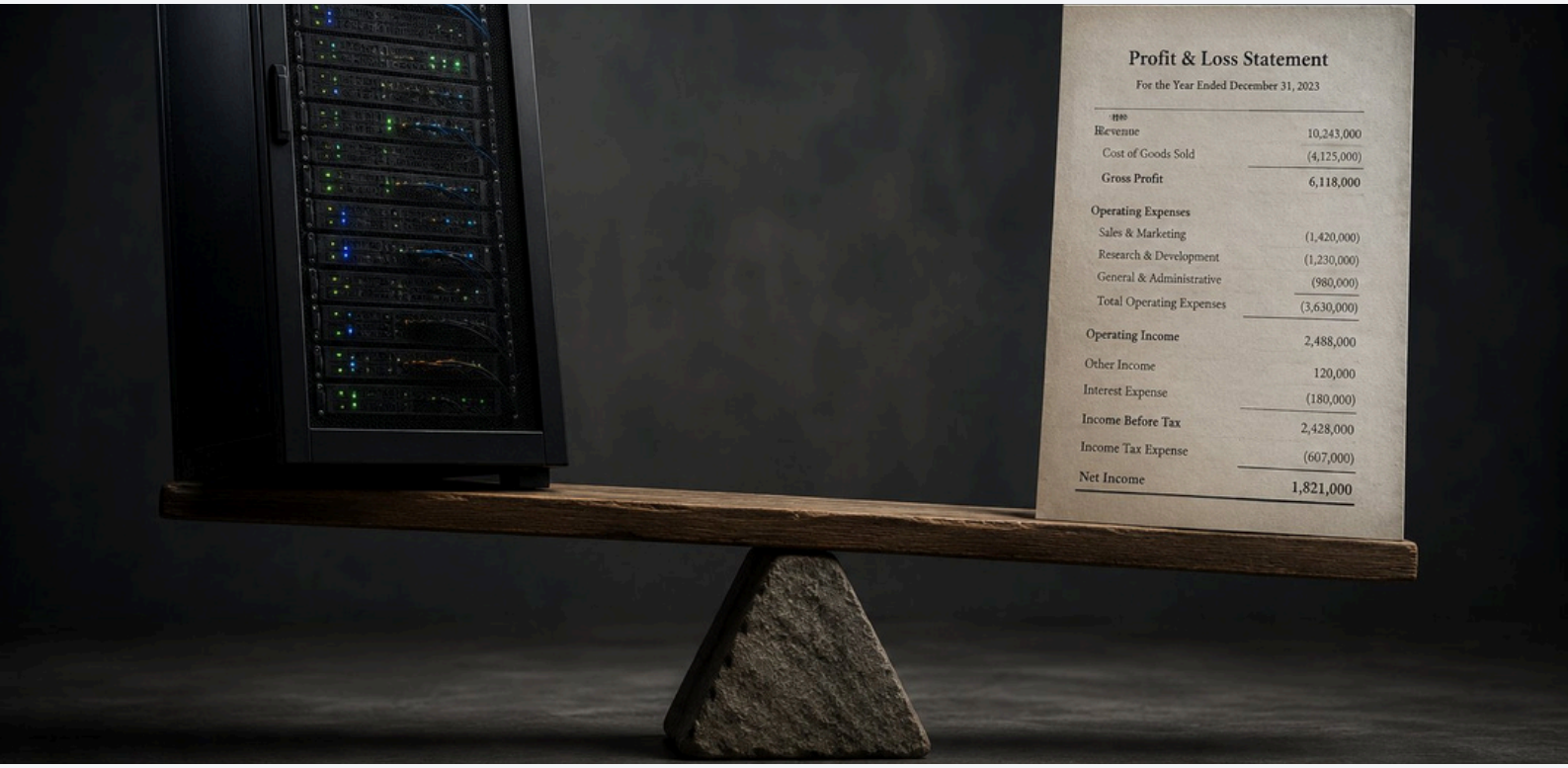
OPERATING LEVERAGE VS. TECHNICAL SUNK COST

The C-Suite AI litmus test



Executive Summary

Boardrooms face immense pressure to integrate Artificial Intelligence, often deploying capital into vanity projects that fail to deliver measurable operational leverage. This briefing applies rigorous actuarial precision to commercial tech investments, introducing the Leverage Coefficient to separate technical sunk costs from genuine EBITDA drivers. Leadership must ensure AI deployments structurally reduce headcount friction and scale the margin, rather than merely modernizing the brand.

Briefing

AI Vanity vs. Actuarial Reality: Is Your Tech Investment Scaling Your Margin?

The Symptom: Your board is under pressure to "do something with AI." You have a growing list of pilot projects, a rising software-as-a-service (SaaS) bill, and a marketing narrative focused on "innovation." Yet, your headcount is still growing in lockstep with revenue, and your EBITDA margin is flat.

The Diagnosis: You are investing in Technical Sunk Costs rather than Operational Leverage. In the rush to integrate Large Language Models (LLMs) and automated workflows, many C-suites have abandoned the basic actuarial rigor they apply to other capital expenditures. They are treating AI as a "magic box" that will somehow resolve structural friction, rather than a tool that must be architected to improve the bottom line.

The Leverage Gap

True operational leverage occurs when your output grows while your input (specifically headcount and OpEx) remains relatively fixed. If an AI initiative doesn't move the needle on this ratio, it is a vanity project.

From an actuarial perspective, we must evaluate the Leverage Coefficient:

Leverage Coefficient:

$$\frac{\textit{Change in Revenue Output}}{\textit{divided by}}$$

$$\textit{Change in Headcount Cost + Change in AI Operating Cost}$$

If this coefficient is not significantly higher than your current human-only baseline, you have not achieved leverage; you have simply swapped one cost center for another—one that comes with significantly higher data risk and technical debt.

Channel Feature	IFA Channel (Advised)	D2C Channel (Non-Advised)
Proposition Focus	**Structural depth, bespoke tax wrapping, defensive asset allocation.**	**Immediate accessibility, behavioral nudges, simplified goal alignment.**
Pricing Architecture	**Tiered structure, platform fee integration, visible adviser charging.**	**Flat or bundled basis points, zero-friction entry, hyper-sensitive to headline cost.**
UI / UX Requirement	**Comprehensive data feeds, reporting granularities, institutional APIs.**	**Gamified simplicity, two-click execution, high visual reward.**
Primary Friction Point	**Clunky administrative integration or lack of technical customization.**	**Overwhelming technical jargon leading to decision paralysis and cart abandonment.**

The MWC AI Litmus Test

Before approving an AI mandate, the board must subject the proposal to three unvarnished questions:

1. Does it remove "Human Heroics" or just automate a flawed process?

If your current manual process is structurally broken (e.g., fragmented data, poor pricing architecture), layering AI on top will only accelerate your mistakes. AI should be used to automate predictable logic, not to "fix" a lack of structural alignment.

2. What is the "Headcount Delta"?

This is the hardest question for leadership. If the project is successful, does it reduce the need for future hires as you scale? If the answer is "we still need the same people to manage the AI," then you are building a sunk cost. True leverage allows the business to scale revenue by 2x while only scaling costs by 0.5x.

3. Is the ROI "Risk-Adjusted"?

Most AI proposals focus on the "Best Case" efficiency gain. An actuarially sound proposal accounts for the cost of data cleaning, the risk of systemic bias in regulated environments, and the "technical debt" of maintaining proprietary models.

The Technical Debt Trap

Many firms are currently "wrapping" third-party algorithms in a thin veneer of branding. This creates a precarious dependency. You are not building a commercial moat; you are building on rented land.

True AI Architecture requires a focus on the foundation:

- **Data Integrity:** You cannot scale AI on top of siloed, unstructured legacy data.
- **Commercial Logic:** The AI must be architected to solve a specific, high-friction point in your distribution engine—not just to "summarize meetings."

The Structural Fix

Stop asking "How can we use AI?" and start asking "Where is the structural friction that is stalling our margin?"

AI is a powerful weapon, but only when it is aimed at a specific commercial outcome. If you cannot prove that the technology will drive measurable operational leverage, it belongs in a lab, not on your P&L. Governance in the age of AI isn't about chasing the hype; it’s about the unshakeable discipline of protecting the EBITDA margin.

Mandates & Advisory: Mark Woodruff Consultancy operates exclusively on a B2B basis, providing commercial strategy, fractional board advisory, AI governance, and executive actuarial oversight for financial institutions and scaling SMEs.

To discuss a specific mandate, contact Mark Woodruff Consultancy directly.

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DISCUSS A MANDATE

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