



# 2024 Legal Services Market

Industry Report



**LAKEVIEW**  
GROWTH MANAGEMENT



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# 1. About This Industry

## A. Industry Definition

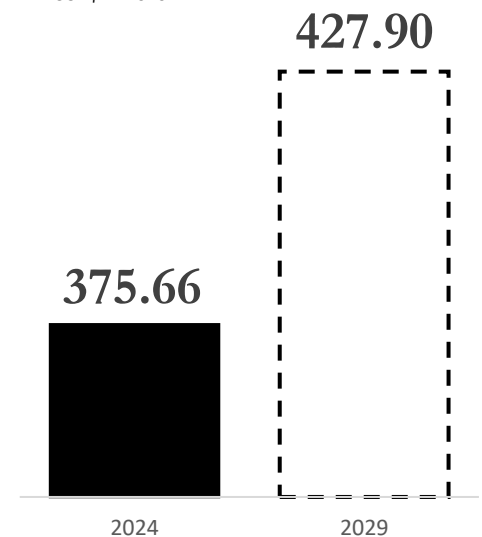
The Legal Industry encompasses various sectors involved in providing legal goods and services. These players contribute to the administration of justice, legal representation, and compliance with legal norms.

## B. What is included in this Industry?

- Law Firms
- Legal Professionals
- Courts
- Alternative Legal Service Providers (ALSPs)
- Legal Marketing and Business Development Professionals
- Legal Support Staff
- Legal Technology Companies\
- Bar Associations and Legal Associations
- Legal Educators and Researchers
- Corporate Legal Departments
- Legal Consultants and Advisors
- Legal Support Services Companies
- Legal Publishers and Media
- Legal Marketing Associations (LMAs)
- Paralegal Associations

### Total Addressable Market (TAM) Size of the Legal Services Industry

USD\$ Billions



## C. Top 10 U.S. Law Firms

- Cravath, Swaine & Moore
- Wachtell, Lipton, Rosen & Katz
- Skadden, Arps, Slate, Meagher & Flom
- Sullivan & Cromswell
- Latham & Watkins
- Kirkland & Ellis
- Davis Polk & Wardwell
- Sidley Austin
- Morgan, Lewis & Bockius
- White & Casew

USD B

KPIs	2023
Avr. Revenue Per Lawyer <sup>1</sup>	0.0016
Realization Rate <sup>2</sup>	84.0%
Avr. Billable Hours Per Lawyer <sup>3</sup>	35.0%
Compound Annual Growth Rate	2.64%
Revenue	131.0

<sup>1</sup>measure the average amount of revenue generated by each lawyer in a law firm over a period, typically a year

<sup>2</sup>the percentage of billable hours that are actually invoiced and collected from clients

<sup>3</sup>measure the time a lawyer spends on tasks directly related to a client case that can be billed to the client.



## 2. Growth

### A. The Financial Horizon of the Legal Services Industry in 2023

To effectively forecast the future of law firms, it's essential to first assess their current financial position and understand the factors that have led to this point. The legal industry in 2023 has been characterized by cautious optimism, as law firms have experienced positive, yet not extraordinary, financial performance.

Key metrics such as legal demand, worked rates, fees, and attorney headcount showed improvement throughout the year. However, the growth in demand was sluggish, and productivity continued to decline, indicating challenges in fully capitalizing on these gains. The slow growth in expenses, particularly as firms implemented strategic controls over costs like year-end bonuses and overheads, helped many regain profitability.

One significant shift in the legal landscape is the rise of technology, particularly generative AI, which is beginning to decouple the traditional reliance on billable hours from revenue generation. This technological advancement hints at a future where the value provided by **legal services may transcend mere hours worked**, potentially leading to a more profound transformation in how law firms operate.

In summary, the legal industry in 2023 has seen steady improvements, with firms managing to stay on familiar ground financially, while simultaneously preparing for a more technology-driven future.

Figure 1: Key Performance Metrics that Drive Growth

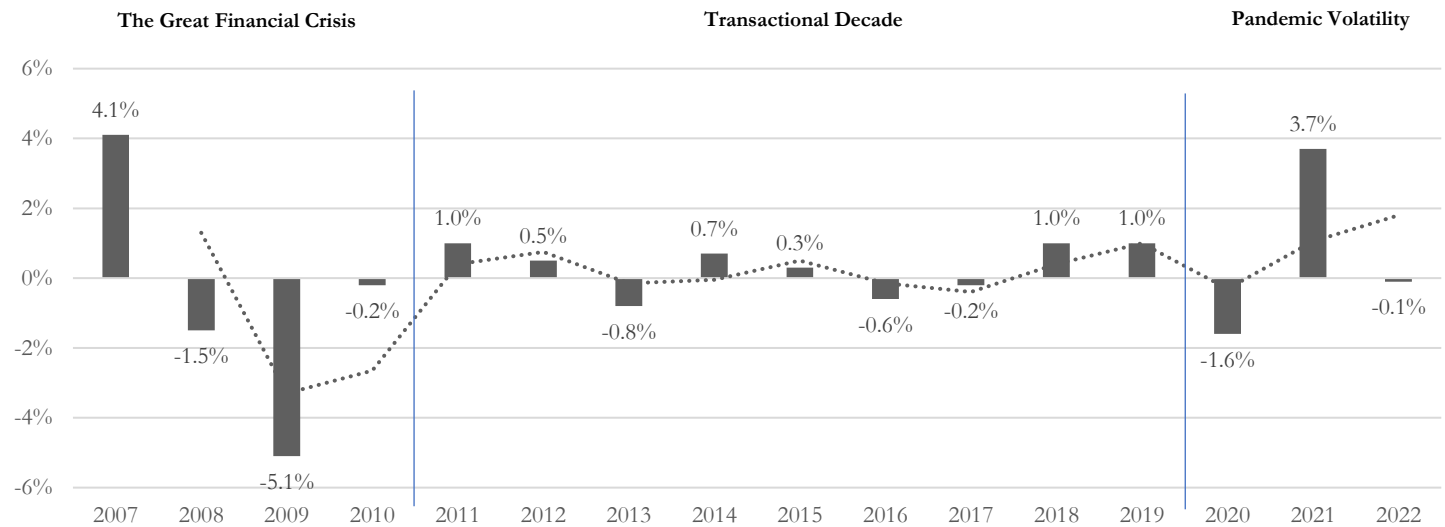


Source: Thomas Reuters





Figure 2: Demand Growth Rate Law Services



Source: RSM US LLC

## B. Shifting Demand Dynamics

In 2022, law firms experienced a notable deceleration in demand growth, marking a significant shift from the previous year. By November 2022, overall demand had contracted by 0.1%, a stark contrast to the 3.7% growth seen in 2021. The robust growth of 2021 had been partly a rebound effect from the pandemic-induced dip in 2020, but **the sharp decline in 2022** was primarily driven by reduced activity in transactional work, exacerbated by increasing economic uncertainty. This slowdown had a particularly pronounced impact **on larger firms**, where the bulk of high-end corporate finance, mergers, acquisitions, and deal-related activities occur.

The contraction in demand was felt across all practice areas, but transactional practices bore the brunt of the decline. This was especially evident among larger law firms, which traditionally handle the bulk of such work. The significant reduction in mergers, acquisitions, and other high-stakes financial transactions not only impacted revenue but also underscored the volatility within these segments. This downturn highlighted the vulnerability of firms heavily reliant on transactional practices, as these areas were disproportionately affected by the broader economic challenges of the year.

Interestingly, while the larger Am Law firms saw declines across the board, **midsize firms demonstrated a degree of resilience**, particularly in non-transactional areas such as litigation, labor and employment, and intellectual property. These midsize firms managed to capture growth in these sectors, emerging as more competitive in a challenging market. Notably, midsize firms were the only segment to achieve positive demand growth in their non-transactional practices during the latter half of 2022, highlighting the shifting dynamics within the legal services industry.



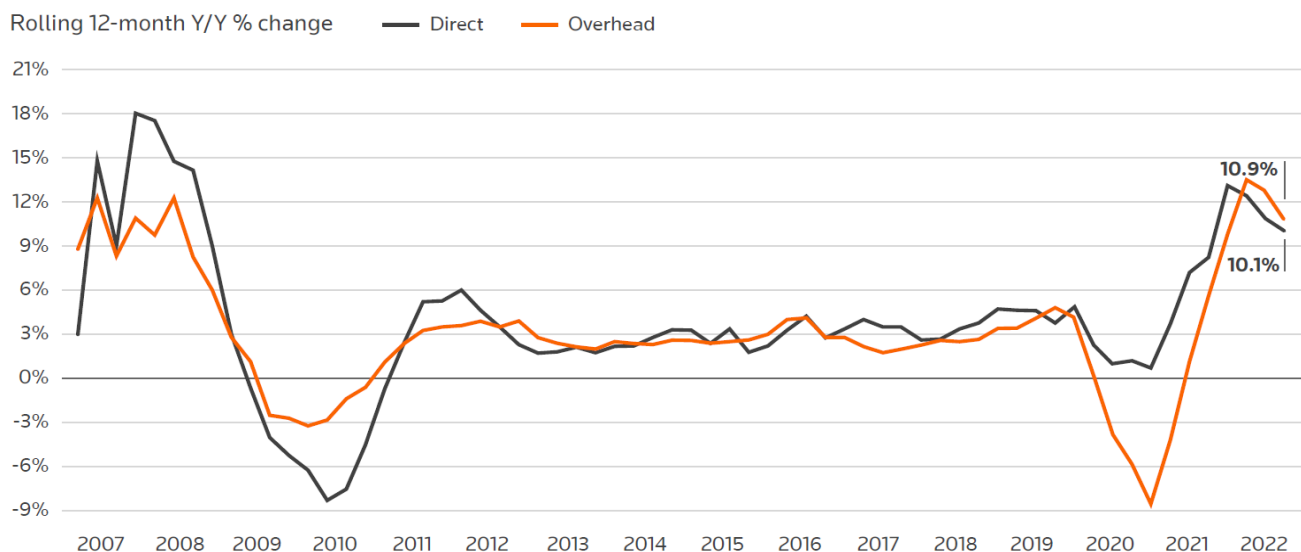
## C. Rising Expenses and Declining Productivity

The decline in productivity within law firms was particularly pronounced in Q3 2022, marking the least productive third quarter since Thomson Reuters began tracking such data. This downward trend persisted into the first two months of Q4, affecting timekeepers across all levels, including associates, and impacting major segments and practice areas. The Am Law 100 firms and transactional practices were notably hard-hit, with associates contributing significantly to the overall decline in productivity. This sustained drop in efficiency underscores the broader challenges law firms face in maintaining productivity levels amidst changing work environments and economic pressures.

Meanwhile, law firm expenses surged sharply throughout 2022, driven by several key factors. **The intense competition for top talent**, coupled with the costs associated with returning to physical office spaces, significantly contributed to rising expenses. Inflation also played a crucial role, further exacerbating cost pressures. By November 2022, direct expenses had risen by 10.1%, while overhead costs saw an even steeper increase of 10.9%. These increases represent some of the highest levels of expense growth since 2008. This rapid expansion in expenses is particularly concerning in an environment where revenue growth is slowing, raising red flags about the financial sustainability of firms if this trend continues.

These rising expenses, coupled with declining productivity, pose significant challenges for the legal industry. As firms struggle to control costs in the face of economic uncertainty, they may be forced to make difficult decisions regarding staffing, compensation, and investment in technology. The pressure to maintain profitability amidst these challenges could lead to a reshaping of traditional business models, potentially accelerating the adoption of more cost-effective, technology-driven solutions within the industry.

Figure 3: Expense Growth

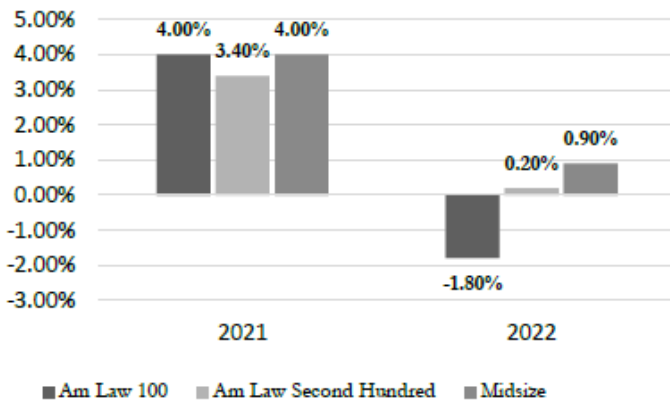


Source: Thomas Reuters

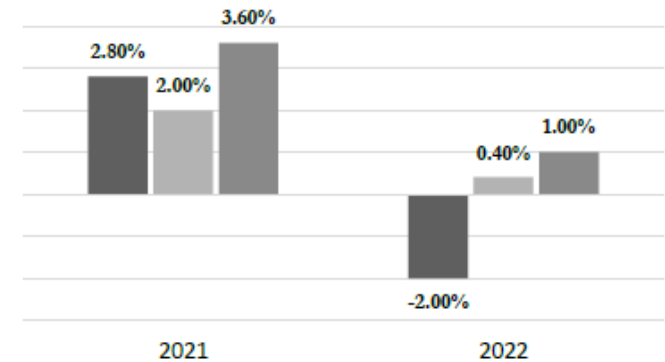


Figure 4: Demand Growth by Segment - Overall vs. Litigation

Overall demand - Y/Y % change



Litigation demand - Y/Y % change



Source - Statista

## D. Market Segmentation Challenges

A notable aspect of the current economic downturn is its varied impact on different segments of the legal market, in contrast to the environment in 2020 and 2021. As illustrated in Figure 20, midsize law firms have experienced better demand growth in 2022 than Am Law Second Hundred firms, which in turn have outperformed Am Law 100 firms. Even within the Am Law 100, firms ranked 51-100 have fared better than those ranked 1-50.

This disparity can be largely attributed to the current downturn's significant impact on high-value corporate and transactional practices, as corporate clients have slowed or postponed deals due to economic uncertainty. The downturn has particularly affected the largest firms, which typically handle the most complex and high-stakes transactions. However, the data also reflects a longer-term trend of re-segmentation in the legal market, **where more price-sensitive practices have shifted to smaller firms that can offer quality services at lower rates.** This trend has been driven by cost-conscious clients seeking value without compromising on quality, and **technological advancements enabling smaller firms to compete more effectively.**

For example, litigation has become a smaller portion of the overall work mix for law firms across segments over the past decade. In recent years, particularly in 2022, litigation has become increasingly price-sensitive due to factors like e-discovery, leading to a continued decline in the share of litigation handled by the largest, highest-priced firms. Conversely, firms in the Am Law Second Hundred and Midsize categories have seen an increase in their share of this work in 2022. This shift highlights the growing importance of cost efficiency and technological adoption in the legal industry, as clients prioritize affordability and innovation in their legal services.



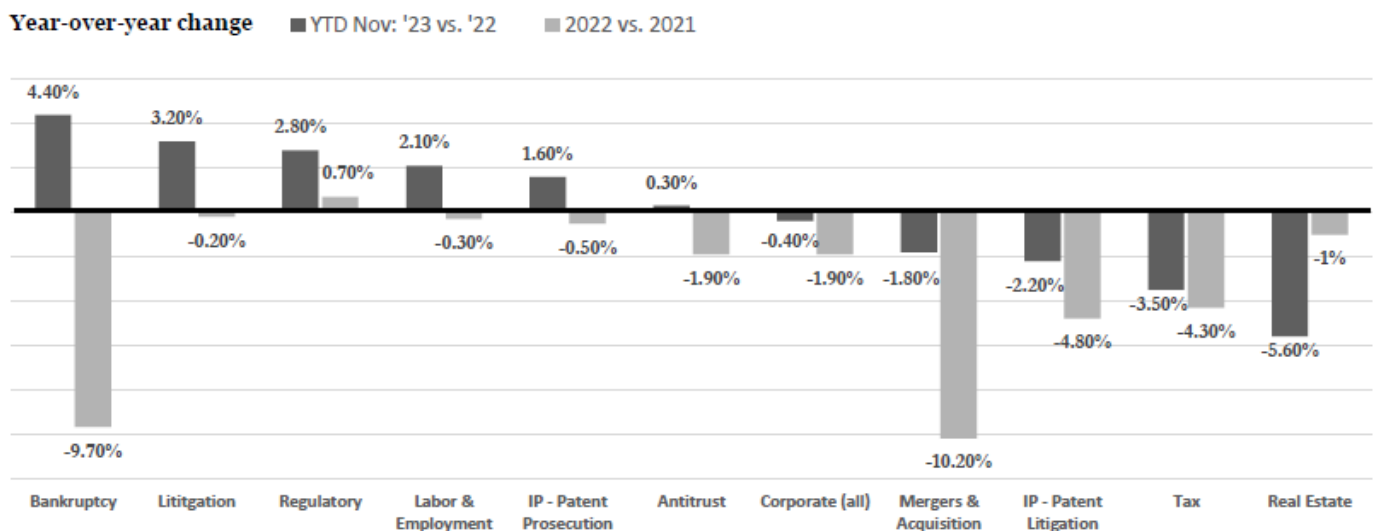
## E. Demand Growth Disparities

The legal services industry experienced an average demand growth of 1.1%. However, the distribution of this growth reveals some interesting trends. In last year's report, we introduced the concept of demand mobility as a key factor behind the robust demand growth seen in Midsize law firms compared to their Am Law-ranked counterparts. This trend persisted throughout much of 2023, with **Midsize law firms once again leading the market in demand growth**, achieving an average increase of 2.4%. In contrast, Am Law 100 firms saw demand remain flat, while the Am Law Second Hundred experienced a modest 0.6% growth. To better understand the variation in demand growth across different market segments, it's important to delve into the performance of specific practice areas.

Throughout the past year, our reports have highlighted the shifting dynamics between transactional practices and counter-cyclical ones—practices that typically gain momentum during economic downturns, such as litigation, labor & employment, and bankruptcy. Litigation, which accounts for just over a quarter of all tracked demand hours, was the primary driver of overall demand growth in 2023, with a 15-year high increase of 3.2%. This significant rise, along with contributions from other counter-cyclical practices and smaller gains in regulatory, patent prosecution, and antitrust work, helped push the legal market into positive growth territory despite the ongoing decline in transactional practices.

These differences in practice demand help explain the uneven distribution of results across market segments in 2023.

Figure 5: Practice by Demand Growth



Source: FactSet





### 3. Private Equity Activity in Legal Services

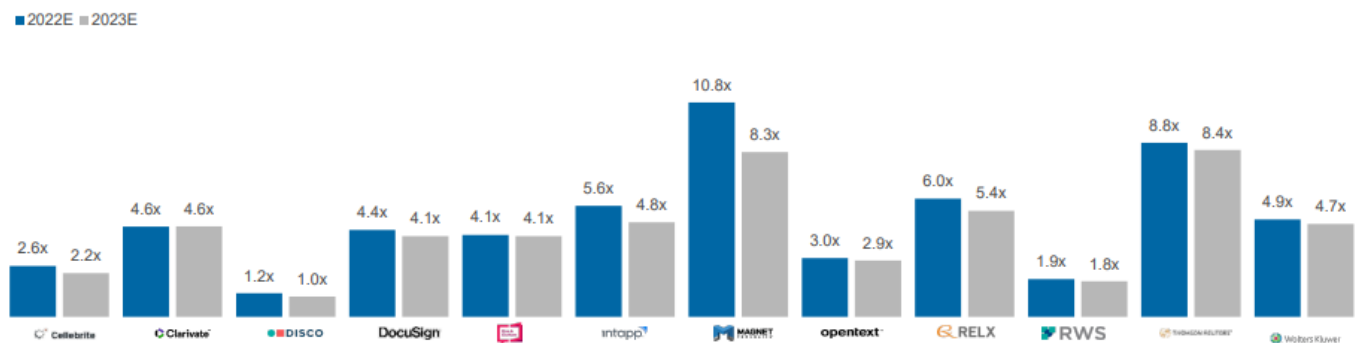
The Transaction Multiples data for the LegalTech and Legal Services sectors sheds light on how investors are valuing companies in these industries, primarily based on their revenue and EBITDA projections. The TEV/Revenue ratios demonstrate that market leaders like Intapp and DocuSign command higher valuations, reflecting investor confidence in their growth potential and innovative business models. These companies, with TEV/Revenue multiples as high as 10.8x, signal to private equity firms that the market rewards tech-driven solutions capable of scaling and driving future revenue growth. Meanwhile, lower multiples for companies like DISCO suggest a more cautious outlook from investors, emphasizing the importance of differentiation and scalability in securing high valuations.

The TEV/EBITDA multiples further underscore profitability as a key factor in driving investor interest. With companies like MarketAxess achieving EBITDA multiples of 41.2x, it is clear that operational efficiency and strong profitability are critical in attracting investment. Private equity firms looking to invest in the LegalTech space should focus on companies that demonstrate both strong financial performance and the potential to streamline legal services through innovative technology. For founders, this means that scalability, automation, and tech integration are essential not only for attracting investor interest but also for driving long-term profitability and market expansion in a highly competitive environment.

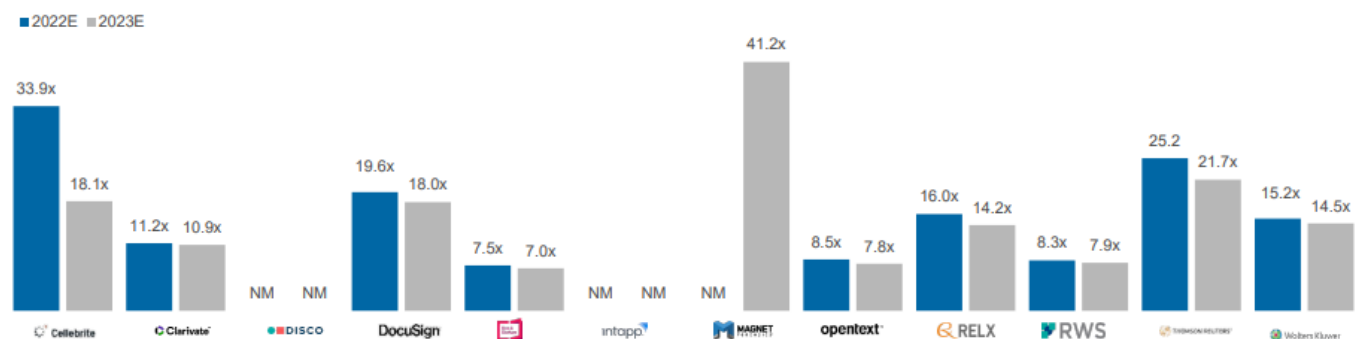
#### Figure 6: Public Markets Trading Multiples Overview

##### LegalTech and Services

###### TEV/2023E Revenue



###### TEV/2023E EBITDA



Source: Houlihan Lokey: LegalTech and Services Quarterly Sector Review February 2023



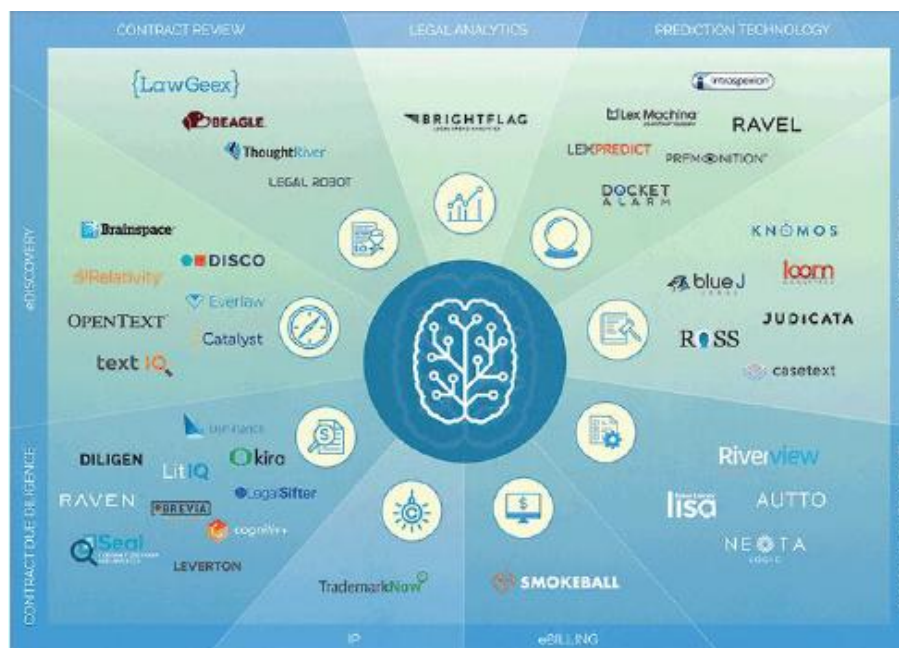
## 4. Technological Advancements

### A. Impact of AI and Automation

The impact of AI and automation in the legal services industry is profound, transforming how law firms operate and deliver services. AI enhances productivity by automating repetitive tasks, allowing lawyers to focus on strategic work. This not only improves efficiency but also enhances client service by streamlining processes and increasing access to resources. Additionally, AI can significantly reduce costs, despite the initial investment, by lowering overhead expenses and enabling firms to adopt more advanced technologies.

However, the integration of AI and automation comes with its own set of challenges. Job displacement is a significant concern, as automation may reduce the need for certain roles, although it can also improve overall efficiency. Ensuring **client confidentiality is another critical issue**, as firms must implement robust security measures to protect sensitive information. The high initial costs of implementing AI can be a barrier for smaller firms, and the lack of transparency in AI decision-making processes can complicate legal judgments.

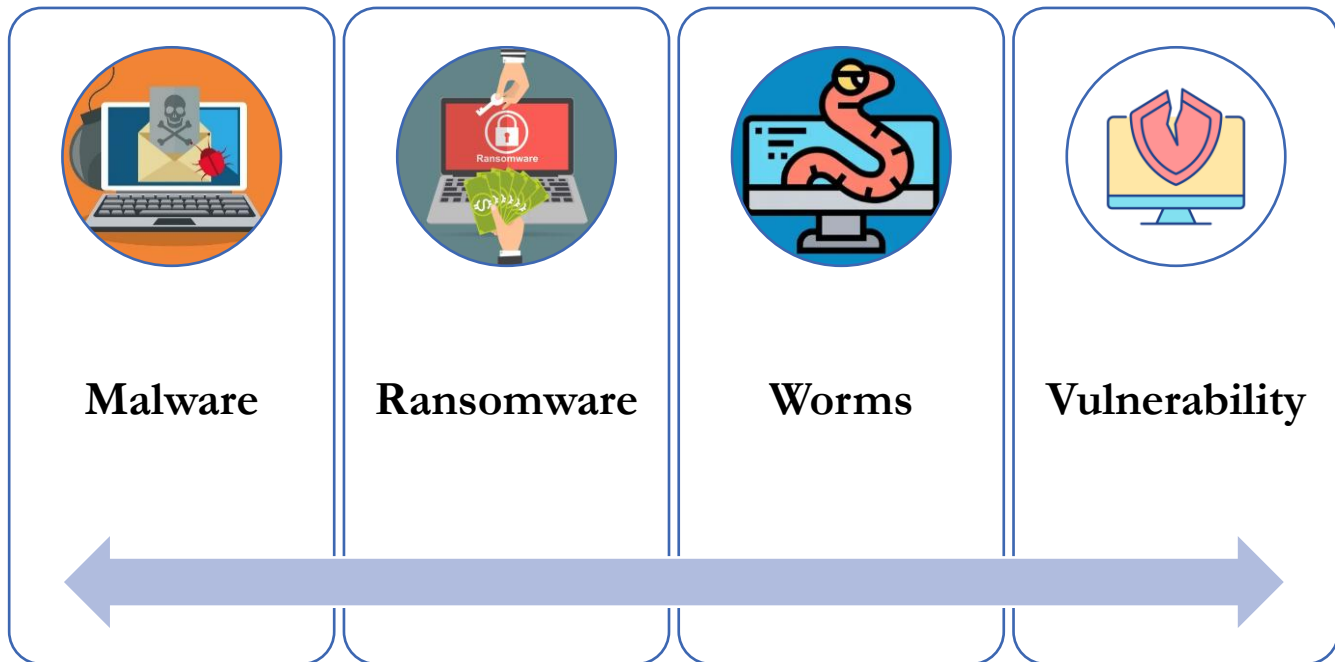
Key trends in legal innovation include the use of generative AI to analyze vast legal datasets and case law, expediting the identification of precedents and arguments. Cloud computing is also enhancing accessibility and collaboration, allowing for remote data storage and real-time insights into cases. These advancements democratize technology, making it accessible to smaller firms without the need for hefty infrastructure investments. As the legal industry continues to evolve, the adoption of AI and automation will likely deepen, offering more personalized and efficient legal services while maintaining ethical standards.



Source: Automating The Law: A Landscape of Legal AI Solutions



## Top 4 Cybersecurity Threats for Law Firms



### B. Cybersecurity in Legal Services

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## 5. Future Outlook

### A. Predicted Trends for the Next Decade

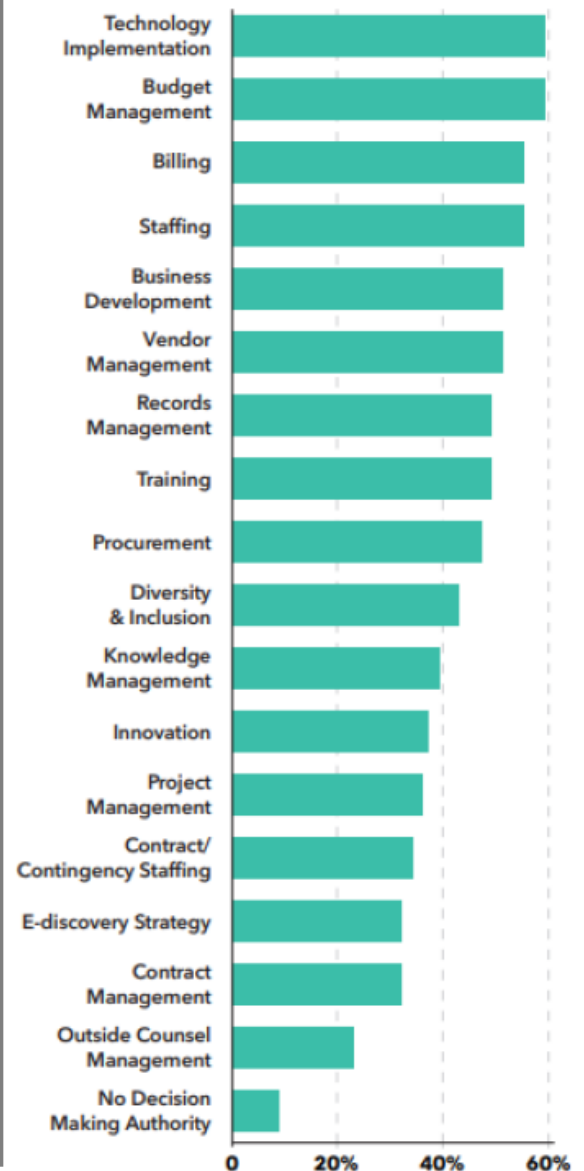
The legal industry is witnessing a significant shift as more attorneys explore alternative legal careers within law firms. Roles such as legal operations, project management, and data science are becoming increasingly common. This trend is driven by the need for specialized skills to manage the growing complexity of legal work and the integration of technology in legal processes. These non-traditional roles offer lawyers the opportunity to leverage their legal expertise in new ways, contributing to the efficiency and effectiveness of their firms without engaging in traditional legal practice. This diversification not only broadens career paths for lawyers but also enhances the overall functionality and adaptability of law firms.

Technological integration is another major trend reshaping the legal industry. Law firms are increasingly adopting advanced technologies such as AI and automation to streamline their operations. AI tools are revolutionizing tasks like legal research, document review, and predictive analytics, making these processes faster and more accurate. The use of data analytics allows firms to gain deeper insights into case trends and outcomes, enabling more informed decision-making. This technological shift is essential for law firms to remain competitive in a market where clients demand quicker, more cost-effective services.

The inclusion of data experts within law firms is a natural progression of this technological integration. These professionals bring a wealth of knowledge in managing and interpreting large datasets, which is crucial for leveraging AI and other advanced technologies effectively. By incorporating data expertise, law firms can enhance their ability to predict case outcomes, identify risks, and develop optimal strategies. This not only improves the quality of legal services but also positions firms to better meet the evolving needs of their clients. As technology continues to advance, the role of data experts in the legal industry is expected to grow, further transforming the landscape of legal practice.

Figure 7: Wide Range of Job Responsibilities for Legal Ops at Law Firms

In which areas do legal ops have responsibility in ?



Source: Bloomberg Law's Legal Ops & Tech Survey, conducted from March 30, 2022 to April 22, 2022





## B. What is Successful Law Firms Can Teach Us About the Future

Given the current landscape, it's insightful to examine the strategies of the most successful law firms in recent years. In 2023, we analyzed the financial performance of nearly 100 law firms over a decade (2013-2022), evaluating their compound annual growth rates based on revenue per lawyer and profit per lawyer. Firms in the top quartile were labeled Dynamic Firms, while those in the bottom quartile were termed Static Firms.<sup>4</sup>

Unsurprisingly, Dynamic Firms outperformed Static Firms (and others) in several areas, including demand growth worked rate growth, fees worked growth<sup>5</sup>, productivity, and notably, lawyer headcount growth. Despite not fitting a single demographic profile, Dynamic Firms shared several key characteristics:

- 
- They demonstrated a keen ability to read market trends more accurately than their competitors, quickly shifting their practice mix and staffing towards transactional work during the Transactional Decade. They also moved away from price-sensitive areas, focusing on market segments that played to their strengths.
  - They managed to balance demand growth and staffing projections more effectively, experiencing minimal productivity losses despite stronger headcount growth.
  - They were willing to expand roles for non-lawyer professionals and made significant investments in technology, marketing, business development, and high-level support staff. These firms also invested wisely in their people, both fee earners and support staff, and consistently delegated work down the hierarchy to optimize profit potential through leverage.
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In essence, Dynamic Firms adapted to new market realities more swiftly than their competitors, positioning themselves to capitalize on the next wave of change in the legal market, particularly the impacts of generative AI

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<sup>4</sup>Thomson Reuters Institute, *2023 Dynamic Law Firms Report: What Has Set High-Growth Law Firms Apart for the Last Decade?* at 4-5. Available at: <https://www.thomsonreuters.com/en-us/posts/legal/dynamic-law-firms-report-2023>.

<sup>5</sup>Fees worked growth: is a firm's total billable hours for a given period multiplied by the average worked rate.