



Navigating Strategy in a Complex Market: The Challenges and Choices Facing Law Firms

The legal industry has posted strong performance over the last several years. Between 2020 and 2024 the number of US firms reporting profits per equity partner of \$2+ million increased from 54 to 81. Of those, the number reporting profits per equity partner of \$4+ million more than doubled, from 15 to 32 firms¹. While the outlook for the legal industry remains strong, there are significant market forces at play which will impact firms going forward and must be front and center in considering firm strategy.

The challenges of 2025 (and beyond) are not just cyclical—they are structural. Economic uncertainty, AI disruption, heightened partner mobility, and accelerating consolidation are reshaping the market. Firm leaders must now reassess their priorities and make difficult choices about where to invest, how to differentiate, and what kind of firm they want to perpetuate.

Consolidation and the Push for Scale

The legal market is polarizing. Large firms are getting larger, regional players are merging for survival, and clients are concentrating their spend among fewer firms with broader capabilities. Cross-border M&A, regulatory complexity, and global disputes are all pushing clients to favor firms with scale and geographic reach.

This consolidation wave presents both opportunity and risk. For firms below the Am Law 50 or their international equivalents, the pressure to merge is mounting. 2025 has already seen 28 mergers of US firms year to date, including 5 where both had more than 100 lawyers. Large firms are continuing to explore cross border mergers. And midsize firms in particular are looking to merge to increase the depth of their practices and to increase investment capability in both talent and technology. But scale alone is not a strategy. Firm leaders need to ensure that bigger is, in fact, better.

Increasing Partner Mobility

Lateral partner movement has reached historic highs. Star performers are increasingly willing to trade loyalty for a better deal, a stronger platform, or a more compelling culture. The result is a market where retention is no longer assumed, and firm identity can be eroded one resignation at a time.

For firm leaders, this creates a need to revisit what binds a partnership together. Profitability levels, compensation systems, leadership transparency, and even brand awareness are being reassessed. Culture can be a strategic asset—or a liability.

Partner compensation has been particularly impacted in the era of free agency, including at the most profitable firms. Firms have had to extend the top of the compensation scale, increase bonus pools and individual bonus awards, and move to a faster up (and faster down) approach in order to retain the strongest performers.

Economic Uncertainty

Interest rates remain elevated, M&A activity is volatile, and clients are scrutinizing legal spend. While some practices remain

¹ American Lawyer 200, *American Lawyer*, 2021 and 2025.

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strong, transactional work has softened, particularly from the peak of 2021 and 2022. While law firms are used to peaks and valleys in practices, it is hard to predict where demand for 2025 and beyond will go. Of course the impact of the Executive Orders targeting law firms cannot be underestimated.

Firms need to manage for both the medium and long term despite economic uncertainty. Firms have learned in prior demand cycles that it is important to make smart decisions. For example, managing chronically underperforming lawyers not only supports healthier firm financial performance but also contributes to maintaining partner confidence in firm management and long term competitiveness. Deferring long-term investments, whether in strategic initiatives or capital costs like technology, may be a risky move when the practice of law depends heavily on technology, and continued investment in innovation is critical for many firms.

Artificial Intelligence: Hype and Reality

AI may be the most hyped technological trend in recent memory, but it's far from superficial. Generative AI tools are already capable of performing core legal tasks—drafting contracts, summarizing case law, reviewing documents—with a speed and cost-effectiveness that junior associates simply cannot match. The strategic question is no longer if AI will transform legal work, but how firms will adapt their economic model to that reality.

For firms built on leverage and billable hours, the rise of AI will impact the traditional model of profitability. Simply adding AI as a tool in the tech stack won't be enough. Forward-thinking firms are already redesigning workflows, rethinking pricing models, and exploring hybrid service delivery. The winners will be those that stop treating AI as a back-office experiment and instead embed it into the client value proposition.

Rethinking the Law Firm Operating Model

Finally, firms must come to terms with a deeper question: what kind of organization are they building for the future? The traditional law firm model—highly profitable, partner-owned, slow to change—has weathered decades of disruption. But it now faces simultaneous pressure from alternative legal service providers, Big Four incursion, and tech-enabled competitors. Private equity investment has already happened in some jurisdictions, and while it hasn't happened in the US legal market yet, it is likely a matter of time. Some firms are responding by diversifying into consulting, legal tech, and non-legal services. Others are investing in legal data analytics, and tech enabled client-facing tools.

The transformation of the legal industry may still be a few years away, but it is important for leaders to think about how their firms can position for that future.

The next few years will not be defined by incremental adjustments, but by bold strategic choices. The firms that thrive will be those that face disruption head-on, align structure with strategy, and build cultures capable of weathering the storm. The future of Big Law will be shaped not just by external forces—but by the clarity, courage, and conviction of its leaders.

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