



# 2020 Dynamic Law Firms Report

# EXECUTIVE SUMMARY

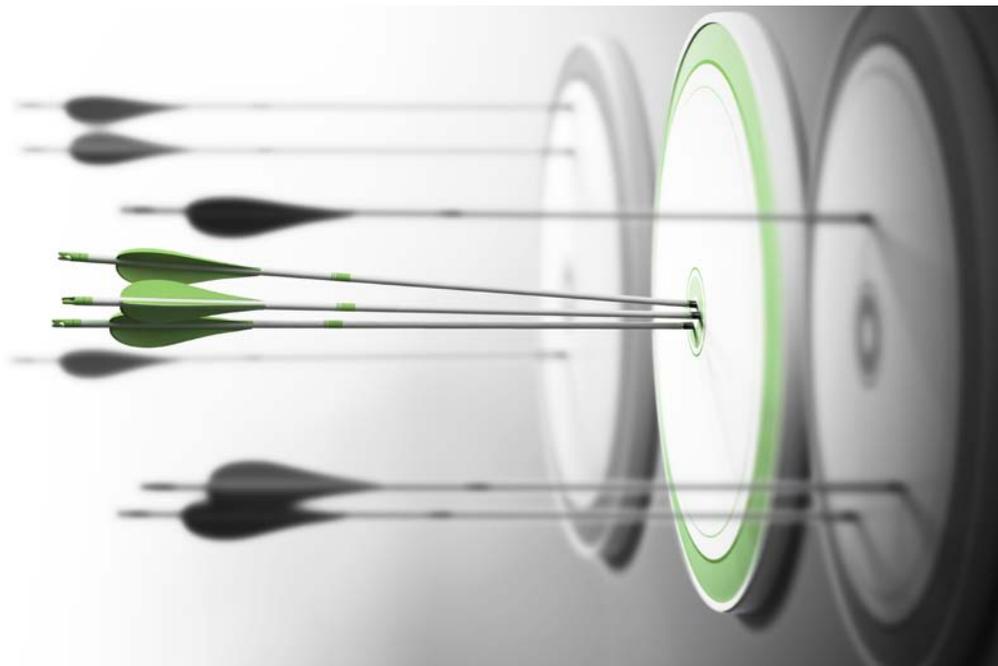
## Success Begets Success

So holds the well-known proverb, and for lawyers, this is doubly true. Not only do they innately want to learn from the success of others, they are steeped in a culture that thrives on evidence and precedent. When it comes to how to run a successful law firm, these tendencies run just as deep.

To this end, Thomson Reuters created the *Dynamic Law Firms* study several years ago. The goal of this research is to identify law firms that have found measurable, consistent success over a period of years across a number of metrics, such that these firms can be studied to determine what sets them apart and leads to their success.

The foundation of the study is Thomson Reuters Peer Monitor;<sup>1</sup> and the classification of firms begins by determining each firm's compound annual growth rate (CAGR)<sup>2</sup> in three metrics: *i*) overall firm profits (revenues less expenses, not including partner compensation); *ii*) revenue per lawyer; and *iii*) average profit margin. The results of these CAGR calculations are weighted and assigned to a matrix.

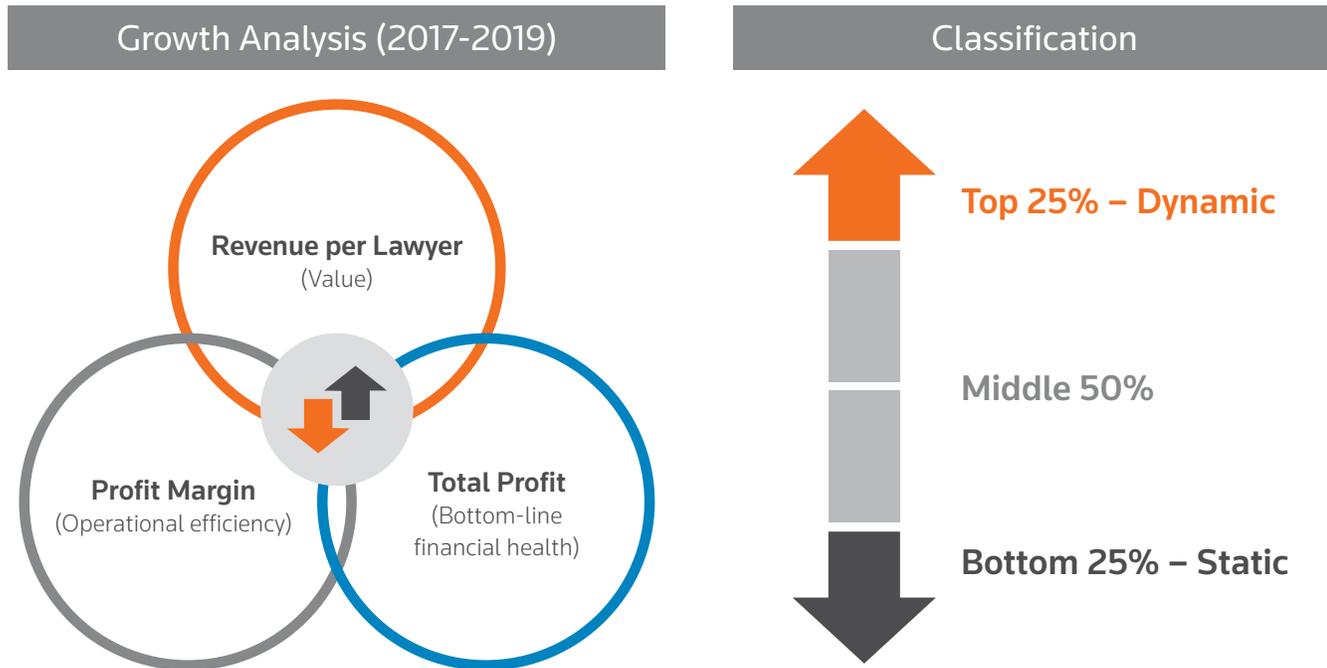
The top quartile of firms, those with the best average CAGR results across all three metrics become the *Dynamic* law firms. Those firms in the bottom quartile who struggled to find growth in these metrics or in some cases saw contractions, become the *Static* population of law firms. Once the populations are established, we then work our way into the data to determine what sets Dynamic firms apart from Static firms, and from the average population of law firms. This methodology has remained unchanged across the previous versions of this study.



<sup>1</sup> Peer Monitor is a subscription service whereby law firms contribute data regarding their business performance. The data is anonymized and aggregated to form peer comparison groups, allowing participating firms to engage in competitive intelligence and benchmarking exercises. All data is reported directly from participating firms' financial systems, rather than by self-reported survey. The analysis conducted for this report was conducted across results from the 160 US-based law firms participating in Peer Monitor, representing a cross-section of law firms from the Am Law 100, Am Law Second Hundred and Midsize law firms.

<sup>2</sup> CAGR figures are based on the three-year period preceding the publication of the study, in this case year-end 2017 through year-end 2019.

## Methodology Overview



## Firm Distribution

Firm Classification	Am Law 100	Am Law Second Hundred	Midsize
Dynamic Firms	21	8	7
Static Firms	7	17	12

To add depth to our analysis, we have incorporated research from Acritas, now part of Thomson Reuters, to see what sets Dynamic law firms apart in the eyes of their clients. We leveraged data from Sharplegal, which canvasses the opinions of more than 2,000 in-house counsel decision-makers each year. Stellar Performance, a regular survey of stand-out talent in law firms (as nominated by clients), gives us the internal perspective. Combined with our Peer Monitor data, this research has given us fascinating insights into what actually makes firms successful.

## A First Look at the Findings

The difference in performance between the firms in the Dynamic and the Static populations is large. While Dynamic firms have grown average revenue per lawyer at more than 6%, Static firms have not seen any growth in this metric. Dynamic firms also have grown average total profit by more than 14% and profit margin by nearly 5%. The average Static firm declined in both these measures.

A deeper dive into the financials reveals that Dynamic law firms are benefitting from higher growth in demand, increased productivity, and a greater improvement in leverage. Worked rates have also increased at a faster pace for Dynamic firms. This higher performance was consistent across all the main practice areas and is also evident in the productivity of attorneys at Dynamic firms, both on a daily and monthly basis.

This raises a key question: Are these Dynamic firms doing something differently in the way they service their clients?

Some clues to the answer are evident, such as:

- Dynamic firms are more likely to be recognized for having business savvy lawyers who understand the client's business and deliver strategic, practical advice. Business acumen is a skill these lawyers work hard to develop by keeping their business and industry knowledge up to date. They also recognize it as a differentiator.
- Dynamic firms have partners who lead a strong team, which helps to justify the increased leverage in clients' eyes.
- Leaders of Dynamic law firms were much more likely to be praised by the people they lead for their energy, vision, and ability to execute on that vision.
- Dynamic firms were more effective at attracting higher-value work through a brand proposition that creates confidence in their ability to handle complex M&A or litigation. These firms also commanded more credibility in the boardroom, which gave in-house counsel more confidence in selecting them for high-stakes matters.
- Interestingly, Dynamic firms were investing more heavily in marketing and business development.
- Investment in technology was increasing in both Dynamic and Static firms. But the IT functions at Dynamic firms were more likely to be praised by their people and were seen as more user-friendly and supportive of people to work more effectively.
- Finance functions at Dynamic firms were similarly likely to garner praise from members of those firms, particularly with regard to their ability to support budgeting and billing procedures and maybe even more crucially, by providing profitability analysis.

This most recent edition of the Dynamic Law Firms Study also posed some unique challenges. As we finished the analysis of 2019 year-end financial results, the COVID-19 pandemic struck. This brought up an interesting additional question: Had those firms which came out on top as Dynamic firms as of the end of 2019 built success on top of a growing economy but in a way that was still highly susceptible to downturns, or had they built resiliency as well?

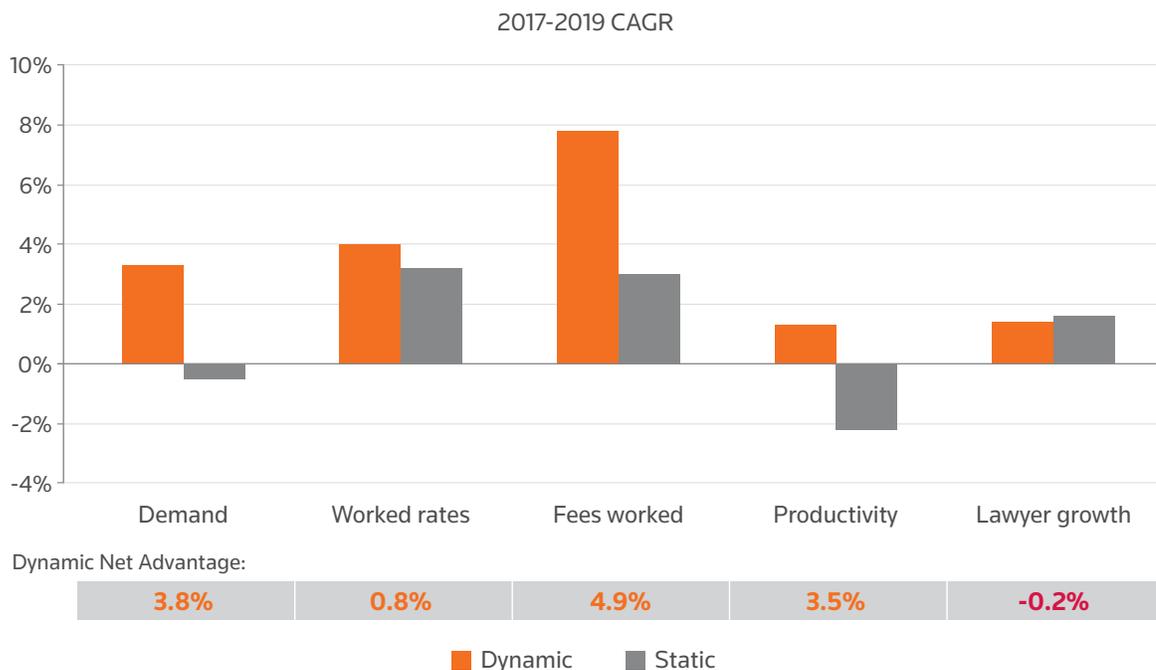
## The 2020 Dynamic Law Firms

### Key Performance Measures

Perhaps the most noticeable feature of the chart depicting the key performance measures for Dynamic law firms is that *every* bar representing the Dynamic population lies in positive territory. This is a bit remarkable because productivity in particular has been a metric that many law firms have struggled to grow, not just for the past few years, but for most of the past decade. Sluggish demand coupled with steadily increasing attorney headcount has led to productivity declines for many firms. Yet, Dynamic law firms saw their productivity improve, pushed by impressive demand growth and modest attorney growth. By contrast, Static firms saw productivity decline by more than 2% over the same period.

Indeed, it was quite clear when looking at the initial data that Dynamic firms held a clear advantage at the end of 2019: Even as the legal market as a whole saw the positive effects of prolonged growth in the economy, Dynamic law firms outpaced the rest of the market.

Figure 1 – Key Performance Measures



All timekeepers  
Billable time type; non-contingent matters

Source: Thomson Reuters Peer Monitor®

On a compound growth basis, Dynamic law firms finished the three-year period ending in 2019 with average demand growth<sup>3</sup> of 3.3%. Over the same period, compound annual demand growth for Static firms actually contracted by 0.5%. Dynamic firms also enjoyed an advantage in terms of their worked rate<sup>4</sup> growth, 4.0% compared to just 3.2% for Static firms.

This growth in demand coupled with stronger rate performance unsurprisingly led to stronger growth in both fees worked<sup>5</sup> and revenue for Dynamic law firms.

<sup>3</sup> For the purposes of this report, demand growth is defined as the average year-over-year growth in total billable hours worked.

<sup>4</sup> For the purposes of this report, worked rates are defined as the year-over-year growth in the average rate a client is willing to pay to a given firm to engage work with that firm.

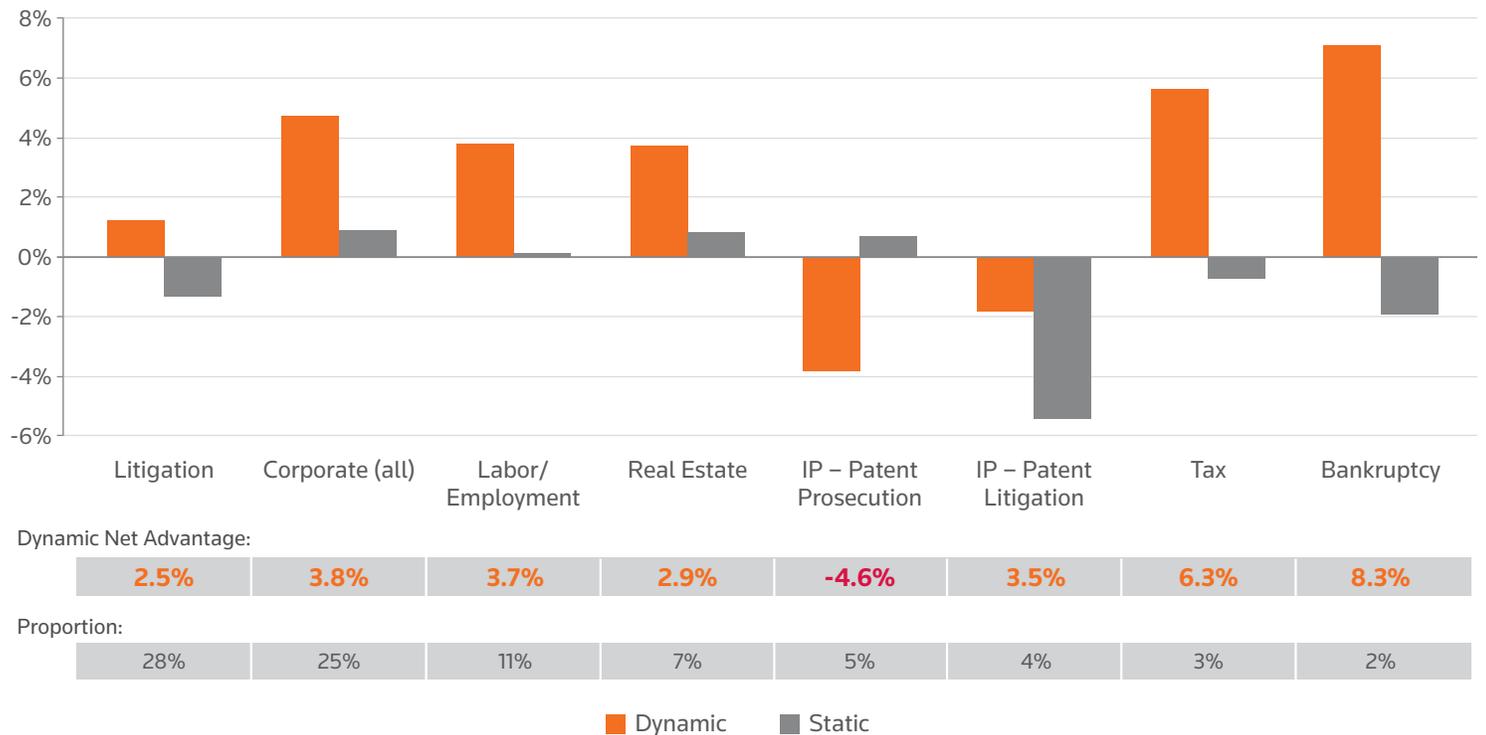
<sup>5</sup> For the purposes of this report, fees worked is expressed as the percentage of year-over-year growth in hours worked multiplied by average rate.

## What Drives Demand?

Much of the strong performance by Dynamic firms during this period relates to strong performance nearly across the board in various practice areas. For the three-year period, Dynamic firms exceeded market averages for demand growth in all key practices such as litigation, corporate, and labor & employment. Dynamic firms even saw average growth in practices that did not necessarily grow in the market as a whole, such as tax and bankruptcy.

Sharplegal and Stellar Performance research indicates that one of the reasons that demand for the services of Dynamic firms is higher is because lawyers at these firms offer more business-focused, strategic advice, that is tailored to the client’s unique circumstances – a factor which is increasingly important to clients.

Figure 2 – Practice Demand – 2017-2019 CAGR



All timekeepers  
Billable time type; non-contingent matters

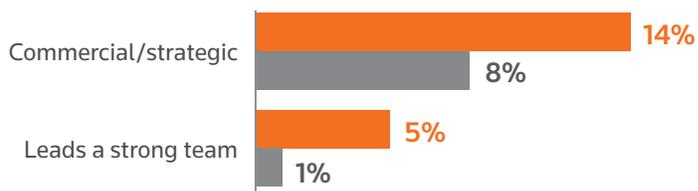
Source: Thomson Reuters Peer Monitor®

Figure 3 – Clients praise Dynamic firms for their strategic lawyers who understand their businesses and can lead teams

Clients favor firms for:



Clients pick out stand-out lawyers for:



Dynamic firms    Static firms

Source: Acritas Sharplegal

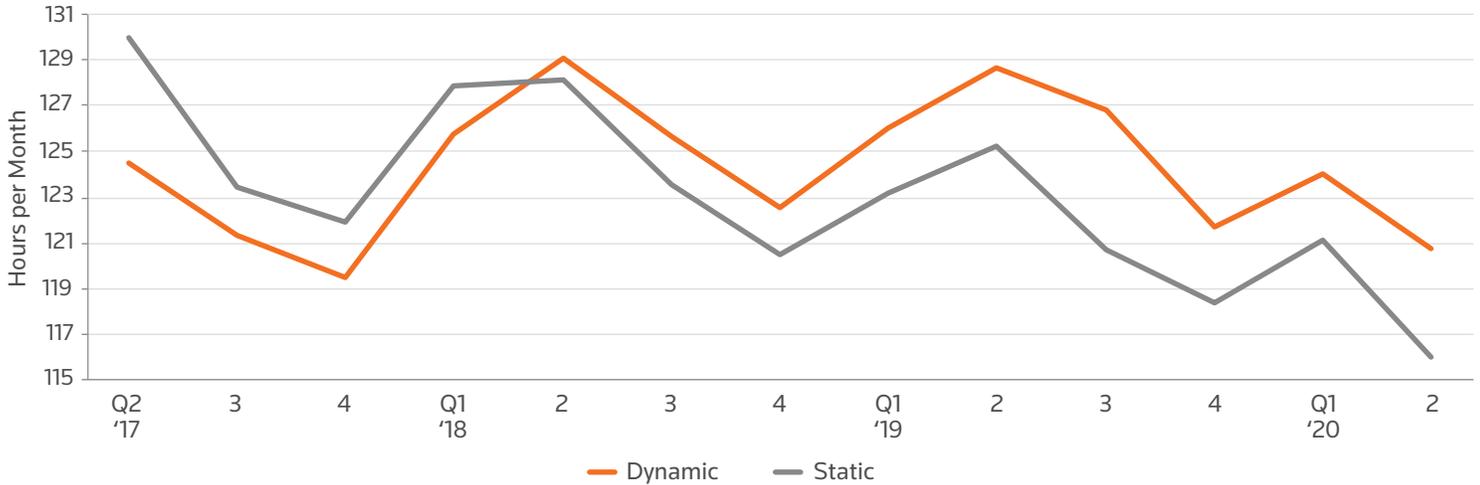
**Research insight:**

Clients were almost twice as likely to nominate stand-out lawyers at Dynamic firms for their commercial and strategic advice, compared to nominations for Static firms. Furthermore, within Dynamic firms, stand-out lawyers themselves were much more likely to articulate the need for deep understanding of the client’s business and the ability to offer practical and pragmatic advice, in order to deliver greater value to their clients.



In an interesting finding, we looked at the average number of hours per lawyer per month throughout the studied period. We saw that Static firms actually held a noticeable lead up until Q2 2018; however, at that time, the two quartiles flipped places and Dynamic firms quickly opened up a gap that has held ever since. In fact, while the inflection point and the size of the gap varies slightly by timekeeper group, the same pattern is observable whether we look at associates, non-equity partners, or equity partners. While the conclusion may seem obvious, this pattern reinforces the point that protecting and improving productivity is key to law firm financial success.

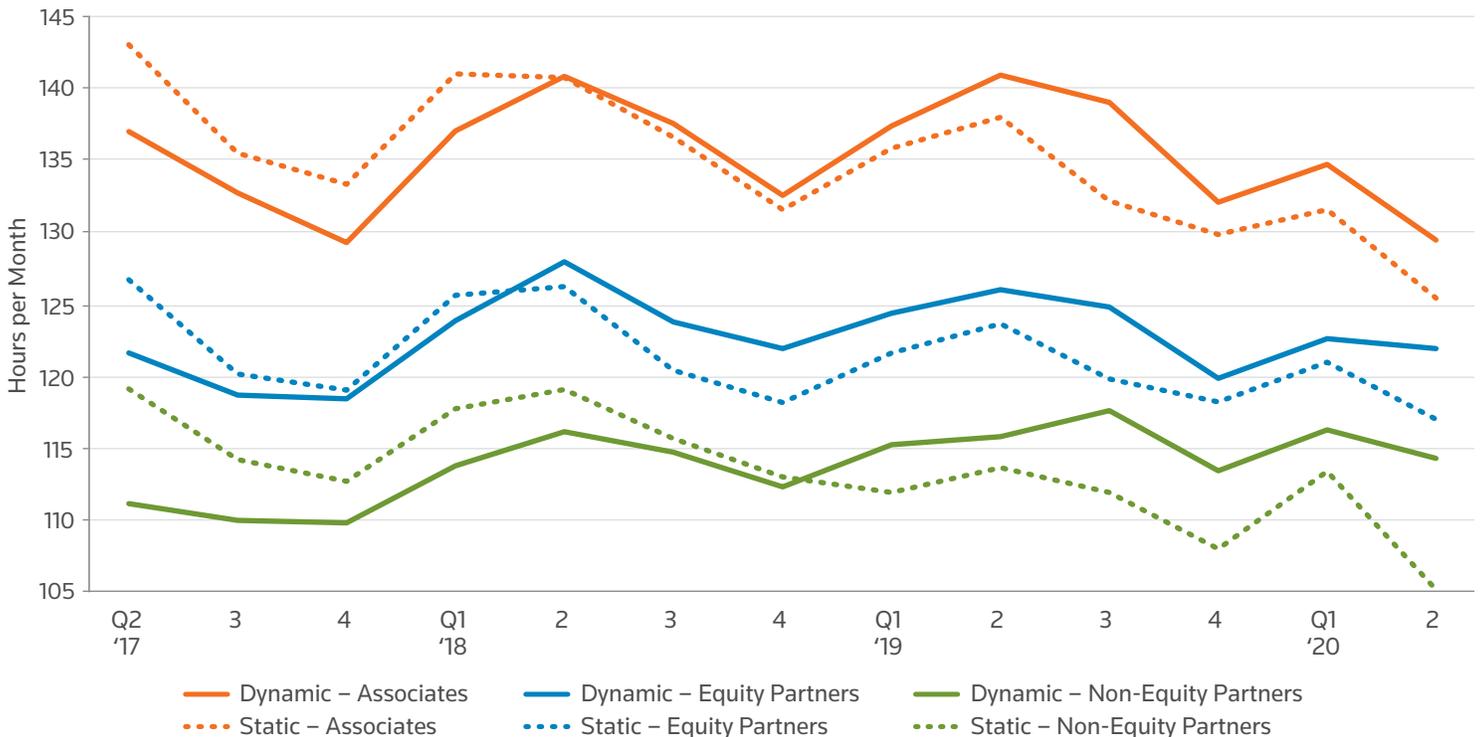
Figure 4 – Hours per Lawyer – All Lawyers



Lawyers  
Billable time type; non-contingent matters

Source: Thomson Reuters Peer Monitor®

Figure 5 – Hours per Lawyer



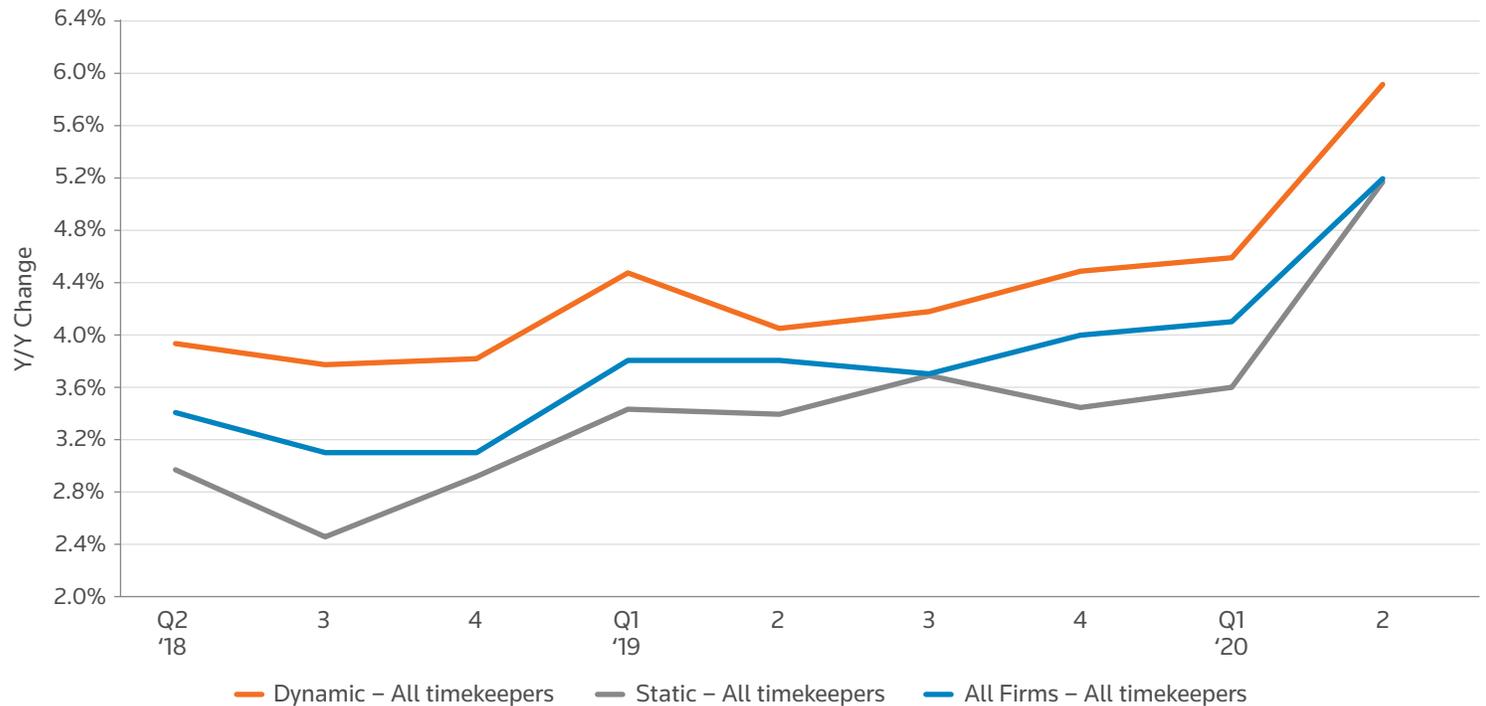
Lawyers  
Billable time type; non-contingent matters

Source: Thomson Reuters Peer Monitor®

## A Look at Rates

It's notable that Dynamic law firms had a large representation of Am Law 100 firms (*see page 3*). It's perhaps unsurprising then that Dynamic firms have been more aggressive in pushing for rate increases, which has been a feature of large law firm strategy for a number of years.

Figure 6 – Worked Rate Growth



All timekeepers  
Billable time type; non-contingent matters

Source: Thomson Reuters Peer Monitor®

More notable than the pace at which Dynamic firms grew their rates, however, is how reserved Static firms appeared to be with their rates. While it is not unexpected that Static firms would grow their worked rates at a slower pace than Dynamic firms, Static firms also lagged noticeably behind even the *market average* for the entire period studied.

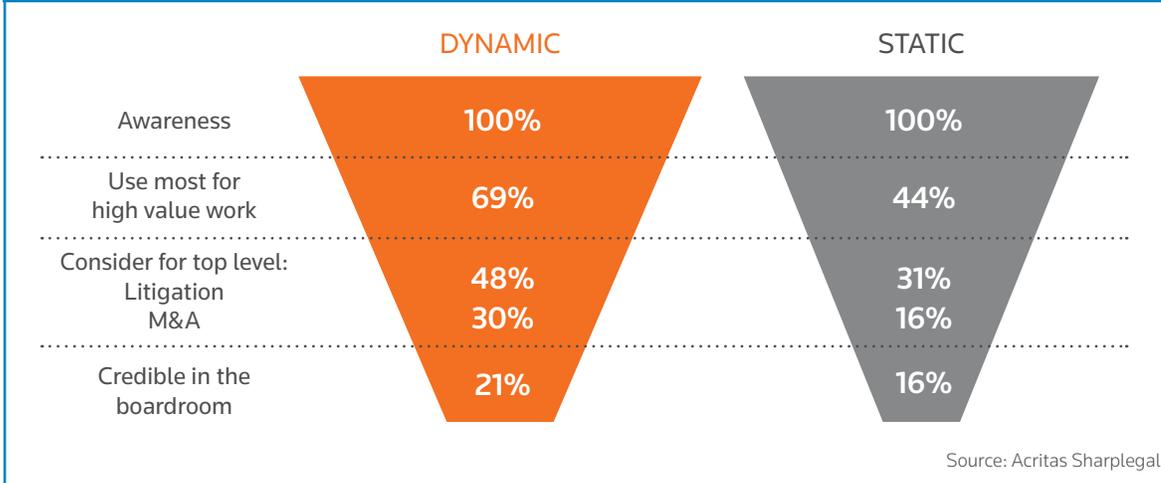
Relatively anemic rate growth coupled with lagging demand provides clear insight into why Static law firms struggled to grow the three classification metrics we examined. But it may not fully explain why Static firms would be less aggressive about pushing for increasing rates.

During the period studied, in fact, the market seemed to support higher rate increases: Dynamic firms grew their worked rates as much as a full percentage point above the market average; while Static firms trailed even the market mean by an average of one-half a percentage point.

Dynamic firms may be better able to achieve rate growth because of their brand positioning in the market; for clients that are aware of each firm, they are much more likely to consider the firm for their most valuable work.

**Research insight:**

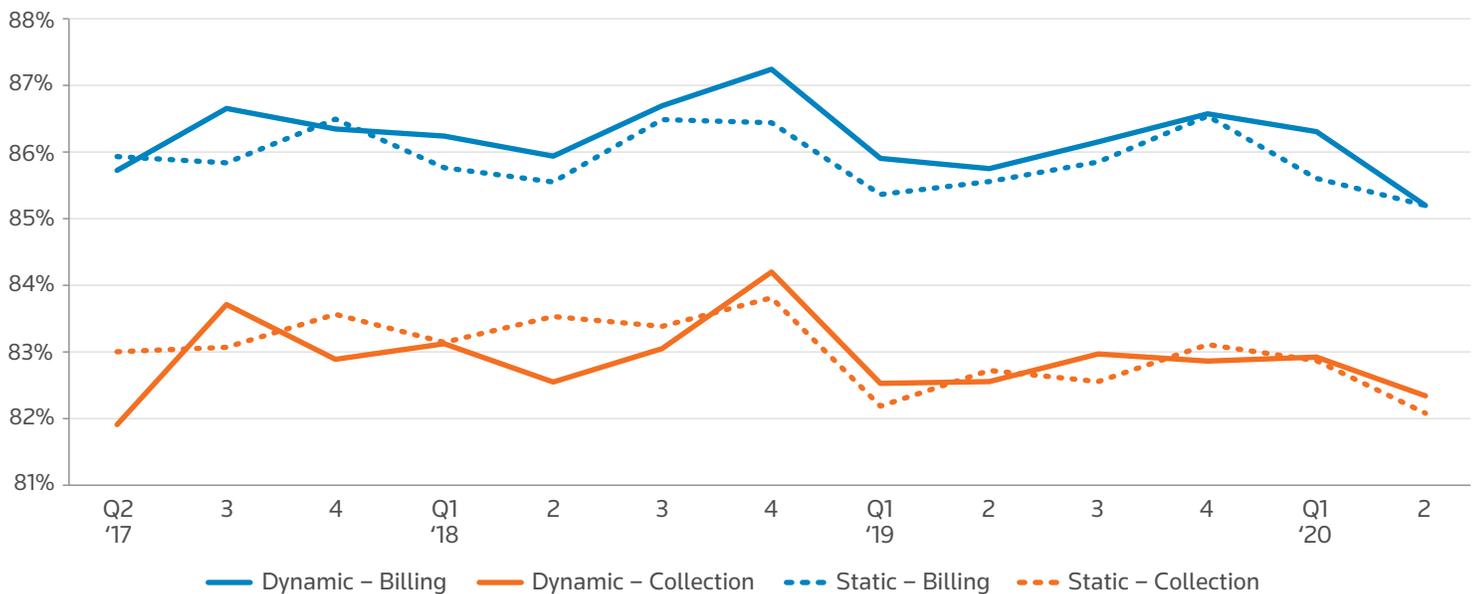
Sharplegal respondents are asked, unprompted, which law firms are top-of-mind and then which they more often consider for various types of work. Results show Dynamic firms are significantly better than Static firms at converting initial top-of-mind awareness into consideration for general high-value work and for the highest level of litigation and M&A work specifically. The market is also more likely to see these firms as having credibility within the boardroom of their organization.



**Rate Realization**

Despite difficulty growing rates, Static firms kept pace with their Dynamic counterparts in regard to realization against their rates.<sup>6</sup> In terms of realization against their standard rates, Dynamic and Static firms were practically indistinguishable and did not deviate too far from one another.

Figure 7 – Realization Against Standard



All timekeepers  
Billable time type; non-contingent matters

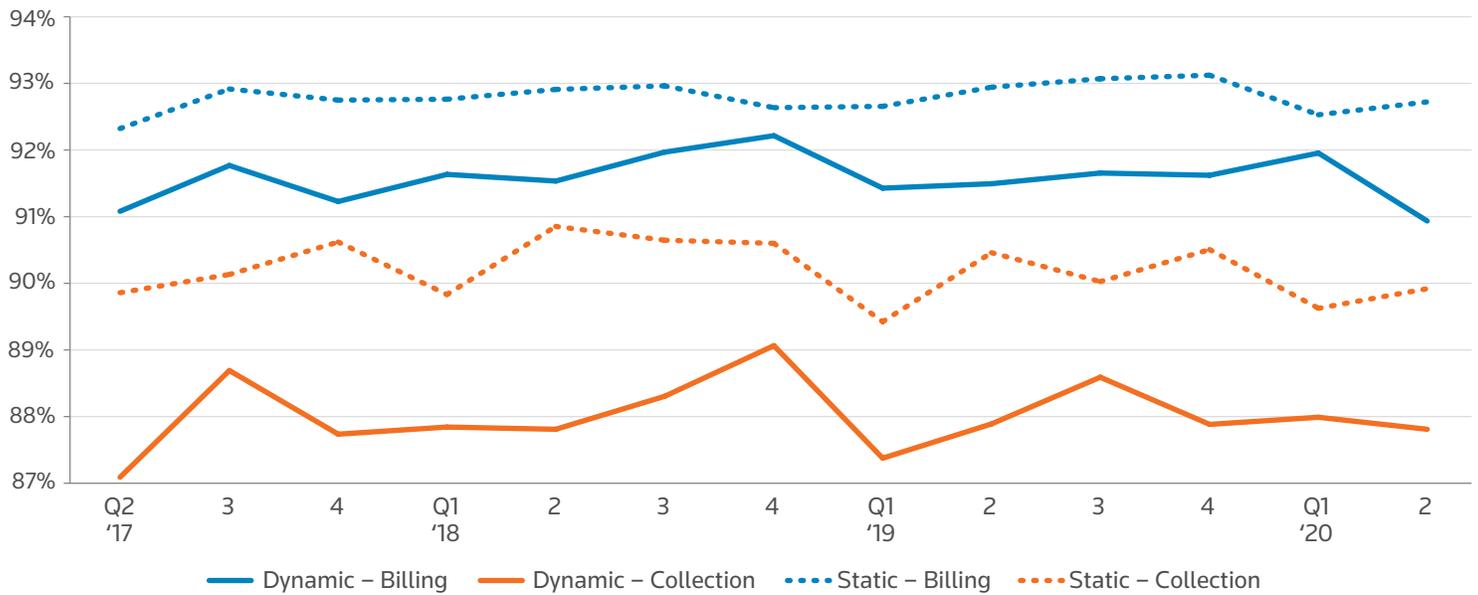
Source: Thomson Reuters Peer Monitor®

<sup>6</sup> Billing realization is the percentage of the firm's average rate, in this case the standard rate, that is actually billed to the client.

What is notable, however, is that Static firms actually outperformed Dynamic firms in *collected* realization against their worked rates. In fact, Static firms consistently outperformed Dynamic firms in this regard. This indicates that while Static firms may not have been as aggressive in growing their rates, they were more disciplined in terms of avoiding fee erosion — the reduction of fees due to practices such as discounts, write downs, and write offs.

We should also note that for both populations, collected realization tended to track in fairly close parallel to billing realization. This parallel tracking leads to the idea that as firms improve their billing realization, collected realization will likely improve as well. Precautions against excessive fee erosion, particularly with regard to overly generous discounts and poorly managed write down practices, could improve the realization potential of any firm.

Figure 8 – Realization Against Worked (Agreed)



All timekeepers  
Billable time type; non-contingent matters

Source: Thomson Reuters Peer Monitor®

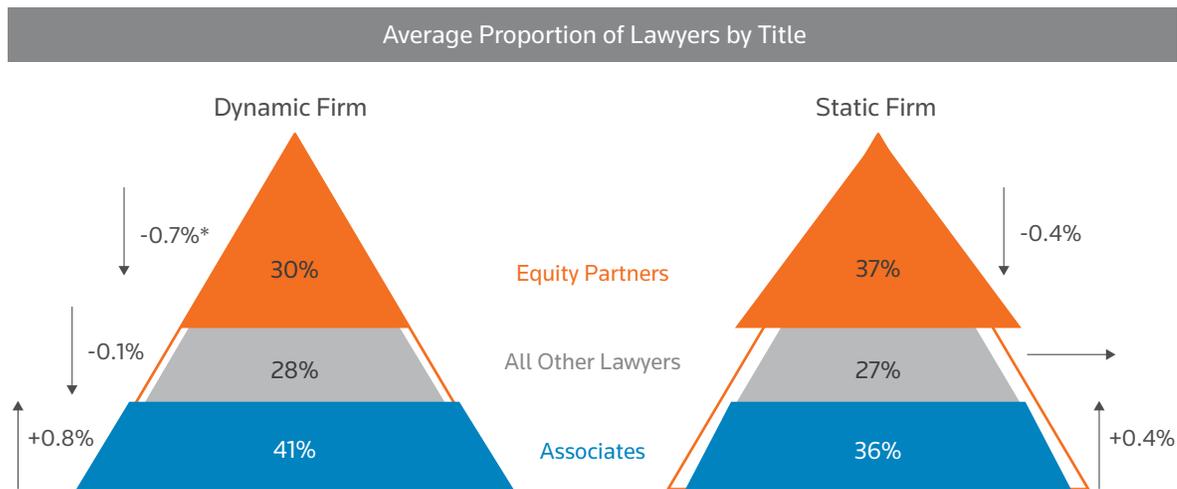
## A Matter of Leverage

In addition to rates, demand, realization, and productivity, *leverage* also seems to play a role in what differentiates Dynamic firms from their Static competitors.

Leverage — the ratio of attorneys other than equity partners to equity partners — is a measure of the capacity a law firm has to push work down to lower-cost timekeepers. This is an important tool for managing matter staffing, controlling matter costs, and managing potential profit margins.

Here again, Dynamic firms enjoy a clear advantage. As of the end of 2019, about 30% of their timekeepers on average, were equity partners, compared to 41% who were associates. In contrast, associates and equity partners were nearly a 50-50 balance at Static law firms.

Figure 9 – Law Firm Structure – 2019



Source: Thomson Reuters Peer Monitor®

### Research insight:

In nominating lawyers who particularly stand out, Sharplegal respondents were five times as likely to cite 'leading a strong team' as a reason for the lawyer's nomination when talking about Dynamic firms compared to lawyers at Static firms (see Figure 3 on page 7).

Interestingly, both populations were also experiencing similar trends in terms of leverage mix, with both groups decreasing the percentage of equity partners while increasing the proportion of associates. But once again, Dynamic firms were more aggressive with these moves, growing their associate percentage by double the rate of growth seen by Static firms.

A deep bench is key for Dynamic firms, and this wide advantage in leverage may provide a bit of an explanation for why Dynamic firms, on average, enjoyed better profit margins, as they had larger pools of associates toward which they could direct work.

## Expenses and Investments

How a firm sets its priorities is often reflected in how it chooses to invest its money.

Not only were Dynamic firms more aggressive in their expense growth in general, the growth they saw in relation to marketing and business development may shed some light on why Dynamic firms saw stronger demand growth over the studied period.

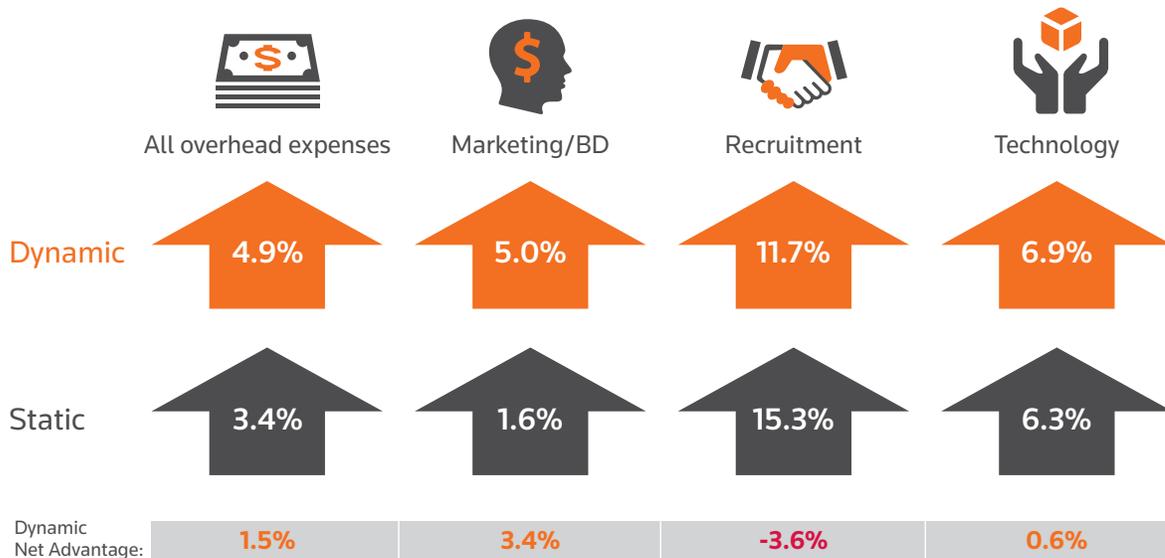
We must also note that not only did Static firms lag behind Dynamic firms in terms of marketing investment, they also lagged behind inflation. As a result, even though Static firms saw some growth in their marketing investment, their overall marketing buying power diminished over time.

A greater focus on investing in effective marketing should lead to a greater output of new business for the firm. And there is at least some evidence that Dynamic firms' investment in marketing paid off in terms of firms' brand positioning, which is one category in-house counsel say they consider for their highest value work.

The investment data also shows an interesting trend in terms of recruitment and technology expenditures with both quartiles seeing strong growth in investment in both categories. In fact, Static firms grew their expenditures on recruitment at a faster pace than did Dynamic firms; however, this could be a function of the leverage problem Static firms face, which requires an increase in recruitment expenditures to lure the talent they need to stabilize their leverage models.

In technology investment, both quartiles again were also quite aggressive. This likely reflects how today's legal industry has become increasingly dependent on advancing technology to meet client needs and innovate how law firms deliver legal services.

Figure 10 – Overhead Expenses – 2017-2019 CAGR



Marketing/BD and Recruitment do not include compensation accounts.

Source: Thomson Reuters Peer Monitor®

### Investment in Standout Functions

While the growth in the level of technology investment may be similar between the two populations, there is a noticeable difference in outcomes with regard to the efficacy of IT functions within the firms.

Dynamic firms tend to be more successful than Static firms in terms of how they make use of their technology investment to support the business. Top-performing lawyers within Dynamic firms were much more likely to give their IT functions high marks than were their counterparts at Static firms. In particular, Dynamic law firm attorneys pointed to the level of training provided, and the responsiveness and support of the IT team. These contributions can enable lawyers to focus on doing legal work more efficiently, providing a further explanation why Dynamic firms have been able to increase productivity in a relatively stagnant market.

There are also marked differences in how partners at Dynamic firms regard their Finance functions compared to their Static counterparts.

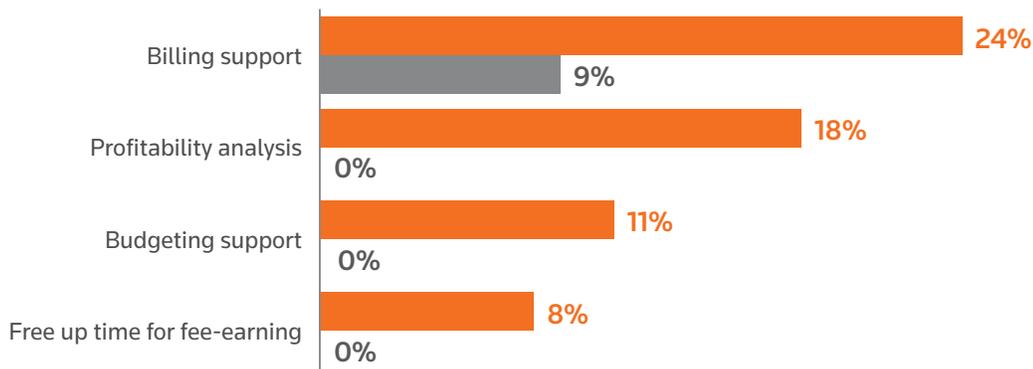
Nearly one-quarter of standout partners at Dynamic firms point to the billing support they receive from their Finance team, compared to only 9% of Static firm partners who said the same. More remarkably, while Finance teams from Dynamic firms earned high marks for their profitability analysis, budgeting support, and their ability to help free up time for billable work, no partners from Static firms echoed these statements about their Finance teams.

This support is vital to improving a law firm’s financial outlook. The disparity between the two quartiles in this regard gives strong suggestion as to why Dynamic firms are outperforming their peers on core profitability metrics.

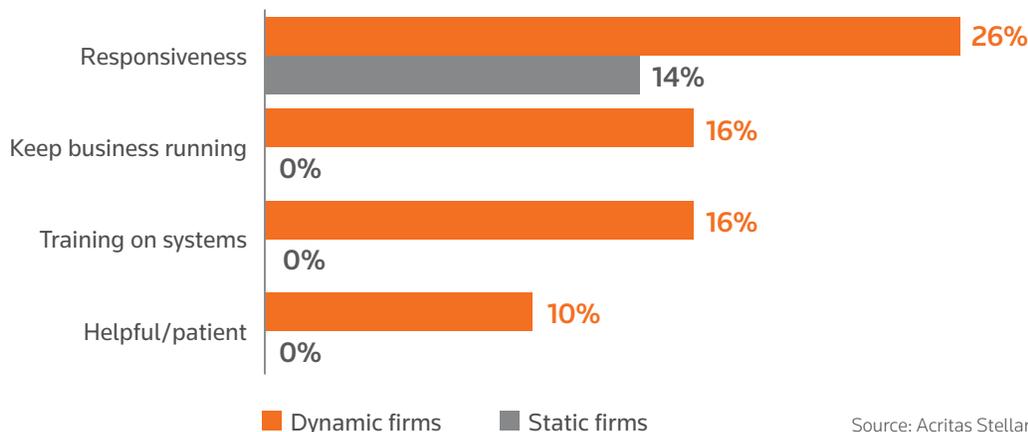
*Stand-out lawyers at Static firms were twice as likely to criticize their support functions.*

Figure 11 – Dynamic firms provide more effective support functions – particularly Finance and IT

#### Stand-out lawyers praise their Finance departments for:



#### Stand-out lawyers praise their IT departments for:

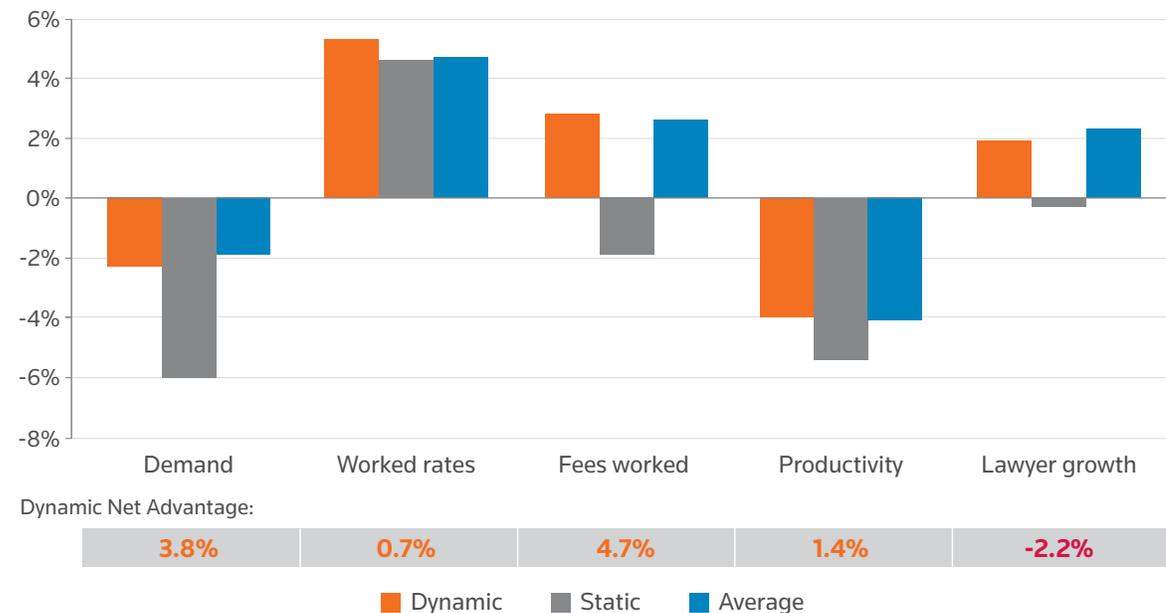


Source: Acritas Stellar Performance

## So, What About 2020?

As we said at the outset, this release of this report was delayed by the outbreak of the global COVID-19 pandemic. It is one thing to understand how law firms built successful models during times of relative economic prosperity, but it is quite another to explore how resilient those models prove to be when the economy rapidly shifts.

Figure 12 – Key Performance Measures – 1H '20 v 1H '19



All timekeepers  
Billable time type; non-contingent matters

Source: Thomson Reuters Peer Monitor®

Both Dynamic and Static firms took noticeable hits during the first half of 2020, with the majority of the COVID-19 impact being felt in the second quarter. Across most of the key performance metrics, Dynamic firms stayed fairly close to market average performance, seeing a drop in demand that was slightly more than the average firm in the market (-2.3% compared to -1.9%); yet their ability to use a stronger than average worked rate growth meant that the average Dynamic firm finished about 0.2 percentage points *better* than the average firm for fees worked. Dynamic firms were also more circumscribed in their attorney headcount growth, expanding their lawyer headcount by 1.9% compared to the market average of 2.3%. Coupled with demand performance for the half, Dynamic firms ended the first half of 2020 on par with the average firm in the Peer Monitor sample in terms of the decline they saw in productivity.

Performing in line with market averages may suggest that Dynamic firms were not especially well positioned to absorb the impact of an economic downturn, at least they fared no worse than average. It could also be the case that Dynamic firms suffered slightly more in comparison to their peers because they set a high baseline the previous year, meaning that contractions might appear larger as a matter of proportion.

Static firms, on the other hand, underperformed the market in essentially every category. Worked rate growth was almost on pace with the market average, 4.6% growth for Static firms compared to a market average of 4.7%. But this was not enough to offset a large decline in demand of 6.0% for the half. As a result, fees worked for Static firms declined by 1.9%. Despite a contraction in attorney headcount of 0.3% in the first part of 2020, Static firms still saw their productivity decline by 5.4%.

Based on an initial look at these key measures, it appears that status as a market leader does not necessarily insulate a law firm from the impacts of a major event like the COVID-19 pandemic. It also seems clear that those firms already struggling to find growth prior to the pandemic have only seen those challenges grow.

## Lawyers and Their Hours

As mentioned, both Dynamic and Static law firms saw large increases in their average worked rates in the first half of 2020. Part of this is due to a lack of price sensitivity on the part of clients as they struggle to keep up with the shifting ground. But in large part, what appears to be growth is actually related to a shift in proportion of hours.

Worked rate growth is calculated as a function of all rates agreed to for all matter types by all timekeepers. If the proportion of timekeepers changes, the average worked rate will change, even if the actual rates being charged by those timekeepers does not change. Essentially what we have seen in the first half of 2020 is a shift in the proportion of hours towards partners, who already command higher rates, and away from associates. This has been evident across the market, not just among Dynamic and Static firms.

Figure 13 – Hours Worked

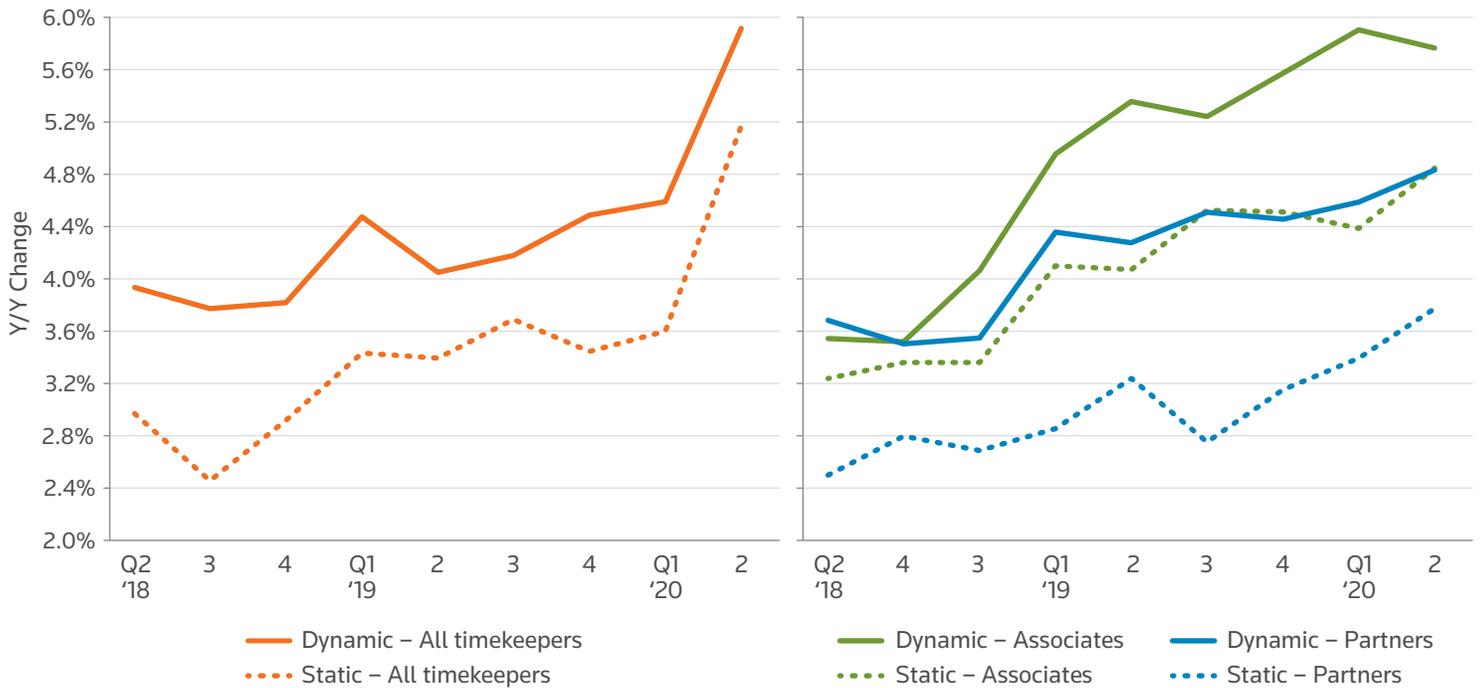
Average hours per lawyer per month	Q2 2017	Q2 2018	Q2 2019	Q2 2020	Q2 '20 v Q2 '19
Dynamic – Equity Partners	122	128	126	122	-4 hours
Dynamic – Associates	137	141	141	129	-12 hours
Static – Equity Partners	127	126	124	117	-7 hours
Static – Associates	143	141	138	125	-13 hours

Source: Thomson Reuters Peer Monitor®

Where equity partners saw their hours per month decline by four hours in Dynamic firms and seven hours in Static firms, associates saw substantially larger drops. As a result, worked rate growth figures are slightly more *inflated* than actual rate increases.

As Figure 14 shows, while the pace of rate growth for “all timekeepers” is on a marked upward trajectory in Q2 2020, that is not matched by the pace of rate growth for either partners or associates. The conclusion, therefore, is that what appears to be impressive rate growth for both populations during a tricky economic period, is actually a bit deceiving.

Figure 14 – Worked Rate Growth in 2020

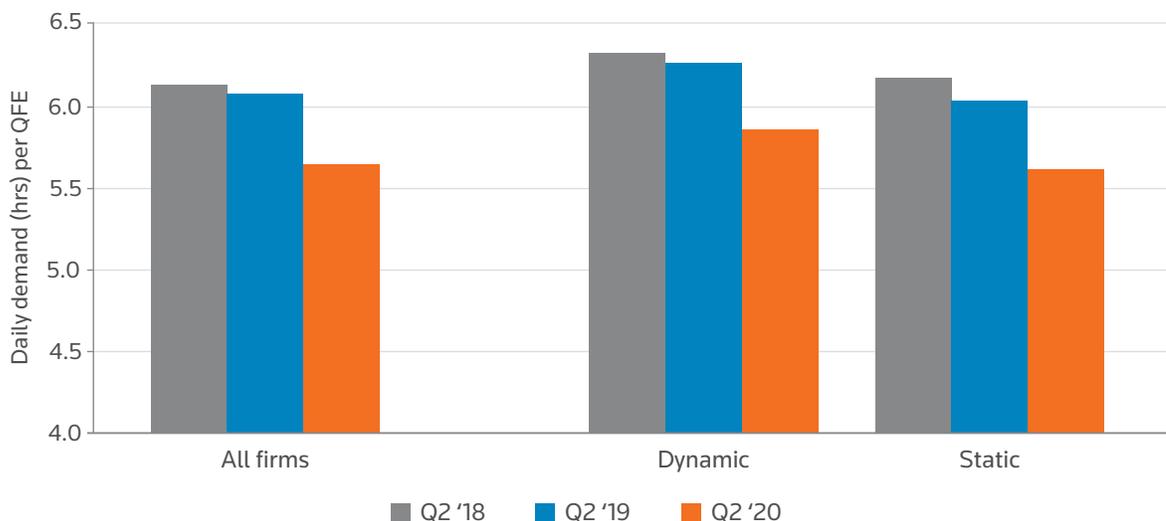


All timekeepers  
Billable time type; non-contingent matters

Source: Thomson Reuters Peer Monitor®

The advantage Dynamic law firms experienced in terms of attorney hours is also evident when looking at hours on a daily basis. Average daily demand is a measure of the number of billable hours an attorney works in a given day. Dynamic law firms have consistently outperformed their Static counterparts on this metric. Even taking into consideration the decline in average daily demand in Q2 2020 due to the pandemic, Dynamic firms not only saw a smaller average decline than did Static firms, they also declined less than the market average.

Figure 15 – Average Daily Demand per Lawyer



Lawyers  
Billable time type; non-contingent matters

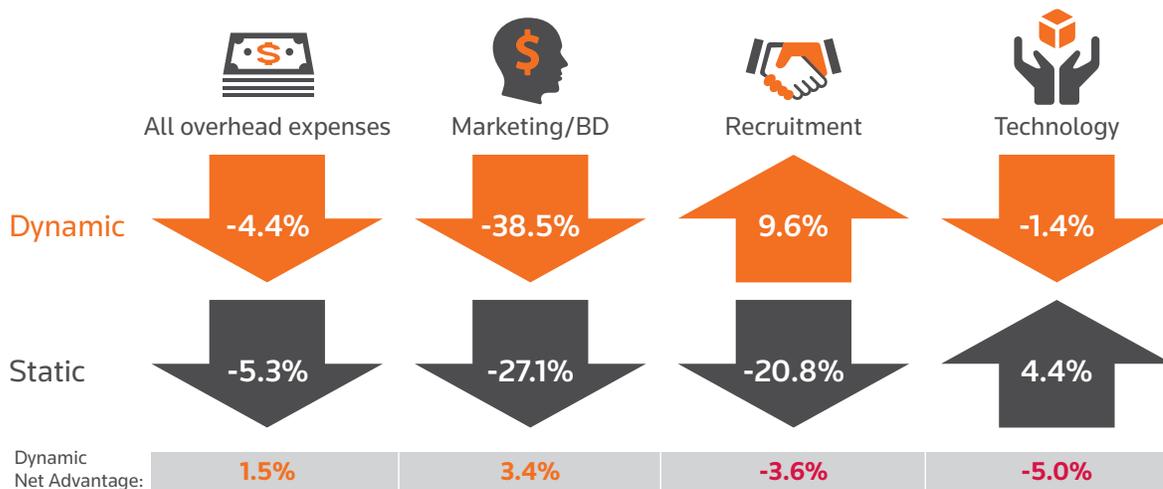
Source: Thomson Reuters Peer Monitor®

## Controlling Expenses Amid the Pandemic

Returning to the subject of expenses, both Dynamic and Static law firms saw their expenditures decrease noticeably during the first half of 2020.

It is notable that Dynamic firms actually decreased their marketing expenses by more than did their Static counterparts; however, this is offset by the fact that Dynamic firms were already spending more per lawyer on marketing than Static firms were prior to the onset of the pandemic. As of the end of 2019, the average Dynamic firm spent roughly \$15,100 per lawyer on marketing, which the average Static firm spent only \$13,400. Indeed, this had been the case for several years, as evidence by the sizeable gap in CAGR for marketing expenses noted earlier.

Figure 16 – Overhead Expenses – 1H 2020

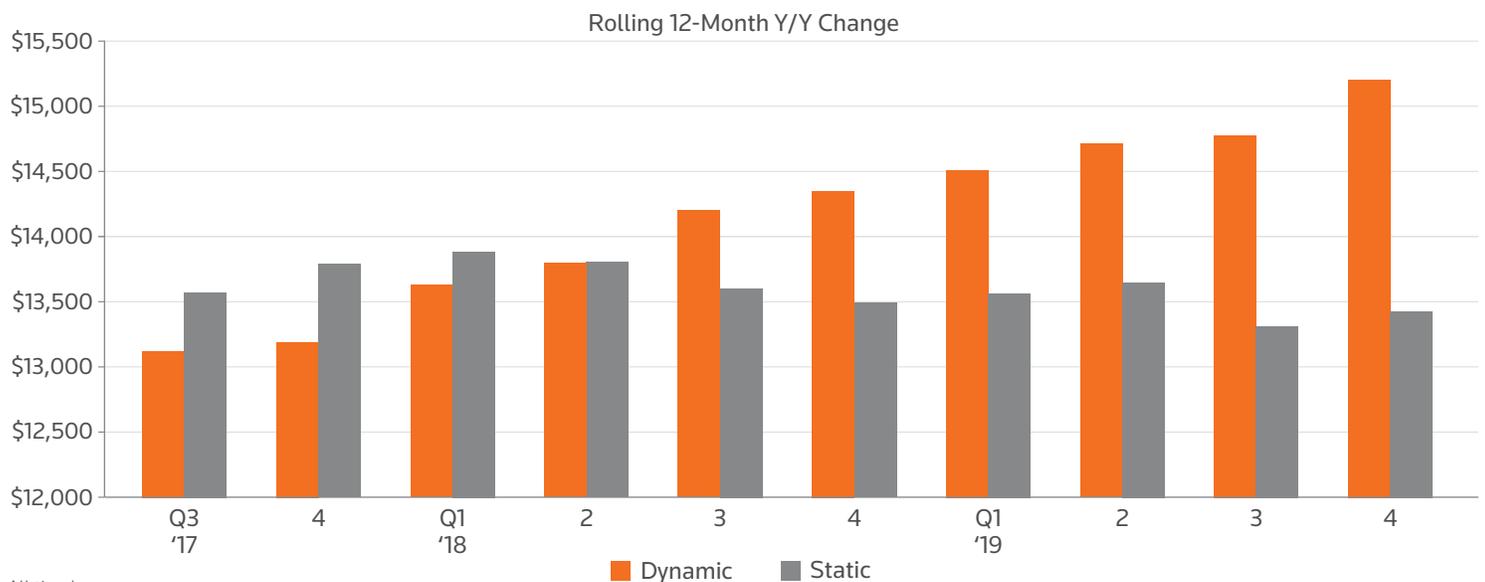


Marketing/BD and Recruitment do not include compensation accounts.

Source: Thomson Reuters Peer Monitor®

While Dynamic firms took a larger reduction to their marketing expenses in the first half of 2020, they had already laid much of the groundwork for a strong brand presence prior to the onset of the pandemic, giving those firms more flexibility to pull back in a crisis without risking lasting damage.

Figure 17 – Marketing & BD Spend per FTE



All timekeepers  
Billable time type; non-contingent matters

Source: Thomson Reuters Peer Monitor®

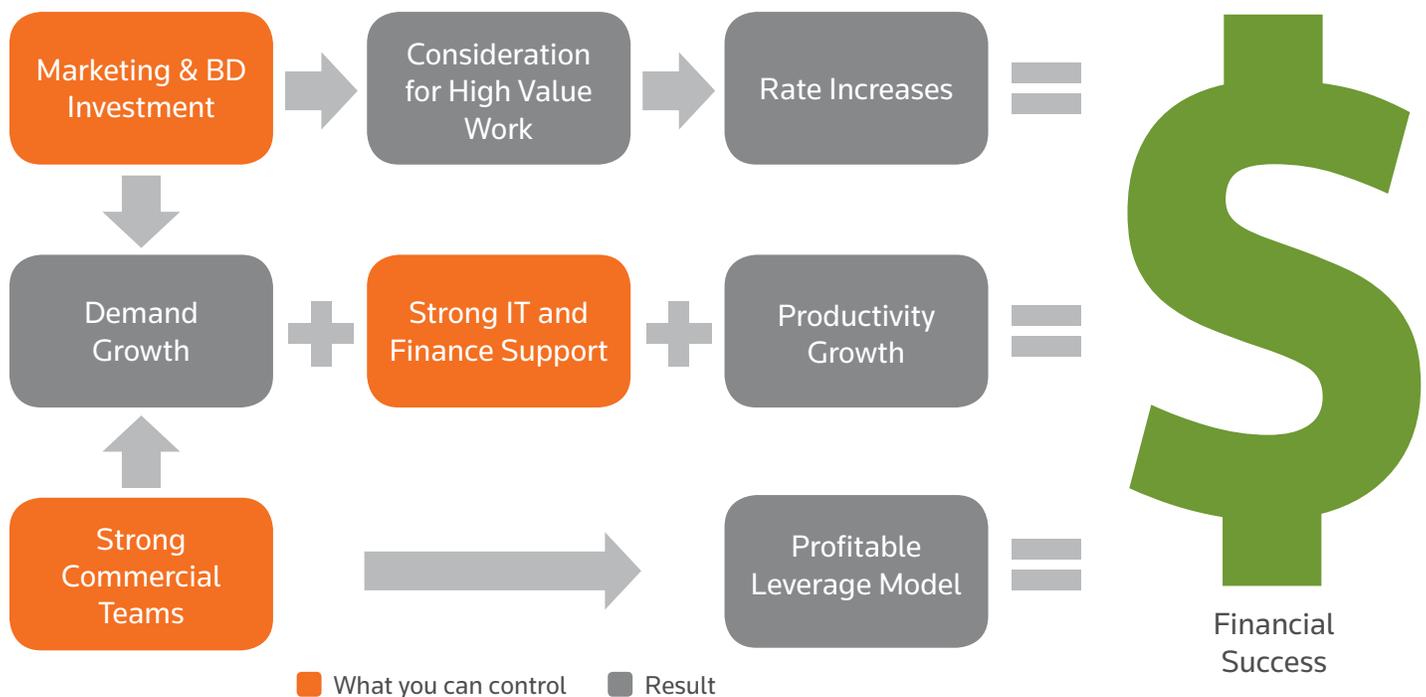
## The Big Lesson of Dynamic Firms

As we see by the data, it is not one particular choice made by Dynamic firms that sets them apart, nor even the performance over one particular year or period of years. Over the several iterations of this study we have conducted, we have seen several consistent themes regarding what helps set certain firms apart.

First, Dynamic firms typically invest more in marketing and business development, not just for a short time, but consistently, helping to cement their position in the market as firms with strong brands who should be on clients' lists for places to send their highest value work. Also, Dynamic firms can offer clients business savvy lawyers, which leads to a greater demand for their services and the ability to support higher rate growth. Having strong, deep teams allows for a more profitable leverage model, whereby a greater proportion of work can be done by skilled associates.

A higher level of demand coupled with better management of attorney headcount in turn drives productivity growth. As a further boost to productivity potential, lawyers in Dynamic firms are buttressed by effective IT support functions, which further enhances timekeeper efficiency.

Additional support comes from Dynamic firms' strong Finance functions that help manage billing, budgeting, and profitability analysis. And as a final, critical element, partners at Dynamic firms have more confidence in their leaders and believe in their vision and ability to execute on their strategies. Partners at Dynamic firms also cited their leaders' energy. This energy is a secret weapon when it comes to inspiring people at the firm to continue to work towards their vision.



As we have seen during the pandemic, past success is no guarantee of standing impervious to a rapidly changing market. But some of the strategies employed to build success have also helped build resiliency and adaptability, especially among Dynamic firms. And while it's too early to tell the final story of how Dynamic and Static law firms weathered the pandemic, it's clear that those firms that went into the pandemic with a better financial footing and stronger strategic foundation were spared many of the harshest consequences.

Finally, as we stated at the beginning, *success begets success*. This is true not only for today's Dynamic firms that have implemented a formula to push them to the front of the legal industry, but also for firms who aspire to a similar level of success. The steps taken by these market-leading firms are not quick fixes, but they are attainable by any firm willing to make the commitment to the necessary strategies.

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## About the Authors



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Through analyzing the responses given by thousands of top-ranking legal buyers, Lisa has a deep understanding of client and market issues.

Lisa developed Acritas' flagship product, Sharplegal, seven years ago. It is now the world's most comprehensive annual study of the legal market. It delivers over \$8 million of data and covers many aspects of the legal business in great depth, including brand, changing buyer behavior, client service, pricing, and international needs.