Thomson Reuters Institute

2023 Dynamic Law Firms Report

What has set high-growth law firms apart for the last decade?

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Executive summary

For many years, the Thomson Reuters Institute has produced this *Dynamic Law Firms Report* with the goal of identifying what makes a law firm *dynamic* — what behaviors or strategies a law firm has undertaken to have notched market-leading growth in key metrics. We've conducted this study as a way of helping today's law firm leaders look to those strategies that have led to success for their peers and which may be worthy of emulation.

This year, in the report's eighth iteration, we decided it was time for a slightly different perspective. This year's report provides a look at a much longer time horizon in an effort to identify strategies that law firms have sustained over longer periods of time, as well as more ingrained challenges some firms face which may have hampered their ability to compete.

Some of the key findings from this year's report include:

- **Dynamic law firms do not necessarily fit a particular profile** — While it may be tempting to think that firms that have shown higher growth over the past decade are going to be the largest firms, that is not necessarily the case. The population of Dynamic law firms is relatively diverse.
- **There is a clear difference in total billable hours** — Given that the methodology of this report relies on revenue and profitability for law firms, it is unsurprising that total billable hours logged would factor in heavily. What is surprising is how Static law firms — those firms that have struggled to find growth — were, in a word, static in terms of their ability to grow working hours for most of the past decade.
- **The rising prominence of transactional practices** — Reinforcing a trend observed in other surveys and research reports from the Thomson Reuters Institute, the findings in this report once again note the shift of law firm practice mixes away from litigation and toward transactional practices, with a larger shift occurring for Dynamic law firms.
- **An imbalance with rates and realizations** — Dynamic law firms were much more aggressive in growing their hourly rates over the past decade, while Static law firms generally held a sizeable advantage in their ability to collect on their rates, providing lessons from which each group can learn.

- **Protecting lawyer productivity is vital** — This is not a surprise to anyone who follows the legal market, but what was surprising was the disparity in productivity performance over the past decade between the examined populations of law firms. Dynamic law firms saw only minimal productivity losses despite strong lawyer headcount growth, while Static law firms saw large drops in their lawyers' production.
- **Different investment strategies have lead to clear differences in outcomes** — Dynamic law firms have maintained a consistent advantage in the growth of their investment in key categories such as technology and marketing & business development, while also increasing expenditures on support staff. While Static firms have begun to close the gap, Dynamic law firms still hold some systemic advantages.

Methodology

In years past, we have focused on a three-year snapshot of law firm metrics. Our taxonomy has relied on a matrix comparison of law firms based on their compound annual growth rate (CAGR) in three key metrics: revenue per lawyer, total firm profits, and average profit margin. Those firms with the best CAGR in each of these metrics became our population of Dynamic law firms.

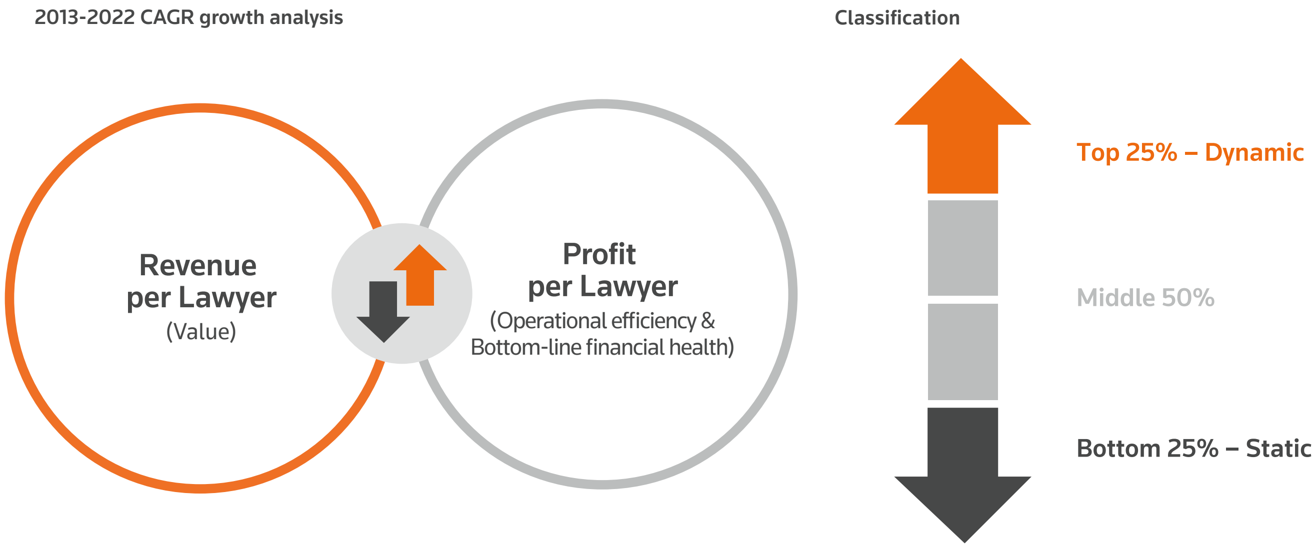
This year, we have made a slight change to the methodology. Most notably, rather than a three-year lookback period, we opted to expand to a 10-year window. We implemented this change for several reasons. First, 2023 marks a decade since the legal market fully and truly recovered from the depths of the Global Financial Crisis, so it is interesting to look at how firms have fared during that time and what led to the greatest amount of growth since that fundamental change in the legal market. Second, if we were to maintain our standard practice of a three-year examination, the baseline year of our examination would have been 2020, which is not an ideal year upon which to base comparisons. Moreover, while three-year periods can provide helpful snapshots into successful law firm strategies, the ability to look over a longer period of time provides a greater level of insight into strategies that have led to longer-term success.

We also made a small change to the metrics we examine. Rather than examining compound growth of both *overall* firm profits and average firm profit margin, we opted instead to base the matrix upon compound annual growth of profit per lawyer (PPL), in addition to revenue per lawyer (RPL). This change allows us to continue to account for expenses as a key driver of firm profitability, but also to account for longer-term trends such as law firm mergers.

Each law firm was analyzed for its performance on these key metrics.[1] The firms which fell into the top 25% for growth in both PPL and RPL became our Dynamic law firms. Those with the lowest 25% CAGR for RPL and PPL became our Static law firms. Each of these populations can be compared against each other as well as against the performance of the average law firm during the time since 2013.

[1] Financial data for this report is provided by Thomson Reuters Financial Insights. While the data from that platform has reported results from more than 170 U.S.-based law firms, this report focuses on the 98 firms that we have had in the program continuously since 2013.

Figure 1: **Methodology overview**



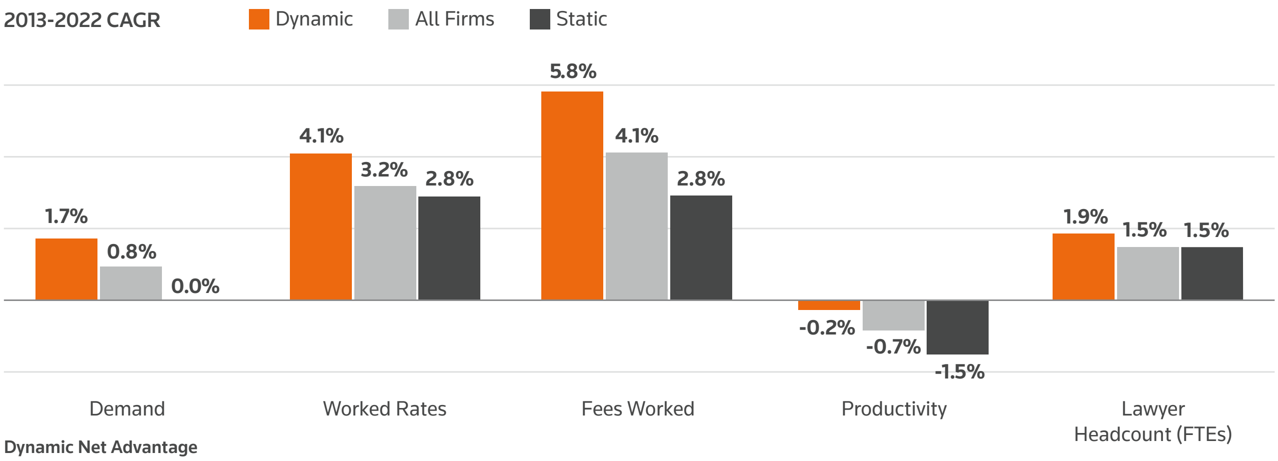
Source: Thomson Reuters 2023

In addition to the law firm financial data provided by Financial Insights, we have also drawn on wider research data collected by the Thomson Reuters Institute, such as more than 2,000 interviews conducted globally with general counsel, providing the client-side perspective of the trends we have noted.

A snapshot of Dynamic & Static law firms

Looking at the key performance indicators (KPIs) for Dynamic and Static law firms, in comparison to the all-firms' average performance in key metrics from 2013-2022, it is clear that Dynamic law firms hold a considerable advantage across the board.

Figure 2: **Key performance measures**



Dynamic Net Advantage

Demand	Worked Rates	Fees Worked	Productivity	Lawyer Headcount (FTEs)
1.7	1.3	3.0	1.3	0.4

All timekeepers. Billable time type; non-contingent matters.

Source: Thomson Reuters 2023

Each metric in the KPI analysis merits its own exploration and reasoning, but upon first blush, Dynamic firms outperformed even the average law firm in both demand[2] and worked rate growth,[3] resulting in market-leading performance in fees worked growth.[4] The growth in demand for Dynamic law firms — even when offset against their headcount growth — meant that Dynamic firms demonstrated a rather unique ability to protect their productivity over the decade examined.

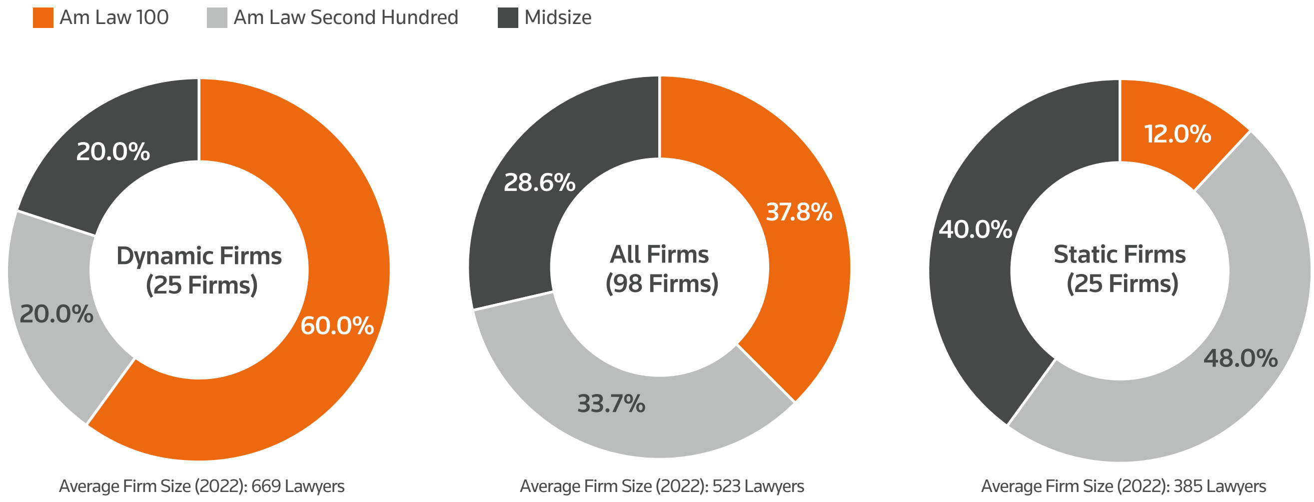
Some of the success of Dynamic law firms can likely be chalked up to the demographics of those firms.

[2] For purposes of this report, *demand growth* is defined as the change in total billable hours worked by the average firm in a population during a specified period of time.

[3] For purposes of this report, *worked rate growth* is defined as the change in the rate agreed to between a client and a law firm to engage in a legal matter over a specified period of time. Worked rates are also commonly referred to as *agreed rates* or *negotiated rates*.

[4] For purposes of this report, *fees worked growth* refers to the change in the product of demand hours multiplied by average worked rates over a specified period of time. It serves as an analogue for accrual basis revenue for law firms.

Figure 3: **Firmographics**



Am Law rankings are based on 2022 published Am Law rankings

Source: Thomson Reuters 2023

Perhaps unsurprisingly, the bulk of Dynamic law firms came from the Am Law 100 rankings (based on 2022's results). From 2016 through 2021, the Am Law 100 consistently led the market in terms of growth in average law firm demand, as well as average worked rate growth. So, it may be natural to assume that more Dynamic law firms would come from the Am Law 100 than from anywhere else.

However, we must be cautious not to assume that demographics are destiny. As a reminder, the Dynamic law firm taxonomy does not take into consideration demand growth, average billing rates, overall firm revenue, or profits per *equity* partner, all metrics associated with high performance among the Am Law 100.

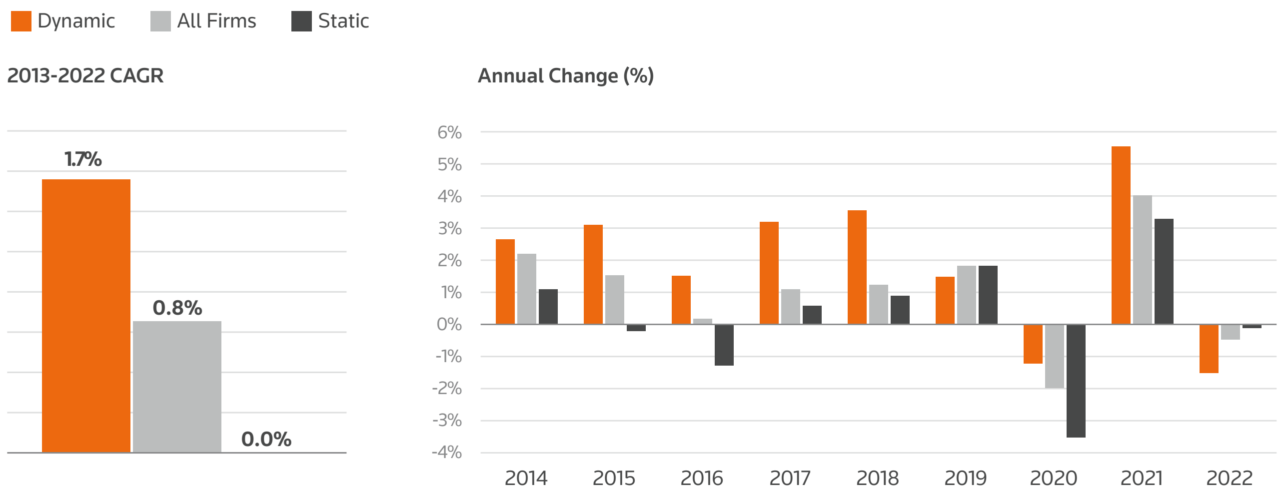
Notably, fully 40% of Dynamic law firms come from outside the Am Law 100 (20% from the Am Law Second Hundred, and 20% from Midsize law firms[5]). And just as we can find examples of Midsize Dynamic law firms, we can also find examples of Am Law 100 Static law firms.

[5] For purposes of this report, *Midsize law firms* are those included in the analysis which fall outside the published Am Law rankings. Firms in this population range from roughly 40 lawyers in size up to law firms which could be included in Am Law ranking but are not for various reasons.

Demand & practice performance

The longer-term look used for this year's report provides a new reason why the Static moniker is appropriate for law firms within our slower-growth tier.

Figure 4: **Demand growth**



All timekeepers. Billable time type; non-contingent matters.

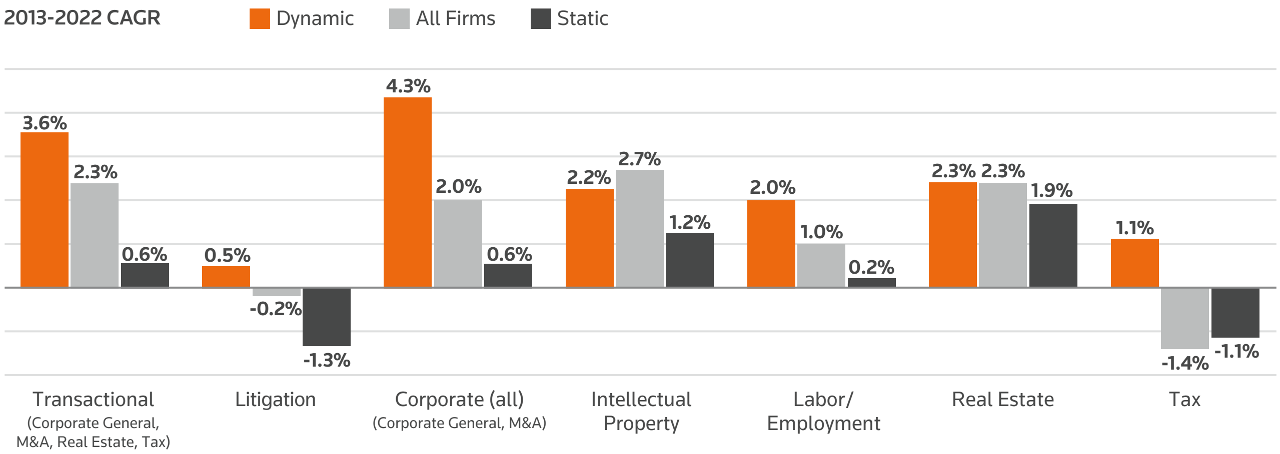
Source: Thomson Reuters 2023

Originally, the term *Static* was applied to these law firms as a reference to their demonstrated investment behaviors — they were so titled because they showed little if any growth in investment in key areas such as technology or marketing & business development. In this latest examination, it appears that Static firms are appropriately titled because, on a compound annual growth basis, demand for their services has remained largely unchanged for the past decade while the average firm saw a demand compound annual growth rate of 0.8% and the average Dynamic law firm enjoyed a demand CAGR of 1.7%.

Looking behind the CAGR, we see an even more stark contrast. Static law firms experienced relatively volatile demand performance, much more so than any other comparative segment. At the same time, Dynamic law firms saw relatively consistent demand growth, and strong growth at that, with the exception of 2020 and 2022.

There are likely many explanations for the differences in demand performance. A logical first place to look is the results in performance from some key individual practices.

Figure 5: **Practice demand**



	Transactional	Litigation	Corporate (all)	Intellectual Property	Labor/ Employment	Real Estate	Tax
Dynamic Net Advantage	3.0	1.9	3.7	1.0	1.8	0.4	2.2
Proportion (2022)	37%	27%	26%	11%	10%	8%	3%

All timekeepers. Billable time type; non-contingent matters.

Source: Thomson Reuters 2023

Looking at practice demand CAGR, it is once again clear that Dynamic law firms had a distinct advantage. Transactional[6] and litigation practices account for 64% of total demand tracked.[7] Dynamic law firms saw CAGRs of 3.6% in their transactional practices and 0.5% for litigation, widely outperforming both Static and even average law firms. In fact, real estate was the only practice area we examined in which the Dynamic Net Advantage score[8] shrank below 1.0.

[6] Transactional practices include general corporate work, M&A, real estate, and tax.

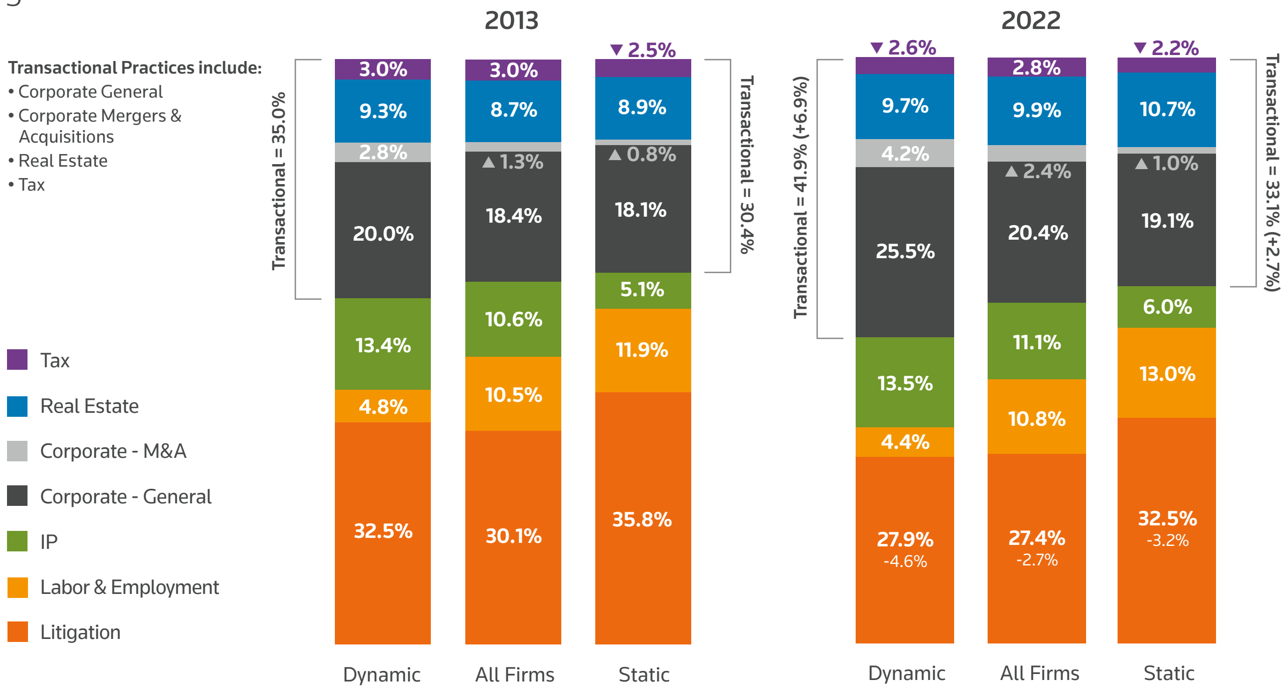
[7] Proportionality of demand hours is based on the proportions for the respective practices as of the end of 2022. It should be noted that during the time period analyzed in this report, most law firms experienced a shift away from litigation practices in favor of transactional practices. For a more complete discussion of this pattern, see the *2023 Report on the State of the Legal Market* at 23; available at https://www.thomsonreuters.com/en-us/posts/legal/state-of-the-legal-market-2023.

[8] Dynamic Net Advantage represents the performance of the average Dynamic law firms on a given metric, minus the performance of the average Static law firm. For example, the average Dynamic firm grew transactional demand by 3.6% CAGR while the average Static firm grew transactional demand by only 0.6% CAGR, resulting in a Dynamic Net Advantage of 3.0.

Shifting practice mix

Following a trend seen in the wider legal market, both Dynamic and Static law firms have been slowly but surely shifting their practice mix toward a greater weighting of transactional practices.

Figure 6: Practice mix



All timekeepers. Billable time type; non-contingent matters. Any plus or minus percentages refer to the change from 2013 to 2022, while any percentages without a plus or minus symbols refer to the proportion of total hours worked for the segment in a given year

Source: Thomson Reuters 2023

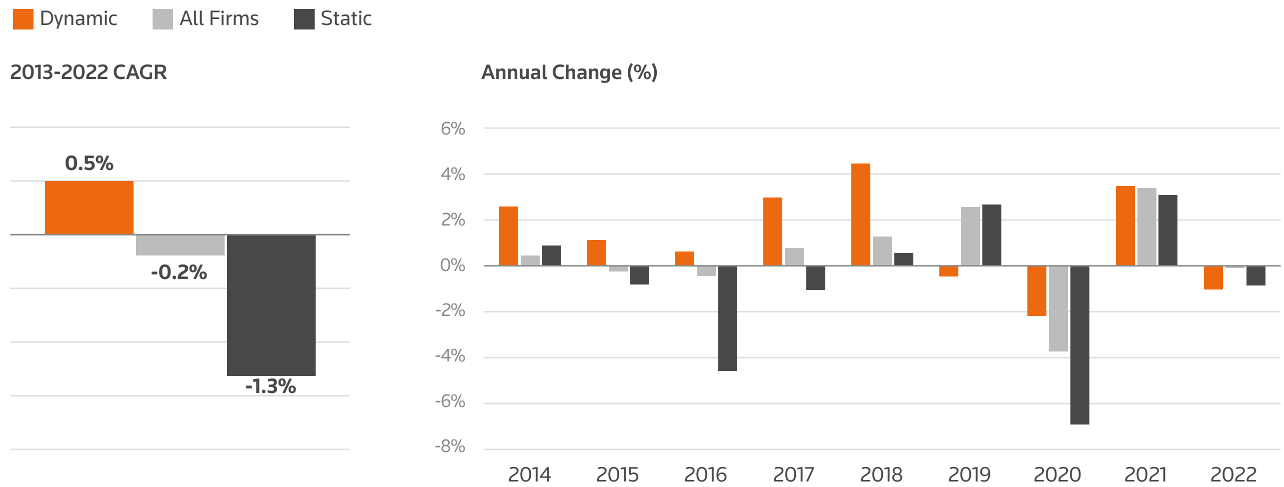
In 2013, the average Dynamic law firm saw near parity between their litigation and transactional practices, while for Static firms, litigation actually outweighed transactional work. Skip ahead to 2022 and Dynamic firms have contracted their litigation practices by 4.6 percentage points while their transactional practice proportion has grown by 6.9 percentage points. Static firms have also shifted toward transactional practices, but to a much smaller extent, growing those practices by only 2.7 percentage points, putting transactional practices only slightly ahead of litigation in the Static firm practice mix.

The disparity in practice mix could provide a strong explanation for why Dynamic firms have maintained such a notable advantage in the market. Over the last decade, transactional practices have provided opportunities for premium rates and lesser price sensitivity on the part of clients. This, combined with relatively greater demand performance, led the general law firm to rely on transactional practices to bolster productivity. By tapping into this source of growth to a greater degree, Dynamic firms likely further propelled their operations.

Litigation practices

Both litigation and transactional practices merit deeper exploration, so we turn first to litigation. For most of the time period that we examined, litigation was in a general state of contraction. In fact, for the legal market in general, the average firm struggled with their litigation practices every quarter from Q1 2012 through Q4 2017. At this same time, the average Dynamic firm posted growth in its litigation practice nearly every year. In fact, following a pattern already observed with general demand growth, the average Dynamic law firm posted litigation contractions in only three of the past 10 years.

Figure 7: **Litigation demand growth**



All timekeepers. Billable time type; non-contingent matters.

Source: Thomson Reuters 2023

The performance in litigation demand is notable for several reasons. First, as discussed in the *2023 State of the Corporate Law Department* report,[9] there has been an ongoing shift in the market for some time in which litigation work has seemingly been migrating away from larger firms toward smaller ones.[10] Among the Fortune 50, law firms with more than 500 lawyers handled only about 17% of litigation matters in 2022, compared to the 37% of such matters as recently as 2018.

[9] Available at https://www.thomsonreuters.com/en-us/posts/legal/state-of-the-corporate-law-department-2023.
[10] *See* Id., at 10.

Given that Dynamic law firms are more likely to come from this population of larger law firms,[11] it would seem possible, if not probable, that litigation work would be shifting *away* from Dynamic law firms. And while the most recent years show that Dynamic firms have experienced some contraction of litigation work, only in 2019 and 2022 did the average Dynamic law firm see demand growth performance that *trailed* the average firm in the market. This suggests that Dynamic law firms remain generally attractive options for clients in need of litigation counsel.

One possible explanation for this may stem from *how* these Dynamic law firms deliver results for their clients. In today's particularly cost-conscious legal market, corporate GCs will still frequently opine that they are not particularly concerned about the rates charged by a given lawyer or law firm if they feel they are receiving good value for the money spent.

Value is more than just price. Buyers articulate value in a multitude of ways, many of which are unique to each client's specific desires and needs.

Prior research from the Thomson Reuters Institute shows that there are two levers that firms can pull to demonstrate value, which appear consistently across clients and matter types: working collaboratively as a team to serve the client and building a network of influencers outside the firm.

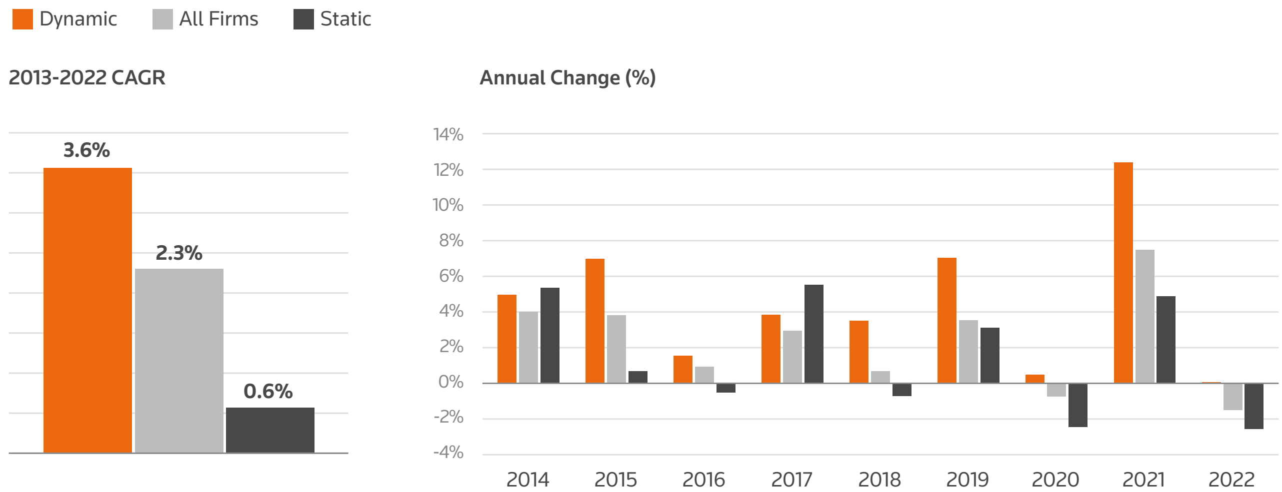
Indeed, clients place great emphasis on efficiency and service delivery as key drivers of value from their outside law firms. Also, business savvy — holding a deep understanding of the client's business and the ability to provide advice that meets the client's commercial needs — figures prominently into the perception of value by clients.

[11] See Figure 3, the average Dynamic law firm had 669 lawyers in 2022.

Transactional practices

Dynamic firms also outpaced the market in the growth of their transactional practices. Once again, looking beyond the CAGR, Dynamic law firm posted a consistent pattern of growth in transactional practices, with even their 2020 and 2022 results ending in positive territory.

Figure 8: **Transactional demand growth**



All timekeepers. Billable time type; non-contingent matters.

Source: Thomson Reuters 2023

Law firms have been shifting away from litigation practices and towards transactional practices for some time and during the relative doldrums experienced by litigation demand for most of the 2010s, many law firms relied heavily on transactional practices to improve profitability. Indeed, much of the boom in law firm demand following the slump in early- to mid-2020 was the result of surging transactional practice demand.

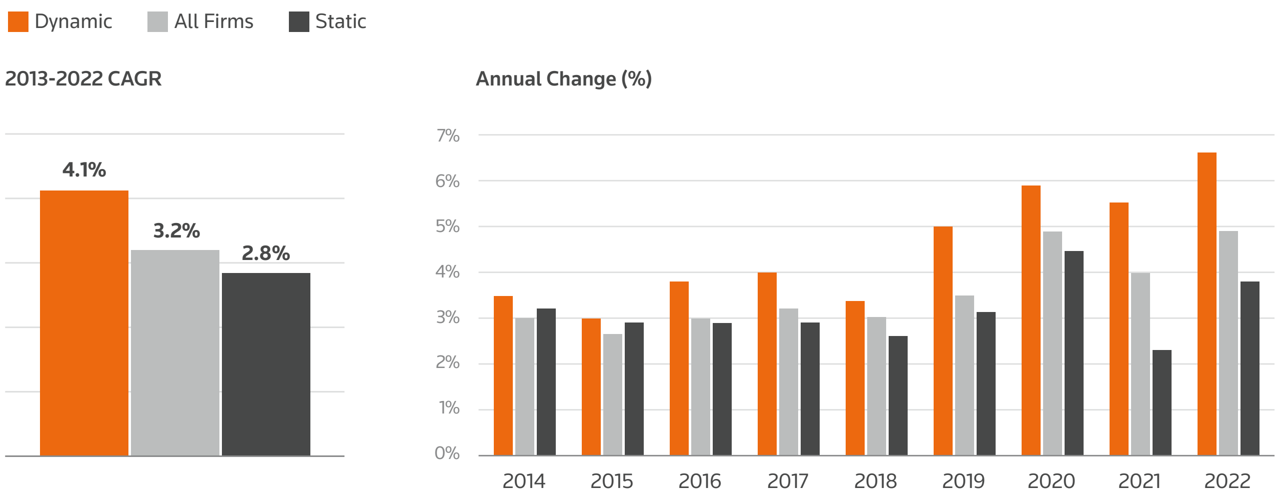
Static law firms, and even the average law firm, were the recipients of some of the bump in transactional practices in the post-pandemic era; however, it is noteworthy that the average Static firm saw transactional demand in 2021 that didn't even measure up to 2014 or 2017, while the average Dynamic law firm saw a transactional practice demand spike in 2021 that, quite literally, set the heights of the scale.

Interestingly, even when transactional practice demand across the market slumped in 2022, transactional demand for the average Dynamic firm ended the year essentially flat with the prior year, representing an ability of these firms to maintain an incredibly high level of demand for transactional work despite a market downturn. When one considers that Dynamic law firms maintained a level of work that in 2021 represented more than 12% year-over-year growth on top of a decade of continuous growth in transactional demand, it becomes more telling just how impressive an accomplishment these firms achieved.

Rates & realization

Over the years that we have prepared this *Dynamic Law Firms Report*, we have noticed a consistent trend regarding the growth of worked rates. Unsurprisingly, Dynamic firms tend to lead the market in terms of rate growth. Curiously, Static firms tend to trail the market, falling short of even the average law firm in terms of their ability to command rate growth from clients.

Figure 9: **Worked rate growth**



All timekeepers. Billable time type; non-contingent matters.

Source: Thomson Reuters 2023

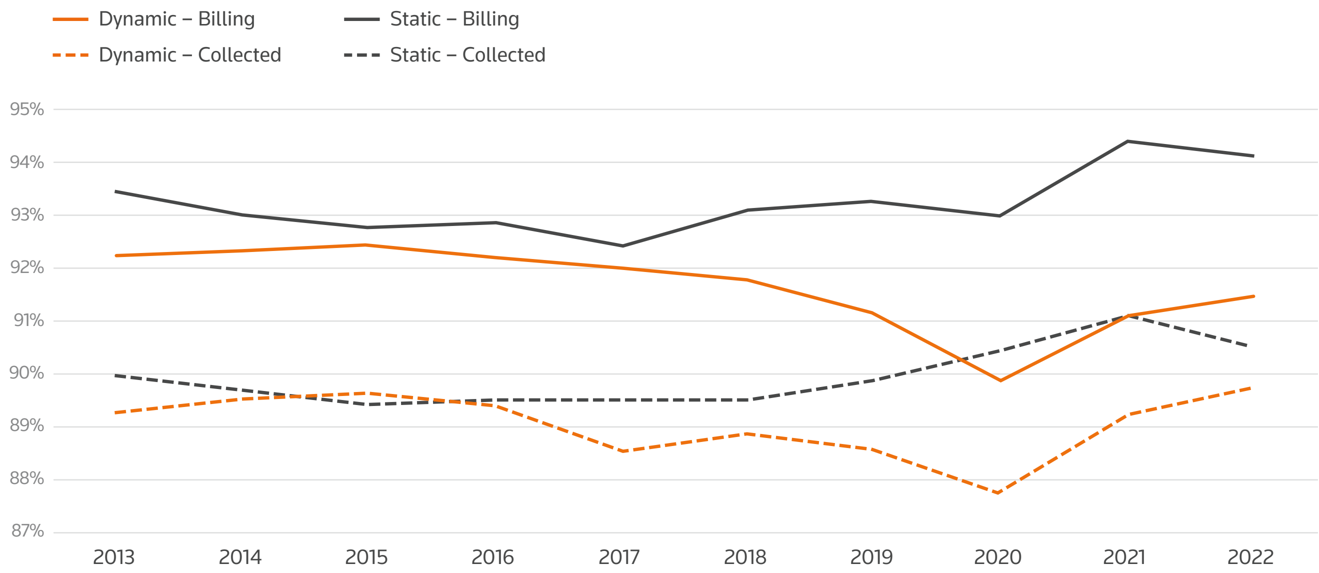
This trend is noticeable both in terms of a CAGR comparison as well as looking at a year-over-year basis.

Dynamic firms set the pace with 4.1% compound annual growth in rates over the past decade, posting a 0.9 percentage point advantage over the market. Static firms, in contrast, trailed the average law firm by 0.4 percentage points in a CAGR comparison.

However, the story gets much more interesting when looking at year-over-year comparisons. Across the legal industry, the pace of rate growth in 2022 compared quite well to the high marks set in 2020, with the important distinction being that rate growth in 2022 was truly *organic* rather than the product of hours shifting to partners. Indeed, law firms were asking for higher rates, and clients were agreeing to them.

However, here again Static firms were at a disadvantage. In a year that was quite favorable to rate increases, Static firms failed to match their 2020 pace of rate growth. In fact, they failed to even match the pace of rate growth the average firm experienced as rate growth cooled in 2021. This certainly begs questions as to *why* Static firms seem to consistently trail the market — and what they need to do to begin to catch up.

Figure 10: **Realization against worked (agreed)**



Lawyers. Billable time type; non-contingent matters.

Source: Thomson Reuters 2023

At the same time that Static firms were struggling for rate growth, one area in which they were leading Dynamic firms was the collection of their worked rates.

Throughout the time period examined, Static firms held a clear advantage over Dynamic law firms in terms of both billing realization[12] and collected realization.[13] In fact, Static firms generally outperformed the legal industry average for both of these metrics throughout the decade examined as well.

One area of realization where Dynamic firms still bested their Static counterparts was the efficiency of converting billings to payments. This is represented by the gap between the billing realization and collected realization lines. Dynamic firms typically had a smaller gap between the two lines, and in fact, the gap has consistently been narrowing since 2017, demonstrating that Dynamic law firms have done a better job of protecting their invoices from a phenomenon we've come to call *fee erosion*.

[12] Billing realization against worked rate represent the percentage of the worked rate that is actually billed to the client.
[13] Collected realization against worked rate represents the percentage of the worked rate that is actually collected from the client in the form of payments.

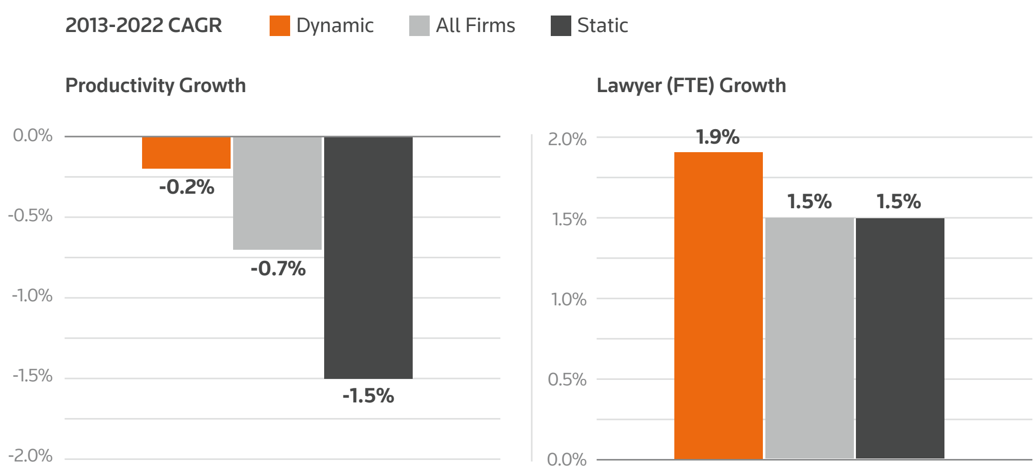
These realization figures present possible areas of improvement for both Dynamic and Static firms. For Dynamic firms, given their generally strong rate-growth performance, they would do well to strive to improve their billing realization, which tends to be highly influenced by write-downs and discounting practices within law firms. For Static firms, they may do well trying to exchange some of their realization advantage for rate growth. By taking a more aggressive position on rate growth, Static firms may sacrifice some of their advantage in terms of realization; however, an additional percentage point or more in rate growth would likely more than justify the cost of a drop in realization.

Static firms should also take a close look at why the gap between their billing and collected realization has been widening. A natural theory might be that clients are pushing back more aggressively on rates in the past few years. But if that was the explanation, it should also be impacting Dynamic firms which, as we have seen, tend to be larger, more expensive, and have a higher pace of rate growth. Given that Dynamic firms have closed the gap while it has widened for Static firms suggests that there is something else at play. Pricing confidence and an ability to communicate value are likely culprits, but the root cause, and therefore the best solution, are likely unique to each firm.

Productivity & lawyer headcount

Units of time are a law firm's stock in trade, and each law firm strives to sell as many units of time as possible each year, as reflected in the firm's productivity measures.

Figure 11: **Productivity & lawyer (FTE) growth**



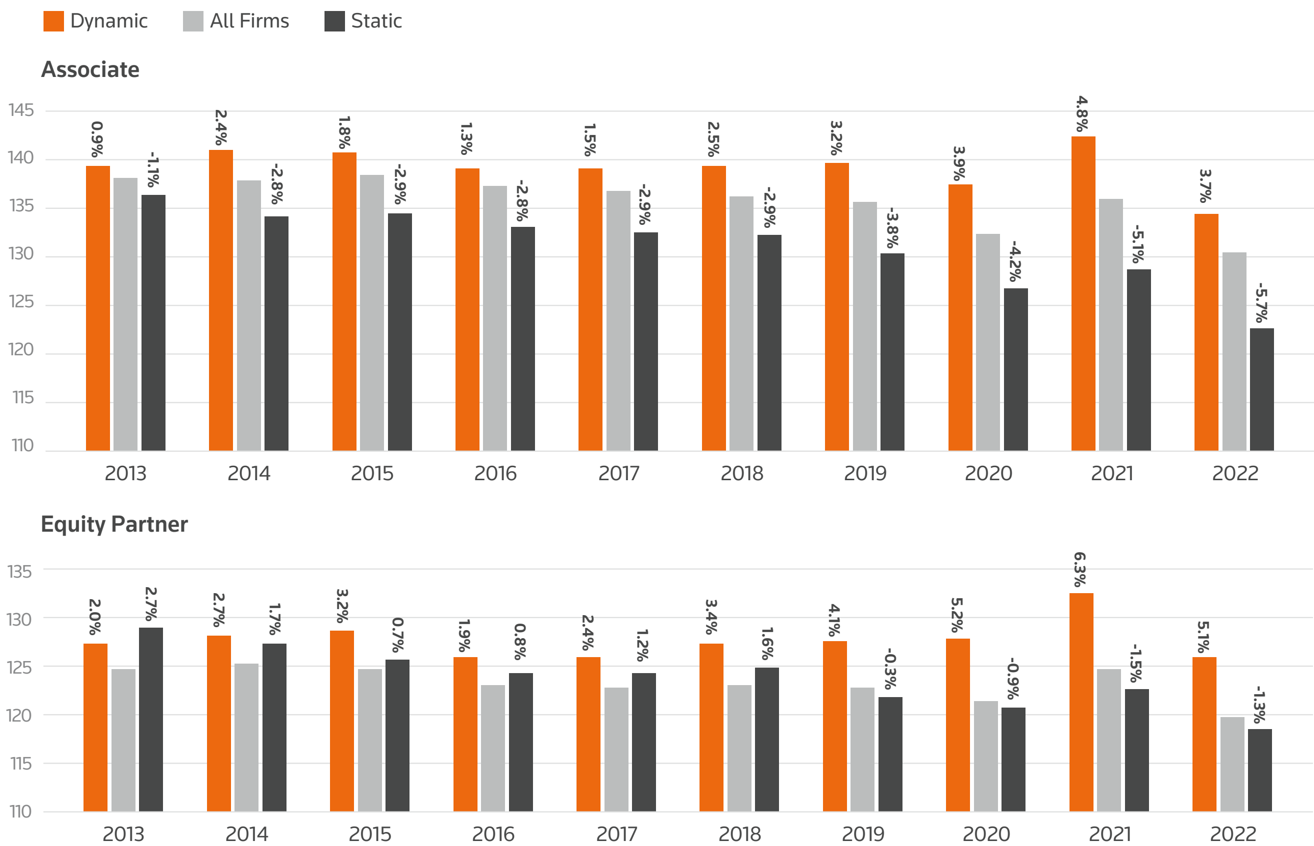
Source: Thomson Reuters 2023

Given overall market trends over the past decade, few firms have experienced true growth in productivity. Instead, most firms have tried to stave off the worst effects of productivity contraction.

Yet, neither Dynamic firms, average firms, or Static firms managed to grow productivity on a compound annual basis, although Dynamic firms were the only segment to push productivity into positive territory in any year other than 2021's surge.

For any firm, productivity is really a function of the number of hours the firm has to spread around relative to the number of lawyers available to do the work. Interestingly, while Dynamic firms did a better job of protecting productivity during the past decade, they also saw the highest compound annual growth in headcount. Even broken down by timekeeper type, Dynamic firms held consistent advantages.

Figure 12: **Hours per lawyer per month**

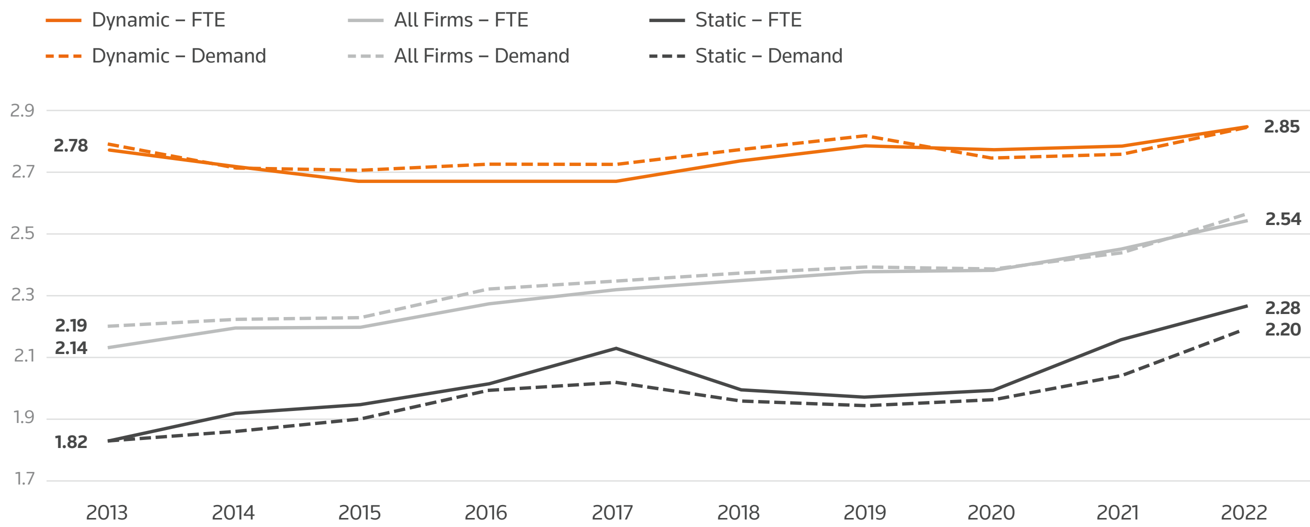


Lawyers. Billable time type; non-contingent matters.
**Percentages relate how much higher or lower Dynamic or Static firms are from that year's all firm average*

Source: Thomson Reuters 2023

In a somewhat surprising finding, Static firms actually outpaced the average law firm in terms of equity partner productivity in the first six years of the decade examined. However, that advantage proved to not be enough to create a long-term profitability advantage, nor was it sustainable. Even before the onset of the pandemic, equity partners at Static firms saw their monthly billable hours fall below the market average. Additionally, associates at Static firms have consistently lagged behind even the market average for productivity, perhaps serving as evidence of a lack of ability to exercise leverage effectively at Static law firms.

Figure 13: **FTE & demand leverage**



Source: Thomson Reuters 2023

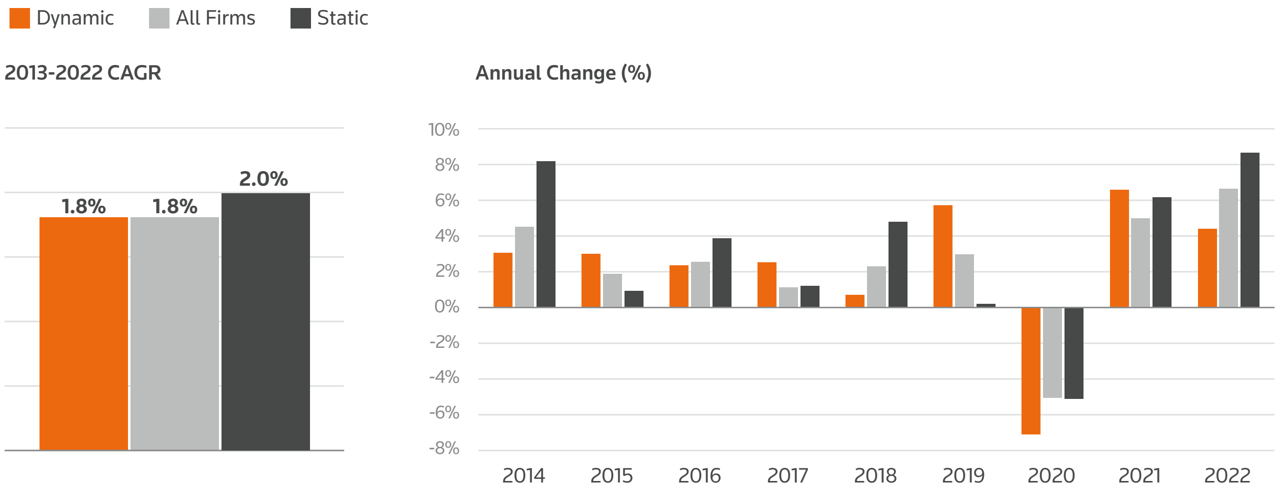
As a result, Dynamic firms enjoy a clear advantage in both full-time equivalents (FTE) and demand leverage. FTE leverage is a measure of equity partner headcount compared to all other lawyers, excluding equity partners, at the firm. Demand leverage is a measure of how work is distributed to equity partners compared to all other lawyers at the firm, excluding equity partners. FTE leverage reflects a law firm's theoretical capacity to push work to lower-cost timekeepers, while demand leverage is a measure of how well a law firm does on utilizing the available theoretical leverage.

In our data, Dynamic firms hold an advantage in both respects, meaning they not only have the capacity to push work down, but they do so to a greater degree, optimizing the profit-making potential of their work distribution. While lower-cost timekeepers typically charge lower billable rates, they also typically carry lower costs for the law firm. As a result, an hour worked, billed, and collected by a lower-cost timekeeper may actually be a more profitable hour than one from an equity partner, even if the topline revenue figure is lower, due to a higher profit margin for that timekeeper.

Expenses

Of course, the ability to generate revenue is only half of the profitability picture; the other key component is the expense side of the ledger. Our lookback over the past decade provided one of the most interesting areas for comparison between high-growth, Dynamic law firms and those firms that struggled to find growth.

Figure 14: **Overhead expense per lawyer (FTE) growth**

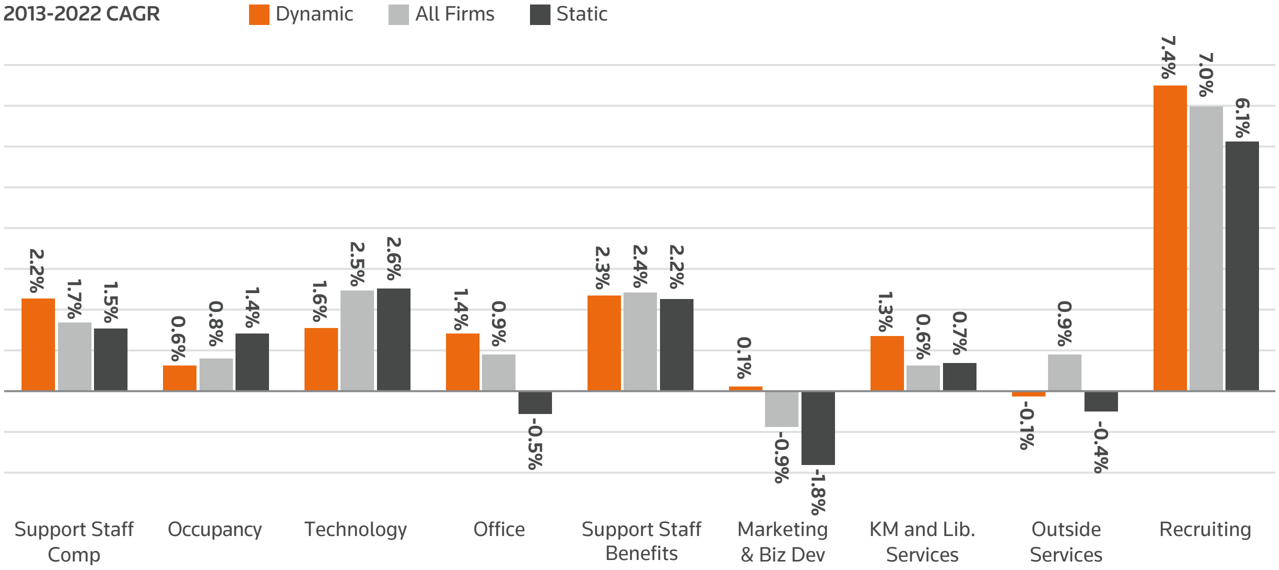


Source: Thomson Reuters 2023

At first blush, Static firms appear to have had a slight advantage with higher compound annual growth rates in their expenses, an observation that could be both positive and negative. The same is true when examining expenses on a per-year basis. On the positive side, it may mean that Static firms have been more aggressively investing in their law firms. On the negative side, it could indicate that Static firms have had to bear a greater expense burden, which might account for their lower profit performance.

In reality, however, it is likely that that real answer is more nuanced and requires closer examination.

Figure 15: **Overhead expense per lawyer (FTE) growth – detail**



Dynamic Net Advantage

Support Staff Comp	Occupancy	Technology	Office	Support Staff Benefits	Marketing & Biz Dev	KM and Lib. Services	Outside Services	Recruiting
0.8	-0.8	-1.1	1.9	0.1	1.9	0.6	0.3	1.3

Source: Thomson Reuters 2023

Digging deeper into the expense categories, we can see Static firms led Dynamic firms in only two categories: occupancy and technology expenses.

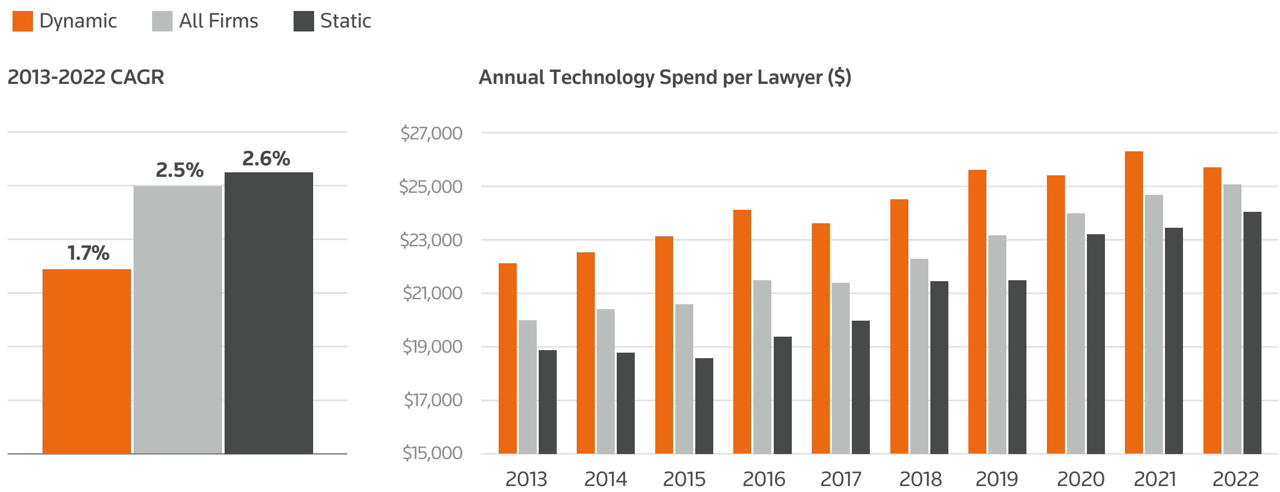
With regard to occupancy expenses, it is notable that this category went up across the board. However, it went up by more than double for Static firms compared to Dynamic firms (1.4% CAGR and 0.6% CAGR respectively). Interestingly, while occupancy expenses — those expenses associated with having office space — increased by a large measure for Static firms, office expenses — those expenses associated with *running* an office — actually declined.

Interestingly, since the beginning of the pandemic, Dynamic firms have seen accelerating contraction in 2021 and 2022 and are perhaps leaning into work-from-home's benefits of smaller real estate footprint and the lesser costs associated with it.

Technology expenses

Technology is another area of expenses that tells an interesting story — one worth a bit more illustration.

Figure 16: **Technology spend per lawyer (FTE)**



Source: Thomson Reuters 2023

Here we again see an expense category where the CAGR figures make it appear as though Static firms have a clear advantage. One could potentially surmise — based on the fact that Static firms outpaced Dynamic firms in tech spend CAGR — that Static firms were making some substantial investments in tech. However, the data based on per-lawyer expenditures tells a different story.

That comparison makes it a bit clearer that this was more of a decade-long effort to catch up to Dynamic law firms. Both Dynamic and Static law firms saw their per-lawyer technology expenses grow over the past decade, but Dynamic law firms have held a pretty clear advantage for the entire period. The gap between the two populations narrowed noticeably, particularly since 2020, which explains the CAGR advantage, but it is also clear that Dynamic law firms have been making more substantial investments for quite some time.

Data from the buyer perspective backs up the conclusion that investment in technology – and innovation in general – results in higher revenues. When clients perceive a firm they work with to be innovative – with or without technology – they will give a greater share of their budget to that firm than a less innovative firm. They are also more likely to recommend the firm to their peers, thus further increasing the potential revenue for the firm.

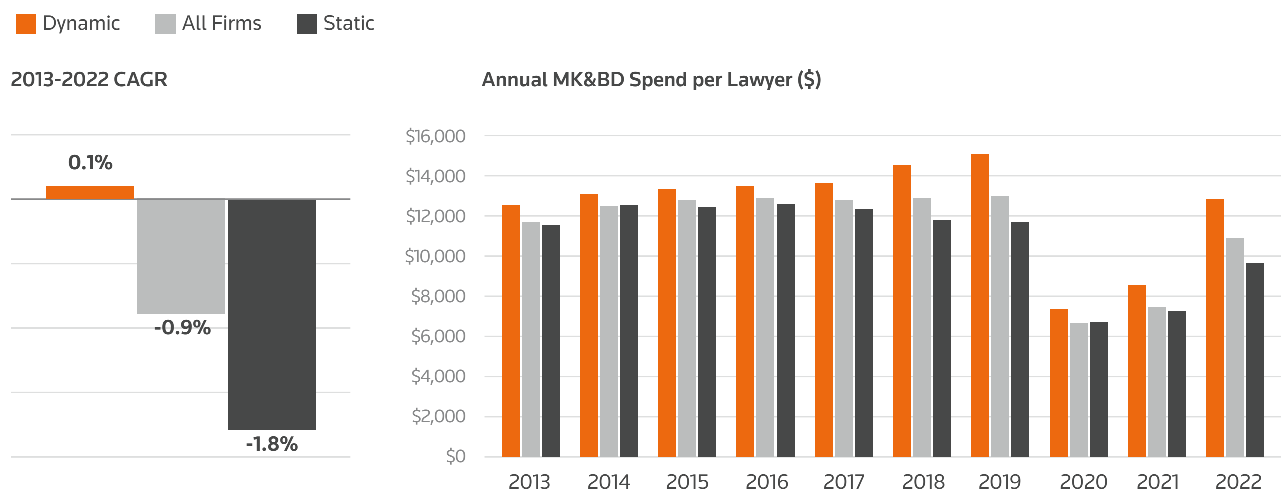
What the per-lawyer-spend figures indicate is that Dynamic firms have a long-held advantage in terms of tech investment. While Static firms have closed the gap, they are not yet in parity. And even if Static firms were to make all the necessary investments to immediately acquire all the same tech components that Dynamic firms already have, Dynamic firms would still maintain an advantage in terms of familiarity, and likely, adoption.

For Static firms, it is vital that they place a long-term focus on acquiring and deploying the correct types of tech that will move their businesses forward in a strategic direction. Deployment and adoption are critical components of this effort.

Marketing & business development expenses

Marketing and business development (MK&BD) expenses are another category where Dynamic law firms have a clear advantage, but one where Static firms seem to be making less of an effort to close the gap. Dynamic firms have grown their MK&BD investments over the past decade only slightly on a CAGR basis (0.1% CAGR), while Static firms, on the other hand, have contracted them.

Figure 17: **Marketing & business development (MK&BD) spend per lawyer (FTE)**



Source: Thomson Reuters 2023

For the entirety of the decade we've examined, Dynamic law firms posted a noticeable advantage in MK&BD investment not only in comparison to Static firms, but also compared to the average law firm. In fact, the trend line from 2013 through 2019 shows relatively steady year-over-year growth in MK&BD investment. The main reason that the CAGR figure is so conservative is a function of how CAGRs are calculated, relying on the first and last year of the examined period. Dynamic firms, like pretty much every other law firm, saw their MK&BD expenses pulled back as a consequence of the pandemic. The 0.1% CAGR is a reflection that MK&BD expenses in 2022 finally exceeded their 2013 per-lawyer levels, although they have yet to catch up to their 2019 high-water mark.

Static firms, on the other hand, have not recovered their MK&BD expenses nearly as quickly. Investment in marketing activities in 2022 was well below even 2013 levels, resulting in a dramatically negative CAGR of -1.8%. Perhaps more explicative of the predicament of Static law firms, however, is not the slow post-pandemic recovery of MK&BD expenses, but rather, for lack of a better term, the static performance of MK&BD expenses from 2013 through 2019. While Dynamic law firms grew their MK&BD expenses by more than $2,500 per lawyer and the average firm grew MK&BD expenses by roughly $1,300, Static firms held their MK&BD expenses essentially flat. In fact, comparing 2013 MK&BD expenses to 2019 in Static firms, we find only a $100 difference.

This may provide some valuable insight into why Static firms struggled to grow demand.

The first goal of MK&BD investment is to raise top-of-mind awareness of the law firm. Research conducted over the course of many years by the Thomson Reuters Institute has shown that top-of-mind awareness is a vital first step toward winning work – a process that will see a firm move along a continuum from awareness to being viewed favorably, to being considered for and ultimately winning work, and hopefully, to a point where the firm has gained enough experience with the client that they garner credibility in the board room and can begin to box out competitors.

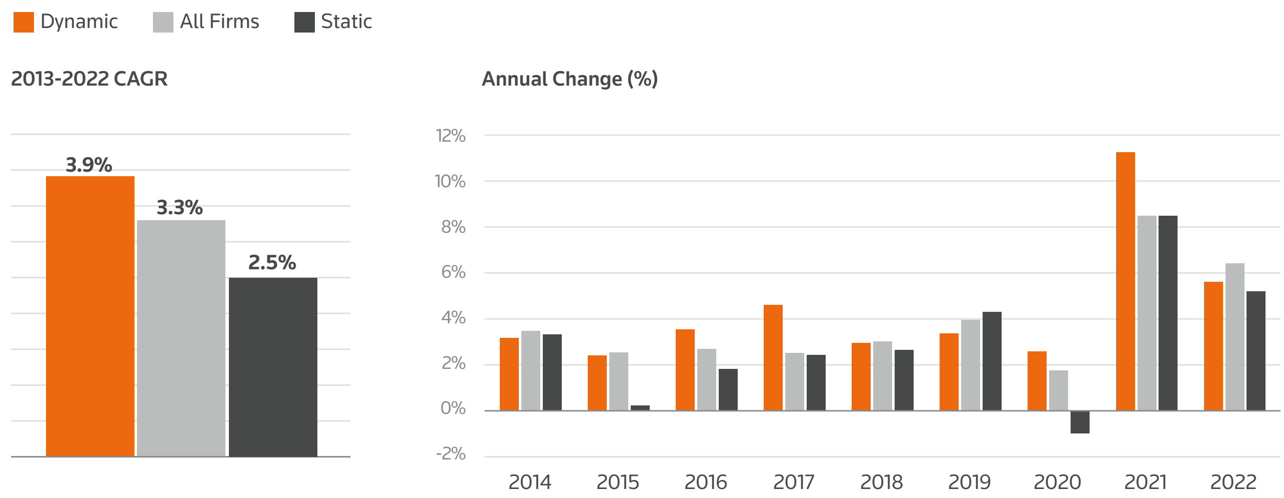
Direct expenses

In the *2022 Dynamic Law Firms Report*, we spoke about an analogy of the choice between investing in a *ship* compared to investing in the *crew*. In that report, we found that Dynamic firms had placed more emphasis on investing in the *crew* — the people within the law firm — largely because they had already made many of the investments in the *ship* — *i.e.,* the firm's infrastructure and operations.

In this most recent analysis, we find that this trend was not relegated to the period from 2019-2021, the timeframe covered in last year' report, but rather has been in place for most of the past decade.

Recall from Figure 16 that Dynamic firms held advantages in nearly every people-centric overhead expense category, such as support staff compensation, support staff benefits, and recruiting. The same is true with regard to lawyer talent.

Figure 18: **Direct expense per lawyer (FTE) growth**



Source: Thomson Reuters 2023

Direct expenses are those expenses associated with lawyer compensation and benefits for the firm's lawyers other than equity partners.

In only two instances in the past decade did Static firms outpace their Dynamic firm counterparts in direct expense growth. And on several occasions when Dynamic firm direct expense growth outpaced Static firms, they did so by a wide margin (for example, in 2017 and 2021).[14]

Some of the difference in direct expense CAGR can be attributed to the fact that the majority of Dynamic law firms were also Am Law 100 law firms, which in large part drove the salary increases seen in 2021 and 2022. However, salary increases were felt across the market as well.

Clearly, it appears that Dynamic firms have made the choice for some time to increase their investment in their people, both their fee-earning timekeepers and their support staff.[15]

[14] It must be noted that both 2017 and 2021 are time periods closely associated with aggressive changes to associate compensation pay scales driven by large law firms, but which had ripple effects throughout the legal market. *See*, "Breaking: NY To $180K!!! Cravath Raises Associate Base Salaries!!!," Above the Law, June 6, 2016. https://abovethelaw.com/2016/06/breaking-ny-to-180k-cravath-raises-associate-base-salaries. *See also*, Elite "Biglaw Firm Makes Cravath Salary Scale Magically Appear For Associates," Above the Law, March 8, 2022. https://abovethelaw.com/2022/03/linklaters-cravath-match-2022.

[15] This comparison does not rely on the actual cash compensation figures, the per FTE expenditure on benefits, or any other value relying on actual dollar expenditure figures. Instead, this comparison is based on the pace of growth in these categories between the two populations.

Lessons learned & conclusions

Throughout the years we have prepared the *Dynamic Law Firms Report*, it has been a perpetual challenge to not fall into the trap of creating a "parade of horribles," picking on Static law firms as examples of behaviors to avoid. Instead, we endeavor to focus more on behaviors that any firm can emulate to improve their own prospects for growth, particularly since history has demonstrated that firms of any size, geography, or practice mix can be high-growth law firms.

That said, it is difficult to avoid the inclusion of a few cautionary tales. What follows are suggestions to both groups on what to avoid as well as what to emulate.

For Static law firms

Don't be afraid of more aggressive rate growth — The findings of this report indicate that Static law firms have, almost habitually, trailed the market in terms of rate growth. This may be the result of lack of viable comparative data in the attorneys' hands, lack of pricing training, lack of confidence on the part of lawyers, or even a conscious effort to maintain a position in the market as lower-cost alternatives.

As to a lack of comparative data, such data exists, and firms would do well to avail themselves of it. Lawyers are creatures of evidence and precedent, and when presented with evidence that other firms are charging comparatively higher rates, along with the precedent of how those firms are performing financially, that may motivate attorneys at Static firms to get more aggressive with their rate structures.

Regarding lack of pricing training or confidence, various studies have found for years that less than half of lawyers receive any sort of pricing or sales training from their law firms. Such efforts would be an excellent place to start for law firms looking to protect rate integrity.

And while an attempt to position a firm as a lower-cost alternative may be meritorious, it does not appear to be bearing fruit for Static law firms. If slower rate growth is an attempt at capturing market share, one would expect some improvement in demand — which based on the data, is not in evidence.

Also, while Static firms are at disadvantage in terms of rate growth, they have a comfortable margin over their peers in terms of realization. This gives them something to potentially sacrifice in exchange for higher rate growth.

So, while raising rates more aggressively may come with additional costs, it may well be worth it.

Close the billing-to-collected gap — Dynamic firms have seen the gap between their billing and collected realization narrow over the past few years, meaning clients are paying a larger share of their invoiced amounts.

At the same time Static firms have seen the gap between their billing realization and collected realization widen. The explanation for this likely varies by firm, but Static firms would be well advised to investigate the root causes for declines in collected realizations relative to billing realizations and seek to close that gap.

Better utilize leverage — As we saw in Figures 13 and 14, Static firms generally have issues with leverage, which is a key tool that allows law firms to push work to lower-cost timekeepers to improve profit margins. This strategy carries benefits, even if it takes the lower-cost timekeeper marginally longer to complete the work.

The problem for Static firms is they do not necessarily have a wide enough leverage model to effectively support such tiering of work. It would be much more effective for Static firms to build a firm structure in which leverage is more readily available by boosting associate ranks, and then exercising that newfound leverage ability through the actual distribution of work via demand leverage.

Continue closing the technology gap — Static firms have undertaken a decade-long effort to close the technology investment gap between themselves and their Dynamic law firm counterparts. This effort is laudable, but alone, it may not be sufficient.

Given the long-term structural advantage that Dynamic law firms have, simply achieving parity may not be enough to close the tech gap. Static firms must demonstrate that they have a competitive tech stack available to their lawyers, while also ensuring that their lawyers are sufficiently well versed in using the tech and have meaningfully adopted the available tools.

Ensure sufficient investment in people — Dynamic firms also have a clear advantage in terms of how they've invested in their people, both their timekeepers and support staff. Static firms must ensure that they are making sufficient investments in their people to attract and retain the staff they need to execute the firm's strategy going forward.

This does not mean simply paying people more. Rather, it means understanding what matters to the people whom the firm is looking to attract and retain. Not every lawyer or professional staff member wants the pressure associated with traditional law firm life. Many are looking for meaning in their work beyond compensation.[16] Understanding what the people who work for the firm personally value will help the firm deliver a work environment that is enticing and motivating.

For Dynamic law firms

Improve billing realization — Dynamic law firms have a decided advantage in terms of their ability to grow rates and convert invoices to cash collections. However, they may be leaving too much potential revenue on the table even before the invoice is sent to the client.

Billing realization for Dynamic law firms has yet to recover to pre-pandemic levels. In contrast, Static law firms never really dipped. The gap between billing realization at Static law firms and Dynamic law firms currently sits at more than 2.5 percentage points, despite having been less than 1 percentage point for most of the past decade.

Dynamic law firms would do well to seek more aggressive recovery and growth in their billing realization, particularly because they have been seeing the gap between billing and collected realization narrow. That means that any improvement in billing realization is quite likely to lead to a corresponding improvement in collections and greater revenue.

Don't confuse size for success — In the legal market, it can be tempting to think that the largest firms are the most successful. Since its inception, the *Dynamic Law Firms Report* has shown this is not necessarily the case. With every iteration, we see a number of Midsize law firms among the Dynamic firms population, and large law firms among the Static population.

For law firms, demographics are not destiny. Law firm leaders should not assume that simply because their firm is large that they are assured of high growth. Given current market trends in 2022 and early 2023, it seems quite likely that future iterations of this report will find an increasingly larger share of Dynamic firms coming from the Midsize ranks, as Midsize law firms have been among the highest growth firms in terms of demand even as they've increasingly raised their rates over the past few years.

[16] For a more thorough examination of what attributes create a law firm in which lawyers are happier and more likely to want to work, see *Law firms competing for talent in 2022*; Thomson Reuters, 2022; available at: https://www.thomsonreuters.com/en/reports/law-firms-competing-for-talent-in-2022.html.

Don't assume past is prologue — While Dynamic law firms have experienced many positive outcomes over the past decade, they would do well to remember that there is no guarantee this trend will continue.

The success of Dynamic firms to this point is largely the result of carefully orchestrated and executed strategies and investments. A loss of focus on the part of Dynamic firm leaders could easily result in a shift of fortunes.

Anticipate and stay ahead of trends — Dynamic law firms have been leaders in a number of key areas, such as engaging in a much more pronounced shift toward lucrative transactional practices, and investing more heavily in technology and their support and professional staff.

As the legal market continues to rapidly evolve, however, firms will need to continue to demonstrate a high degree of agility in the adaptation of their strategies and practices. Dynamic law firms have done a good job of responding to and leading change in the legal market thus far. Their ability to react intelligently and quickly will be key going forward, as clients will increasingly look for cost-effective, value-driven outside counsel to serve their changing needs.

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