



The Future of the Law Firm .

No time for bystanders amid AI's increasing influence



Thomson Reuters
Institute

Executive summary

Each year, as we speak to numerous leaders of large global law firms, AmLaw 200 firms, and major independent law firms, themes emerge from these in-depth interviews that shed light on what law firm leaders see as their top priorities and the pressures they face as they navigate the coming year.

Most recently, one strong undercurrent came through in almost every conversation we had, even if some law firm leaders were reluctant to admit it or were even aware of it. As they described their priorities and pressures, it's clear that law firm leaders know on some level that they need to act decisively amid an environment of tremendous change.

Law firm leaders understand where this sweeping feeling of change is originating, as major macro-trends — rising geo-political and economic headwinds, societal shifts, and of course, the impact of advanced technology — become top of mind. Further, many of these macro-trends directly impact the chief areas of leaders' responsibility, such as gaining legal demand, managing client relationships, addressing talent concerns, and assessing the impact of new technology on their firms' existing systems. Taken together, this is a potent mix that could alter how law firm leaders of the future approach the operation of their firms and the overall business of law.

No longer can law firms hover on the sidelines, waiting for others to try out new ideas and see what works.

No longer can law firms hover on the sidelines, waiting for others to try out new ideas and see what works. Indeed, at this time in the legal industry, there is simply no room for bystanders.

To better support these leaders as they navigate this evolving environment, the Thomson Reuters Institute wanted to more fully explore the impact of generative AI (GenAI) on the law firm business model.

We chose this subject because, while managing technological adoption within a law firm is tied to leaders' major responsibility areas, it is also strongly intertwined with other key responsibilities, such as how firms communicate with clients, entice new hires, and price their legal services in an AI-driven world. Technology influences all these areas and Generative AI is emerging as a significant force in reshaping them.

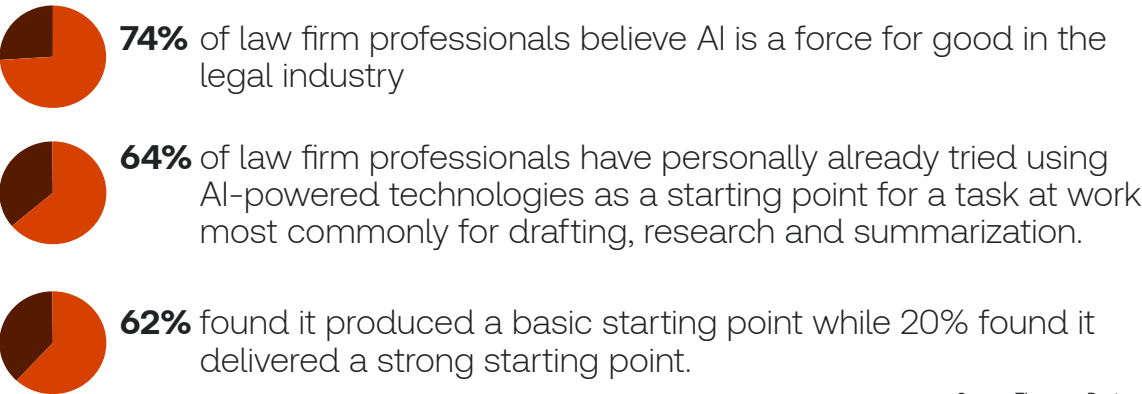
Not surprisingly, our recent *Future of Professionals*¹ report found almost 8 of 10 law firm survey respondents believe that the rise of GenAI is most likely to have a *high* or *transformative* impact on the legal profession. Indeed, the rise of GenAI and its incorporation into legal work is clearly the most impactful force that law firms will face over the next five years — more impact than economic factors, geopolitical instability, or members of Generation Z entering the workforce.



¹ <https://www.thomsonreuters.com/content/dam/ewp-m/documents/thomsonreuters/en/pdf/reports/future-of-professionals-report-2024.pdf>

Current state of play

To see where the legal industry is going, let’s look at where it is currently in regard to GenAI adoption. In May 2024, almost three-quarters of law firm professionals said they believe AI is a force for good within the industry, and almost two-thirds said they have tried using GenAI as a starting point for contract drafting, research, and document summarization.



Source: Thomson Reuters 2025

Where does your firm fall on the AI adopter scale?

We also asked law firm professionals to describe their firm’s current approach to adoption of AI-powered technologies from a list of five statements, based on where the firm currently stands.

Statement chosen ...	Classified as ...	Grouped as ...
Aiming to lead the way, identifying new opportunities to use AI-powered technologies before anyone else	Innovator	AI Leaders
Aiming to be among the first to utilize new technologies as soon as they are available in the market	Early adopter	
Utilizing new technologies once there is evidence of their successful use by others in the industry	Early majority	AI Followers
Waiting until technologies become mainstream and proven, with a critical mass of use across the industry	Late majority	
Not using new technologies in favor of existing tried and tested manual methods	Laggard	

We then grouped those classified as Laggards and Late Majority as *AI Followers* and those classified as Early Adopters and Innovators as *AI Leaders*, and throughout this report we will refer to those law firms that are laying the groundwork now for GenAI as AI Leaders, and those which are not as AI Followers.

Already, we’re seeing that AI Leaders are gaining pace and significant benefits compared to AI Followers.

In comparison to AI Followers, AI Leader organizations are associated with:	
Already seeing benefit of AI	<ul style="list-style-type: none">• 94% say their team is already seeing the benefits of using AI-powered technologies.• Almost twice as likely as AI Follower organizations to be seeing benefits (51%).
Greater AI-driven revenue growth	<ul style="list-style-type: none">• 70% believe AI adoption is going to drive revenue growth for their organization over the next 12 months.• More than three times that of AI Follower organizations.
Employees seeing the importance of AI	<ul style="list-style-type: none">• 75% believe moving more slowly than the market would have a negative or catastrophic impact on their organization.• More than double the rate of AI Follower organizations.
Overwhelmingly positive sentiment towards AI	<ul style="list-style-type: none">• 94% believe AI is a force for good in their profession.• One-third of those at AI Follower organizations say AI is NOT a force for good.
Higher overall employee engagement & retention	<ul style="list-style-type: none">• 68% say they will definitely or almost definitely stay at their organization in the next 12 months (48% at AI Followers).• Only 6% say they will probably or definitely leave – just over one-third the potential attrition rate of AI Followers (17%).

Indeed, those firms that find themselves behind the Early Adopter crowd may have missed the chance to be an AI Leader if they haven’t already started the process of their firm’s AI adoption and transition. And unfortunately for them, we’re seeing the gap between AI Leaders and Followers widening at an accelerated pace.

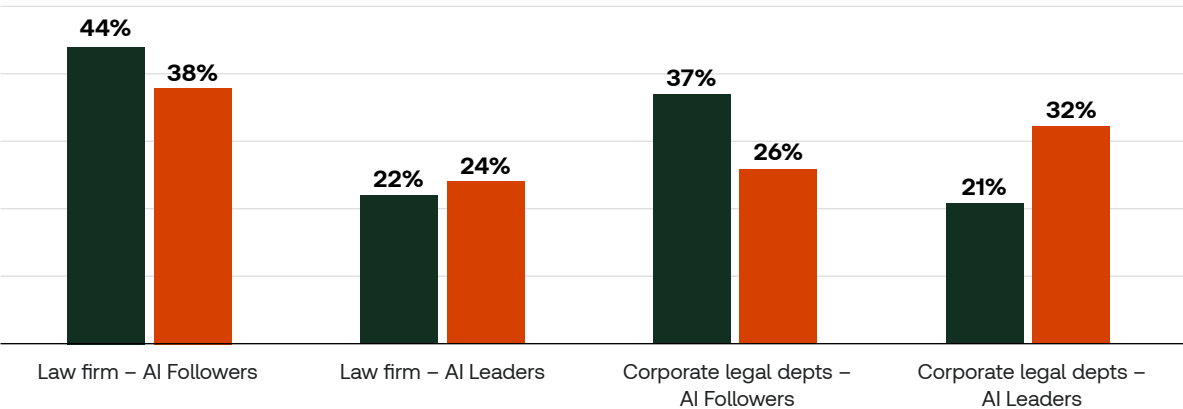
Clients are moving faster than their law firms in GenAI adoption

However, the real impact may come from how corporate legal departments are driving this movement forward.

Over the six-month period from April to October 2024, corporate legal departments outpaced law firms in advancing AI leadership. They not only reduced the number of AI Followers but also increased AI Leaders more rapidly, resulting in a higher proportion of AI Leaders than AI Followers—a milestone law firms have yet to achieve.

Clients are outpacing law firms in GAI adoption

■ April 2024 ■ October 2024



Source: Thomson Reuters 2025

Traditionally, clients used law firms to bridge expertise or capacity gaps within their legal departments. However, with high fees and increasing workloads, corporate general counsel (GCs) have been moving to outsource volume work to more cost-effective providers and handle more tasks in-house. This shift away from relying on law firms for capacity towards valuing their brainpower is expected to grow with the advent of GenAI.

When GCs discuss the potential impact of GenAI on how they work, they focus on two main areas:

- First, they see it as a tool to increase efficiency, transforming their legal departments from cost centers to strategic assets by automating routine tasks and freeing up time for higher-value work.
- Second, GCs must adapt to GenAI's effects on their business models and the legal complexities it introduces, such as launching new AI-powered products, setting responsible usage policies, and ensuring regulatory compliance. This shift requires a strategic mix of legal and technological expertise, leading GCs to work more with specialized external counsel to help them navigate the complexities of AI advancements effectively.

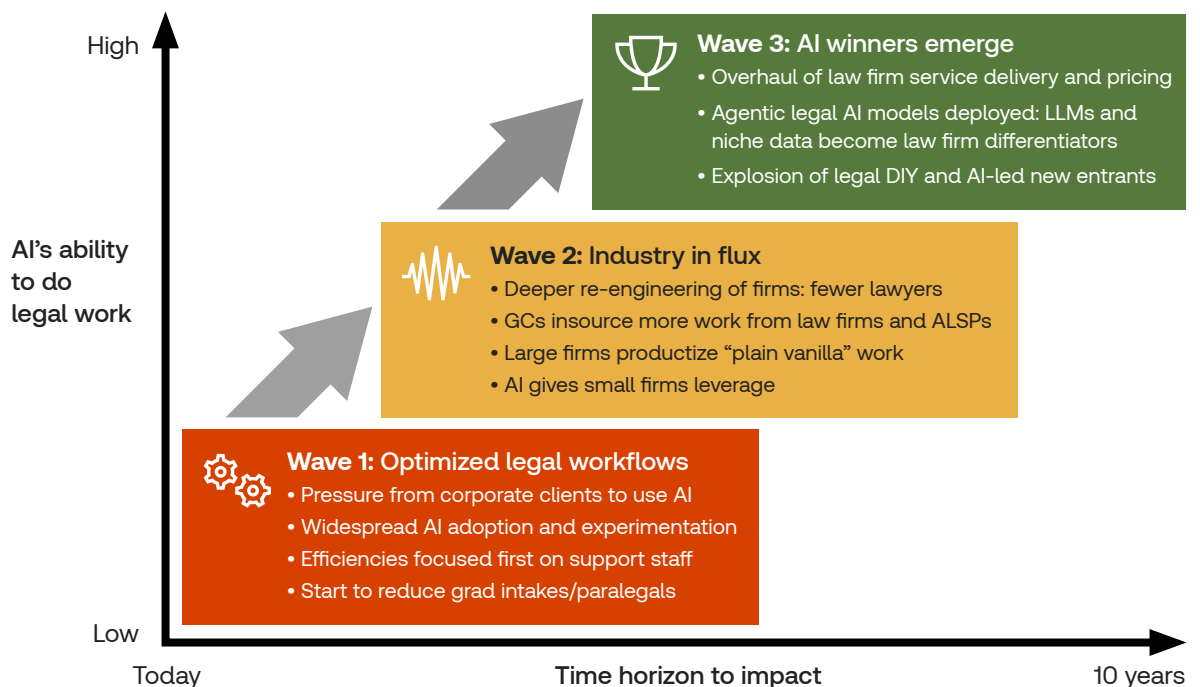
For law firms, this evolution means a shift in demand from standard legal tasks to more complex, strategic issues requiring deeper expertise, especially in domains affected by GenAI. Additionally, clients now expect law firms to engage more collaboratively and creatively, addressing challenges tied to emerging technologies and regulations.

Predictions: What the 3 waves of GenAI impact will look like

When we envision how AI-driven technologies will reshape the legal industry, we see three overlapping waves.

The effects of these waves will not be linear. Some law firms, of course, will move faster than others; and even within each firm, progress could vary as some practice areas with volumes of work which are more susceptible to automation — such as real estate, for example — could radically change using GenAI at a much faster pace than other practice areas, such as litigation.

Evolution of the legal industry will happen in three overlapping waves over 5-10 years



Source: Thomson Reuters 2025

Now, let's take a look at what each of these waves of change will do.

Wave 1: Optimization of legal workflows (1-2 years)



This first wave is characterized by widespread AI adoption, which focuses on optimizing workflow and efficiency.

Law firms will feel pressure to use AI to reduce cost as their clients' adoption accelerates. This is generally where we are now, and we can already see the resulting shifts in law firms' cost base, in power and influence between clients and firms, and in how firms are reducing support-level hiring.

Yet, during this time, law firms see demand continue to grow as clients' businesses are disrupted by AI, requiring more and new types of legal support. While it may appear nothing is changing, the groundwork is being laid internally as firms and their clients start to gain access to first generation GenAI tools and solutions.

As this wave continues, GenAI use becomes table stakes, and corporate law departments more confidently flex their AI-driven efficiency both with outside law firms and internally with their C-Suite. As this wave begins to morph into the next one, GenAI use cases intensifying pricing pressure and impacts on hiring.

Wave 2: Legal market disruption and law firm re-engineering (3-5-plus years)



This second wave is characterized by the reshaping or restructuring of law firms as AI-driven tech is integrated into workflows in more strategic ways.

As law firms develop new business lines with varying combinations of tech-enabled tools and human oversight, the result will likely mean fewer lawyers and more technology adoption. Firms also make a deeper investment in technology, project management, and change-management expertise.

On the client side, GCs rethink their resourcing strategy and keep more work in-house. As these trends begin to seep into the larger legal market, smaller and more specialized law firms gain leverage with AI to take on larger scale and more complex work.

As AI becomes more capable and enables deeper innovation in legal service delivery, law firms begin to re-engineer their business models to remain competitive, leading to several key developments, such as an increase in law firm consolidation and a narrowing of many firms' pyramid structure as fewer lawyers are hired. Critically, the way legal work is priced is radically altered. As AI enables even more time savings, firms develop fee structures that better reflect the value of their legal expertise and advice.

Now the changes are evident in the competitive landscape and middle market firms feel the pressure most as plain vanilla work becomes productized and new entrants offer AI-enabled products and services.

Wave 3: Disruption of legal services landscape and AI winners emerge (5-10 years)



This wave is characterized by business model transformation, as clear AI winners emerge, and bifurcation develops in the competitive landscape.

As clients will now be able to manage a much greater volume and range of legal work internally, their need for law firms will refocus more toward their most high stakes and complex matters, geo-specific advice, and areas of new and emerging expertise. These AI winners will therefore include a smaller number of top-level law firms that successfully combine quality, a strong brand, and strong financial performance including profitability; global law firms that combine quality with scale; and specialist firms that can offer clients AI-enabled solutions and deep expertise. Throughout the rest of the market, smaller more nimble law firms move up the value chain along with new tech-enabled entrants, while the broad middle of the market is squeezed, potentially leading to consolidation.

The way in which legal services are bought and delivered will be overhauled as new AI-powered delivery models with minimal human oversight – including agentic AI – are more commonplace. Further, self-serve legal service products appear, eliminating the need for human intervention entirely in some service lines. Across the legal industry, it's a time of business model transformation and cross-industry disruption, with some dislocation of legal professionals in some areas of legal services.

Throughout all of this, however, it's important to remember that AI works best when it *complements*, rather than substitutes for legal professionals. And of course, so many of these developments we've envisioned will raise questions in and of themselves which firms will need to address. One thing is clear; GenAI will have profound impact — as seen in these overlapping waves — on the law firm of the future.

Implications: What GenAI will ultimately mean for law firms

Clearly, GenAI will have an impact on almost all the key functions of how a law firm works today, especially around establishing new service offerings, interacting with clients, and approaching talent challenges — and this does not touch on how firms invest in and adopt new innovative technologies.

All said, we are closer than ever before to a new economic model for law firms of the future, offering clients a menu of traditional and new legal services while relegating more commoditized work to AI processes with minimized human oversight. With a focus on high-value and more human-centric advisory work, future law firms will have to offer a variety of pricing options, including premium hourly rates, alternative fee arrangements (AFAs), and even subscription services for more self-service AI-enabled legal solutions.

While this metamorphosis may appear daunting — and, no doubt, it is — those law firms and their leaders who strive for success in this rapidly evolving market have little option other than to embrace these changes. As stated at the outset, law firms can no longer sit on the sidelines and wait to see what works. At this point in the legal industry, there is no room for bystanders.

Yet, big questions — perhaps some of the biggest questions — remain: What will it take for law firms to adapt successfully? And, more importantly, what actions can they take now to best prepare them for success in the future?

While there are many ways for firms to adapt to an AI-powered future, we predict winners will be those firms with strategic clarity — who know and can clearly articulate their value proposition and ambition — and that are seriously planning for this now. Those firms that *wait and see*, especially those in the broader middle of the legal market, will lose ground to competitors — first on market share and clients, then on the ability to drive profit, and finally on attracting and retaining top talent.

The key to forestalling this slide into irrelevance will require law firms to undertake a lot of thoughtful and well-planned-for change. While different firms will choose different paths to success, we have identified several key transformations for firms to leverage as they plan to adapt their own business model to the new world:

- **Rethinking legal pricing to unlock greater demand at higher margin** — With AI-driven assistance, we expect that classic legal services will be delivered using as much as 40% fewer billable hours on average. That means law firms will need to focus more on higher value advisory work which allows them to increase their hourly rates faster than inflation, by 10%-15% or possibly even by as much as 20%. This increase in value capture will help to partially offset the decline in volume of hours where work is done faster. In tandem with this, firms will need to adopt more fixed price AFAs to offer predictable pricing, which can be beneficial compared to traditional billable hours. This approach not only provides clients with transparent costs but also allows firms to set fair, competitive rates.

Further, we expect firms to shift some of their existing lawyers into winning additional business, which will allow them to take market share from AI Follower firms.

- **Developing tech-based services with minimal lawyer oversight** — As AI becomes more powerful and capable of doing much more, we predict that as much as 20% of current legal services could become highly commoditized on average. Of course, this could be higher for firms which rely more on work types that are more susceptible to automation where there is a higher proportion of repeatable and process-driven work. For these highly commoditized services, we anticipate the traditional human-centric service model to flip to a technology-centric model, and we predict that services could be delivered with 80% fewer billable hours on average. When this happens, firms will need to reduce pricing for these matters by as much as 50% and move entirely towards fixed AFAs or tech-based pricing models.

Despite this disruption, we predict that such services will still generate a higher margin per matter than they do today. Further, we expect that the lower price point will stimulate additional demand as clients bring more matters to law firms.

- **Innovating new services** — As classic and commoditized legal services get quicker and cheaper, clients will look for more profound and proactive insights from their outside law firms. This offers firms an opportunity to launch new value-added human-centric services, trading on the deep expertise, experience, and client relationships of their top lawyers. We expect such services to be priced at a higher hourly rate (roughly 25% to 40% higher) compared to classic or commodified legal services — and we expect these services to account for up to 10% of all billable hours on average.

In addition, firms' other new services could include combining some members of their legal team with new technology or data science teams, creating a potential subscription model for AI products with embedded expertise that can be used by clients on a self-service basis. We expect such new services to account for 5% of all billable hours on average.

- **Evolving the resourcing model** — Finally, as legal work takes less time, a firm's capacity increases and law firms will need to make changes to their resourcing model and recruiting strategies.

For many, the traditional pyramid model may largely continue but with reduced leverage ratios closer to 2:1, rather than today's 3:1 – a “rocket ship” model – achieved by reducing associate intake over time and a more aggressive focus on hiring lateral talent at a more senior and experienced level.

Some firms will redeploy excess capacity to business development or to fill new business lines. And, for a small number of firms where highly specialized expertise is core to their business model, the risk of relying on talent acquisition may be too great and they will keep the traditional resourcing model intact, preferring to grow their own talent organically.

Today's law firm economic model

Illustrative large law firm today

Role	Headcount	Hours billed	Rate
Equity Partner	250	1,800	\$1,500
Income Partner	90	1,800	\$1,000
Senior Associate	135	1,800	\$750
Junior Associate	325	1,800	\$400
Paralegal	125	1,300	\$250
Total	925		

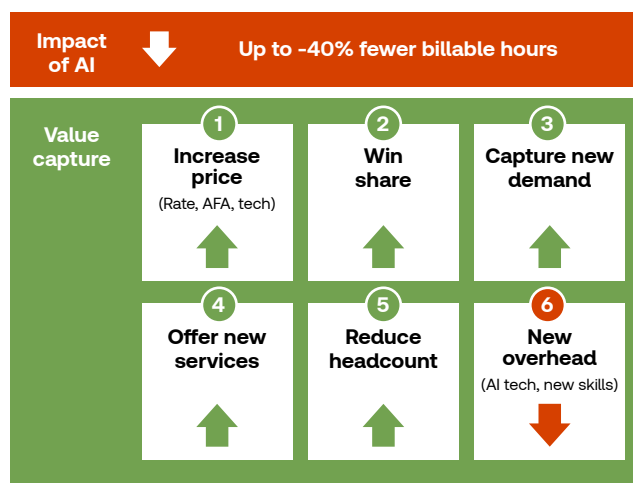
Illustrative P&L

Income	~\$1,300M
Overheads	~\$680M
Profitability	~\$610M
Profit per Equity Partner	\$2.5M
Leverage ratio	2.7

Source: Thomson Reuters 2025

New economic model

Illustrative scenario: large law firm with AI



Illustrative P&L

Income	~\$1,600M	↑
Overheads	~\$680M	↔
Profitability	~\$910M	↑
Profit per Equity Partner	\$3.6M	↑
Leverage ratio	2.4	↓

Source: Thomson Reuters 2025

Of course, this new economic model for the law firm of the future has its detractors, many of whom worry that revenue will be lost and unrecoverable once AI enters the equation in full. Others worry that increased competition will result in law firms being unable to raise rates despite providing superior value, or that corporate law departments may tap into their own AI-enabled technology to in-source a significant amount of work. Finally, some wonder if continuous tech investments will erode law firms' profits over the long term.

These are undoubtedly valid concerns. However, we believe that these concerns can be mitigated as AI early movers undertake the next steps needed to drive meaningful change and prosper at the expense of AI Followers.

Next steps: What law firm leaders should consider and do now

Managing the amount of change that will impact an individual law firm may be daunting, but there are steps that law firms can take now to gain a competitive advantage in the AI-driven world ahead and avoid being left behind.

While it's going to be critical to create new service delivery models, rethink pricing structures, and invest in the training and tools as mentioned, it's important to take a long-term view that considers all necessary initiatives in a strategic way. And one method to assure strategic success is to keep clients at the core of all decision-making, assessing their evolving needs and listening actively.

Yet, because such strategic clarity is required — especially for the sake of maintaining a clearly defined value proposition to clients — firm leaders must consider some more complex and thoughtful steps that their firms need to take, including:

- **Ensuring the ability to make sustained tech investments** — Given that law firms effectively operate on a yearly basis without accumulating large capital pools for re-investment, finding a way to fund multi-year investments in new tech is critical.
- **Promoting user adoption of new tech** — It is frustrating when an investment in costly technology goes largely unused; however, a consistent commitment to training (both initially and on-going), along with the identification of best practices will help guarantee that tech investments won't wither.
- **Bringing clients along** — Managing AI-driven changes in the firm's pricing model, the portfolio of offered services, and permission to use AI in concert with key clients will make communication with clients essential. If firms wait for their clients to take the lead, then it will be clients that will be setting expectations or moving forward without the firm.

Committing to change

All of these more complex steps — as well as the decisions ahead around pricing, service offerings, hiring, and training — have one factor in common. They all require a commitment to change that is necessary for any law firm that wants to thrive in an AI-powered environment.

To date, the legal industry has been relatively stable, undergoing evolution in the form of incremental change rather than transformational. Now, GenAI has potential to be a major catalyst and for firms to be among the AI winners that will emerge, there are several key components to a successful transformation when preparing for a GenAI future:

Key components to a successful change management

	Mindset:	Embrace Change
	Measure:	Current State and Aspiration Analysis
	Map:	Strategy and Operations Planning
	Mobilize:	Hiring and Role Definition
	Mandate:	Implementation and Adoption Strategy
	Manage:	Ongoing Operational Rigor
	Monitor:	Continuous Improvement and Compliance

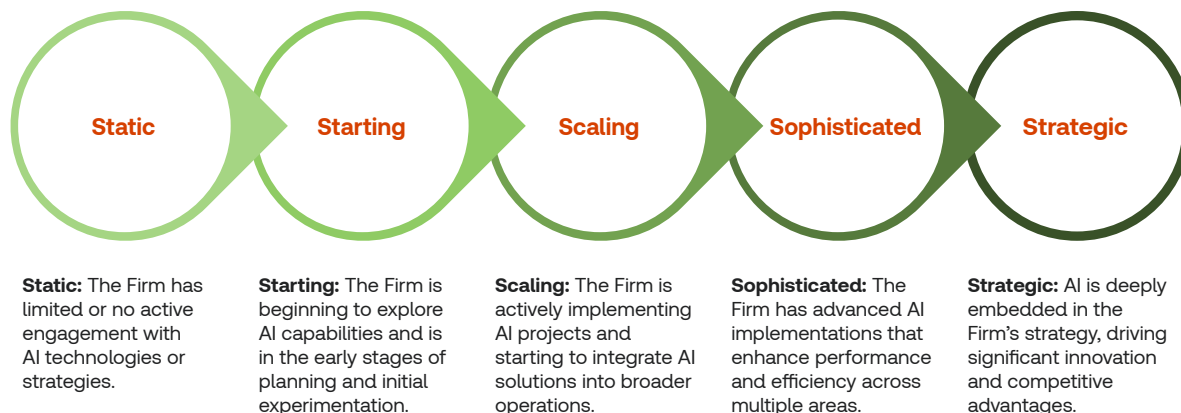
Source: Thomson Reuters 2025

Law firms must start with a **mindset that accepts and embraces change** before considering what actions will be necessary to drive real change and recognize the need for a fundamental shift in approach, moving beyond incremental changes to embrace comprehensive transformation influenced by GenAI. Once these pieces are in place, **measure the firm's current state of readiness for AI transformation** using a tool like TR's AI Maturity Scale (see next page) and define clear, strategic objectives for AI adoption that align with long-term competitive advantages to understand what it will take to get there in terms of investment, operations and talent.

Then consider and **map out what it will take to operationalize change internally** which is a large and complex undertaking including questions such as: How do we ensure operational continuity? How do we ensure security of client data? How do we plan to finance this project? To **mobilize this roadmap and drive real change** requires commitment and diligence over the longer term which - for most firms - requires hiring new roles including change managers who have the skillset needed to bridge current capabilities with future needs and ensure smooth integration of AI across the firm.

For the roll-out, a combination of "work with the willing" and a top-down **mandate will lead to the most successful firm-wide approach to change**, outpacing those firms which take a solely grass-roots approach and achieve only incremental change. Once the initial enthusiasm wanes, diligence is required over the longer term to **manage change with operational rigor and keep stakeholders engaged**. And finally, closely **monitor progress and adjust course** along the way, in line with changes in technology and regulation to ensure optimal AI integration.

Law Firm AI Maturity Scale



Source: Thomson Reuters 2025

Conclusion

If law firm leaders take anything away from this paper, we hope it is the understanding that — despite similar previous pronouncements about innovative technology — the ground really is shifting because of AI and GenAI and how they are fundamentally impacting the way legal work can be done.

As a good majority of legal professionals envision, GenAI is going to have a transformational impact on how their organizations operate. And for law firms — already confronting issues of pricing stability, talent retention, and competitive pressures — the coming waves of change could pound the beach especially hard.

Because managing AI adoption is so strongly intertwined with other key aspects of running a law firm — such as communicating with clients, enticing new hires, and pricing AI-driven legal services — firm leaders will find themselves facing AI-powered change on a number of fronts.

However, face these changes they must because today, no law firm can afford to sit on the sidelines or be an idle bystander as the legal world revolutionizes around them.

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