

Law Firms Strategize for Growth and Navigate Challenges in 2024



In a recent report, major law firms are gearing up for expansion in their bankruptcy and litigation departments, while simultaneously grappling with challenges like talent acquisition and the evolving landscape of generative artificial intelligence (AI). The findings in the annual client advisory by Citigroup's Citi Global Wealth at Work Law Firm Group and Hildebrandt Consulting indicate a positive outlook for law firms in 2024 despite a year of modest revenue and profit growth in 2023.

Performance Metrics

According to the report, law firms experienced an average revenue growth of 4.8% in the first nine months of 2023. However, client demand showed a slight dip of 0.7%. The time firms took to collect client bills increased by 5%, and average lawyer billing rates surged by 8.2%.

Varied Declines in Client Demand

The decline in client demand was not uniform across all segments. The top 50 highest-grossing firms in the United States, as ranked by The American Lawyer, witnessed a 1.2% decrease in demand on average. This trend was attributed to their heavier reliance on substantial mergers and acquisitions and capital markets work.

Firm Dynamics

The top 50 firms reported the most significant growth in total lawyer headcount at 3.3%, accompanied by a notable drop in productivity, with a 3.6% decrease. Despite this, revenue growth for this segment stood at 5.2%, surpassing expense growth of 4.9%. The report suggests that firm collections in the fourth quarter could potentially lead to robust revenue growth by the end of the year.

Strategic Focus Areas

Law firms that strategically prioritized areas such as litigation and investigations, bankruptcy, and funds and investment management seem to have fared better in 2023 than those primarily engaged in transactional work. Gretta Rusanow, head of advisory services for Citi's law firm group, emphasized the importance of a well-balanced practice mix in navigating law firms' challenges.

Partner Growth Trends

The report reveals a continuing trend of law firms increasing their equity and non-equity or income partners ranks. Sixty percent of large firms saw an uptick in their equity partner numbers from 2017 to 2022, and a significant 79% anticipate further growth in equity partnerships from 2022 levels by 2025.

Challenges and Optimism for 2024

The report identifies maintaining growth amid significant macroeconomic and geopolitical headwinds as a key challenge for law firms in 2024. Despite this, there is optimism that transactional practices, which experienced a slowdown due to an extended global M&A downturn, will rebound in the coming year. Firms plan expansion in various areas, including bankruptcy, litigation, private equity, digital and cyber, and private capital.

Navigating the AI Landscape

Law firms are closely monitoring the impact of generative artificial intelligence on the legal industry. The report underscores considerations regarding the ratio between partners and other lawyers and between lawyers and support staff. While the technology's impact on law firms has been limited thus far, the report acknowledges its potential to reshape legal research, evidence sifting, and legal document drafting.

Don't be a silent ninja! Let us know your thoughts in the comment section below.

