

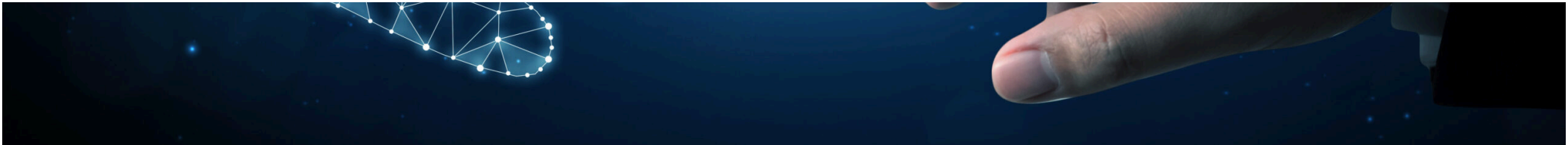
INSIGHT

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The Impact of Artificial Intelligence on Law Firms’ Business Models

Robert J. Couture

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How AI could shape the future of large law firms

Artificial intelligence (AI) is increasingly recognized as a transformative force in the legal industry. For large law firms, the adoption of AI tools offers the promise of enhanced productivity, new capabilities, and improved client outcomes. However, these benefits come with challenges, particularly regarding the dominant billable hour model, which forms the backbone of law firm revenues. The logic is simple: with the dominance of the billable hour business model (estimated to be at least 80 percent of fee arrangements), significantly increased productivity threatens revenues and profits of these firms. This study examines the perspectives of AmLaw100 firms on the integration of AI into their operations, the implications for their business models, and the broader impact on the legal industry.

To understand how major law firms are approaching AI adoption, this study relies on qualitative interviews with chief operating officers and partners responsible for AI deployment from ten AmLaw100 firms. These interviews provide insights into their strategies for AI implementation, operational readiness and client collaboration. The findings reflect a range of perspectives on the impact of AI on productivity, revenue models, and firm profitability. Recognizing confidentiality and competitive issues, firms were offered anonymity in their responses. Several areas were explored:

- The magnitude of the total impact on the firm from the deployment of AI
- Expected productivity increases from AI usage, and the accrual of financial benefits from this increase (firm vs. clients)
- Necessary changes in revenue and profit models to accommodate AI capabilities
- Staffing changes (attorneys and support teams) anticipated for an AI enhanced law firm
- Funding the necessary investments in AI
- Client expectations

All quotes below are taken from interviews with chief operating officers and partners at AmLaw100 firms.

Productivity — a quantum leap?

“Anyone who has practiced knows that there is always more work to do...no matter what tools we employ.”

How much will AI tools change the traditional practice of law? Viewpoints on this ranged from “fully transformational” to “moderate.” The latter viewpoint had more to do with the timing than the eventual impact as interview subjects reserved caution until greater impact could be proven—which they expect to see over a period of several years. More importantly, interview subjects unanimously agreed that lawyer productivity will increase dramatically (using the econometric definition of productivity). These law firms have multiple pilot projects underway to test various use cases of AI, and many have already been deployed. The experience gained from the pilot projects has already

conclusively shown that vast amounts of time can be saved using these tools. For example, in high-volume litigation matters, a complaint response system reduced associate time from 16 hours down to 3-4 minutes. Lawyers have seen productivity gains greater than 100 times. Using AI for the automation of initial drafting has demonstrated not only time savings but also increased accuracy.

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Higher productivity yields improved quality of service

“AI may cause the ‘80/20 inversion; 80 percent of time was spent collecting information, and 20 percent was strategic analysis and implications. We’re trying to flip those timeframes.”

Who benefits from this huge productivity gain? There was clear agreement that the benefits would accrue to both the firm and the client, although the exact mechanisms were not yet clear. The dominant viewpoint is that the total number of hours worked would be similar or even expand while attorneys will have the opportunity to spend more time on analysis and strategy. There is an expectation that the additional time now available will likely improve outside counsel’s “quality of service,” not just a less expensive result. This opinion was expressed by 90% of the firms interviewed. Conveniently, their clients agreed with this expectation and are comfortable with the current fee arrangement systems and approach. *Voila, the billable revenue model survives.*

Pricing and AI investments

“If we invest \$10 million on AI, at the end of the day it’s not really that much money.”

While the billable revenue model appears to be firmly in place for the long run, firms are continuing to develop their capabilities around alternative pricing agreements, primarily fixed-fee work. None of the firms believe that their ability to scope the work and price accordingly is mature enough, but they have been progressing on this front for many years and continue to grow their pricing and profitability analysis teams. The expectation is that they will be able to scale up this function quickly if necessary.

As the dominance of the billable revenue model continues, it also provides a mechanism to recover investment costs of AI deployment. No firms interviewed plan on recouping AI investments directly from clients. As one interviewee commented, “The increased value will be recognized and will likely be captured/built into higher rates.”

Staffing impacts

“Even with our AI initiatives, we just brought in the largest associate class in the history of the firm.”

With all of this smart software assisting the lawyers, none of the firms interviewed are anticipating any reduction in the need for the number of practicing attorneys. (This may be anecdotal as recent data suggests law firms are still taking a measured approach to hiring). Associate hiring and lateral movements have not been affected by the expected inclusion of AI capabilities available to practice groups. Some of this behavior may also be due to momentum: “Our staffing models won’t change without generational replacement so the same number of associates will be used.” Conversely, headcount may increase as new positions such as data scientists and AI engineers are being added to the teams. Lawyers with a multifaceted set of skills or versatility with AI may also prove more valuable.

Clients participate in the AI revolution

“Clients are now asking us directly what the impact of AI is going to be on their matters, but they still caution us to be careful with confidentiality and accuracy.”

All the firms interviewed are working collaboratively *with* their clients on the development and testing of use cases for the infusion of AI into their work. In addition, many are including AI software vendors as a third partner in projects to help prove their value asking vendors to modify software during the course of the pilot project to better deploy AI in common situations. As the number of iterations increase during each pilot phase, lawyers are seeing accuracy and general quality of output increase. These collaborations have resulted in shared investment approaches for many projects. At the same time, firms are finding that many potential use cases have not produced the anticipated results after pilot testing, abandoning projects altogether.

Unexpected bonus: AI reengineers the business

“AI is a very wonderful gift in that it is a catalyst for the conversations about our business models and the scale of the firm that we would not have had without the AI opportunities.”

Along with a strong belief that AI infused practices will increase the quality of legal work delivered to clients, interviewees also discussed practice specific “case methodologies.” About one third of the firms have at least some form of practice methodologies in place which AI tools will enhance. The natural home for governance of new AI tools is within case methods, which will allow lawyers to review, test, and approve specific AI software to contribute to the quality of legal services. Law firms have been experimenting with case methodologies for 10-15 years with marginal success (often referred to as Legal Project Management). AI will assist in defining new, more efficient and consistent processes and ultimately push firms to develop methods in concert with AI software as complementary capabilities and even provide competitive advantage. Every firm will not have the same processes, AI tools, or databases of knowledge which will allow significant differentiation between law firms.

Expanded service capabilities

“With enhanced AI capabilities, we will consider doing additional work for our ‘portfolio’ clients, where we now send work to other firms. This would create more ‘stickiness’ with the client.”

Will these large firms accept new types of work not previously performed by high-end firms? Such work is typically considered low margin and may have been performed for their clients by smaller firms or Alternative Legal Service Providers (ALSP's). 50 percent of the firms interviewed said they would consider adding this work to their portfolios if AI tools allowed them to do it more efficiently. There was no consensus on whether they will take advantage of this opportunity, but it is likely that firms will consider brand reputation, profitability, and the value of seamless relationships as they consider expansion in this area.

Looking to the future

IS IT DIFFERENT THIS TIME?

Institutional efforts to bring AI capabilities into large law firms are well underway and reveal a mix of cautious optimism and strategic deliberation. While the potential for increased productivity and expanded service offerings is evident, firms remain wary of overhauling their business models prematurely. It is significant that the billable hour survives because many management disciplines, such as performance management and compensation, depend on the importance and value of the billable hour. Many lawyers have been using AI tools for individual efforts (legal research and brief writing) and this will continue and be beneficial for the attorneys as they expand their familiarity with all types of AI capabilities. These types of tools are widely available and do not require special licensing contracts or training to be useful.

But the major practice or industry specific use cases now being explored promise a much greater value to the firm and clients as new AI systems are trained on either proprietary firm or client data not available in the public domain. Clients are keenly aware of the value and risks associated with firms sharing their data with AI tools and are insisting on security measures to maintain confidentiality. Clients are not necessarily expecting reduced costs of outside counsel, but rather quicker responses and a higher quality of service. [This viewpoint was also reported in a BTI survey released in October 2024.](#)

Additionally, “proof of concept” projects are forcing firms to reexamine how they currently run their business—and have traditionally run their business for decades.. In essence, many of these pilot projects are also business process reengineering efforts that have not had more than casual attention in the past. “This is how we have always done it” is no longer a valid reasoning. One participant put it well: “AI is a catalyst to begin new conversations regarding our business model. Prior to this, no one wanted to discuss changes.” As new processes and tools are introduced and integrated into firms, we are beginning to see differentiation between firms.. The ability to differentiate one firm

from another beyond price or specific focus of practice via AI capabilities will be a high value attribute. Establishment of the “Law Firm X way” is also an opportunity to train young associates in a structured and consistent approach to the practice. As one lawyer said, “The concept of remote work has diluted the apprenticeship model, and AI can ‘bind’ or strengthen the model so firms can continue to work in a remote environment.”

Law firms should expect that law students will not only anticipate this type of working environment, but they are expecting (and perhaps demanding) that their law firms provide them with advanced technologies that allow them to “think more and repeat less.”

SIGNIFICANCE OF SCALE?

Law firms often debate growth objectives when drafting strategic plans, and for a long time the advantages of scale were not apparent in the legal industry. Often law firm strategy would avoid a path of “growth for growth’s sake.” However, recent aggressive hiring in the lateral partner markets from firms with very deep financial pockets have demonstrated how significant an advantage scale is. Similarly, the transition to AI capable law firms also advantages those firms with the financial strength to make these investments without risking partner well-being (profits). As one lawyer stated, “We are making huge investments...it’s not just the money but the time it takes to evaluate new AI products and the jettison the ones that are not useful.” The magnitude of investment required will be difficult for many mid-sized firms, and it illuminates the competitive threat.

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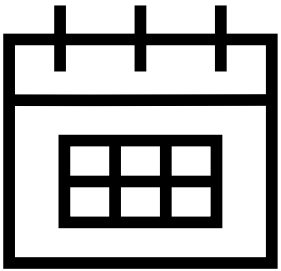
ROBOT LAWYERS?

The issue of technology replacing lawyers appears to be over hyped. There was no indication of this in the operational plans of these firms, and it will likely turn out that AI technologies will become useful tools that allow law firms to keep up with client demand and increasing complexity. In the professional services business, no firm is ever in perfect balance with supply and demand and cyclical variations will continue to be a management focus. But the long-term trend (thanks mostly to legislation and regulation) is up and to the right. Artificial intelligence can be the solution to the challenge of satisfying this demand.

LAW FIRM BUSINESS MANAGEMENT

It is also apparent that these firms have now developed a management maturity that used to be very rare in big law firms. A common criticism of major law firms was that their legal expertise and services were impeccable, but their business acumen was deficient. This project allowed me to interview a group of firms taking a pragmatic, calm, and measured approach to a very significant technology with transformative potential. This maturity extends not only to business professionals, but to the law firm partners and firm management working on these efforts. It would be easy to ignore or overreact to the AI question, but this group of firms appears to be handling the challenge and opportunity with a seasoned business perspective. It may no longer be fair to criticize the business acumen of big law. With advances in technology deployment, financial scale, and management discipline, second tier firms will likely face a significant threat in an extremely competitive marketplace.

Robert Couture is a Senior Research Fellow at the Center on the Legal Profession and the former the Executive Director of McGuireWoods LLP, an AmLaw 50 firm. Bob concentrates primarily on law firm strategy and operationalizing strategic plans. His current research is focused on the impact the Big 4 accounting firms are having on the legal industry, including the approaches and actions large law firms are taking to compete with the Big 4 networks.



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