

Big Law's Challenges and Opportunities in 2025



A Competitive Landscape Redefining Big Law

As 2025 begins, the legal industry's largest firms are navigating a rapidly evolving competitive environment. Strategic maneuvers among top firms are reshaping the landscape, creating a ripple effect throughout the sector. A fierce competition for elite talent and a push to scale up through mergers are at the forefront of these changes.

Beyond recruitment and expansion, law firms are grappling with how to maximize the value of their work while embracing emerging technologies poised to transform the industry.

The Rising Cost of Top Talent

The competition for high-end legal talent has driven compensation packages to unprecedented levels. Some star attorneys are earning over \$20 million annually, as firms like Simpson Thacher & Bartlett, Davis Polk & Wardwell, and Weil Gotshal & Manges adapt their pay structures to stay competitive. Additionally, firms such as Cleary Gottlieb, Paul Weiss, and WilmerHale have introduced nonequity partner tiers to safeguard profits while maintaining a competitive edge.

Michael Gerstenzang, managing partner at Cleary Gottlieb, emphasized the need for adaptability in a rapidly changing environment. "For us to remain as effective as we want to be in client service, we need to continue to adapt," he said.

Despite these adjustments, many firms face ongoing pressure to match the top salary ranges, especially when competitors are willing to offer lucrative packages. However, not all high-priced hires yield the desired results. Industry consultant Brad Hildebrandt predicts some of these high-earning partners may find themselves seeking new opportunities within a few years.

Mergers and Consolidation

The wave of mergers among large law firms continues to reshape the industry. Recent combinations include:

- Troutman Pepper and Locke Lord, forming a 1,600-lawyer firm.
- Womble Bond Dickinson and Lewis Roca, resulting in a 1,300-lawyer entity.
- Ballard Spahr and Lane Powell, now boasting more than 750 attorneys.
- The forthcoming merger of Herbert Smith Freehills and Kramer Levin, set to create a 2,700-lawyer firm.

Kent Zimmermann, a principal at The Zeughauser Group, describes the current appetite for mergers as "at an all-time high." While these consolidations are likely to lead to higher billing rates, they also concentrate expertise within fewer firms. Chuck Chandler, CEO of Valeo Partners, anticipates this trend will shrink the number of large law firms, further driving up prices.

The Challenge of Rising Billing Rates

Billing rates have been climbing at historic levels. According to Valeo Partners, some AmLaw 50 firms are expected to have top partners billing over \$3,000 an hour in 2025. Overall, large firms may increase partner rates by 9%, with transactions-focused firms potentially hiking rates by as much as 13%.

Clients, particularly Fortune 500 companies, have historically secured significant discounts—averaging 16.1% over the past decade—compared to smaller companies, which received average discounts of 9.8%. This disparity underscores the importance of volume in negotiating better deals.

Investments in Generative AI

The legal sector's interest in generative AI technology is surging. Many firms have established AI committees to evaluate and implement these tools, recognizing their transformative potential. According to Citi's law firm group, firms have so far allocated less than 1% of their revenue to AI-related technology, staffing, and consulting. However, this figure is expected to grow significantly in the next two years.

Gretta Rusanow, head of advisory services at Citi's law firm group, notes the widespread acknowledgment of AI's impact. "It's going to be a huge investment for firms, and they're still at the point of assessing what are the right tools to implement," she said.

M&A's Partial Comeback

The M&A market saw a strong performance in 2024, with deal values reaching \$856 billion through the first three quarters—a 24% increase year-over-year. However, concerns persist about the lack of small- to mid-cap deals, which often benefit firms outside the top 50 by revenue.

Despite these challenges, Gretta Rusanow remains optimistic about the market's future. She anticipates a rebound in broader M&A activity, fueled by potential interest rate cuts and post-election clarity. Litigation, regulatory, and antitrust practices, which performed well in 2024, are expected to remain strong, further bolstering firms' prospects.

Looking Ahead

Big Law firms are entering 2025 with both opportunities and challenges. Rising compensation costs, consolidation pressures, and the need to adopt cutting-edge technology will test their resilience. Yet, a recovering M&A market and strong demand for litigation and regulatory services offer reasons for optimism. The firms that can adapt swiftly and strategically will be best positioned to thrive in this evolving landscape.

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