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BigLaw's Quiet Worry in 2025: Collections Are Slipping Even as Demand Holds

Snapshot: Growth on Paper, Cash in the Door is Slower

Industry trackers show a stronger-than-expected second quarter: demand ticked up and worked rates rose sharply. Yet the same data flag a pocket of risk—**collections softened** due to more unpaid invoices and write-downs. That mix is keeping finance committees cautious heading into the back half of the year.

The Numbers Behind the Nerves

- **Demand & Rates:** Q2 2025 demand increased **~1.6%** year over year while worked rates rose **~7.4%**, according to Thomson Reuters' Law Firm Financial Index (LFFI). Productivity, however, slipped and direct expenses climbed, squeezing margins.
- **Collections:** LFFI notes **collections fell slightly** in Q2—reflecting a rise in unpaid bills and write-downs. Persistent slippage would become a larger profitability problem. Reuters
- **Segment Split:** Am Law 100 firms saw demand dip, while Second Hundred and midsize firms grew—suggesting some client cost sensitivity and shifting work patterns. irms was powered by rate hikes more than demand—helpful for topline, but not a cure-all if cash realization softens later.

Why Collections Are Lagging Now

1. **Client Caution & Extended Payment Cycles.** Corporate clients—especially in rate-sensitive industries—are scrutinizing invoices, asking for discounts, and stretching payment terms as macro uncertainty lingers. LFFI's uptick in write-downs and unpaid bills reflects this pressure.
2. **Rate Hikes vs. Realization.** Double-digit effective rate growth helps revenue optics, but realization suffers when clients push back after work is done. Bloomberg Law NewsGlobal Legal Post
3. **Demand Mix.** With transactional work uneven and litigation steadier, matter timing and milestone billing can delay cash, worsening "WIP to cash" conversion.

What It Means for BigLaw

- **Cash Flow & PPP:** Even modest collection slowdowns can widen the gap between booked revenue and realized cash, complicating partner draws and year-end profit distribution.
- **Lateral Hiring Pace:** Firms may become more selective on high-priced laterals without portable books that convert quickly to cash. (A common response in prior softening cycles.)
- **Tech & AI Investments:** Q2 commentary shows continued spend on talent and technology, but CFOs will scrutinize ROI and payback periods more tightly if cash receipts slip. Thomson Reuters

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How Firms Are Responding (and Should)

- **Bill Earlier, Bill Smarter.** Move from end-of-matter billing to phased invoices; tighten e-billing validation; accelerate billing cycles post-month-end to compress DSO.
- **Protect Realization.** Standardize discount guardrails; require pricing approvals for steep write-offs; push AFAs with clear scope to reduce back-end disputes.
- **Strengthen Collections Ops.** Give finance teams real-time visibility into aged AR; escalate systematically at 30/60/90 days; align partner comp with cash realization, not just origination.
- **Mind the Demand Mix.** With midsize and Second Hundred firms picking up work, BigLaw should lean into practices with faster cash cycles (e.g., certain disputes, regulatory advisory) while sharpening staffing efficiency on slower-paying matters.
- **Model Scenarios Now.** Use rolling 13-week cash flow forecasts and stress-test for 1–2 point hits to realization so hiring and capex plans can be adjusted early.

Outlook: Watch These Metrics in H2 2025

- **Days Sales Outstanding (DSO)** and **realization rate** trends across key client groups.
- **Demand dispersion** (Am Law 100 vs. Second Hundred vs. midsize) as a proxy for price sensitivity.
- **Expense growth vs. productivity**, which tightened in Q2 and will influence margins if collections remain soft. Thomson Reuters

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Bottom Line

BigLaw's fundamentals look resilient—rates are up and overall demand hasn't fallen off a cliff—but **cash realization is the pressure point to monitor.** If collections keep drifting, expect a cooler lateral market, tougher pricing discipline, and more selective tech spending as firms prioritize liquidity and profitability through year-end.