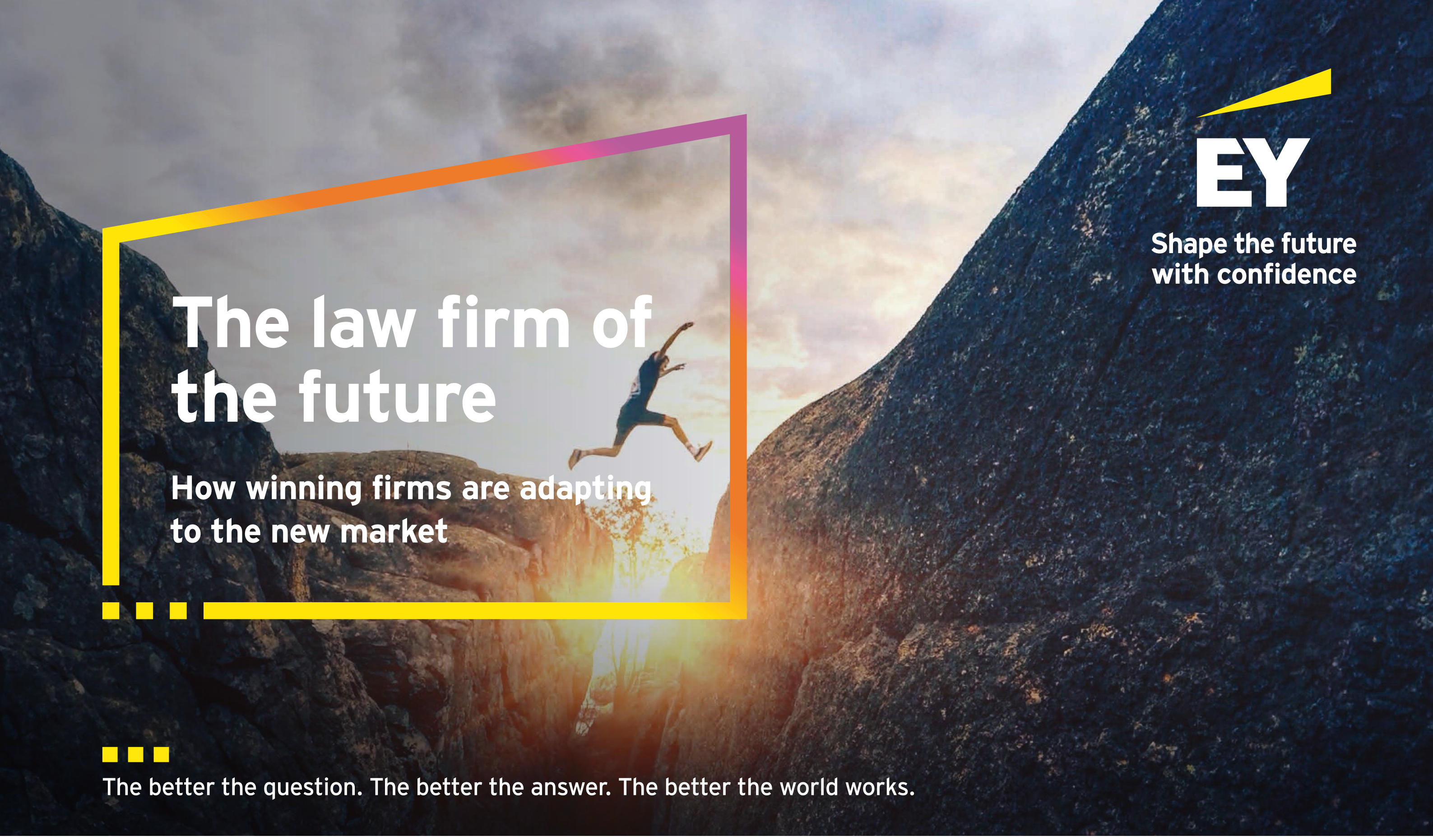


The law firm of the future

How winning firms are adapting to the new market

The better the question. The better the answer. The better the world works.

Law firms are facing a set of pressures unlike anything seen in the modern legal market. AI, capital intensity and talent disruption are colliding with a partnership model designed for short-term distribution, not long-term investment. The result is a fundamental rethink of how firms operate, invest and create value.

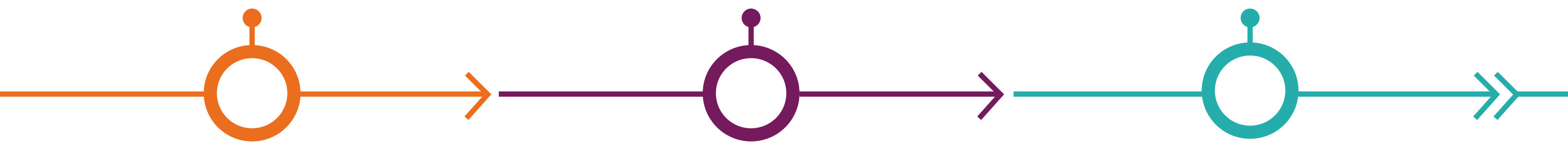
Are today's law firms built for tomorrow's market?

This point of view examines what separates firms that are adapting from those that are standing still, and the strategic choices that will define the next generation of legal market leaders.

The past
A model built for a different era

The present
The forces reshaping the legal sector

The future
Building the next generation of law firms



What foundations exist in the traditional law firm?

The past

The legal sector's success was built on a simple formula: leverage talent, bill time and grow through partnership.

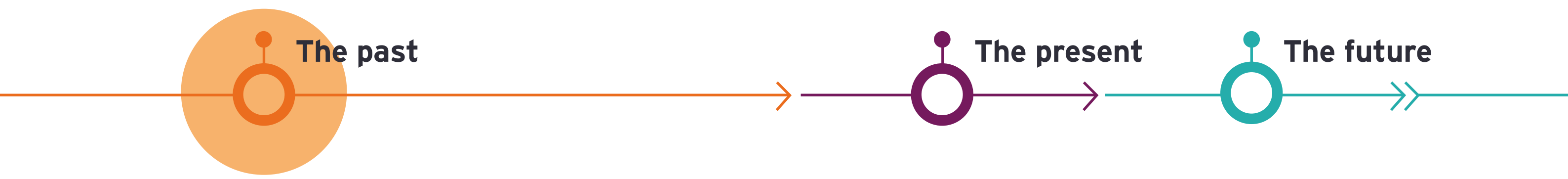
For many years, this model delivered attractive margins, strong profitability and sustainable growth, supported by stable client expectations and only incremental technology investment.

But as technology reshapes how legal work is performed and clients demand greater value, transparency and efficiency, the foundations of this model are increasingly being tested.

What foundations was the law firm built on?

- Low capital intensity, high margin businesses
- Revenue driven by chargeable hours
- Traditional partnership and pyramid economics
- Long-tenure career model: associate to partner
- Limited external investment

> The traditional model worked when technology investment was incremental and client expectations were stable.



What's putting the model under pressure?

The present

AI is forcing an operating model transformation

- AI is no longer a discrete technology challenge or an innovation experiment at the edges
- It is putting pressure on the core assumptions of law firm delivery: how work is scoped, staffed, reviewed, priced and managed
- Firms are being pulled from a low-capex, people-leverage model toward a more capital-intensive, platform-enabled model
- Clients increasingly expect AI to be used where it can improve speed, quality, consistency and cost, without lowering their expectations on judgement, accountability or quality

What's changed

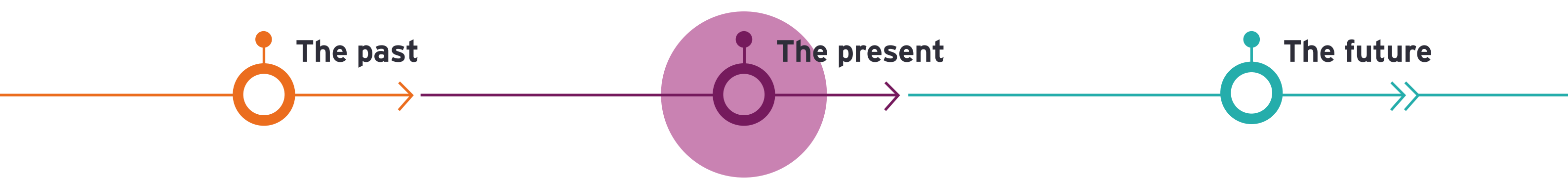
Tech and AI investment are capital intensive, and cycles are extending beyond historical norms.

Partnership economics under strain

- Partners must choose between in-year distribution and long-term investment
- Senior partners may not see returns before retirement, disincentivising bold decisions
- Traditional partnership incentives are inefficient for sustained AI and platform investment

New choices

Firms increasingly explore alternative capital structures to fund growth and transformation.



Talent disruption

- Lawyer mobility is rising; brand loyalty is weakening
- US firms are distorting the market with unsustainable compensation offers
- Career diversification is now much more accessible, with hybrid legal & business/technology roles
- AI tools now automate many process-driven tasks, freeing junior lawyers to focus on judgement and client work
- Junior staff are developing nuanced legal judgement, matter administration and client management skills earlier in their career

Retention needs | Firms are looking for new ways to incentivise long-term talent retention.

Cost inflation and profit squeeze

- Salary inflation threatens to squeeze margins across the sector, compounded by increase cost of technology
- Clients are becoming more sophisticated buyers of legal services:
  - Clients increasingly expect legal advice to be faster, more transparent and more cost effective
  - They are more willing to challenge traditional billing models and more open to technology-enabled delivery
  - They expect firms to know which work requires premium judgement and which work can be standardised, automated or delivered differently
- The back office is needing to handle greater regulation, insurance costs, technology maintenance and cybersecurity resilience

Financial sustainability | Firms need to respond to rising profit pressures before they materially impact the P&L

How are leading law firms reinventing themselves?

The future

The law firm of the future is built around six integral shifts:

1

Productised legal solutions

- Firms move beyond delivering advice matter by matter, creating repeatable solutions that address recurring client needs
- Legal expertise is combined with data, technology and reusable assets to deliver more proactive, scalable and embedded services
- The focus shifts from completing isolated instructions to helping clients prevent issues, manage risk and make better decisions continuously

2

AI-first delivery model

- Legal delivery is redesigned around AI-enabled workflows rather than adding new tools to existing processes
- AI improves speed, consistency and insight, while lawyers remain accountable for quality, risk and client outcomes
- Work is allocated across AI, legal professionals and specialists according to the judgement, expertise and oversight required

3

Continuous reinvention

- Firms embed continuous improvement into how legal services are designed and delivered
- Governance, incentives and investment decisions prioritise measurable improvements in client value, quality, speed and profitability
- Reinvention becomes core operational discipline rather than a series of discrete transformation programmes

4

Multidisciplinary talent model

- Fee-earning teams combine legal expertise with commercial, technology, data, pricing, project management and delivery capabilities
- Career paths become broader, with specialist non-lawyers contributing directly to client outcomes
- Lawyers develop client, commercial and judgement-led skills earlier as repetitive and process-driven work is increasingly automated

5

Client-led commercial models

- Pricing moves beyond the billable hour towards greater predictability, transparency and alignment with client value
- Fixed, subscription, portfolio, outcome-based and risk-sharing models become more common where value can be clearly defined
- Commercial decisions optimise for the total value of the client relationship, rather than individual matter or practice profitability

6

Capacity for sustained investment

- Firms simplify their operating models and strengthen the technology, data and knowledge foundations required to scale
- Capital is allocated more deliberately across people, platforms, practices and client relationships
- Firms deploy investment with confidence through governance and mechanisms that deliver meaningful and sustained change

The past | The present | The future

What next?

We can help you answer the strategic questions that will define your transition to the law firm of the future:

Where should you play?

Identify the practice areas, client segments, sectors and parts of the legal value chain where your firm can build sustainable advantage.

How do you win with AI?

Embed AI into legal delivery, knowledge, operations and client service, moving from isolated pilots to measurable business impact.

How should the firm operate?

Redesign structures, processes, platforms and talent models to improve speed, quality, profitability and scalability.

How do you turn data into advantage?

Build the data, knowledge and governance foundations needed to power AI-enabled services, analytics and new legal products.

How do you grow more deliberately?

Transform business development, pricing, client insight and sector go-to-market activity to improve revenue growth and client relevance.

How do you modernise the technology backbone?

Implement the enterprise platforms that enable a more connected, data-driven and efficient firm.

Create faster value

Leading firms are taking a more active approach to strategic choices and performance improvement, unlocking efficiencies, strengthening margins and building long-term enterprise value.

Reach out to our team supporting the legal sector:

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EY | Building a better working world

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All in to shape the future with confidence.

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