

An Industry in Transition: Legal Services “Market of the Future”

By Nita Sanger, Chief Executive Officer of Idea Innovate Consulting

The legal industry is in a state of transition, with a shift in the demand and supply balance between Law firms and Corporate Legal Departments (CLDs), as the practice of law moves from a lawyer-centric guild to a customer centric marketplace. This shift is driven by changing customer requirements, which in addition to legal advice now include the need for superior customer service, increased collaboration with legal advisers, adjacent business services (i.e., legal project management, business analysis), and transparency with matter management and pricing. The Alternate Legal Service Providers (ALSPs), defined as niche companies that specialize in providing high-demand legal services entered, the market to meet this gap in services and are essentially focused on the



“business of law”, leveraging a combination of legal, business and technology capabilities, to augment customer (both corporate and law firm) expertise and improve their efficiency and effectiveness.

With the recent announcement of EY’s acquisition of Pangea3, the industry is at a tipping point. This move will act as a catalyst for change across many other players in the industry. The other Big

Four firms (Deloitte, PWC and KPMG) will likely make significant moves in the market to gain market share, along with other Alternate Legal Service Providers. Also, with the sale of its outsourcing business, Thomson Reuters will potentially renew its focus on creating an ecosystem of information services and solutions that will push other players to act to stay competitive.

The Current Legal Services Ecosystem

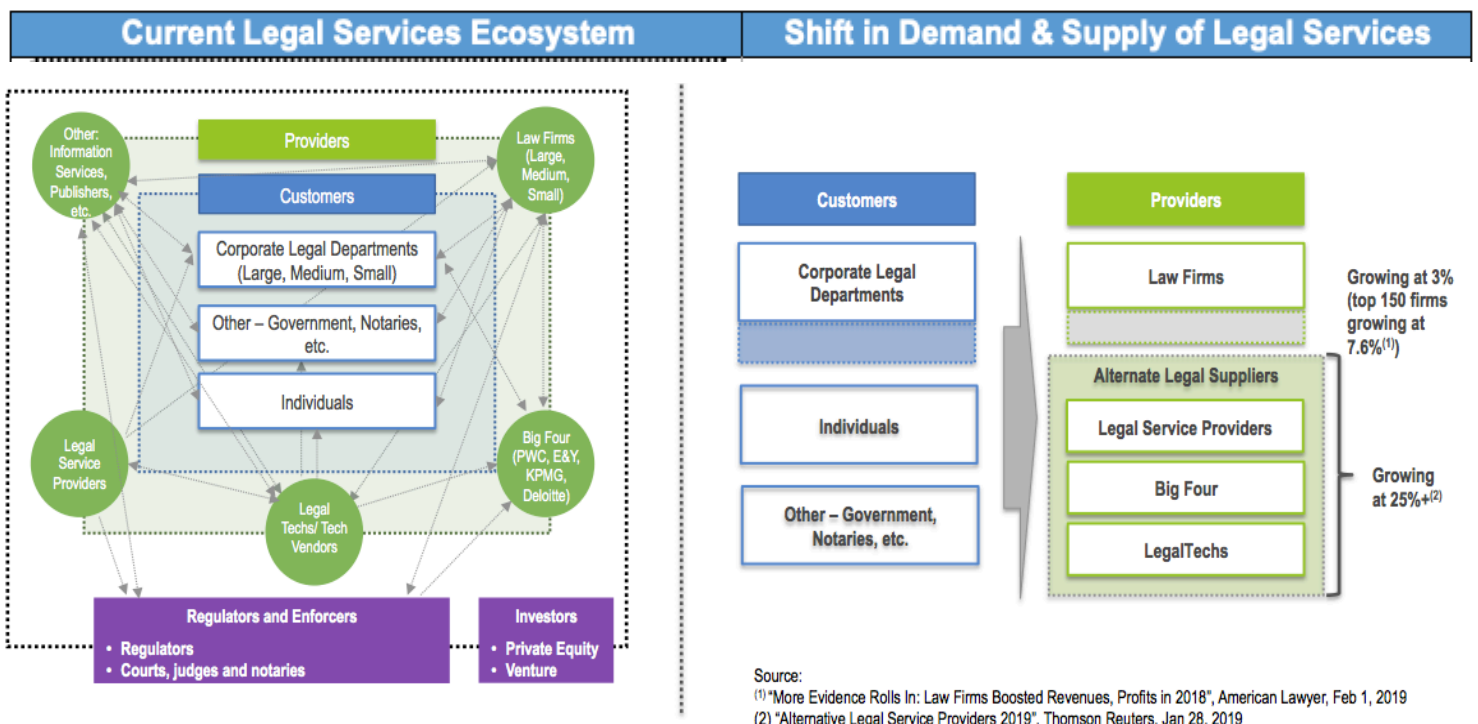
The current legal services ecosystem is split between the *Customers*, or the users of legal services, and the *Providers* of those services. The regulators, enforcers and the investors are part of the ecosystem but currently not directly involved in buying or selling of services. The most influential *Customers* are the CLDs responsible for one-third [1] of the total 2017 global spend of \$849 billion.[2] Individuals spend more than corporates in total; however, they do not have the same clout.

Of the *Providers*, law firms focus on the “practice of law”[3] globally, along with the Big Four, who can provide legal advice in other countries, but are currently restricted from doing so in the United States. The rest of the *Providers* focus on the “business or law” as-

sisting and supporting law firms to run more efficiently and deliver legal advice. There is a shift in demand and supply of legal services, as the market is moving from a seller’s market, dominated by law firms, to a customer centric buyer’s market, with several non-traditional sellers entering the market, i.e. Alternate Legal Service *Providers*, Big Four and Legal Techs (usually startups founded with the purpose of disrupting the traditionally conservative legal market).

The Legal Services “Market of the Future”

We expect that in the next five years, the Legal Services “Market of the Future” will look different from today, in terms of providers of service, how the customers access legal advice; and services split of revenues among providers.



Providers of Service

There will be a shift in the *Providers* of legal services depending on the type of service:

Tier I: Legal Advice – Currently on average, within a Big Law (nickname for the nation's largest law firms, usually the AmLaw 100) firm, approximately 45%^[4] of revenues (for the mid to small-tier firms this % is slightly higher), come from senior-level legal advice, usually provided by managing partners and partners, while the remainder of the work is done by junior associates who prepare materials for the partners to review and present.

This advice will continue to be provided by law firms, and by the Big Four. However, there will be an increase in non-traditional forums for delivering legal advice outside the law firm model, such as tech-enabled platforms of legal experts.

Tier II: Other Legal Tasks – This includes activities such as document drafting and analysis, contract creation, research, insights, case prep, etc. Within law firms, a majority of junior and senior associates' time is currently spent doing these activities. They are less expensive than partners. However, a good portion of the law firm's revenues come from hourly billing for this group.

In the near term, many of these tasks will be brought in-house by general counsels, leveraging technology to perform them more efficiently and effectively; be sent to external legal service providers or kept within the law firm. If law firms perform these tasks, they will face downward pressure on fees, as clients will push for flat rates and the use of technology to improve efficiency.

Tier III: Commoditized Legal Tasks – These are the tasks such as document review that are currently given to low-cost contract and staffing service providers. With the advancement of technology, these tasks will be entirely outsourced and likely become even more standardized and cheaper with the use of technologies such as Robotics Process Automation and Artificial intelligence (AI).

Legal Operations – These are non-revenue generating tasks such as project management, business analysis, billing, expenses, etc. These tasks will be outsourced to Alternate Legal Service Providers.

Customers Access to Legal Services

The shift will be driven by how customers access legal services. From being totally expertise- and relationship-driven, it is starting to shift to being expertise driven, enabled by technology tools and solutions.

This trend will continue to grow, with Large CLDs working with a small group of law firms for personalized expert legal advice, while outsourcing legal operations, commoditized legal tasks, and many other non-specialized legal tasks, to the Alternate Legal Service Providers, augmented by technology.

An increasing number of mid- to small-CLDs and individuals will look towards tech-enabled platforms and ecosystems to help them identify and work with an expert legal service provider on a case-by-case basis.

Governments and local municipalities, notaries, etc., which have historically been slow to adopt change, and often tend to be process

driven, will also move more of their information, content, and services online. This trend has already started in many European countries, and will likely spread to other geographies, as those countries and governments use technologies such as blockchain, IoT and AI to leapfrog ahead of more established geographies.

Split of Revenues

The legal services industry is highly fragmented. Of the total 2017 global spend of \$849 billion, no single player has more than 1% market share. In 2017, the top 200 law firms combined earned \$135 billion [5], or 16% of the market revenues. The small to mid-sized law firms generated the largest portion of legal revenues, ~40 to 50% [6], within North America. This region has the smallest portion of revenues from the mid- to small-law firms. The Alternate Legal Services market was ~\$10.7 billion [7] in 2017, which makes it 1% of

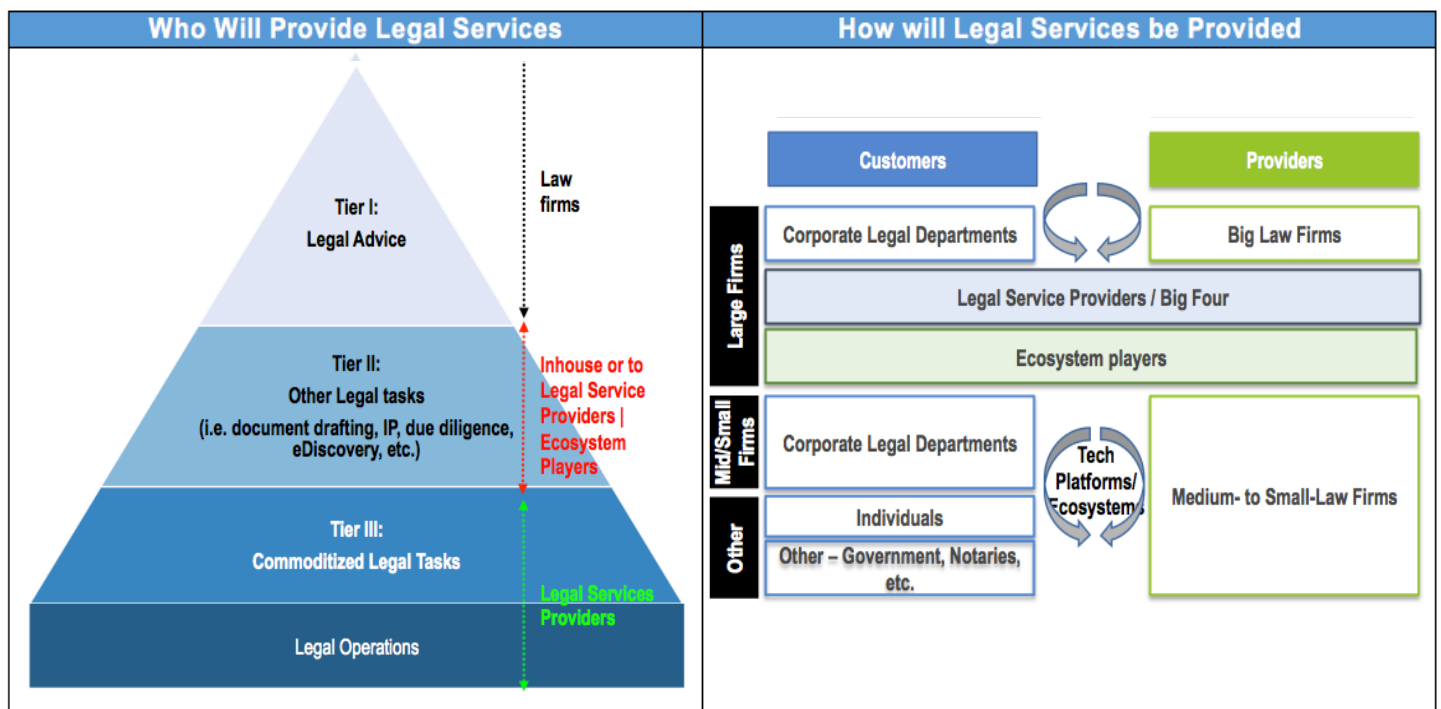
the legal market. This market is expected to grow to \$55 billion by 2025 [8].

Over the next few years, additional legal revenues will shift towards the Big Four, Alternate Legal Service Providers and tech-driven ecosystem/platform players, as customers become more comfortable leveraging technologies for “business of law” and “practice of law” activities.

Firms that will gain market share, and revenues, in the Legal Services “Market of the Future” will be those that:

- Create tech-enabled platforms for the mid-to small-law firms to use for service delivery, which can span multiple geographies and areas of practice;
- Develop an “Uber-like” tech-enabled platform or marketplace to connect demand with supply for legal services catering to the mid-to small-tier segment;

Legal Services Market of the Future



- Create ecosystems or platforms, aligned with the customer journey, for delivery of legal advice.

Providers that will have limited success will focus on:

- Humans, to deliver services to customers, due to downward pressure on fees, combined with the increased cost of finding and retaining the right talent;
- Focus on niche (practice, industry, local) solutions, with limited scalability.

Overall, the numbers of lawyers will increase, given the rise in potential threats in new and developing industries, and therefore legal risks arising from the use of existing and new technologies. However, it is likely that many of the lawyers will sit outside the existing law firm structure and leverage other ways to de-

liver legal service to customers, as the younger generation of customers gets more comfortable with tech-enabled solutions for legal service delivery, as they have for getting products and services across many other industries.

Impact of Market Shifts on Players in the Legal Services Ecosystem

The legal services market is a multi-billion dollar industry and is expected to continue to grow over the next few years, with the increase in risks for corporations and individuals, related to regulations, cybersecurity, and privacy. This creates a significant opportunity for the strategic providers of legal services to gain share.

The impact on the various players in the Legal Services ecosystem is likely to be:

Customers	Providers
<p>Large* CLDs will likely move more of the “business of law” Tier II, activities in-house or send them to Alternate Legal Service Providers, enabled by ecosystem players, with a goal to drive efficiency and effectiveness. All Tier III and legal operations activities will be sent to low-cost service providers. The CLDs will only reach out to their law firms for high-end legal advice.</p> <p>Overall external legal spend will be further reduced, legal advice will be obtained from a few elite law firms, and the rest of the services will be outsourced to Alternate Legal Service Providers.</p> <p>* The size of the firm or corporation is used as a proxy for the size of the CLD.</p>	<p>Big Law firms will continue to focus on Tier I activities, and provide legal advice, leveraging tech-enabled solution suites or ecosystems aligned with their customer journey.</p> <p>Their organization size, structure, and talent-mix will look different from those currently in place. They will be smaller, move from a pyramid shaped apprenticeship model to a “rocket-shaped” structure, with a combination of legal professionals, more tech and non-legal business professionals internal and external Tech and Alternate Legal Service Providers. The overall firm revenues will likely decline, as many of the low value, high margin activities will move away to Alternate Legal Services Providers or to in-house Legal Counsels.</p>
<p>Medium to Small Corporate Legal Departments will likely stay small or shrink further and outsource all their “business of law” activities to service providers, and use tech-enabled platforms, to work with specialist law firms for legal advice.</p>	<p>Medium- to Small-Law firms will use tech platforms or ecosystems to provide legal services.</p> <p>Many of the mid- to small-law firms will need to consolidate, form partnerships or move online to deliver services to their customers more effectively and to gain scale.</p>

Customers	Providers
<p>Individuals will likely use more online platforms for obtaining legal advice at more reasonable costs.</p>	<p>The Big Four will likely use a multi-disciplinary business model, and leverage their people, process and technologies capabilities to provide customer-focused legal services, and advice, where allowed, to corporate customers.</p> <p>This group will likely have the most significant revenue gains from the legal services market offering a combination of specialized consulting services, managed services for operations and low-cost outsourcing services.</p>
<p>Other groups such as the government, notaries, education institutions, etc., will also likely use more online resources for services and information and reach out to law firms for very specialized advice.</p>	<p>Other Alternate Legal Service Providers, i.e. Elevate, Axiom and others, will face market pressure from the entry of the Big Four into this space. They will need to evolve the services that they provide. Significant opportunities exist for growth with the expansion of the legal services market.</p> <p>The provider(s) that will succeed in this market will be ones that can create and run the ecosystem. It will be hard for law firms to run the ecosystems unless they can form a consortium to share problems and solve for them collectively through sharing information and expertise.</p>
	<p>This environment will require LegalTech's, Tech vendors, i.e. Microsoft, IBM, etc. and Service and Information providers i.e. Thomson Reuters, LexisNexis, Bloomberg and Wolters Kluwer, to form strategic alliances to better serve the customers, aligned with their customer journey.</p>

The current fluidity in the market provides a significant upside for **Investors (VCs and PE firms)** to invest in LegalTech's that can come together to create the ecosystem and capture a large share of the market

Approach for Providers to be Successful in the Legal Services “Market of the Future”

There is no single approach for a firm in the legal service industry, to position itself for success in the Legal Services “Market of the Future”. The approach that each firm would need to take would depend on its current role in the ecosystem, market position and its vision for the future.

The tech trends that are likely to impact the legal environment most significantly are, the pervasive use of AI (i.e. natural language processing, machine learning, natural language generation), and the connections between people and businesses, as well as between devices, content, and services, to deliver digital outcomes, enabled by Internet of Things, cloud computing, and blockchain. While it is true that technology is and will continue to impact the legal industry significantly, it is valuable to remember that no one should lead business transformation with technology. The focus should be to set the vision for the future of the business and then look at people, process and technology to achieve that vision.

One potential approach for players in the legal ecosystem to position themselves for future success could be to leverage the “ABCDEs for Legal Success”[9]:

- **A**ssess the state of the market and business, and then determine the “market-place of the future”;
- **B**uild a vision for the firm’s “business of the future” and develop a plan of action;
- **C**reate a culture of change;
- **D**esign and create innovation;
- **E**xecute on the plan.

The Future

The legal services industry will continue to evolve in the next few years. The *Customers* of legal services are going to continue to demand increasingly personalized legal advice at reasonable costs, like what they obtain from service providers in other industries such as financial services, retail, information, etc. They are also going to get increasingly comfortable using online and crowdsourced legal service providers.

Most *Providers* are already investing in innovation, and the technologies that are enabling them, to provide improved customer service, working with their customers to co-create solutions and services that best meet customer needs: hiring talent with business expertise in running agile, process and goal-oriented organizations, and outsourcing commoditized work to alternate organizations. The key to success for *Providers* will be to focus on solving the most pressing needs and pain points of customers through adopting technology and

efficient change management .

Notes

[1] Legal Executive Institute, Thomson Reuters, Nov 2018

[2] Tech change driving forecasted \$1011 billion global legal services market, Global Legal Post, June 2018

[3] Practice of Law Definition: The giving of legal advice or of representation of another as an agent in a court of law or through rules of court, or in the preparation of legal documents or in dispute or contractual negotiation. The exercise of the profession of barrister, solicitor, attorney or lawyer.

[4] Discussions with CIOs and Innovation leaders from Sherman Sterling, BlankRome, Baker McKenzie.

[5] List of Largest Law Firms by Revenue, Wikipedia.

[6] Legal Executive Institute, Thomson Reuters, Nov 2018

[7] 2019 Report on the State of the Legal Market, Thomson Reuters

[8] “The Big Four Are Coming For You,” Global Legal Chronicle, Oct 11, 2018

[9] Proprietary approach developed by Idea Innovate to transform and grow revenues for businesses in legal services.

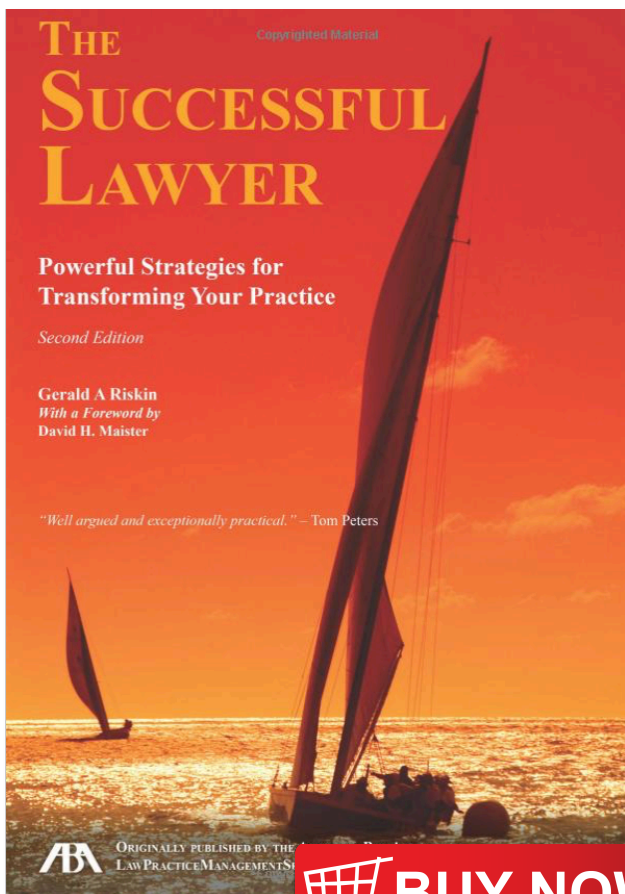
About the Author

Nita Sanger is the Chief Executive Officer of Idea Innovate Consulting, a boutique strategy consulting firm focused on accelerating growth of firms in Professional, Financial and Legal Services. Nita brings over 25+ years of experience in strategy consulting and execution focused on innovating, transforming and growing various global businesses for large

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tablished and advised multiple start-ups focused on disrupting the services sector. She brings domain expertise in the application of various technologies to transform the business, i.e. AI / Cognitive, Internet of Things, Blockchain, Crowd sourcing, Crowd funding, Analytics, etc.

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