

HOW WILL THE LEGAL MARKET LOOK IN TEN YEARS? - GEORGETOWN UNIVERSITY LAW CENTER

Posted on 22/06/2015



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With clients changing the way they buy legal services and law firms facing competition from new

players , it's time firms anticipated the legal market of the future, says James W. Jones

What has been the most significant change in the legal services market since the beginning of the Great Recession? It has perhaps been the rapid shift from a sellers' to a buyers' market. Clients have assumed control of all the fundamental decisions about how legal services are delivered and priced and have insisted on increased efficiency, predictability, and cost effectiveness. In addition, a number of other trends have combined to produce a more intensely competitive market – these include: modest growth, at best, in the demand for legal services; the decision of many clients to shift more legal work in-house; the growing willingness of clients to disaggregate services among many different service providers; and the growth in non-traditional competitors' market share. Law firms have responded to these changes in a variety of ways. They are now better at responding to requests for proposals (RFPs) and participating in competitive selection processes. They are more proficient in developing and working under project budgets and in responding to client demands for alternative fee arrangements. And they have begun to develop project management capabilities and the skills needed to partner with other providers in disaggregated service settings. However, these changes have largely been in response to client pressures. They have not generally resulted from law firms themselves taking a long-term view of changes in the legal market and restructuring their services to meet anticipated client demand.

The importance of this distinction has been illustrated by David Morley, worldwide senior partner of Allen & Overy (A&O). Referring to the strategic redesign of his firm to meet the demands of the changing legal market, Morley said that, after extensive consultations with clients, A&O redesigned itself as a "hybrid firm" consisting of five separate organisations with legal services at its core. The components of the new firm – designed to provide "hybrid legal solutions for clients" – include the A&O law firm, Peerpoint (a contract lawyer service), A&O Consulting (which offers hybrid solutions for legal problems), A&O Derivative Services (for online legal services), and the A&O Legal Services Centre in Belfast (for document review services). All components of the new structure are technologically linked to the law firm, and A&O intends to market the components together, if appropriate, when making proposals to clients. A&O strongly believes that a hybrid, multidisciplinary approach to legal issues will be essential in future to meet client demands for increased efficiency and cost effectiveness. Clearly, this strategy will not work for every firm, but the process A&O used – carefully looking at the changing market and placing strategic bets on how it must adapt to remain competitive and successful in the long-term – is a process every firm should follow.

Lack of urgency

Most leaders of significantly sized law firms recognise fundamental change is needed in the way legal services are delivered and priced, but, in practice, there is a lack of urgency in acting on these issues. For example, the vast majority of respondents to the Altman Weil 2014 Law Firms in Transition survey agreed that a focus on improved practice efficiency, more intense price competition, more commoditised legal work, and increased competition from non-traditional service providers will be permanent trends in the legal market in future. However, less than 40 per cent said their firms had changed their strategic approach to achieving efficiency in the delivery of legal services, and under 30 per cent said they had significantly changed their approach to pricing. Though law firm revenues are growing – albeit quite slowly – clear challenges remain. Productivity growth is a serious issue, as is the decline of law firm realisation rates. Meanwhile, firms are struggling to keep expense growth at sustainable levels. The picture is further complicated by the following: changes in clients' buying habits, which may forebode a permanent decrease in spending on external law firms; a persistent softness in the market for litigation services, which may reflect a reduction in the willingness of business clients to pursue litigation; a dramatic increase in non-traditional competitors in the legal market, a development that may significantly erode law firm market share; and the growing segmentation of the legal market into high performing firms versus everyone else, a segmentation that may be hardening. In this context, it is more important than ever

that firms take a long-term strategic look at their practices, clients, and markets.

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