2018 Legal Industry Outlook

Greentarget
Direct a Smarter Conversation

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Overview

This report examines the legal industry's changing landscape and explores trends for 2018 and beyond. We expect the dominant theme to be another year of slow growth as competition increases both from work moving in-house and from alternative service providers such as consulting firms, which have become more active in the U.S. legal market.

- **Slower growth with expenses outpacing revenue**
  As growth slows, expenses, which have already eclipsed revenue growth, will rise. Firms risk ending up on the wrong side of the widening profitability gap between leading and mid-tier firms if they fail to operate more efficiently, develop defined strategies, revisit staffing models, adopt new client-service models and use technology to optimize back-end and client-facing work.

- **More competition for talent – especially retaining young, high-potential lawyers**
  The talent pool for traditional firms also continues to shrink, as competition increases from in-house legal departments and alternative service providers. While associates still see the partner track as a preferred career path, the likelihood that they will remain loyal to one firm for their entire career is diminishing. A growing number of retiring and soon-to-retire partners, many of whom own key client relationships, compounds the problem.

  To ensure that high achievers stay put, firms need to redouble efforts to prepare a younger generation of lawyers for success. Key areas include business development training and protecting work/life balance, similar to the opportunities and benefits available in non-traditional legal roles. Retaining and cultivating emerging legal talent also means managing lateral hires appropriately, including more careful scrutiny at the onset and the establishment of performance requirements once they join the firm. Diligently weeding out underperforming lawyers, laterals included, can create a wider path for high performers to emerge.

- **Accelerating innovation jeopardizes late adopters**
  The wave of legal innovation continues to build, beyond technology alone, to encompass how firms deliver legal services. Some firms have already benefitted from the efficiencies and business development opportunities that these innovative models and solutions present. Clients may not be asking directly for technology as part of their legal services, but its absence could erode demand at laggard companies. Firms that don't keep up stand to lose work to better-positioned competitors, alternative providers or in-house departments that are.

  Firms will need to determine what technology is most beneficial and whether to build solutions in-firm or outsource and they need to commit to the upfront investment and ongoing attention to those markets' fast pace. If implemented properly, solutions such as e-Discovery and artificial intelligence hold the promise of lower costs, increased revenue and stronger client relationships.

- **The damage from a potential cyberattack is too great to ignore**
  Cybersecurity is a principal concern in the coming year, driven by the recent proliferation of high-profile breaches, the abundance of highly sensitive client information retained at law firms and the serious damage that a cyberattack can do to a brand. Firms will need to better understand how their data is stored and used, revise data security policies and practices, implement layered defenses and develop response plans, while exploring cyber insurance protection offerings.

State of the Legal Market in 2018 And Beyond

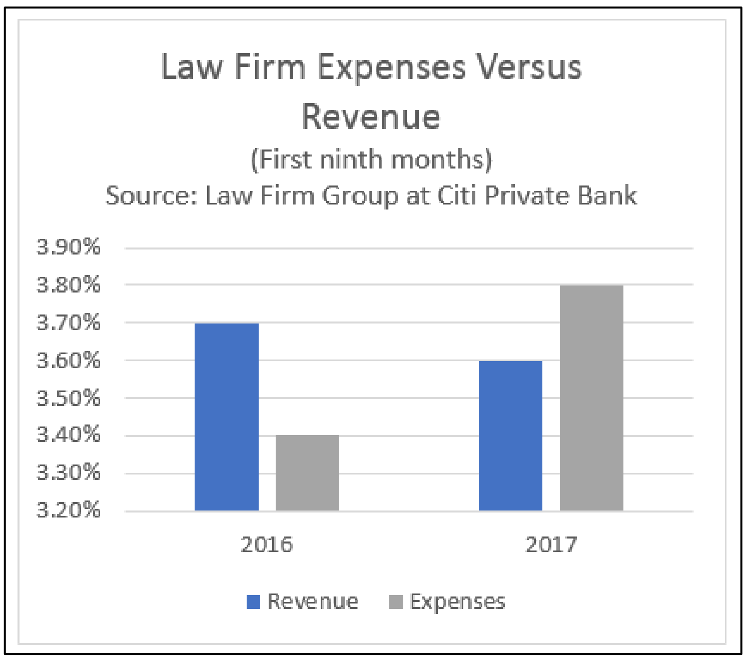
Slow Growth

The legal industry is expected to remain in the channel of modest growth in 2018 and beyond. This slow-growth environment has created a hyper-competitive market and has extended to competition for matters, for clients and for talent. Moving into 2018, firms will face a number of market forces that will challenge top-line growth: price competition, the push for greater efficiency, an expanding competitive landscape and the force majeure that is technical innovation, all of which have created a new playing field for Big Law.

According to the latest Altman Weil *Firms in Transition* survey, demand for legal services continues to weaken – demonstrating that these factors are continuing to have an impact on the industry (Law firms in transition - An Altman Weil flash survey, 2017). Concurrently, Citi's 2018 Client Advisory found that fewer than 29 percent of firms saw two years of consecutive demand growth for the period that ended in September 2017, down significantly from 64 percent of firms from 2005 to 2007 (2018 Client Advisory, Citi Private Bank & Hildebrandt Consulting LLC, 2017).

In 2018, the slow-growth environment isn't expected to abate. Partner-equity growth is projected to be muted at around mid-single digit growth for the year, and this slow growth won't be the only challenge Citi sees firms facing throughout the year. An aging workforce, a growing competitive landscape and increasing operational expenses will continue to create new challenges for firms (2018 Client Advisory, Citi Private Bank & Hildebrandt Consulting LLC, 2017).

In a review of 2017's first nine months of revenue and expenses from 183 firms (70 percent Am Law 200 and 30 percent boutiques), Citi found that expenses were actually eclipsing revenues (Showing Better 2017 Financial Results Just Got a Little Tougher, 2017).



Citi suggests firms that have experienced revenue growth in 2017 may not be able to achieve the same in 2018 (2018 Client Advisory, Citi Private Bank & Hildebrandt Consulting LLC, 2017), largely because the gap between the most profitable firms and the remainder of the Am Law 200 continues to grow – and one firm's growth can be at the detriment of another's (Amid Law Firm Merger Boom, 'Transformational' Talks on the Rise, 2017). Another financial challenge is the rise of associate salaries and bonuses, with which some firms are struggling to keep pace.

It's expected that those firms in the less-profitable echelon of the legal industry may need to hold off on high associate bonuses after years of trying to follow in the footprint of Big Law, which further highlights the growing disparity in firm profitability and the related consequences of this divide (How Associate Bonuses May Highlight BigLaw's Profit Gap, 2017).

Fierce Competition

Beyond traditional firm competitors, firms will continue to face competition from alternative legal service providers. While hard data is not readily available, it does appear that alternative legal service providers are growing rapidly – albeit from a very low base – and they are picking off low-value areas of legal work, thereby depressing demand growth for traditional firms. Corporate law departments continue to grow and keep more work in-house, although some view this as cyclical and likely to reverse in time, as has happened in the past. For now, we note the rapid growth of the Corporate Legal Operations Consortium (CLOC) as evidence of in-house law departments' continued progress and drive toward efficiency (2018 Looks Like Another Year Of Blah For The Legal Industry-Another challenging year ahead for the legal industry., 2017).

Outside the U.S., increasing competition from Big Four accounting firms will also pose a big threat or the firms. With the relative size of their respective legal arms (each targeting global legal revenues of $1 billion by 2021), the Big Four have the scale to disrupt the legal services market, but they have not yet built the legal brand to compete for high-quality firm business. Their main progress appears to be in continental Europe and the Asia Pacific region, where one of the Big Four recently announced the hiring of a former large international Firm managing partner (2018 Client Advisory, Citi Private Bank & Hildebrandt Consulting LLC, 2017). While the brunt of this disruption is occurring overseas, where these firms are allowed to practice law, they are starting to make waves in the U.S. market too. Most notable among these is PwC's recent announcement that it would launch a firm called ILC Legal in Washington, D.C., which won't offer law advice, but will assist U.S. clients on international issues and help refer work to PwC's legal services network worldwide (PwC to Launch US Law Firm as Big Four Expand Legal Offerings, 2017).

As legal services continue to move the commoditization route, the Big Four have been quick to move in on matters traditionally serviced by firms, including due diligence, regulatory and compliance services and tax, among others. The Big Four make up a significant portion of the alternative service provider market mentioned above, and should not be disregarded as a threat simply because of current regulation that prohibits them from practicing law. As the legal services market changes and continues to be more segmented, the Big Four are proving that they're not waiting on the sidelines to pick up work – and client relationships – at a swift pace.

The sheer depth and reach of the Big Four makes them potentially formidable competitors. The three largest of them combined have global revenues that exceed the aggregate revenues of the Global 100. They spend more on technology and training each year than the revenue of any firm. They are very experienced at developing multi-point client relationships and solutions to clients' business issues (2018 Client Advisory, Citi Private Bank & Hildebrandt Consulting LLC, 2017).

Apart from the Big Four, other alternative legal service providers (commonly referred to ALSPs or NewLaw) have also been gaining market share, providing clients with a wealth of options to receive their services from. According to a report on ALSPs issued jointly by Thomson Reuters Legal Executive Institute, Georgetown University Law Center, and the Oxford Säid Business School in February 2017, the global ALSP market is substantial, with a market of approximately $8.4 billion annually (Alternative Legal Service

Providers - Understanding the Growth and Benefits of These New Legal Providers, 2017). The report also indicated that their revenue may seem modest compared to $275 billion total revenue of U.S. law firms or the estimated $700 billion total global legal spending, but this rapid expansion occurred in only a few years and more is yet to follow.

	Accounting and Audit Firms	Captive LPOs	Independent LPOs, e-Discovery, and Document Review Service Providers	Managed Legal Services	Contract Lawyers, In-sourcing, and Staffing Services
Key Players	• Deloitte • EY • PwC • KPMG	• WilmerHale • Clifford Chance • Eversheds • Orrick • Allen & Overy • Reed Smith	• Thomson Reuters LMS • DTI • Mindcrest • QuisLex • Integreon • Consilio • Ldiscovery	• Thomson Reuters LMS • Axiom • Riverview Law • Elevate	• Halebury • Axiom • Special Counsel • Update Legal • LOD
Estimated Revenue	$900 million	$150 million	$6,200 million	$250 million	$900 million

Source: Alternative Legal Service Providers: Understanding the Growth and Benefits of These New Legal Providers

Consolidation

An offshoot of this growing profitability gap among the Am Law 200 has been a bout of firm mergers. In 2017, through mid-December, there were 96 firm combinations, (Altman Weil MergerLine, 2017). This breaks the previous record for most mergers in one year, which was 91 in 2015. Among 2017's mergers, 17 involved a firm with more than 1,200 lawyers. This signals that many mergers involve small- and medium-sized firms that are attempting to grow. Big firms are also eating up smaller firms more frequently as they look to close gaps in their coverage areas (Law Firm Mergers On Record Breaking Pace in 2017, 2017).

Separately, recognizing the hypercompetitive legal services market for the Fortune 50 companies, many Am Law 200 firms are starting to move down the ladder, recognizing the vast opportunity that resides within the middle market client base (Middle Market Proves Top Prospect for Many Am Law Firms, 2018). The following table looks at some of the leading opportunities for legal services growth in 2018, and those areas that could experience challenges.

Growth and Challenge Areas

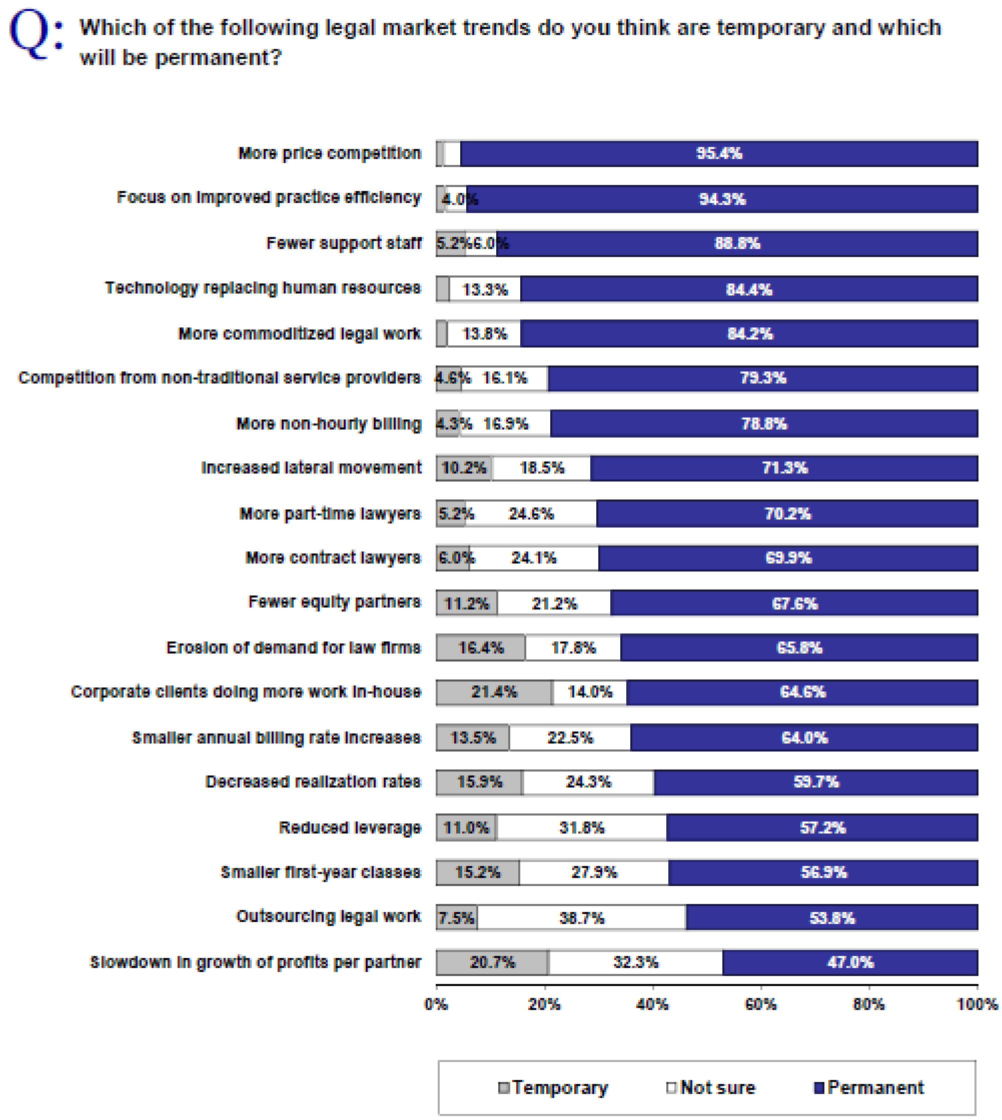
Source: Citi/Hildebrandt 2018 Client Advisory

Geographies	❖ Asia, specifically China, Hong Kong and Singapore are expected to offer great opportunity due to their rapid growth, and should be regarded as a growth strategy regardless of near-term operational challenges. ❖ While Europe presents challenges, Paris remains a bright spot. Meanwhile, London is still viewed as a market that offers growth opportunity, but Brexit will create some short- to mid-term challenges. Firms with a broad footprint across Europe could gain market share as Brexit repercussions shake out and some businesses move outside of the U.K. ❖ Within the U.S., New York, California, Texas and Washington, DC, continue to be hot markets.
Practices	❖ The outlook for M&A work, particularly PE-driven M&A, is favorable. ❖ Other hot spots include white collar and regulatory investigations, tax advisory, infrastructure and project finance, and cybersecurity work. ❖ Litigation, which had tapered off in recent years, is expected to see a resurgence in 2018, with activity buoyed by the rise – and wider acceptance – of litigation funding. ❖ Patent prosecution work could face challenges in 2018, and some firms have already started to move away from this space. ❖ There is a mixed reaction on whether bankruptcy and restructuring, capital markets, and banking and finance will create opportunity in 2018.
Industries	❖ The prospects for growth are strongest in the technology, life sciences, pharmaceutical and private equity sectors. ❖ The retail and real estate markets are expected to cool in terms of legal services, and there are conflicting opinions over the outlook for financial services. There are concerns over litigation run-off, growing pricing pressure and greater cybersecurity and data privacy requirements that firms will need to adhere to.

The New Operating Environment

Looking ahead to 2018, there are a number of trends that will continue to have a significant impact on the legal industry and the way it operates. These forces span pricing pressures, cost control, technology disruption and greater competition from new incumbents. According to the Altman Weil survey, the most permanent forces will be more price competition, a focus on improved practice efficiency and fewer support staff. The landscape has changed, and firms will need to remain increasingly attuned to the forces at play or, given the growing profitability gap, risk extinction.

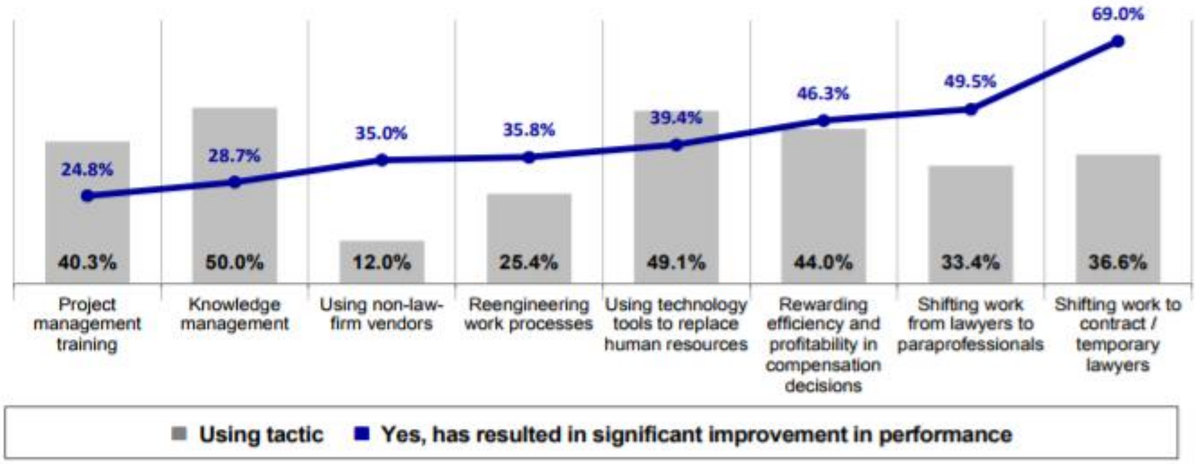
Source: Altman Weil 2017 Firms in Transition Survey



Triple Aim: Productivity, Efficiency and Margin

Moving forward, one of the biggest focus areas for firms will be efficiency – notably, according to the Altman Weil survey, half of firm respondents said they haven't made significant changes to their approach to efficiency. Firms that are making efforts are relying frequently on knowledge management and legal project management training as their preferred tools for unlocking efficiencies, but few firms are seeing quick successes with their mechanisms. This may be due to poor utilization by partners. While these strategies might not result in overnight results, firms that fail to consider ways to improve efficiencies will, over time, find themselves at a competitive disadvantage (Law firms in transition - An Altman Weil flash survey, 2017).

Firm Tactics to Increase Efficiencies and Their Respective Results



Source: Altman Weil 2017 Firms in Transition Survey

One way to unlock efficiency, according to legal consultancy Major, Lindsey & Africa, is for firms to double down on their strengths by carving out a defined strategy to better achieve efficiencies and to help boost profits (MLA Industry Outlook, 2017).

Firms that can target what they want to be known for in the market and shed unprofitable business segments are better positioned to leverage their strengths and then focus on achieving efficiencies. The consultancy warns that a surprising number of firms have yet to define their strategy. These firms, especially in the middle market, are at greater risk of being edged out of the market and forced into mergers. In addition, Thomson Reuters found that investments in areas such as business development, marketing and technology are factors helping to define higher-performing firms (Reuters Legal Executive Institute Study, 2017). It found in its 2017 State of the Legal Market Midyear Report that 80 percent of firm leaders anticipate marketing and business development to be a major priority for firms.

Growing margins is as important as growing revenue. While firms are making efforts to cut costs, the reality is that costs continue to rise. To protect margins, the obvious response would be to raise rates. However, given that the industry is largely characterized as a buyer's market, this hasn't necessarily been a feasible option, thus lowering a firm's realization rate.

Alternative pricing models can further erode a firm's realization rate and profitability, but continue to grow in popularity, particularly among middle market firms looking to boost market share. It's expected that client demand will continue to drive this shift away from the traditional billable hour across the broader market, with a greater focus on fixed fees and value-based pricing. Clients feel the billable hour model is dated, and the shift to alternative pricing models is starting to appear in complex matters as well. Firms are changing how they deliver legal services (i.e., profit analyses, innovative staffing models), which is helping move the needle back toward higher realizations rates (MLA Industry Outlook, 2017).

The Talent Conundrum

For the past few years, concern over the growing number of equity partners set to retire in the coming years – and the limited pipeline of younger, qualified talent coming into firms – has continued to mount. This issue still rings true, and has been magnified by several other factors that are creating talent challenges. One major obstacle, which Altman Weil refers to as “chronically under-performing lawyers,” is starting to have a negative impact on firm profitability. This is compounded by growing overcapacity at firms, which survey respondents say spans all levels of staff from associate to equity partner (Law firms in transition - An Altman Weil flash survey, 2017). These two factors would signal the need for firms to reassess their incoming staff strategies.

Nonetheless, firms are still actively pursuing headcount growth and see this growth (both organically and through lateral strategies) as essential to their success. Much of the addition is happening at the associate level, which brings a new type of lawyer – the millennial – into the staffing mix. This evolving talent environment creates many issues for firms: how to address underperforming lawyers; how to ensure key clients are retained during the succession of retiring partners; how to entice younger, quality talent when there are more career opportunities available to them in the industry, beyond the traditional partner track; and how to leverage new staffing models that are being demanded by clients as a way to improve service efficiencies (2018 Client Advisory, Citi Private Bank & Hildebrandt Consulting LLC, 2017).

Addressing Underperforming Lawyers

According to the Altman Weil survey, nearly 90 percent of firms said they have chronically underperforming lawyers, and 68 percent of respondents said they expect fewer partners will be awarded equity status in the future (Law firms in transition - An Altman Weil flash survey, 2017). The Citi survey arrived at a similar conclusion, indicating that in recent years, firms have made very few net new equity partners, and to manage the net new number closely, gross movements in and out of the equity partners have been on the rise (2018 Client Advisory, Citi Private Bank & Hildebrandt Consulting LLC, 2017).

When asked the reason for the underperformance, Altman Weil survey respondents indicated the leading reason was weak business development skills and efforts. To respond to this underperformance, firms are turning to several strategies, including reducing compensation, developing individual improvement plans, getting rid of underperforming lawyers and de-equitizing full partners (Law firms in transition - An Altman Weil flash survey, 2017).

Slowdown in Lateral Hiring

Many of the major legal surveys point to a hot lateral market continuing in 2018, a trend that has been evident for several years as firms have looked to unlock additional revenue opportunities and to grow brand strength. Despite continued use of this strategy, there is more and more data emerging that suggests this strategy has a number of pitfalls, and can be detrimental to a firm’s profitability and culture.

While many firms expect no slackening in the trend (95 percent of respondents in the Altman Weil survey cited this as a top growth strategy), research from recruiting research firm Leopard Solutions found that lateral hiring may indeed be abating. The number of lateral hires dropped 8 percent in the first half of 2017 compared with the same period in 2016, leading Leopard to suggest lateral hiring may have peaked in 2016 after climbing 30 percent over the previous three years (Law Firm Laterals 2017 H1 Report:Actionable Intelligence for Law Firms, 2017).

The research firm suggests one of the reasons for this pullback is that firms are becoming more attuned to the challenges of lateral hiring, and as a result are approaching this strategy with more caution and setting up performance milestones once lateral hires join the firm. According to the [Altman Weil survey](), laterals who fail to measure up within 24 months of joining the firm should be subject to reduced compensation or should be removed from the firm.

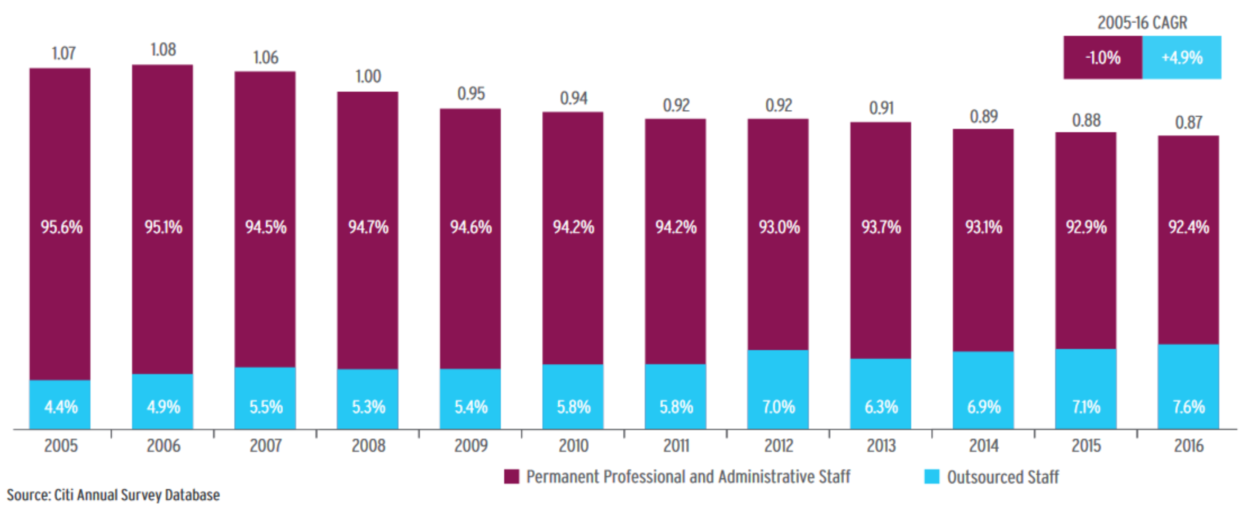
New Staffing Models – Contract Lawyers, Professional Staff and Outsourcing

In an effort to slash expenses at a similar rate to falling revenues, firms are becoming leaner in their ratio of professional and administration staff to lawyers, and are hiring more contract, staff and part-time lawyers.

According to the Altman Weil survey, half of all firms have significantly changed their staffing strategy since the recession, and the use of contract lawyers is the leading staffing strategy employed by firms. Using contract lawyers allows firms to flex up and down when demand fluctuates without the need to increase overhead. The use of low-cost service centers is also gaining traction, whereby firms create centers for non-lawyer, back-office functions.

The table below, produced by Citi, shows the increasing shift toward outsourced staff versus permanent professional and administration staff. Within this category of support staff at firms, the trend has been a shift toward more professional staff with higher skillsets, and a shift away from permanent administration staff. The most common outsourced roles are office facilities and helpdesk functions. Roles like HR, financial or procurement have largely been left in-house. While Citi suggests firms may have squeezed all the cost savings available to them, they could start looking to outsource additional business services that may not have been considered in the past, or could continue to shift back office and low-cost legal work to captive low-cost centers, as noted above (2018 Client Advisory, Citi Private Bank & Hildebrandt Consulting LLC, 2017).

Permanent Professional and Administrative Staff vs. Outsourced Staff: 2005-2016



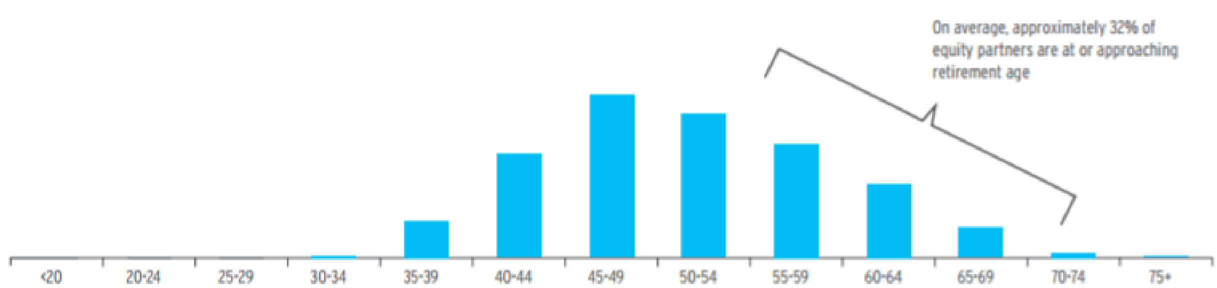
Succession Planning and Retaining Top Talent Paramount

The need for firms to focus on succession planning strategies continues to build. According to Citi, 32 percent of partners are at or are approaching retirement age. While an aging workforce is a given, there are concerns over how firms are retaining their incoming lawyers who aspire to become equity partners (2018 Client Advisory, Citi Private Bank & Hildebrandt Consulting LLC, 2017).

An associate study from Major, Lindsey & Africa found that partnership remains the most common long-term career goal for associates, but one-third of junior associates plan to leave their firms in two years or less. Behind making partner, the next most popular career paths were in-house counsel or government/non-profit positions. When asked what drew these associates to their firm, the top two factors were firm culture and work/life balance; and, notably, when asked why they would be interested in going in-house, a better work/life balance was the resounding factor, garnering nearly 86 percent of respondents. Other major factors included an opportunity to become a business decision maker and simply an alternative to firm practice (Major, Lindsey & Africa Study: MINDING THE GAP:DO TODAY'S ASSOCIATES DEFY GENERATIONAL STEREOTYPES?, 2017). General counsel compensation continues to grow (up 9.8 percent between 2015 and 2016, with base salaries up 1 percent and bonuses up 38 percent), but notably, pay was not a leading factor in an associate's attraction to an in-house counsel role (Major, Lindsey & Africa's 2017 In-House Compensation Report , 2017).

When this group of associates was asked where it would like to see improvements, it said it would like to spend more time focused on business development. This is a notable trend since Altman Weil identified poor business development skills as the leading factor in underperforming lawyers, signaling a desire but perhaps a lack of established training infrastructure. Regardless, firms are going to need to look closely at their succession plans sooner rather than later, and determine how to retain top talent in a legal industry that offers more than just the traditional partner track (Law firms in transition - An Altman Weil flash survey, 2017).

Chart 9: Equity Partner Demographics as a % of Total Equity Partners: 2016



Source: Citi Law Firm Leaders Survey

Diversity at the Fore

Another staffing issue under attack from many angles is the gender gap at firms. While there have been reports that gender diversity is improving, the data suggests that U.S. frms remain dominated by men – a phenomenon mostly seen at the partner level, according to [Leopard Solutions](). The recruiting research firm found nearly 72 percent of the Am Law 200 firm (or 143 firms) have between 30 percent and 39 percent female lawyers. There were only two firms that had 50 percent or more female representation. When drilling down on the three firms with the highest representation, there was still a gender imbalance at the partner level, while a more equal balance was most apparent at the associate level. While firms are feeling pressure from within (including discrimination lawsuits from current and former lawyers), and subsequently the media, clients are also starting to add pressure. Some *Fortune 1000* companies are moving to factor gender and other diversity factors into their hiring of outside counsel (Women See Another Year Of Slow Gains At Law Firms, 2017).

Growing Competitive Landscape Due to In-House Legal Departments

Notably, the single greatest competitive threat to firm revenues is their clients themselves. According to the Altman Weil survey, two-thirds of respondents have lost business to corporate law department insourcing.

Greatest Threat: General Counsel

While legal work has been shifting in-house for some years now, which will likely continue throughout 2018 and beyond, Citi points out that some believe this trend is simply cyclical, and that in due time the work will start to flow to outside counsel again, as it has in the past (2018 Client Advisory, Citi Private Bank & Hildebrandt Consulting LLC, 2017).

In the meantime, firms are increasingly becoming attuned to the need to shift their traditional legal services techniques toward a more collaborative approach with clients. There are a number of strategies used by outside counsel to strengthen the client service relationship with their greatest competition: their clients. From risk-sharing agreements and alternative fee arrangements – which force greater efficiencies at the firm level and help split the downside in deals and disputes – to client value initiatives that move the needle beyond just reactive legal services to include proactive solutions and training, it's evident that legal services is still largely a buyer's market. Firms at the fore of service innovation are looking at ways to demonstrate to their clients that they can bring more to the table than just a bill for hours. Firms that fail to recognize this shift in service delivery may find themselves at a competitive disadvantage in the coming years as more innovative firms unlock service differentiation and strengthen lucrative client relationships (Richard Susskind On In-House Lawyers Sharing Risks Through Fee Arrangements, 2017).

Alternative Legal Services

While the legal industry has been historically resistant to change, technological advancements have the potential to reshape the way business is conducted. As firms and in-house teams slowly adapt to this changing landscape, the options for alternative legal services have grown exponentially, providing an abundance of cost-effective solutions to the efficiency obstacles that firms and in-house teams alike face. However, as new technology continues to emerge, both in-house counsel and firms will need to figure out how to adapt these new resources effectively (MLA Industry Outlook, 2017).

Alternative Service Providers and Newlaw

Alternative service providers (ALSPs) continue to chip away at demand for traditional firms. According to the Altman Weil survey, 19 percent of firms said non-law-firm providers of legal and quasi-legal services are starting to steal business, while another 40 percent of firms see this group as a growing threat. While this group does present risks for traditional firms, those firms willing to innovate can capitalize on this new legal services channel as a way to cut costs.

According to research conducted by Thomson Reuters, Georgetown Law's Center for the Study of Legal Profession and Oxford University's SAID Business School, 55 percent of respondents said alternative service providers can help them mitigate price pressure from clients, while 41 percent said they can help to scale and expand business. The survey found that more than half of firms are already using at least one alternative service provider and a further 21 percent of firms expect to use one next year.

The motivations behind using these types of providers vary – from accessing specialized expertise, to controlling costs and helping meet peak demand. Firms are seeking out alternative service providers to support e-Discovery support services and litigation and investigation support, while legal departments are seeking them for regulatory risk and compliance services and specialized legal services. For the most part, these competitors continue to pick away at low-level work, eating into traditional firm demand.

Firms aren't sitting idle. Many are moving to partnerships to provide this offering to clients and, in some cases, are even dipping their toe in the alternative service provider market themselves, launching carved-out services.

Another factor having a profound impact on this group's recent success is the ability to leverage technology, perhaps even more swiftly than traditional firms, creating added efficiencies for clients. With advances in technology, it's possible that this group of legal services disruptors could start to encroach on higher-level work, and as such, it will be increasingly important for firms to develop a strategy on how to incorporate these services into their own offerings.

Legal Innovation

Technology

One way legal leaders are increasing efficiencies, enhancing their service offerings and optimizing lawyers is with the help of deep learning technologies, including AI. In 2017, firms and legal teams looked to these technologies to improve business management and service delivery, and enhance and expand capabilities. Since its emergence, AI has proved critical in legal research. Creating and automating certain legal functions can help teams better understand and classify data, determine trends, manage workflow, conduct due diligence and document review, and implement other prevention tools and processes. This frees up lawyers to handle legal analysis more efficiently and tackle more complex matters. While ominous predictions hint at AI ultimately replacing lawyers, this is far from reality. Instead, AI combined with personnel create the potential for a supercharged lawyer (MLA Industry Outlook, 2017).

Analytics

In 2018, the legal industry as a whole can benefit from using legal analytics to harness their data and put it to good use. Data can support a number of legal functions and entities, including:

- Legal management
- In-house legal departments
- Firms

More firms will be using analytics to predict trends and measure practice development by applying advanced analytical tools to their own billing and financial information. Moreover, increasing numbers of companies will use analytics to build predictive models that spot potential business risk, especially with respect to litigation trends. As firms become more dependent on these tools, lawyers will need to be trained to succeed in a data-driven world (MLA Industry Outlook, 2017)

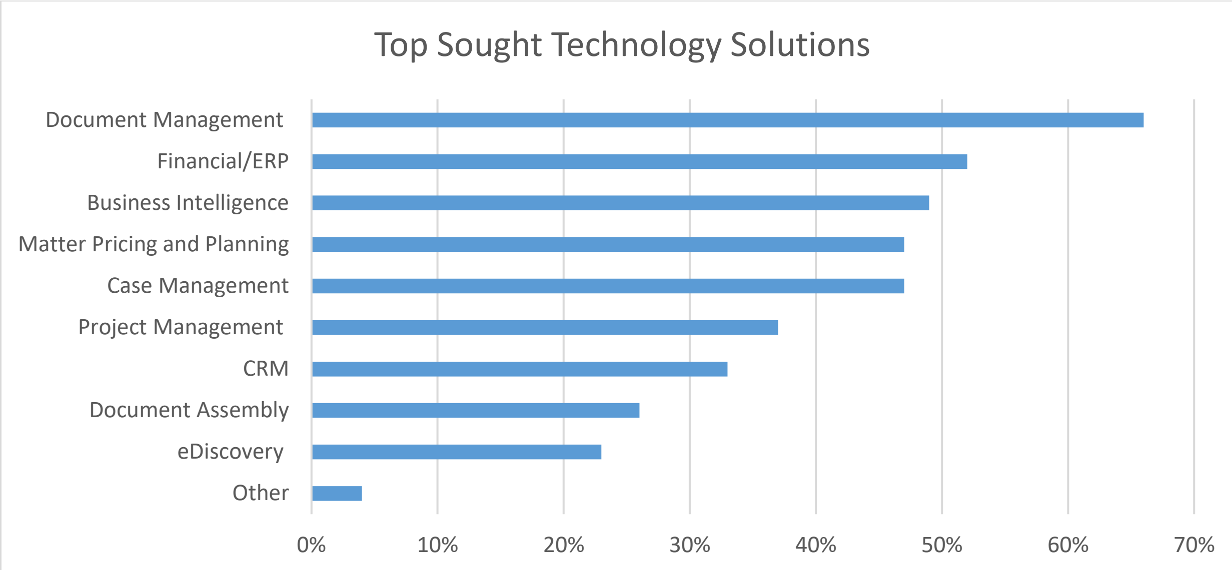
Top Sought Innovative Solutions

Firms have traditionally been slow when it comes to technology adoption due to resistance from partners, who are unwilling to change, and little demand from their clients. These reasons are still at work, but a 2017 Altman Weil survey signaled that these barriers may be starting to break down, if slowly. Half of survey respondents indicated that their firms are actively engaging in special projects to test innovation ideas. Firms are finally innovating, largely to achieve greater efficiencies in service delivery, but these solutions are touching on a number of angles, from technology and data analytics, to testing new business ventures and models, identifying pricing and staffing improvements, and solutions aimed directly at engaging and retaining clients.

A strategy that has been gaining momentum but may face some challenges in the near term is the launch of innovation labs. This process, though not necessarily impractical, generally promotes a culture of ideas but little action, leading many corporations to shutter their innovation labs. According to Marci Borgal Shunk, president and founder of the Tilt Institute, a firm dedicated to unveiling new perspectives on firm growth through innovation, firms need to be smarter when it comes to innovation, leveraging the voice of the client and culture KPIs performance indicators that promote greater realization and client satisfaction, beyond billable hours. She recommends listening more to people outside of the firm, including clients, industry experts and third-party partners. To navigate this new era of legal services innovation, firms will need to eschew their standard of perfection and adopt a standard of exploration. This means recognizing that there will be failures in some cases (Why Is Law Firm Innovation Failing? How to Push for Success, 2017).

While clients may not specifically be demanding technology solutions from their outside counsel, this doesn’t mean there isn’t a profound shift occurring in legal services delivery. According to Altman Weil survey respondents, 20 percent of firms are already losing business due to client use of technology tools that reduce the need for lawyers and paralegals, while another 52 percent see this as a potential threat in the near future.

According to a survey by Aderant, a provider of business management software for lawyers, the top 10 technology solutions sought by firms to better control prices and improve operational efficiency are document management, financial/ERP and business intelligence. At the bottom of the list was e-Discovery (Aderant Business of Law and Legal Technology Survey, 2017).



Source: 2017 Aderant Business of Law and Legal Technology Survey

2018 Legal Technology Predictions

The Transition to E-Discovery

Despite e-Discovery appearing lower on the list of sought-after legal tech solutions, according to the Aderant survey, the process creates cost efficiencies, which firms can then pass on their clients. There is increasing pressure for lawyers to be familiar with the technologies available, as many state bar associations now consider understanding this technology an ethical obligation (Why Tech Skills Are Your Ethical Duty, 2016). Firms that have invested in the technology are finding themselves in a better position to benefit from the $9 billion e-Discovery market, and are able to handle discovery at the entire state of the electronic discovery reference model (eDiscovery Is Big Business — And Worth Fighting Over For Providers, 2017). International Firm Troutman Sanders, which has a wholly owned e-Discovery subsidiary, eMerge, says an integrated e-Discovery service ensures the knowledge gained at each phase of the process is leveraged to reduce costs and improve outcomes downstream. Other firms offering this service include Reed Smith, Norton Rose Fulbright and Skadden. This market is fast moving, and faces threat of disruption itself from the rise in AI capabilities. Firms that decide to enter this market themselves will need to stay up-to-date on market developments, and be willing to adjust accordingly (How a Few Savvy Law Firms Turned E-Discovery Into a Cash Cow, 2017).

For the most part, firms continue to pursue a partnership strategy with leading e-Discovery providers, but as the e-Discovery market undergoes a wave of consolidation due to its highly fragmented nature, firms should still keep pace with e-Discovery (Is E-Discovery on the Precipice of Even Greater Market Consolidation?, 2017)

Artificial Intelligence and Machine Learning

One area of legal tech that undoubtedly has the potential to create significant change is AI; however, the consensus among Altman Weil survey respondents is that this technology has yet to be put to wide use.

Only 7.5 percent of firms have started leveraging AI tools, while another 29 percent are starting to explore their options. The remaining 64 percent have yet to explore what these tools can offer or are unaware of what is happening in this space.

Beyond the Altman Weil survey findings, there are a number of innovative firms that recognize the benefit provided by AI, and are experimenting with their own tools. Firms including Dentons, Clifford Chance, DLA Piper and Linklaters have all partnered with leading AI service providers to test new solutions, spanning contract review and due diligence.

There appears to be divergence between Big Law and small- and mid-firm strategies, however, as Big Law has greater scale and resources available to make investments in the tech and resources needed to play in this space.

The challenges facing greater AI adoption are many, and they will need to be overcome before wide industry adoption. Problems associated with AI include: the technology's potential to eat into the work of junior lawyers; increased cybersecurity and data privacy concerns; a lack of regulatory framework and standards; and concerns over legal ethics and IP protection. Despite these challenges, AI continues to disrupt more industries than just legal and avoiding this wave of disruption that is already unfolding is a risky strategy (Preparing for Artificial Intelligence in the Legal Profession , 2017).

According to Dennis Garcia, an assistant general counsel at Microsoft, there are a number of strategies that firms can take in face of AI, including developing AI legal centers of excellence to monitor developments and train staff, making investments in the technology to better understand how it works and what it's capable of, and developing appropriate internal AI practices and controls (Preparing for Artificial Intelligence in the Legal Profession , 2017).

Firm Cybersecurity

One legal industry issue that came to the fore in 2017 and will continue to be a focus are for firms well into 2018 and beyond is the issue of cybersecurity. Firms are becoming attractive targets for cybercriminals because of the significant volume of highly confidential client information they hold. Law firms are also behind other industries when it comes to cybersecurity practices.

Heading into the new year, and for years to come, improving firm cybersecurity will be a required part of firm operations given the damage a cyber breach can do to a firm's brand. According to Citi, firms will focus on better understanding their data (what it stores, where it stores it, whether its encrypted and who can access it), implementing layered defenses, creating or updating incident response plans, seeking cyber insurance and reviewing and revising data security policies and practices (2018 Client Advisory, Citi Private Bank & Hildebrandt Consulting LLC, 2017).

The Growing Importance of Local SEO

People often turn to the internet when they are looking for local service providers, and that includes lawyers. Webris reports that "96 percent of people seeking legal advice use a search engine." Search engine optimization (SEO) has long been a point of emphasis for businesses, but local SEO is becoming just as important, especially for firms (2018 Technology Trends to Watch in the Legal Industry, 2017).

Online Services That Answer Legal Questions

Lawyers are no longer the only option when it comes to answering legal questions. There are now plenty of websites, such as LegalZoom, that provide answers to legal questions and allow visitors to ask their own. A lawyer, a paralegal or anyone else with legal knowledge can then chime in with answers. These online services can be helpful marketing tools for the firms. If the firm answers questions periodically, it can help build online reputation. Another benefit of signing up with LegalZoom is that it offers lawyer profiles, allowing visitors to read more about the lawyers on the site and check out reviews from clients (2018 Technology Trends to Watch in the Legal Industry, 2017).

Using CRM Software with Clients

Customer relationship management (CRM) software has been used by businesses for years. It allows them to keep their customer information organized, track all interactions with each customer and provide a better experience that's more tailored to the individual customer (2018 Technology Trends to Watch in the Legal Industry, 2017). Firms are expected to take advantage of these benefits by using CRM software such as Lexicata to handle client relationships since such software would allow firms to have client information at their fingertips and would foster better relationships with clients (2018 Technology Trends to Watch in the Legal Industry, 2017).

Changes in Billing

Clients now expect to be able to pay just about any way they want. Most firms accept credit cards, but mobile payment apps are growing in popularity. Businesses that want to keep up will need to accept the latest payment methods. Payment methods aren't the only way billing is changing in the legal industry. Many firms are moving away from billable hours and trying alternative billing methods, such as flat rates, to bring in new clients (2018 Technology Trends to Watch in the Legal Industry, 2017).