

**winmark**

# LOOKING GLASS REPORT 2015

**THE FUTURE OF THE LEGAL SECTOR**

In partnership with:



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# LOOKING GLASS REPORT 2015

## THE FUTURE OF THE LEGAL SECTOR

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# Foreword



**Samantha Steer**

Head, Strategy, Large Law  
Thomson Reuters

We're delighted to be research partner to the Winmark Looking Glass report – an annual look at the state of the industry, bringing the trends of 2014 into greater focus, and providing insight into what's to come for the legal sector.

This year we have more than doubled the number of respondents who have contributed to the research, providing a robust foundation for analysing and predicting future trends. Of most note is the significant increase in the number of in-house counsel respondents, 122 in-house counsel responded together with 160 responses from law firms. Thus the research offers insight into both the views of in-house counsel and those of large law firms, as to predicted future trends, and allows us to identify differences in perception, between the buy and the sell-side.

Of particular interest and practical use is the analysis of top factors influencing in-house counsels' decision to instruct a new firm or keep an existing firm (page 40). By plotting the perceptions of in-house counsel against those of law firms, we can see some interesting misalignments. What's more, when this is compared to perceptions of how law firms perform in these areas, we're able to identify a quadrant of 'High importance/Low performance' factors; to which law firms would do well to shift their attentions.

One factor which falls into this quadrant is 'use of technology'. As a provider of legal solutions which combine content, technology and expertise, to both in-house counsel and law firms, working individually or in collaboration, this is an area which particularly interests us at Thomson Reuters.

With a typical law firm technology budget of £625,000 (compared to £7-10,000 for in-house), it's clear that law firms are spending on technology. For example, this report finds that law firms are more likely than their in-house counterparts to have implemented document, matter and case management systems. Perhaps what's missing, then, is spend on technology that directly and visibly benefits in-house counsel.

For example, our report finds that law firms are less likely to have implemented a formal metrics programme than in-house counsel. With ROI at the forefront of all lawyers' thinking, whether in-house or in a law firm, metrics that help clients prove ROI can only increase in importance.

Since our report highlights that law firms are still struggling with differentiation, use of technology could be one route to achieving high differentiation, not least given the significance of the impact of technology and innovation attributed by in-house counsel respondents, rated the second most significant impactful factor on the future of the legal sector.

At Thomson Reuters, we look forward to working together with law firms and in-house counsel alike over the coming years to help them achieve competitive advantage and deliver unparalleled results, with our legal solutions that combine best-in-class legal content, expertise and technologies.

We hope you find this report interesting and provoking and that it might have a bearing on your work in 2015 and your future plans.

# Foreword



**Sean Connolly**

Senior Partner  
Mayer Brown

These are interesting times for the legal sector, as law firms and in-house legal departments continue to evolve in response to trends that promise to reshape the market. The legal sector is being redefined by the issues highlighted in this year's Looking Glass report from Winmark, and as a leading international law firm serving the needs of in-house legal teams at home and abroad, Mayer Brown is delighted to be one of its research partners.

Many of the findings in the report highlight issues that the legal sector has been grappling with for some time — economic conditions, lack of differentiation, technology, alignment of service expectation and the downward pressure on fees. Newer trends such as the presence of ABSs, M&A activity and the streamlining of back-office support are also bringing change to the sector. The underlying common theme binding both old and new is that the business of law is changing.

Clients want to work with lawyers that they can partner with, ones who can see challenges and opportunities through their eyes, apply their expertise and come up with innovative solutions. Technology has transformed the way in which we work; however, whilst there are many examples of innovation and commoditisation across the sector, the law as a profession has been slow and selective on its application.

In many ways the conversation about how legal services — both high and low value — could be delivered is only just beginning. It is an exciting time for the sector and we need pragmatic and exploratory discussions between in-house lawyers and law firms about the way in which work is serviced and priced as part of a collaborative “what if” approach. One of the biggest challenges facing law firms today is how they decide to develop those opportunities and their business models in response.

The report provides fresh insight on these important issues, and we look forward to being part of the wider debate that it stimulates.

Our findings are based on survey responses from **122 in-house lawyers,** and **160 law firm partners** including managing partners. In addition, we have conducted 15 depth interviews with a selection of experts from the sector. The research was conducted by Winmark, in partnership with Thomson Reuters and Mayer Brown International.

# Introduction

Winmark's annual Looking Glass report draws on the experiences and insights of leaders from the legal sector to provide an account of trends and developments within the in-house and private practice communities.

By covering both groups the report provides an unparalleled view of the synergies, gaps and misalignments between the buy and sell sides of the market, making it a must-read for those invested in the future of the legal marketplace.

Previous iterations of the Looking Glass series have focused on reducing costs to maintain financial stability. While this issue continues to sit high on the stakeholder agenda, we have seen firms and in-house teams become more open to trying out new approaches. We have also observed the emergence and growth of non-traditional legal services providers such as virtual law firms and Alternative Business Structures.

The current report, whilst covering the traditional issues related to economic and market forces, also extends its remit to several new topics including:

How the legal sector is becoming more diverse

Opportunities for law firms to increase alignment with in-house legal teams

Investment in technology and innovation

# Executive Summary

There is an upturn in confidence and optimism about the economic environment amongst both in-house and private practice communities. Following years of cost cutting increasingly combined with careful exploration of new approaches, a number of trends are currently growing in dominance.

*More flexibility within the legal market* is one of those trends, with contract and/or flexible legal services increasing in number and in credibility as several large, well-established players have entered the market. The client demand for flexibility to which these providers cater is matched by the rising prevalence of lawyers who abandon the partner track or the in-house profession for a more flexible, alternative career path.

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Several years after the introduction of ABS, we are now also seeing a new presence that has entered the sector through this route; three out of the Big Four *auditing firms have gained ABS* licenses to provide legal services in the UK, with many smaller firms ready to follow in their footsteps. Considering the strong brands and extensive resources behind the firms, combined with their ability to provide a one-stop professional services shop, the importance of this development should not be underestimated.

Faced with increased competition, *we expect consolidation on the private practice side to continue*, however the improving economic environment means that the pace of consolidation is likely to slow down, and the lower level of M&A intentions among firms reflects this decreasing pace. However, the underlying trends at the heart of the legal sector remain unchanged, and in the long term we expect a negative impact of *race to the bottom on fees and lack of differentiation* in the lower and mid-tiers of the market.

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Fortunately for private practice, those who successfully adapt to changing client demands will be the winners in the future. While there currently is a certain amount of *misalignment between clients and suppliers*, we expect this situation to improve in years to come as firms will need to work hard to strengthen their competitive positioning.

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Our research has identified what in-house clients want from their legal services suppliers, and where, on average, law firm performance falls short of client expectations. Not surprisingly, *many firms focus on primary deliverables* such as quality of work, technical expertise, service standards and strong relationships. While important, these factors do not provide in-house clients with a genuine differentiator. Meanwhile *other factors that clients place much value on are virtually overlooked*. Examples of these include diversity, offering retainers, thought leadership, hospitality, and use of technology.

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On the technology front, *in-house teams often face a battle to get budget for investment in dedicated legal technology*, as technologies with company-wide application are frequently (and understandably) prioritised. However while legal staff numbers are forecasted to stay the same, growth in the amount of work is expected, which may identify a greater need for technology. In order to invest in technology that can help make the legal function more efficient at a time when in-house resource is much strained, in-house teams need to make strong business cases (possibly benchmarking themselves to legal team IT budgets in other businesses) to persuade their internal stakeholders, and make creative use where they can of technology resources that are already available. Despite these challenges, *in-house functions do see technology and innovation as a key opportunity, and expect their suppliers to keep up, or even lead the way, in this area*.

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On the private practice side, larger firms have larger tech budgets, both in absolute and relative terms. Being able to invest more in efficiency improving technologies and in other innovations gives large firms an advantage over smaller competitors.

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However, *we are seeing smaller firms partnering in networks* that enable them to strengthen their buying power as well as to refer work to each other, suggesting that they are finding creative ways to keep up with or challenge the larger players in the market.

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Overall, *success will not be determined by size*. For in-house teams, meeting the requirements of the business, aligning with its strategy, and working in an efficient and effective way influences success. On the supply side, the players that best anticipate their clients' needs, that are truly differentiated in meaningful ways, and that cleverly invest in staying ahead of the competition are the ones who will be best placed to escape the race to the bottom that may well see some of their weaker competitors go under.

# Setting the Scene: Economic Environment and Market Context

After the economic downturn, the UK is currently in the first stages of economic recovery. GDP is once again on the rise, inflation is low, and the labour market is gradually recovering according to the Office for National Statistics.

Internationally the picture is more mixed, with falling growth in emerging markets and continued economic instability in Europe exacerbated by political volatility in the Ukraine and sanctions on Russia.

Nonetheless, we are seeing an upturn in confidence and optimism in the legal sector. Pressures on cost and efficiency have been accepted as the new normal by most, and new approaches are being explored both in-house and by legal services providers.

## Impact of economic trends

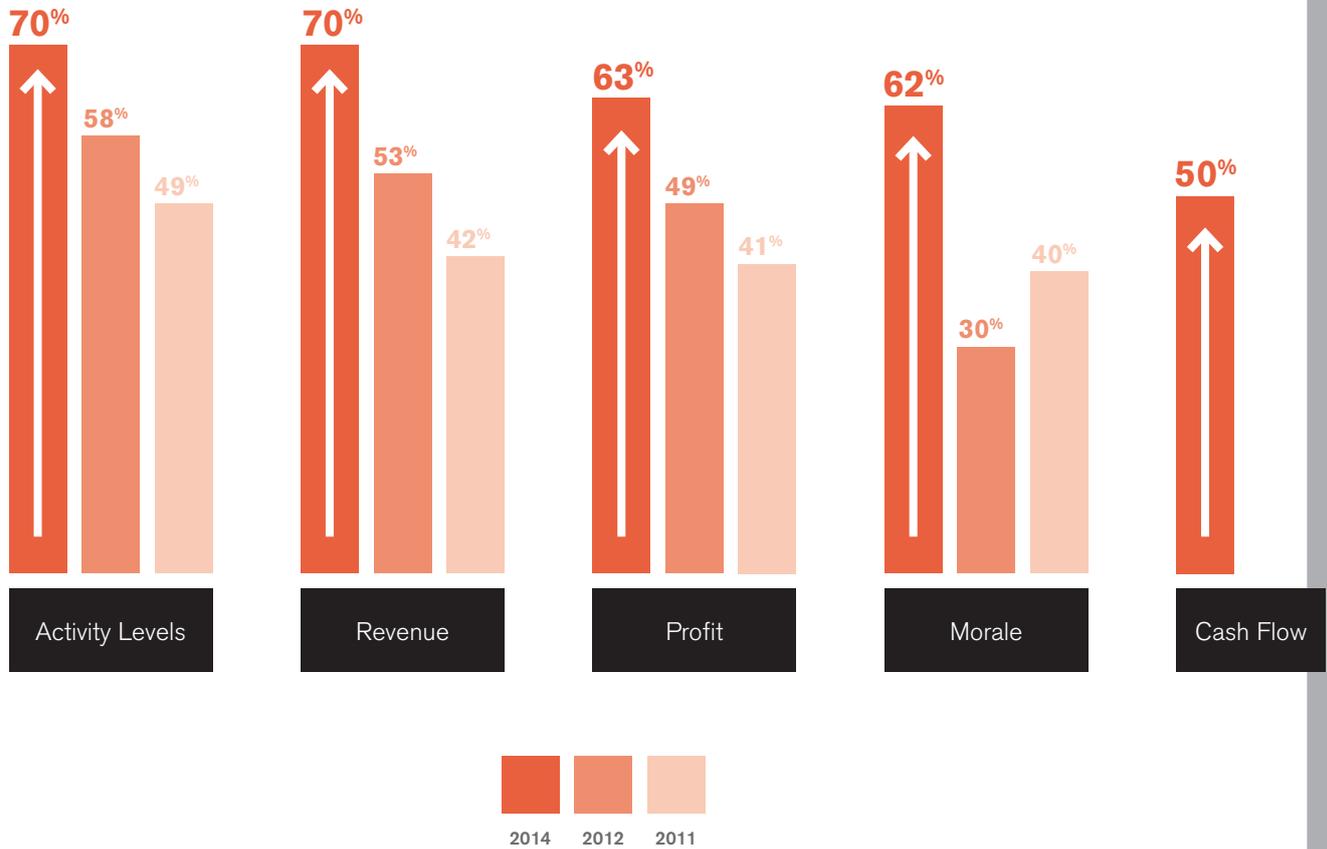
At **55%**, the majority of in-house lawyers that feel economic conditions in the past 12 months have had a positive impact on activity levels within their organisation.

More in-house lawyers are positive rather than negative about the impact of the economic climate on revenue, profit and morale, suggesting that organisations are feeling the benefits of the economic recovery. Following a long period of decline, they are now much more optimistic, creating a positive environment for investment and growth.

More than **50%** of law firm partners surveyed for the Looking Glass believe economic conditions in the last year have had a positive impact on their firms, with **70%** seeing a positive effect on the firm's revenue and activity levels.

Law firms' perception of economic conditions compares favourably to previous years; positive scores for all law firm indicators show a marked increase compared to 2012 and 2011. Law firm morale in particular has seen a boost in the last year, with twice as many firms claiming economic conditions have had a positive impact on their firms.

### Positive impact of economic conditions on law firms



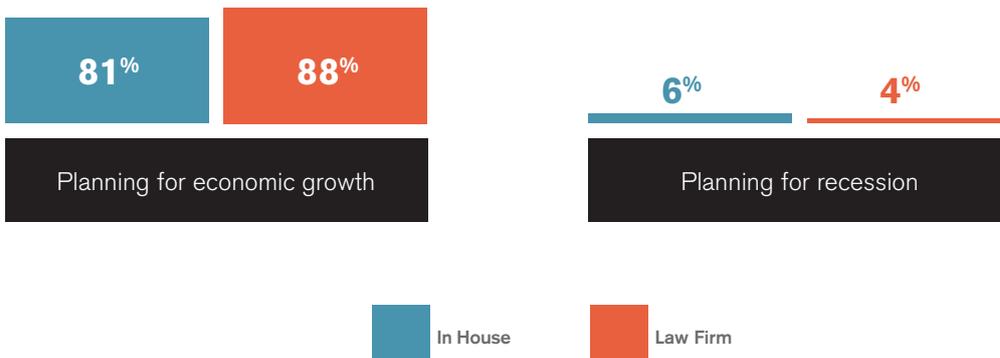
Overall law firm partners are more positive about the impact of economic conditions than their in-house colleagues, as well as being almost twice as likely to expect to increase the number of legal staff in the next year.

Forecasts for 2015



More than **80%** of both in-house functions and law firms are planning for economic growth in the next year.

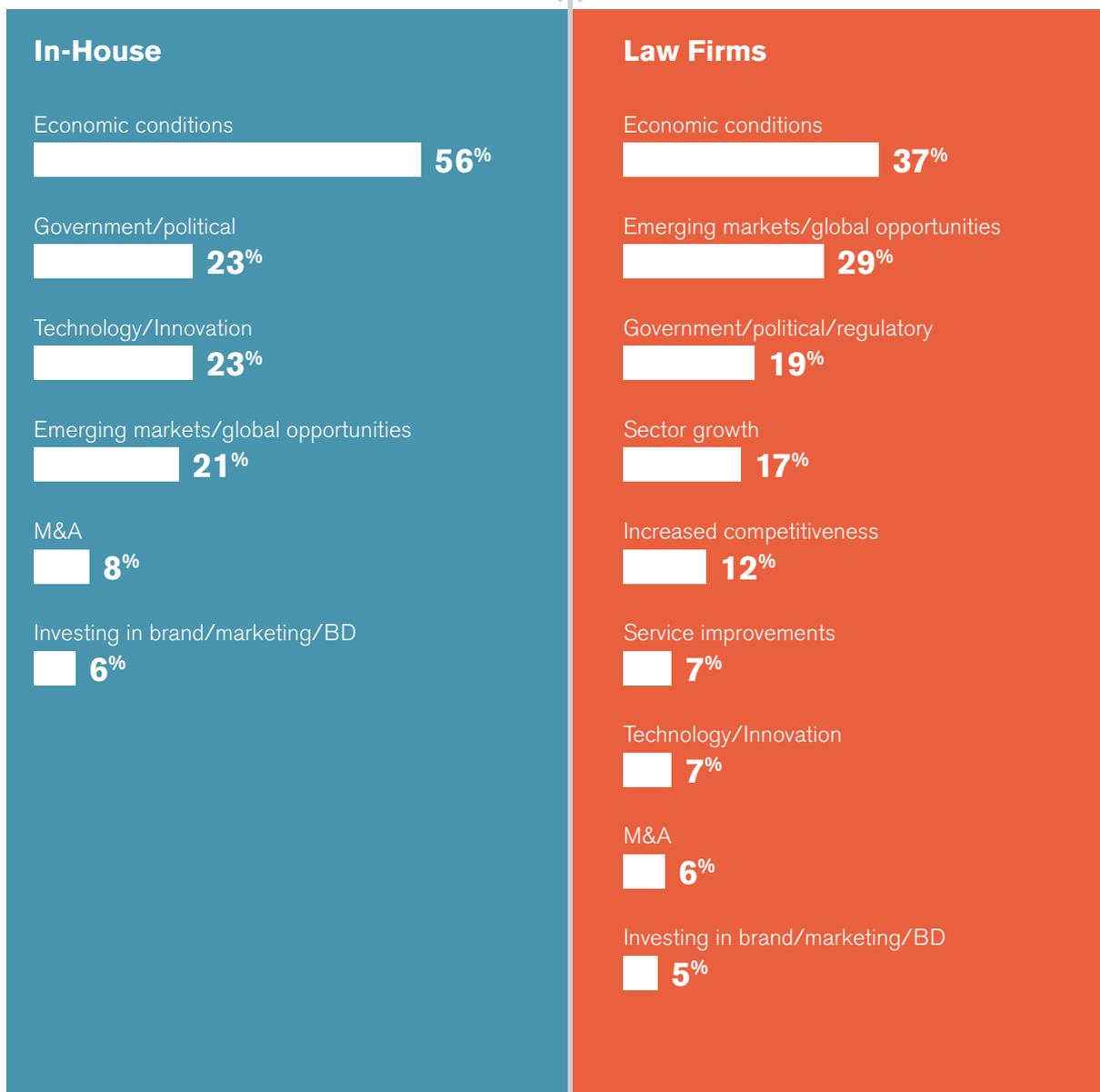
This is a higher level of optimism than we have seen in previous years; in 2012 only 74% of firms planned for growth, and in 2011 this was a minority of 37%.



## Key opportunity areas

While both law firms and in-house functions recognise the improving economic conditions as a key opportunity for their business, in-house teams see technology and innovation as a greater opportunity than law firms. However, law firms are relatively positive about the opportunities that emerging markets and global expansion provide.

### Opportunities as identified by:

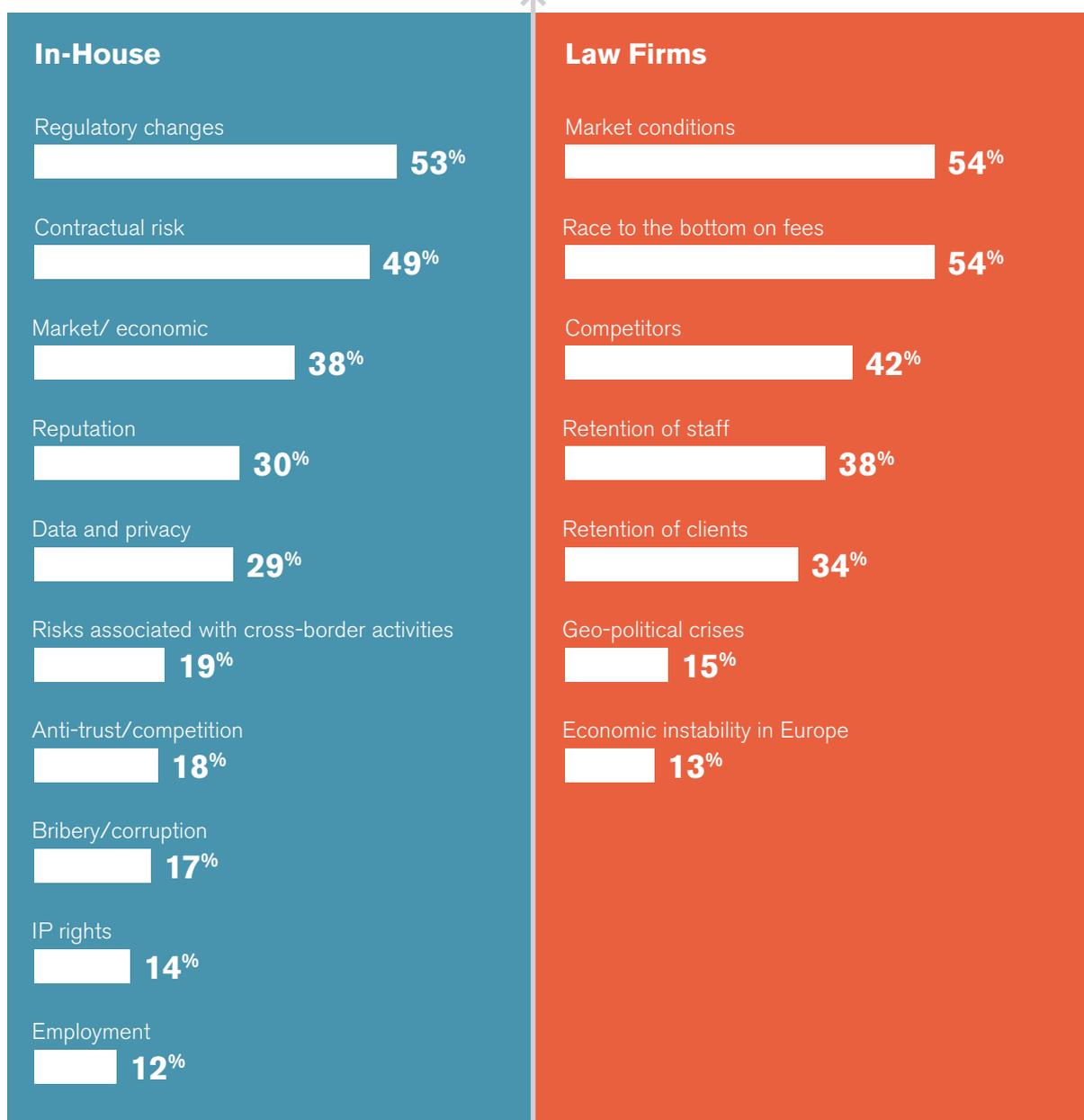


## Key risk areas

On the in-house side regulatory changes continue to dominate the risk agenda. Also, while market/economic risks are in the top three, only 1% of in-house lawyers are seriously concerned about restructuring/insolvency, showing a basic level of stability exists for the vast majority of in-house functions.

For law firms, staff retention is now considered a key risk by 38%, which means this topic gained increased prominence compared to previous years. The improving labour market means staff have more opportunities to change jobs and alternative models appear to be growing in credibility and appeal.

### Key risk factors as identified by:



More than half of firms identify market conditions and a race to the bottom on fees as key risks, and 34% are concerned about client retention, as competition on price is eating away some of the client loyalty that legal services are traditionally known for.

“The market for legal services is so saturated these days and there are so many good players that clients can afford to shop around and have a ‘first deal sweetener’ with everybody. Price doesn’t build loyalty, value proposition builds loyalty.”

**Merlie Calvert**

Of Counsel, Mayer Brown

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In this context, it is not surprising that improving market share and position and driving growth are the main reasons for law firm mergers and acquisitions.

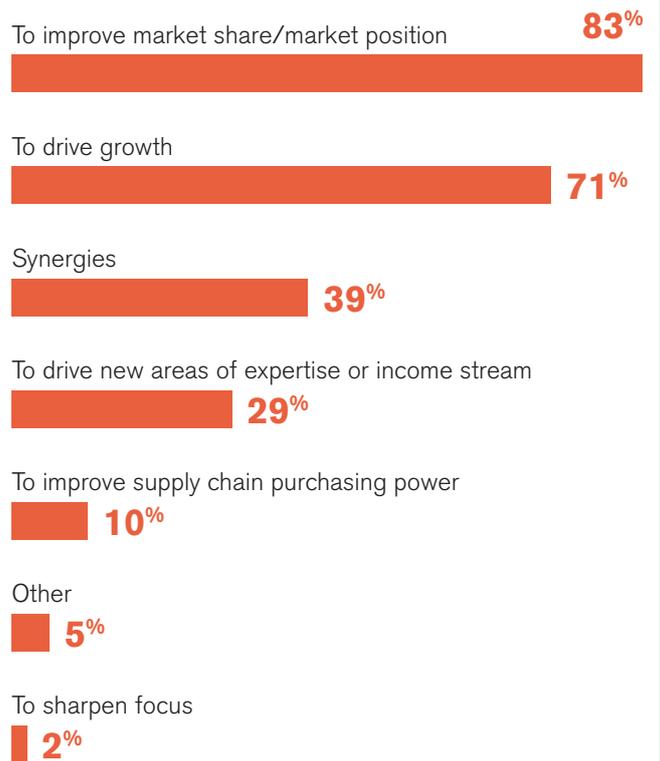
Nonetheless, among law firms only 27% of law firms expect to be involved in M&A activity. This represents a drop compared to 2013, when 46% of firms expected to be involved in M&A, suggesting the consolidation in the legal sector may be beginning to slow down temporarily, as improving economic conditions are reducing some of the pressures on firms.

**Reasons to look into M&A**

**In-House**



**Law Firms**



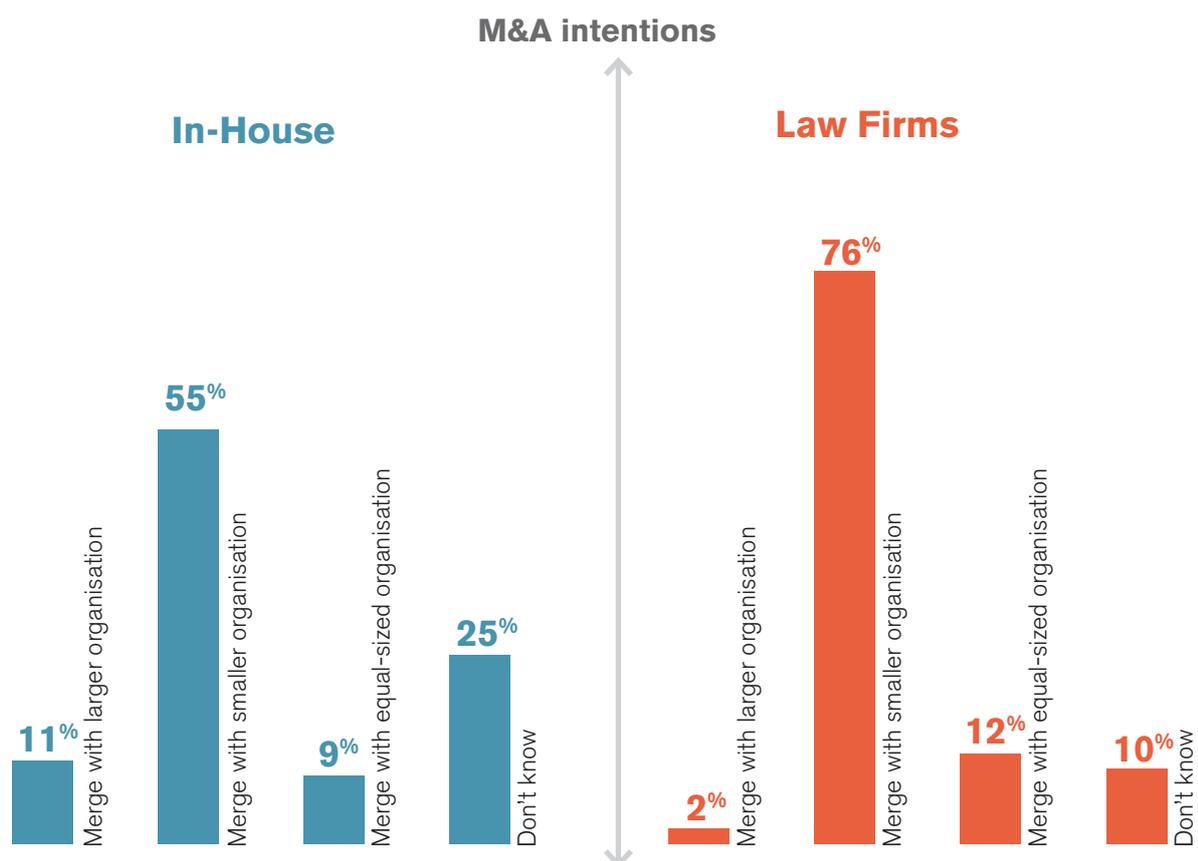
“Downwards pressure on pricing is hitting profitability for the majority of firms, and to provide a greater critical mass ameliorates the effect of a lower hourly rate or a lower fixed fee on individual jobs. I think the desire to become more globalised and to have real overseas presences for UK firms has driven mergers with other firms who have offices in other parts of the world. Also, we have seen firms that have got themselves into a strained financial position.”

**Peter Jackson**

Managing Partner, Hill Dickinson

**76%** of law firms that expect to be involved in M&A activity in the next year are looking to merge with a smaller organisation, however only **2%** of firms want to merge with a larger organisation.

A mismatch that indicates there is likely to be significant competition for successful smaller firms willing to merge with a larger partner.



## Strategic priorities

In-house functions are mainly focused on better serving their internal clients and in developing their own skills in order to do this more effectively – this is reflected in their top three strategic priorities.

There currently is some misalignment between in-house functions and their internal clients. Previous research conducted by Winmark among a selection of in-house teams has shown that performance gaps have tended to revolve around areas such as providing staff availability and continuity, the need to look for solutions rather than risks, working collaboratively with the business and making sure legal updates are easy to understand. The Looking Glass interviews with in-house counsel have confirmed that these are areas of focus for many in-house teams.

### Importance of strategic priorities



Client service continues to be law firms' main priority. This area has topped the list of law firm priorities for the past three years, which is hardly surprising considering that service is a cornerstone of the legal business.

Even though only a small minority of firms identify investing in branding and marketing as a key opportunity, raising the profile of the firm is in the top four of strategic priorities, suggesting that firms do see the need to raise awareness even though the branding/marketing terminology may still be alien to some.

# Technology and Innovation

The typical<sup>1</sup> annual in-house budget for technology falls into the £7,500 to £10,000 bracket. The mean in-house technology budget is £195,000. This reflects the fact that over a quarter of in-house legal functions don't have a separate technology budget, whereas the top 10% of in-house teams have technology budgets of £200,000 per year or more.

Qualitative data suggests that it can be difficult for in-house functions to get an approved technology budget for solutions that are specific to the legal team, as in-house technology budgets are often in the hands of the CIO and/or CFO, who may prioritise solutions that can be applied to the entire company. This means in-house functions need to invest in making a solid business case that makes clear what the benefits to the wider organisation are, while working innovatively to stay within budget constraints.

“One of the issues that legal functions face, is that liberating money for infrastructure expenditure is quite difficult, so the tendency is probably to try to look at other ways of improving efficiency in the first instance.”

**General Counsel of a UK-based organisation with > £1bn in annual turnover**

1. 'Typical' refers to the median

## In-House Technological Innovation

**Aviva** aimed to upgrade its document management system and storage of emails. It required a solution that enables its international legal teams to work closely and collaboratively and to ensure a consistent approach to storage and retrieval.

To keep costs low, the company used talent from within the business to create a bespoke solution based on SharePoint (which the company already used) combined with Colligo Email Manager software. The project team consisted of lawyers and the company's IT operational team, but had a legal lead focus. This allowed Aviva to create an easy-to-use solution based on the way users want to work. Using lawyers also reduced the time to implement the solution, as any solutions that were not acceptable or usable were dismissed at an early stage. The project team was very conscious of budget constraints and the final solution remained within budget.

By integrating between systems, Aviva was able to save time spent by lawyers on creating new working documents, delivering estimated savings in lawyer time of £7,500 per year for one team of thirty lawyers. By providing a unified approach to document and email management the system also made it easier for lawyers to collaborate across teams.

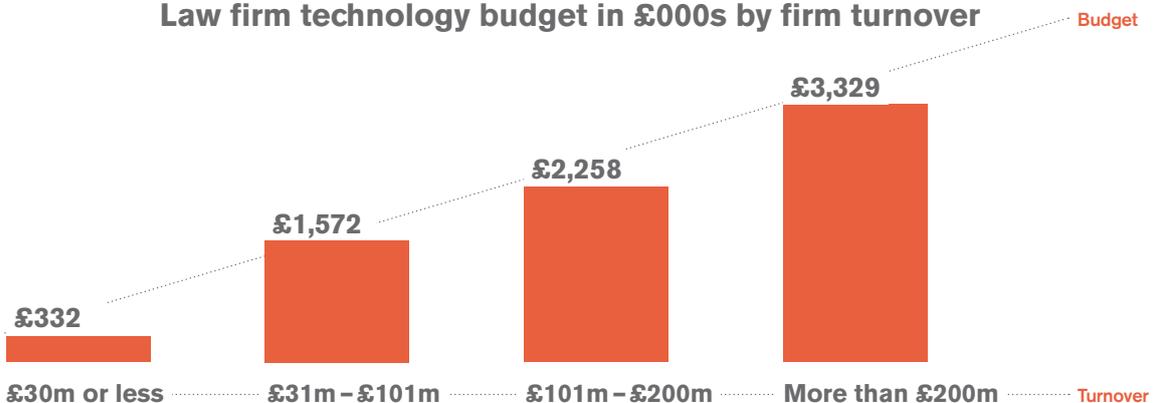
"I think our lawyers are very good at explaining what is possible, what it will cost in terms of effort, time, and money, and what the advantages would be. We are careful not to try and suggest solutions that would stretch credibility and introduce cost into our function that we then have to justify not just that year but going forward, which means being very careful of ongoing licence fees and upkeep fees; I think a lot of systems fall down on that basis."

### Lee Callaghan

General Counsel International (Asia and Europe), Aviva

The typical law firm budget for technology is £625,000, while the mean is £1.8m. Only 3% of law firms do not have a dedicated technology budget, whereas 47% of firms have a technology budget of at least £1m. Law firms' technology budgets increase as firm turnover rises. As larger firms are able to invest more in technological innovation, they are likely to become more efficient at a faster pace than the smaller firms who can't match the same level of investment, giving them a long-term competitive advantage.

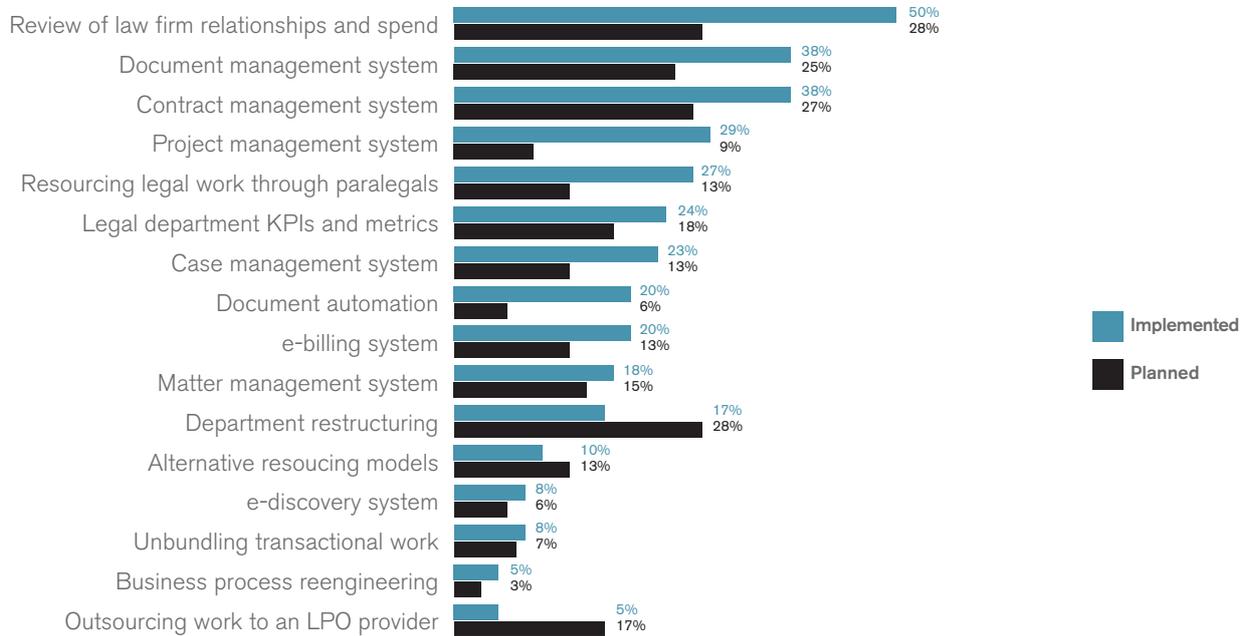
Law firm technology budget in £000s by firm turnover



Compared to 2013, more in-house teams have implemented legal department metrics. However fewer teams than in 2013 are planning to implement the innovations below, suggesting that the pace of change may be slowing down.

Law firm reviews, document management, and contract management are most likely to have been implemented, while for the future in-house teams are also showing much interest in department restructuring, legal department KPIs and metrics, and business process re-engineering.

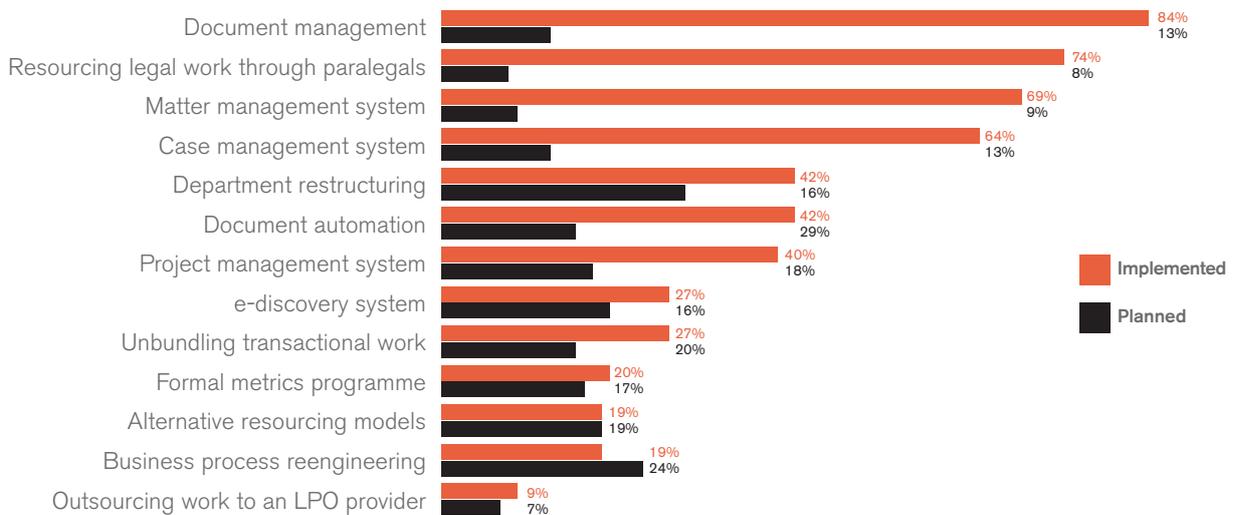
### Innovations - In-House



Half of in-house functions have implemented a review of law firm relationships and spend, and a further 28% plan to implement this in the next 12 months, suggesting that the pressure on firms to demonstrate value and provide competitive costs is not about to abate.

Law firms are more likely than in-house teams to have implemented innovations such as document, matter and case management. However, law firms are less likely to have implemented a formal metrics programme.

### Innovations - Law Firms



“I think one of the issues that just keeps growing in importance is IT in the legal space... It increases productivity, it allows us to simplify legal processes and concentrate our efforts on more high level and important strategic issues when we actually have IT solutions that provide us a platform for more routine type of work...

It is a dynamic and ever-changing world and I think we have seen quite a bit of change in legal work just enabled by technology. If you look at BlackBerrys and iPads and laptops, when I graduated as a lawyer there were no mobile phones, there were no laptops; you would have a very standard black and white computer for word processing, no email and so forth. We have seen a real transformation in how this profession is done from a general technology development standpoint. I think we will just see this trend continue – our function is subject to a lot of change in the future and it is really important to keep our antennas up and embrace the changes that are coming, both internally as well as by our external providers.”

**Chief Legal Officer of a FTSE 100 company**

## CASE STUDY

**Thomson Reuters Client – Smiths Detection**

“Legal spend management has been and continues to remain high on our agenda, but it’s certainly safe to say that we are in a much better position today than we were a year ago when we took the necessary measures to improve the efficiency of the legal department.

It started when we began to consider technology as a serious investment in the future of the legal department. We looked at various software solutions to manage all of our legal work across a large geographical area – and to connect not only our internal legal team but also our outside counsel around the world.

At the time, we thought we had a good handle on spending, but once we implemented our legal department management system, Serengeti Tracker, we were very surprised at the level of savings, particularly in areas such as retention guidelines and enforcement of hourly rates.

Potential for savings aside, it took a lot of persuading to adopt a matter-based system. At that time, the department was not even sure how to define a matter at a micro level: the idea of spending capital on a matter management system seemed unreasonable. After all, every legal job varies.

We quickly realised how simple it was to block smaller matters into a single matter (e.g. antitrust advice), set up a separate matter for each project and get separate bills – this has revolutionised our way of sorting through matters. Like a revelation, this was the first time the legal department had immediate visibility into all work.

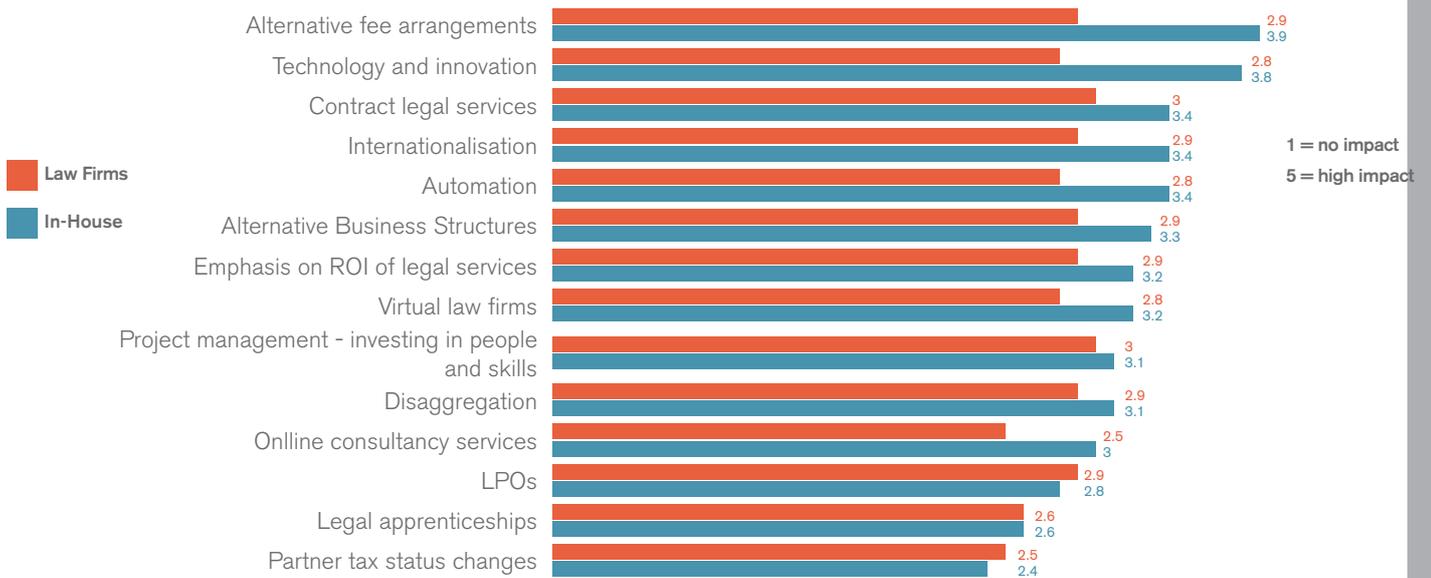
Organisations will often think that legal department management systems generally adapt better to high-volume litigation-type matters with a significant legal spend. The reality is, even with small volumes, legal departments still need to track where legal work is coming from and record changes in volume of types of legal work.”

**Rita Murray**

Smiths Detection

In-house functions expect the impact of innovations on the legal sector to be higher than law firms. This could suggest a level of complacency on the side of firms, though it also reflects the fact that in-house functions have further to go when it comes to implementing new technologies, which means that the impact on the way they work is likely to be larger than for law firms.

### Perceived impact of innovation on the legal sector



### Outsourcing approaches

The legal sector is experiencing an increasing level of disaggregation, with solution providers increasingly taking over some of the non-legal activities traditionally performed by junior lawyers and law firm support staff. The main services that firms expect to outsource in the future are document processing, library and information management, and technical processes, implying there will be growing demand for outsourced services suppliers in the areas.

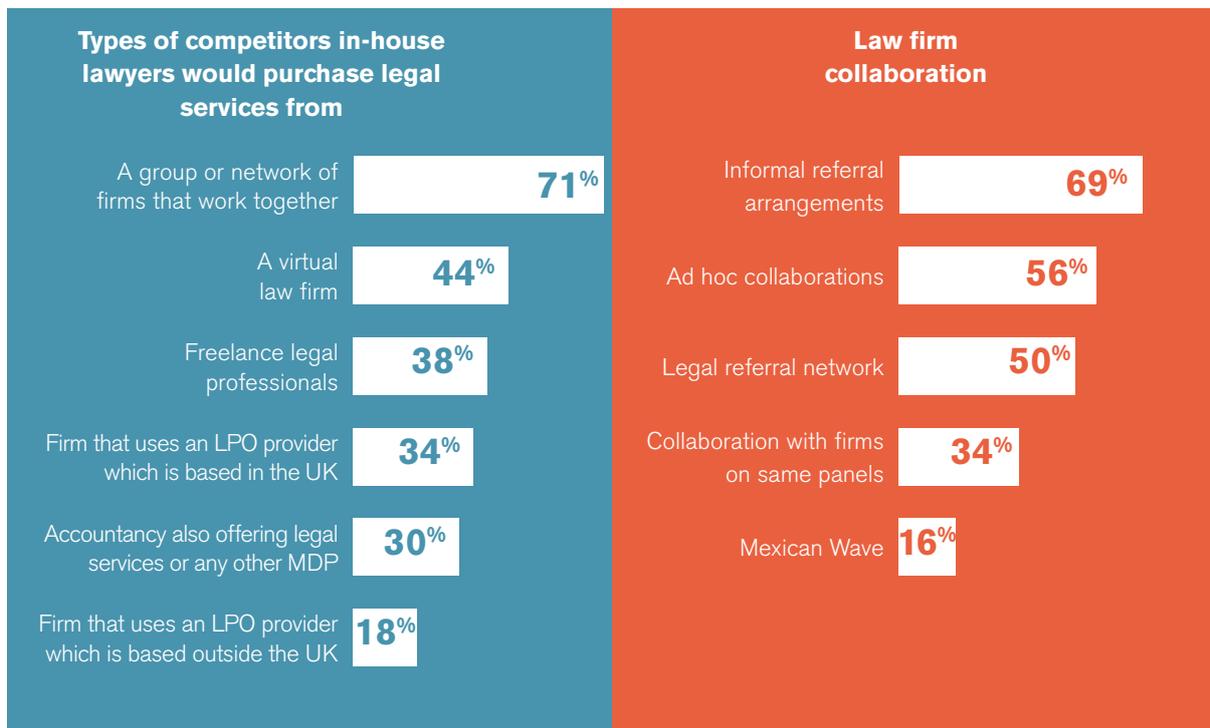
### Law firm outsourcing approaches



## New legal services provider models

In-house legal teams are not only looking to innovate internally, they are also displaying a willingness to purchase legal services from non-traditional providers. In-house lawyers are particularly interested in buying the services of groups or networks of firms that work together.

We also see an increasing interest among firms to participate in collaborations. Informal and ad hoc collaborations continue to dominate, but legal referral networks are on the rise, with half of firms now belonging to such networks.



The appeal of legal referral networks consists of both having work referred to and of charging referral fees. In addition, these types of networks are used by firms to share the cost of benefits such as training and technology, and in some cases marketing support, as well as group discounts on items such as professional indemnity insurance.

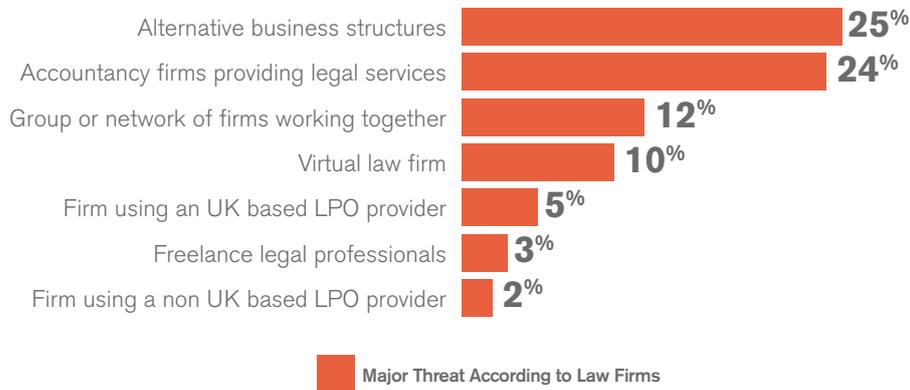
Another key trend is the growing presence of auditing firms in the market. Following the Legal Services Act 2007, which aimed to open up the market for legal services, three out of the 'Big Four' professional services firms have extended beyond auditing into law.

The UK accountancy body ICAEW has become a regulator and licensing authority for probate and ABS, as its members were intent on offering these services. Besides the Big Four, accountancy firms that currently have a license to provide legal services include firms such as Kingston Smith, Price Bailey, and Hope Shaw. The ICAEW has estimated that approximately 250 firms will initially apply for a license that would allow them to carry out probate work. Exactly what the impact of this development on the sector will be is not yet clear, however considering the brands and resources behind these new entrants into the market they clearly are ones to watch.

KPMG	EY	PwC
<p>KPMG received an Alternative Business License from the SRA in October 2014 and is now licensed to operate on a multidisciplinary practice basis.</p> <p>KPMG has started out with 50 lawyers and intends to triple this number in the first few years.</p> <p>The firm focuses on providing legal services that are integrated with other areas in which KPMG already provides advice. KPMG does not plan to develop a standalone legal practice.</p> <p>KPMG provides legal advice on:</p> <ul style="list-style-type: none"> <li>• Corporate structures</li> <li>• Contractual arrangements</li> <li>• Employment reward and disputes</li> <li>• Immigration matters</li> <li>• Regulation</li> <li>• Tax disputes and litigation</li> </ul> <p>“Our existing legal team is on track to generate almost £10m in revenues this year and our future ambitions are to build on the solid foundations of this proven strategy, developing our “bench strength and capability” in future areas which are complementary to and integrated with our existing business”</p> <p><b>Gary Harley</b> KPMG*</p>	<p>EY was granted an ABS license by the SRA in December 2014.</p> <p>The firm has appointed three partners and is recruiting 30 staff in the UK to drive the business forward.</p> <p>The creation of EY’s UK legal services business is part of the expansion of the firm’s global law practice. EY’s legal branch employs over 1,100 people in more than 60 locations, and aims to be active in over 80 jurisdictions by 2017.</p> <p>“We aren’t competing with the business models of traditional law firms; we are offering something new. By working closely with other parts of the organisation, clients will benefit from our global-scale, in-depth industry knowledge as well as having a single point of contact for all of their professional services needs”</p> <p><b>Steve Varley</b> EY*</p>	<p>PwC was the first of the ‘Big Four’ to become an ABS in January 2014.</p> <p>Its ABS license meant that PwC could become an owner of PwC Legal, a member of the PwC network of firms.</p> <p>PwC Legal employs more than 200 fee earners in the UK. It is part of a global network that includes locally qualified legal expertise in over 80 countries.</p> <p>The firm claims to have a client base across the FTSE 200, financial institutions, mid-market companies, large private businesses and high net worth individuals.</p> <p>PwC provides legal advice on areas including:</p> <ul style="list-style-type: none"> <li>• Commercial and tax litigation</li> <li>• Corporate and commercial structuring</li> <li>• M&amp;A</li> <li>• Formation of regulated and unregulated funds</li> <li>• Financial services compliance and regulation</li> <li>• Banking</li> <li>• Immigration</li> <li>• Intellectual Property</li> <li>• IT and data protection</li> <li>• Real estate</li> <li>• Contracts</li> <li>• Employment</li> <li>• Pensions</li> <li>• Private client</li> <li>• Governance</li> <li>• Legal compliance</li> </ul>

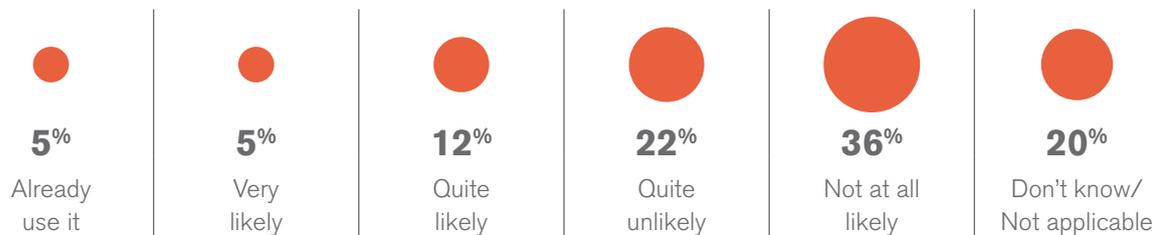
\*Source – Press releases

Out of all types of competition, law firms are most worried about alternative business structures and about accountancy firms that provide legal services; approximately one in four firms see these competitors as major threats. Considering the growing presence of these structures and the heavyweight brands involved, this is still a relatively low level of concern which suggests a certain amount of complacency among firms.



Despite concerns about competition from ABS, law firm interest in using ABS is declining – only 17% of law firms said that they are likely to use ABS in the next three years, down from 46% in 2013. After the initial furore around the introduction of ABS legislation several years ago, the situation appears to have calmed down and most firms have decided whether ABS is for them or not.

### Likelihood to use ABS in the next three years



Among firms that are likely to implement ABS in the next three years, we are seeing greater levels of preparation than in 2013, possibly because firms started to get ready for ABS in previous years and are now further in the process. For example, the share of firms likely to implement ABS that have developed a corporate style executive committee has doubled since 2013 to 85%.

The overall picture is that the firms that want to become ABS are well underway, while many of the remaining firms seem to be losing interest in the possibility or have decided against it. However, the usage of ABS by non-legal services suppliers to enter the legal market appears to be the main road by which ABS will have an impact.

### ABS measures implemented in 2014



Developed a corporate style executive committee



Changes to profits per equity partner metric



Brought in Non-Executive Director positions



Changed the voting structure of the partnership



Enabled a share ownership scheme for non-partners



Granted equity partner status to non-legal staff

■ Neither ■ Planned ■ Implemented

### ABS measures implemented in 2013



Developed a corporate style executive committee



Granted equity partner status to non-legal staff



Brought in Non-Executive Director positions



Enabled a share ownership scheme for non-partners

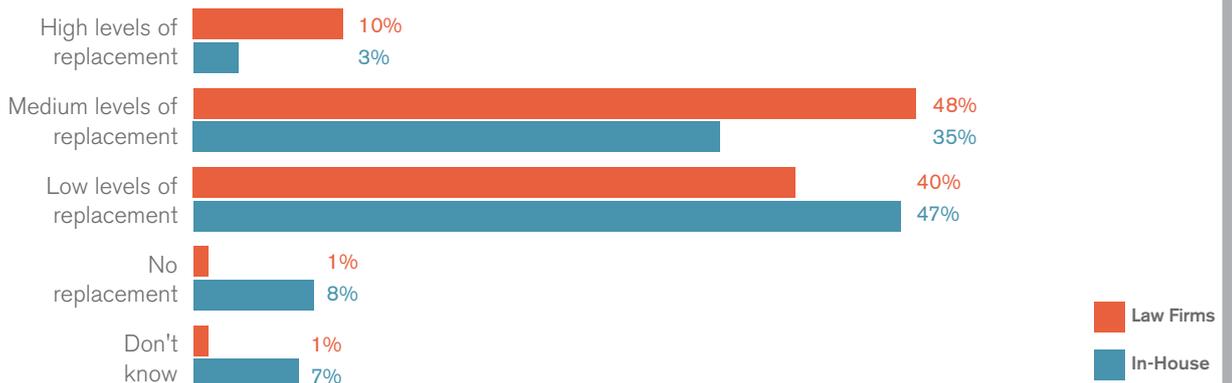


Changed the voting structure of the partnership

**58%** of law firms expect technology and innovation to result in medium to high levels replacement of law firm services.

When assessing the impact of all these innovations, law firms are slightly more pessimistic about their own future than in-house functions, the majority of which expect low levels of law firm replacement.

### Expected law firm replacement by technology & innovation



## The changing course of the legal career

Not only is the legal sector innovating in terms of the types of services that are provided, we are also observing diversification when it comes to legal careers. The legal profession used to have clear, pre-defined career tracks; either the route to partnership or to a senior in-house role. However we are seeing a movement towards greater variety, flexibility and choice.

At the entry-level, firms are exploring new methods to find and attract talent. Some, such as Clifford Chance, employ CV blind recruiting to ensure they do not lose out on talent, regardless of its source. This has seen the firm attract a third more students who are the first generation in their family to go to university, and three times as many students from universities with which the firm traditionally has not got strong links. Other firms are using legal apprenticeships to ensure they do not lose out on talent which otherwise may be unavailable.

“People who were deciding not to go and study law at university but who still wanted to be involved in a law firm and perhaps even qualify as a solicitor could be lost to the profession because of their unwillingness or inability to fund themselves through university and then law school. So we were attracted by the prospect of bringing younger people in and give them an opportunity to become lawyers by an alternative route.”

### **Peter Jackson**

Managing Partner, Hill Dickinson

“The hunt for talent is a huge part of the ongoing success of the business and having more talented people in to interview, even if their backgrounds are slightly more unusual, is a good thing.”

### **Kevin Ingram**

Partner, Clifford Chance

At a more senior level, we are seeing growing flexibility in the legal job market. This is driven both by clients, who demand flexible solutions and are looking for ways to efficiently manage their workload, and by staff, who are not always happy in the traditional model and who may be looking for a different work-life balance or who want to pursue other interests alongside their legal careers.

A growing number of operators are offering contract legal services to accommodate this demand. Axiom, one of the first to enter this space, has grown into a firm that employs more than 1,200 staff, whereas in the UK Lawyers on Demand is also experiencing high levels of growth. These are examples of virtual law firms; legal practice that do not operate (solely) from physical offices, but that can deliver services remotely using various forms of technology to communicate. Due to the reduced overhead costs inherent to this business model, virtual law firms tend to be able to offer lower prices than traditional brick-and-mortar based firms.

CASE STUDY

**Virtual Law Firm Case Study – Lawyers On Demand**

**Lawyers On Demand (LOD)** provides legal support both to in-house teams and to law firms in the UK. LOD, which is owned by Berwin Leighton Paisner, operates two different models:

- LOD On-Site; a secondment-style service
- LOD On-Call; flexible, remote support by one or more lawyers. Can be used for specific projects or for more routine work.

Since 2007, LOD has grown from a handful of lawyers to approximately 250 people, representing a mix of private practice and in-house backgrounds. Lawyers have to go through a bespoke selection process, and LOD claims to take on approximately one in forty lawyers who apply.

“There are two things all our lawyers have in common, one is a desire to do high quality work that will challenge them, and secondly to have a little bit more control of their career than it was perhaps once possible to have as a lawyer. I think the fact that we can offer those two things makes us a really attractive proposition to lawyers in the market. ...I think we are often able to keep people in the profession who might otherwise have left. There are some real talent who work with us, some great jobs, ex partners, ex GCs, ex senior in-house lawyers, and perhaps, if this third option wasn't available to them, they might have left the legal profession and the fact that we can keep them in it is hopefully positive.”

“Some of our most interesting assignments over the last eighteen months are examples of work that once upon a time would have gone to a panel law firm. The kind of work that we are winning is very much work that we are winning away from the middle tier. Frankly, we have the same calibre of lawyers that can do it, we are able to put a degree of process around it that perhaps law firms have been slower to do and we don't have the infrastructure that law firms have. All of this is reflected in the way that we are able to price as well.”

**Tim Bratton**

Practice Development Director,  
Lawyers On Demand

**Tim Bratton**

Practice Development Director,  
Lawyers On Demand

**44%** of in-house lawyers would consider working with virtual law firms, however only 10% of law firms see virtual law firms as a major threat.

In the last couple of years a number of other large firms have entered this market, suggesting that the flexibilisation of the legal market and of the legal career track is likely to gain further traction in the future.

Vario	Peerpoint	Adaptive
<p>Pinsent Masons launched freelance lawyer service 'Vario' in 2013.</p> <p>Vario is positioned as a hub of freelance legal professional, enabling clients to only pay for resource when it is required on an ad hoc basis.</p> <p>"The legal market is changing and we are committed to changing with it. We know that our clients often face periods of high demand and value the ability to ramp up resource for a specific purpose, often at short notice and for a defined period of time. By launching Vario we aim to marry client demand for lawyers who meet Pinsent Masons' high professional standards with the aspirations of lawyers for a stimulating but more flexible career."</p> <p><b>David Ryan</b> Pinsent Masons*</p>	<p>Launched in November 2013 by Allen &amp; Overy, Peerpoint offers flexible legal services in 21 practice areas across 11 different sectors.</p> <p>Peerpoint is positioned as a global service and has contacts in more than 30 markets.</p> <p>Lawyers work for their own personal services company, which contracts with A&amp;O under a consultancy agreement. They have a minimum of three years post-qualification experience.</p> <p>"The traditional law firm model is under pressure and lacks flexibility. In a low growth environment, peaks in client demand are far more variable, so we need greater flexibility in our model. We also want to provide an option for those high-calibre lawyers who enjoy the challenge of working with top-tier clients without the added demands of working in a large law firm. Peerpoint enables us to do both."</p> <p><b>Win Dejonghe</b> A&amp;O*</p>	<p>Simmons &amp; Simmons introduced the 'Adaptive' service in October 2014. Adaptive is positioned as a high-end contract lawyer service for larger clients, in particular financial institutions.</p> <p>Initially, Adaptive's focus is on the UK, and on the following specialisations:</p> <ul style="list-style-type: none"> <li>• Financial Markets</li> <li>• Corporate and Commercial</li> <li>• Employment</li> <li>• Dispute Resolution</li> </ul> <p>The service targets lawyers from junior associate to partner level, and provides resource both for large-scale projects and for secondments.</p> <p>"For some time, we have been considering more ways we can use flexible resourcing to meet business demands. Simmons &amp; Simmons Adaptive will provide another valuable resource option for our clients and their businesses."</p> <p><b>Jonathan Hammond</b> Simmons &amp; Simmons*</p>

\*Source – Press releases

# Relationships between In-House Lawyers and Law Firms

“Currently traditional law firms risk heading in the direction of the dodo. The way they run their businesses isn’t keeping pace with what in-house legal functions need.”

**Dominique Ashby**

Head of Practice Management & Policy, Santander UK

## Misalignment and lack of differentiation

The last few years have seen significant change among in-house legal communities and law firms. Differences in the pace and the direction of change signify that there are areas of misalignment between the two groups. While firms are committed to delivering quality, there is some disconnect between what in-house clients demand and what law firms provide.

Both firms and the in-house community agree that differentiation is important in the legal sector. The strong focus on cost-effectiveness means that in private practice there is a risk of a race to the bottom, which can devalue and commoditise legal services. In fact, 54% of law firms identify this race to the bottom as a key risk to their businesses, making this the second most important risk area identified by firms. Interviews with sector leaders suggest that a small number of firms can rely on their brand strength, especially in the area of high risk, high value ‘bet the farm’ deals, however the majority of firms are not in this relatively safe position.

“It is my perception that over the last few years the profession has become polarised or is increasingly polarised between the lawyers who say “you want our name, reputation and insurance policy behind this and the level of fees is not material”, and the others who are essentially cutting their throats in a race to the bottom in terms of fees.”

**Guilherme Brafman**

Partner, Lewis Silkin

Differentiation offers an alternative to the race to the bottom – by being different or better in particular areas, firms can demonstrate their value in ways that do not focus exclusively on price. Arguably legal services could learn from the journey that consumer brands have made over the last decades, where branding, packaging and points of genuine differentiation are driving choices. Rather than focusing solely on factors such as technical expertise and on-time delivery, legal services should look more closely at precisely what clients need, how they need it, and what makes their lives easiest, to deliver a much more compelling, more differentiated proposition.

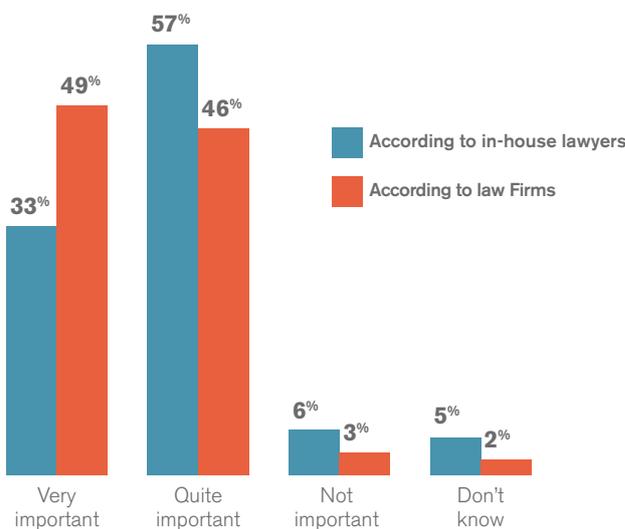
“Price is not the way to go. All you do is you end up in this race to the bottom and in doing so you just devalue; you devalue everything that is good about what you do and the amount of work, and the grit and intelligence that you put behind the product that you produce or the service that you provide.

Price definitely has to play a part but I think there has been unfortunately an overreliance on discounts and pricing ‘packages’. I think there was a great jump on the bandwagon of price as the differentiating point and then the net result of that is clients come to expect high quality legal advice at a knockdown discount price permanently and from everyone.”

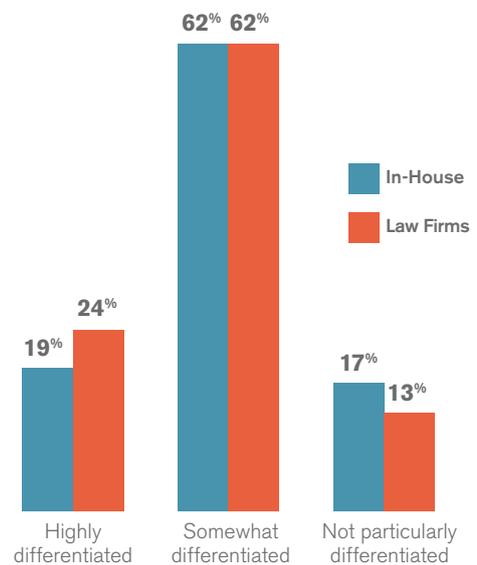
**Merlie Calvert**

Of Counsel, Mayer Brown

**Importance of differentiation**



**Level of differentiation in legal sector**



“We went out to the firms saying, “We really want to challenge how you do things. Show us what you’ve got?” and the firms really delivered differently. The firms that were quite stagnant and didn’t come up with anything innovative or different did not make it on our panel. “

**General Counsel of a FTSE 100 company**

Despite the consensus about the importance of differentiation, only 24% of firms believe they are highly differentiated from their competitors. The share of in-house lawyers who believe law firms are highly differentiated is even lower at 19%. With many firms looking for ways to set their offering apart, most are struggling to find something truly unique to focus on in their positioning, and they may not be aware which criteria their clients value most.

## Top factors for starting a legal business relationship

The table below shows the factors that in-house lawyers say are very or extremely important when deciding to instruct a new firm. Alongside this we also show the factors that law firm partners perceive to be very or extremely important to winning new business. If firms were perfectly aware of their clients' wishes these two lists would be identical, however the differences are pronounced.

The three factors that law firms rate as much more important than in-house lawyers business are: Value for Money, Availability, and Commerciality. Arguably, these factors are important, but qualitative data suggests that they are hygiene factors which are expected as a given by clients, rather than key differentiators that will help secure a brief.

The three factors that influence instructing new firms more than law firms think are: Project Managers, Hospitality, and Providing Training. Investing in these areas would help firms to differentiate in ways that would be beneficial to winning new business.

### Top factors that influence instructing new firms according to in-house lawyers

### Top factors that law firm partners believe help win new clients

1	Communication/ Responsiveness	Communication/ Responsiveness
2	Entrepreneurial Behaviour	Technical Expertise and Track Record
3	Project Managers	High Service Standards
4	Hospitality	Quality of Work
5	Providing Training	Value for Money
6	High Service Standards	On-Time Delivery
7	Use of Technology	Understanding Your Business
8	Senior Partner Involvement	Commerciality
9	Strength of Relationship with Individual Lawyers	Availability
10		Strength of Relationship with Individual Lawyers
11		Transparent Pricing
12		Proactivity
13		Flexible Pricing
14		Brand of Firm

\*Top factors are those that received an average score of four or more out of five for importance

## Top factors for maintaining an existing relationship

When it comes to maintaining an existing relationship, different factors including Quality of Work, International Reach, and On-Time Delivery become more central.

“We hold our firms strictly to account on their performance, we demand a lot from them. We are a demanding client. We burn the candle at both ends when it is needed to get things done across multiple jurisdictions where we operate and the firms we use recognise that.”

### Lee Callaghan

General Counsel International (Asia and Europe), Aviva

The top three areas that law firms rate as more important than in-house lawyers are:

- Availability
- Value for Money
- Strength of the Relationship with Individual Lawyers

Firms place more emphasis than required by their clients on these areas.

The top three factors that firms underestimate the importance of, but which influence the decision to continue to instruct them are:

- Diversity
- Offering a Retainer
- Hospitality

This difference in perception highlights the importance of finding out what clients really think. Previous research by Winmark suggests that clients are quite likely to talk about day to day aspects such as money and the relationship, but perhaps not as likely to touch upon factors such as diversity or hospitality on which the supplier may or may not be delivering. Client feedback research can prove useful to get a more in-depth, objective view of what clients value and how they see individual firms.

**Top factors that influence the decision to continue to instruct firms according to in-house lawyers**

**Top factors that law firm partners believe help to retain clients**

1	Quality of Work	High Service Standards
2	Providing Training	Quality of Work
3	Diversity	Communication/ Responsiveness
4	International Reach	Availability
5	On-Time Delivery	On-Time Delivery
6	Thought Leadership	Strength of Relationship with Individual Lawyers
7	Marketing and BD Activity	Commerciality
8	Offering a Retainer	Value for Money
9	Communication/Responsiveness	Understanding the Business
10	Proactivity	Strength of Relationship with the Firm
11	Commerciality	Technical Expertise and Track Record
12	Strength of Relationship with the Firm	Transparent Pricing
13	Hospitality	Proactivity
14	Technical Expertise and Track Record	Flexible Pricing
15	Understanding Your Business	
16	Use of Technology	
17	Pitching Process	
18	Collaboration with Other Firms	

\*Top factors are those that received an average score of four or more out of five for importance

Diversity is a particularly striking example of misalignment; according to in-house lawyers this is the third most important factor to continue to work with a firm, however law firm partners do not appear to be aware that this is an important factor at all.

This gap may reflect the difference between the two groups, as the in-house community is on average more diverse than private practice. To focus on gender for example, approximately half of in-house lawyers surveyed for this study were female, compared to only 19% of law firm partners. With more women than men entering university according to UCAS, being able to attract and retain female talent is only going to be more important in the future.

“We are a multinational company and we hire talent irrespective of background and genuinely do hire talent for potential so the last thing we would want to do is instruct a supplier that does not reflect those values.”

**Funke Abimbola**

Managing Counsel (UK & Ireland), Roche

**Assessing firms’ performance**

While there is a gap in the importance attributed by in-house lawyers and law firm partners to various service aspects, their assessment of law firm performance is more closely aligned, i.e. law firms are fairly accurate in assessing in which areas they perform well.

The table below shows the top areas in which in-house lawyers scored firms’ performance as outstanding or very good, against the areas where law firms scored their own performance as outstanding or very good. While they are not identical, there is significant overlap between the two.

**Areas in which in-house lawyers feel the firms they currently use most have a very good or outstanding performance**

**Areas in which law firms rate their performance as very good or outstanding**

1	Strength of the Relationship with Individual Lawyers	High Service Standards
2	Availability	Quality of Work
3	Understanding Your Business	Technical Expertise and Track Record
4	High Service Standards	Communication/ Responsiveness
5	Communication/Responsiveness	Value for Money
6	Quality of Work	On-Time Delivery
7	Strength of Relationship with the Firm	Availability
8	Technical Expertise and Track Record	Understanding the Business
9		Strength of the Relationship with Individual Lawyers

\*Top factors are those that received an average score of four or more out of five for importance

The top area where firms receive higher performance ratings from in-house lawyers than they give themselves is Strength of Relationship with Individual Lawyers, while firms feel they perform very well on value for money and on-time delivery, though in the eyes of clients this may not be the case.

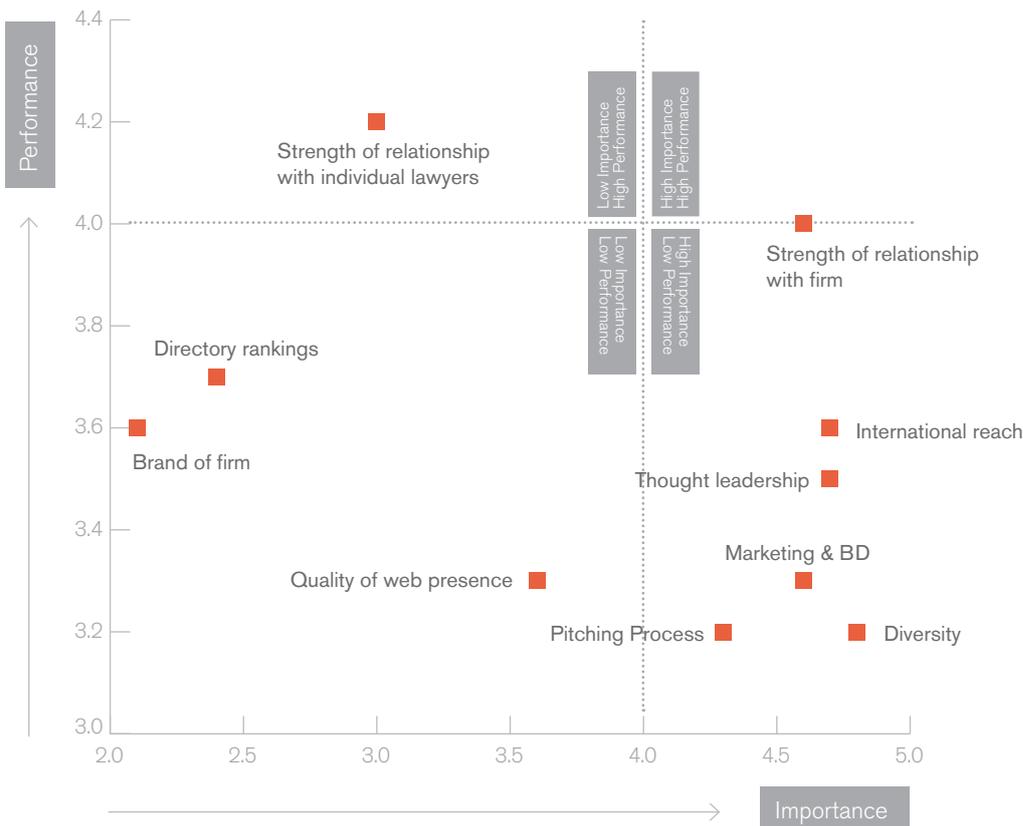
## Priorities for improving law firm alignment with in-house expectations

The figures below show the scores given by in-house lawyers for the importance of various areas in terms of continuing to work with firms, plotted against the performance of firms as perceived by in-house lawyers.

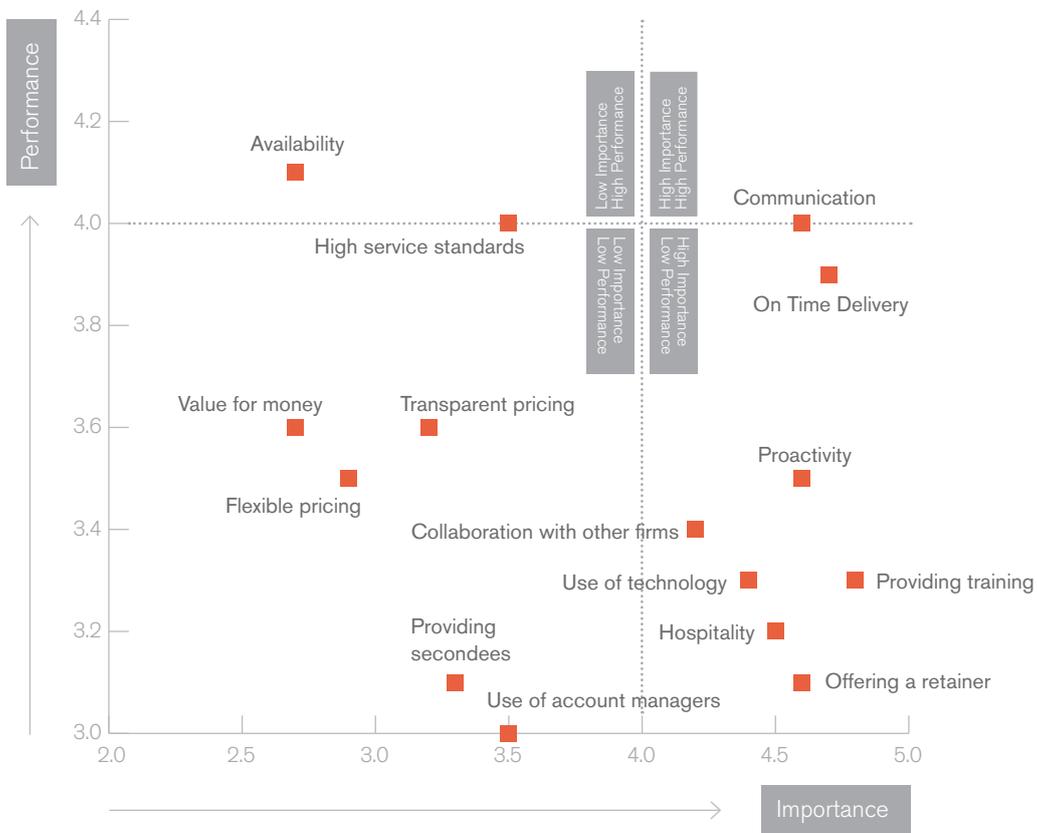
For firms looking to improve their competitive position, it makes sense to focus on the high importance, low performance areas, where on average law firms do not score as well as in-house clients would like. High importance high performance areas are important to maintain for client satisfaction, whereas low importance low performance areas provide opportunity for improvement but are not priorities for the average client. Low importance, high performance scores tend to be for hygiene factors where firms are doing well but which are not game changing.

Key priority areas for law firms		
<b>Brand</b>	<b>Service</b>	<b>Expertise</b>
Diversity Marketing & BD Thought Leadership International Reach Pitching Process	Offering a retainer Providing training Proactivity Use of technology On-Time Delivery Collaboration with other firms	Commerciality

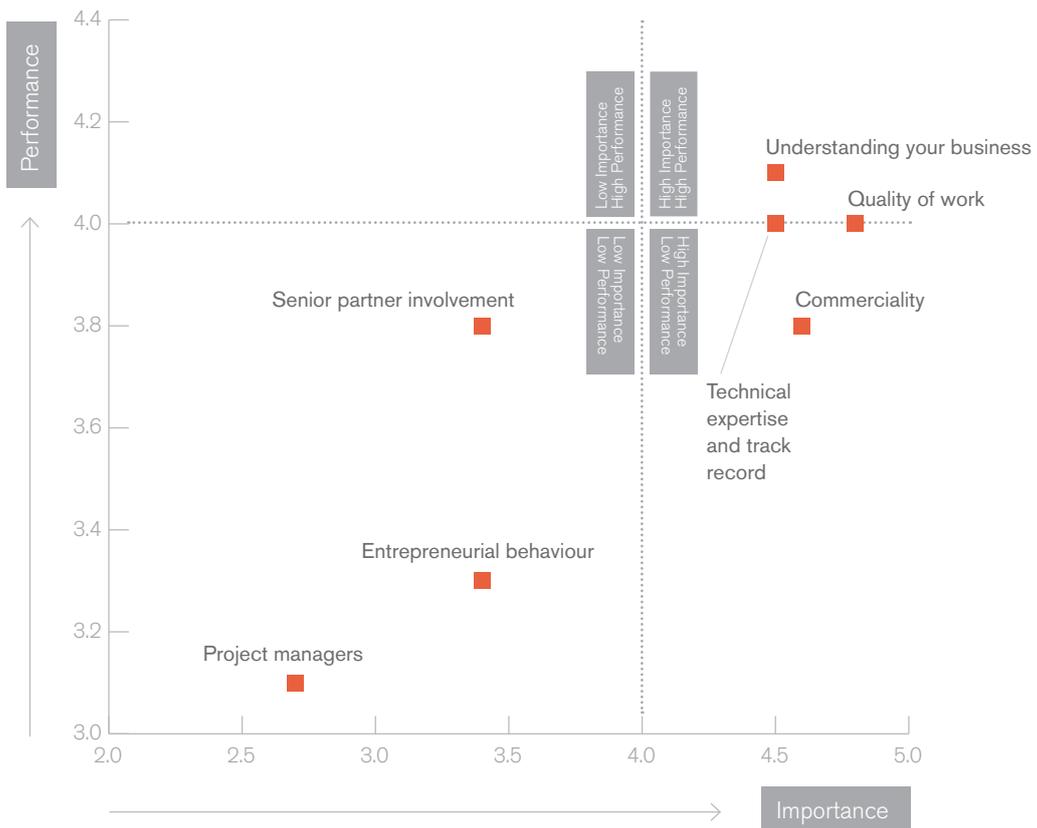
**Brand/Reputation Scores of Law Firms according to In-House**



### Service Scores of Law Firms

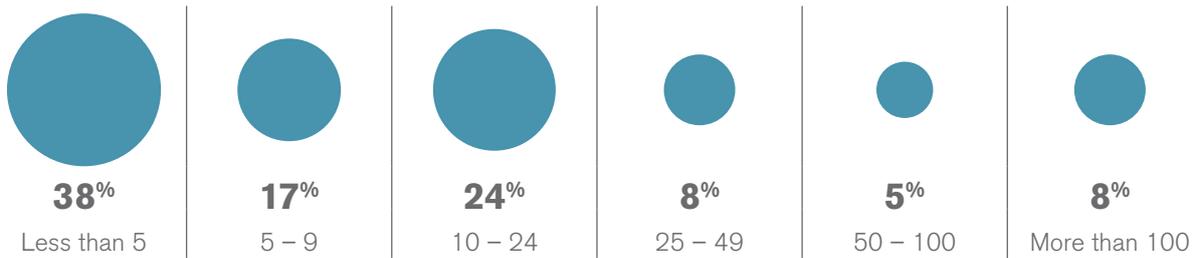


### Expertise Scores of Law Firms according to In-House

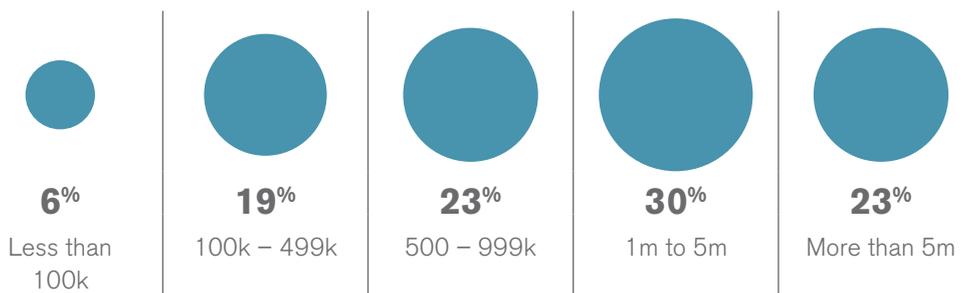


# Demographics

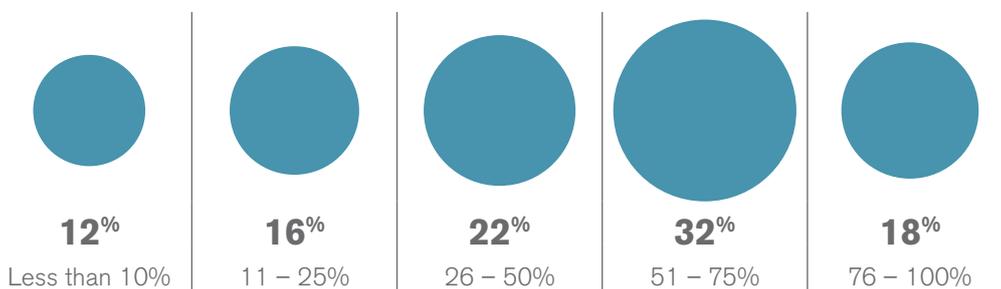
## In-House Legal Department Headcount



## Legal Budget of In-House Respondents



## Proportion of In-House Legal Budget Spent on External Fees



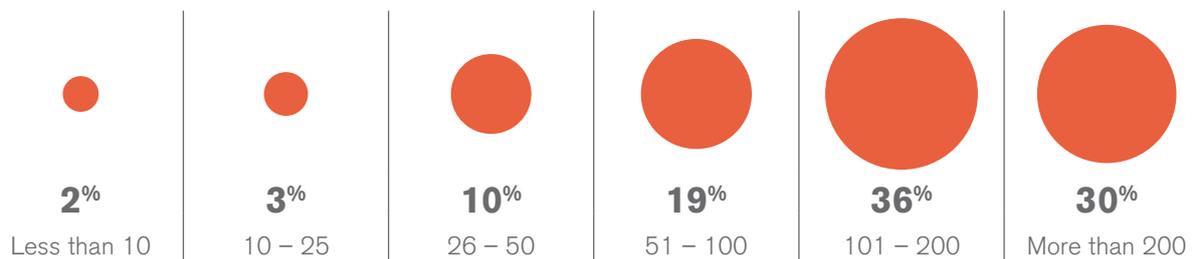
### Law Firms Classification



### Law Firms Annual Turnover



### Law Firms Number of Partners



## Winmark

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The Winmark logo consists of the word "winmark" in a bold, lowercase, sans-serif font. The letters are a dark teal color.

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