

The Legal Innovation Matrix

Legal market insight



Xenion Legal white paper series – Edition 1

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Foreword

We live in exciting times. As Xenion Legal, we are inherently interested in what is happening in the legal services market.

We strongly believe in sharing ideas, exploring new avenues of thought and learning through practice. The Xenion Legal White paper series captures the essence of our research and experience, translating it into ideas and tools that we want to share with you.

In this first edition, we explore the general trends in the international legal market. Our study of over 200 new entrants and incumbents in the legal services market has enabled us to develop a new legal services matrix, which can be used as an analysis tool, which we call the Legal Innovation Matrix.

The Legal Innovation Matrix helps legal professionals make sense of what is happening today in the legal market. Law firms and lawyers can use it to better understand the challenges that lay ahead and the strategic options for change as well as the inevitable hurdles they may encounter. Companies, general counsels and company lawyers also can use the Legal Innovation Matrix to better understand the options currently available to them when looking for new ways of legal service delivery.

The Xenion Legal Team

Our research covers the legal markets in the United States, the United Kingdom, South Africa and Continental Europe. Our database contains an overview of over 200 incumbents and new entrants in the legal services market. Our research focuses on the following aspects of such firms: business model, revenue streams, business strategy, hiring policy, market focus, sales channel approach and balance sheet information insofar publicly available. The research was carried out over a 12 month period and involves 261 companies and law firms.

The Legal **Innovation** Matrix

Disruptive innovations¹ and paradigm shifts².

By Filip Corveleyn, former Head of R&D, Xenion Legal

The legal market is evolving. Some might even be as bold as to say that it is being disrupted or on the brink of disruption³.

On the **supply side**, it started with the early dawn of legal process outsourcing providers (so-called LPO) between 2000 and 2005. Working as an outsourcing partner for law firms or directly with clients, typical LPO providers such as Integreon, Pangea3, Quislex, etc., quickly captured market share and in doing so, created a new legal service delivery model. In parallel, we saw the birth of alternative law firm models, most successful in the example of Axiom legal (1998). The initial LPO shift was intensified by the 2007 financial crisis, closely followed by the introduction of alternative business structures under the 2007 Legal Services Act in the United Kingdom, the latter heralding a wave of new and innovative providers of legal services.

“Whether the legal services market is being disrupted or not, is not the key issue today. Understanding how the market is changing and why, is”

On the **demand side**, we saw a strong rise in the power of general counsel and a strong growth of in-house legal teams⁴. Concurrently, companies faced increasing pressure to be more efficient and reduce legal spend or were increasingly unwilling to spend money on what is no longer perceived as added value. These same issues still linger today.

Whether the market is being disrupted or not is - although a popular question these days - not the key issue. The prevailing law firm business model has worked for many decades and will most likely continue to work for years to come. The death of the billable hour has been announced many times over.

That does not mean that the market is not changing. It is. It is changing rather quickly. Understanding how the market is changing and why will determine whether providers of legal services and companies will be able to benefit from these changes. The Legal Innovation Matrix leads the way.

¹ Christensen C., (2000) The innovator's dilemma, 271.

² Kuhn T., (1962) The structure of scientific revolutions.

³ Christensen C., Wang D., van Bever D., (2013), HBR, Consulting on the cusp of disruption.

⁴ Sako, M. (2011): General Counsel with Power, Said Business School, University of Oxford, 42.

The Legal **Innovation** Matrix

Where market demand meets market supply: today it is all about labour cost arbitrage.

The intersection between legal supply and legal demand is becoming ever more constrained, save for bet-the-firm-work exceptions. Hence, today most clients - and consequently also law firms - focus on reducing costs.

For clients this means procurement, price negotiations, alternative fee arrangements, using contract lawyers or alternative providers of legal services. For law firms, this means alternative billing structures and reducing internal spend and cost structures. Clients take more work in-house. Law firms set up delivery centres and centralize support services.

“Answering the legal paradox of “more for less” seems to focus mostly on labour cost arbitrage”

This is generally captured by the ‘more for less’ sound bite⁵. The measures taken on both sides of the supply-demand spectrum are often based on labour cost arbitrage.

Put differently: Why pay a lawyer for what a professional support lawyer, or even indeed, a paralegal can do? Replace the words ‘professional support lawyer’ or ‘paralegal’ by the word ‘technology’ and you essentially captured Oxford University Fellows C.B.Frey and M.Osborne 2013 vision on the future of employment with regards to the legal market.

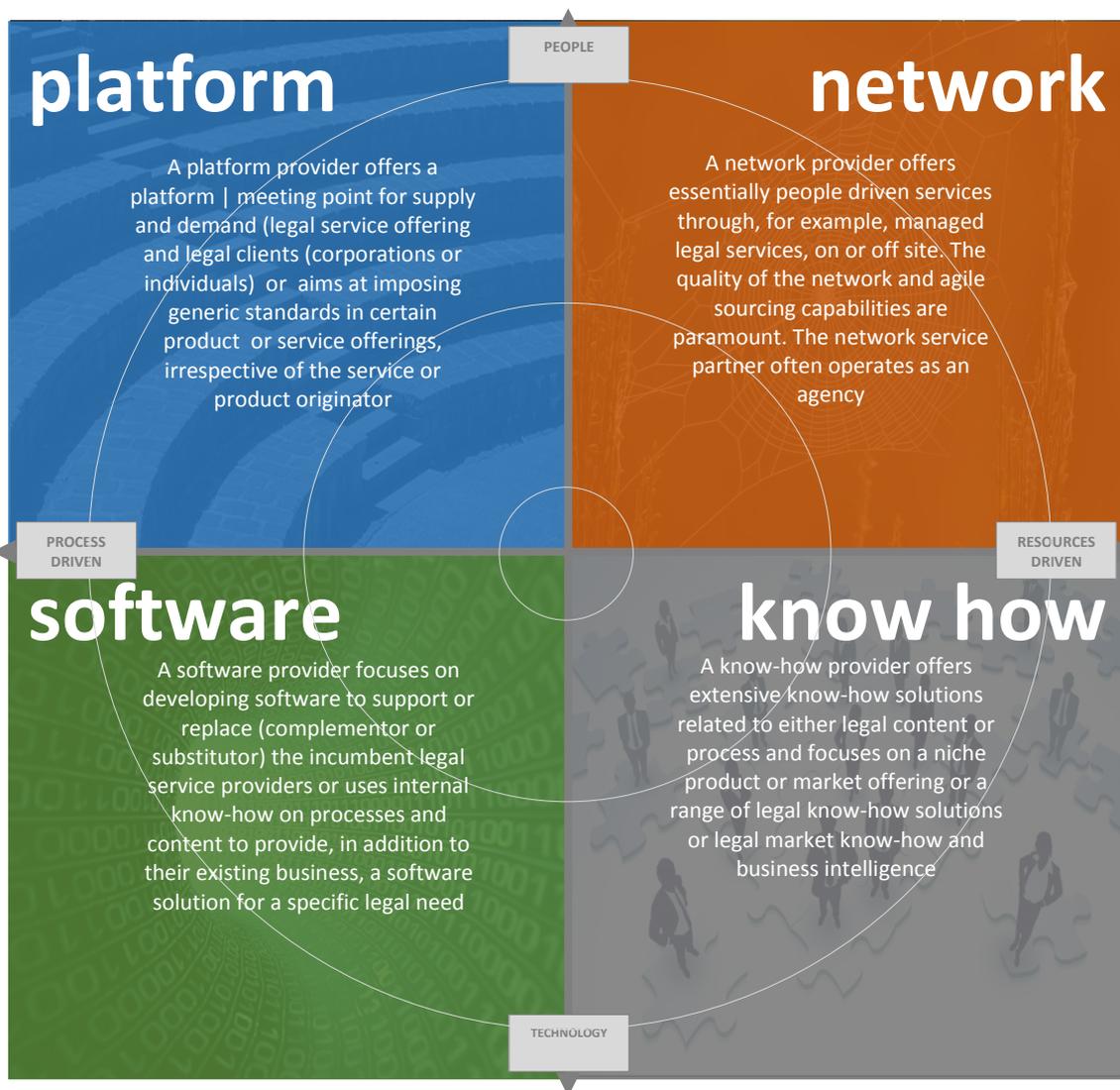
Labour cost arbitrage is really only the beginning of the answer to today’s market dilemma and the search for new legal service delivery models.

⁵ Susskind R., *The end of lawyers? Rethinking the nature of legal services*, Oxford University Press, 2008, 293; and Sako, M. (2011): *General Counsel with Power*, Said Business School, University of Oxford, 42 and Sako, M., (2010): *Make-or-Buy decision in legal services: a strategic perspective*.

The Legal Innovation Matrix

A simple framework.

Our research shows that providers of legal services in today's market focus on one or more of the 4 quadrants of the Legal Innovation Matrix.



The Legal **Innovation** Matrix

The idea explained.

Traditionally, a law firm would sit in the middle of the bull's eye, combining aspects of all 4 quadrants. It will serve as a platform for the provision of legal services, valuing and monetizing on its people's experience and expertise, whilst trying to capture that experience and expertise through knowledge management, combined with the smart use of technology. Our research shows that today's market is disintegrating⁶. New legal service providers are focussing increasingly on only one of the 4 quadrants. More traditional players will still combine one or more quadrants. Some exceptional players attempt a more ambidextrous approach (i.e. hedging against change by operating different business models, much like McKinsey did with McKinsey Solutions in 2007).

As always, examples explain best. Typical examples of platform providers could be Neulexa, Lawkick or the Ask a Lawyer section of the Rocket Lawyer website. These websites create a platform where legal clients and legal service providers meet.

Smartlaw, Tymatrix, Rocket Lawyer and LegalZoom, Flightright, New Street Solutions etc. are examples of legal service providers that focus on technology to forge new ways of legal service delivery. Legal contract management systems, document building engines, e-discovery tools, legal data management tools, and quantitative legal prediction software are clear examples of such solutions.

Obelisk Legal Support, initiatives such as Berwin Leighton Paisner's lawyer's on demand, Eversheds Agile, Allen & Overy's Peerpoint, etc. are examples of service providers focusing on delivering network solutions. They are labour cost arbitrage solutions delivered through contract lawyers, lawyers on demand, managed legal services and on-the-spot teams with a focus on providing added value through network power.

And finally, Thompson Reuters (with the inclusion of e.g. the Practical Law Company and the Hildebrandt institute), Wolters Kluwer (and their recent acquisition of Smartlaw), Bloomberg Law, etc are mainly focused on managing, creating and delivering know-how and templates. They are however more and more combining know-how with software to create new legal solutions, balancing the thin line between being a supplier to law firms and a direct provider of legal services.

⁶ About the model of disintegration and integration - Fine 1998 Chapter 4, as cited by Sako M., 2010. Also, see Yoo Y., Henfridsson O., Lyytinen K., (2010) The new organizing Logic of Digital Innovation. An Agenda for Information System Research in Information Systems Research, Vol 21 no 4, December 2010.

The Legal **Innovation** Matrix

What does it solve?

The key question - for both providers of legal services and buyers of legal services - still remains:

Make or Buy?

For **providers of legal services**, the Legal Innovation Matrix provides additional insight into one's relative position in the market. This in turn dictates the possibilities surrounding one's value proposition and ultimately one's profit formula – 2 of the 4 key elements of any business model - as outlined by Christensen et al⁷. A good business strategy begins with focus. If more players are focusing on only 1 aspect, you need to know what your focus is or will be. This in turn will impact your business model and hence pricing, sourcing and organisational structure, required support services, marketing, social media strategy, investment decisions, complementary services, ecosystem co-operation and collaboration.

An example: it makes no sense to propose commoditized legal services if one operates in the Network zone at the right top corner of the quadrant – as here your selling proposition is based on providing top quality people resources and nothing else. This will ultimately drive your make or buy decisions.

For **buyers of legal services**, the Legal Innovation Matrix provides insight on whether you actually need to buy legal services and if so, what type of provider to choose depending on the actual business need. Firstly, it allows you to better identify the real nature of your legal requirements. Do I need people, software, know-how, or a way to find legal service providers? What is the core essence of your legal query? Secondly, if you now know what you need, can you make it yourself (i.e. do you have the proper resources at hand) or should you buy it? In case of the latter, you can now better focus your search for a provider of legal services.

In our next Xenion Legal White Paper Series, we will elaborate on each of these aspects.

⁷ Johnson M., Christensen C., and Kagermann H., (2008) HBR, Reinventing Your Business Model.
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The Legal **Innovation** Matrix

The reasoning behind the idea.

The Legal Innovation Matrix is based on the idea that one should not look for the legal market disruptor or disruptors. Instead one should concentrate on understanding the drivers of change. In our view, there are 2: the **democratization of legal know-how** and the introduction of **modularity** in the legal services industry (commonly labelled unbundling).

Firstly, modular design by its nature makes complexity more manageable as it allows for parallel work streams. More importantly though, it creates opportunities for innovation. In particular this relates to new legal skills such as project management, process management and process unbundling, decision tree and work flow management and knowledge of business process management.

Secondly, legal know-how is becoming increasingly more publicly available and is also available at lower costs to increasingly more people and businesses. Exponentially increasing computing power (Moore's law) combined with the exponentially increasing possibility of storage of data (Kryder's law) creates vast opportunities for further change in the legal service delivery model.

The Legal **Innovation** Matrix

Some final thoughts.

Today's economy is ever more driven by the high impact of uncertain events. Hence, a focus on agility and the consequences of uncertain events (black swans), rather than the probability of uncertain events, will ultimately deliver benefit⁸.

In other words, one should not focus on 1 specific option, but create, transform or build one's organisation in such a way as to be able to cope with change. This requires thorough understanding of one's market. The Legal Innovation Matrix provides that initially required clarity.

About Xenion Legal:

Xenion Legal is a unique NextLaw firm focused on the design and delivery of legal services. The company was founded by former Magic Circle and senior in-house lawyers and corporate executives in Frankfurt, Brussels and Switzerland. It operates as a peer-to-peer network built around a central management, knowledge and sourcing hub. Xenion is supporting corporate clients and law firms with strategic executive search, lawyers on demand, legal management advice and legal design. Xenion lawyers ramp up in-house and law firm teams. They come from traditional big law firms or senior in-house positions. Xenion exists to help General Counsel run their departments (more) efficiently and to provide attorneys with a more satisfying way to practice. Following the early success of Xenion's lawyer on demand business, Xenion Ventures was created in 2015 as an incubator to support innovative legal start-ups in Europe, combining people, process and technology.

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⁸ Taleb N, (2010), the black Swan, 444p.