What's Around the Corner?
Mega Trends and You

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RainMaking Oasis

It's a jungle out there! With only 2% growth in outside legal spend, will your lawyers be …

- Predator or… Prey?

- At the table or … On the menu?

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Demand is down, rate increases are up but…revenue almost flat, PPEP down

Source: Citi Hildebrandt 2013 and 2014 Client Advisory

Metric	2004–08 CAGR *	2008–12 CAGR	Nov 2013 YTD
Demand	3.7%	-0.4%	-0.2%
Rates	6.7%	3.4%	3.5%
Revenue	9.8%	0.8%	2.7%
PPEP	6.0%	1.7%	Flat

*CAGR = Compound Annual Growth Rate

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First reports out on 2014

Source: Citi Law Firm Group First Quarter Report

- Revenue growth up 4.3% in Q1 (best since 2008), due to:
  - 1% growth in demand
  - 4.4% increase in billing rates
- Tide not rising all boats: most of revenue growth was in Top 50 firms; they also led all firms in inventory and keeping expenses down.
- Firms outside 200:
  - Largest decline in demand, lone drop in revenue, greatest growth in expenses, smallest increase in inventory

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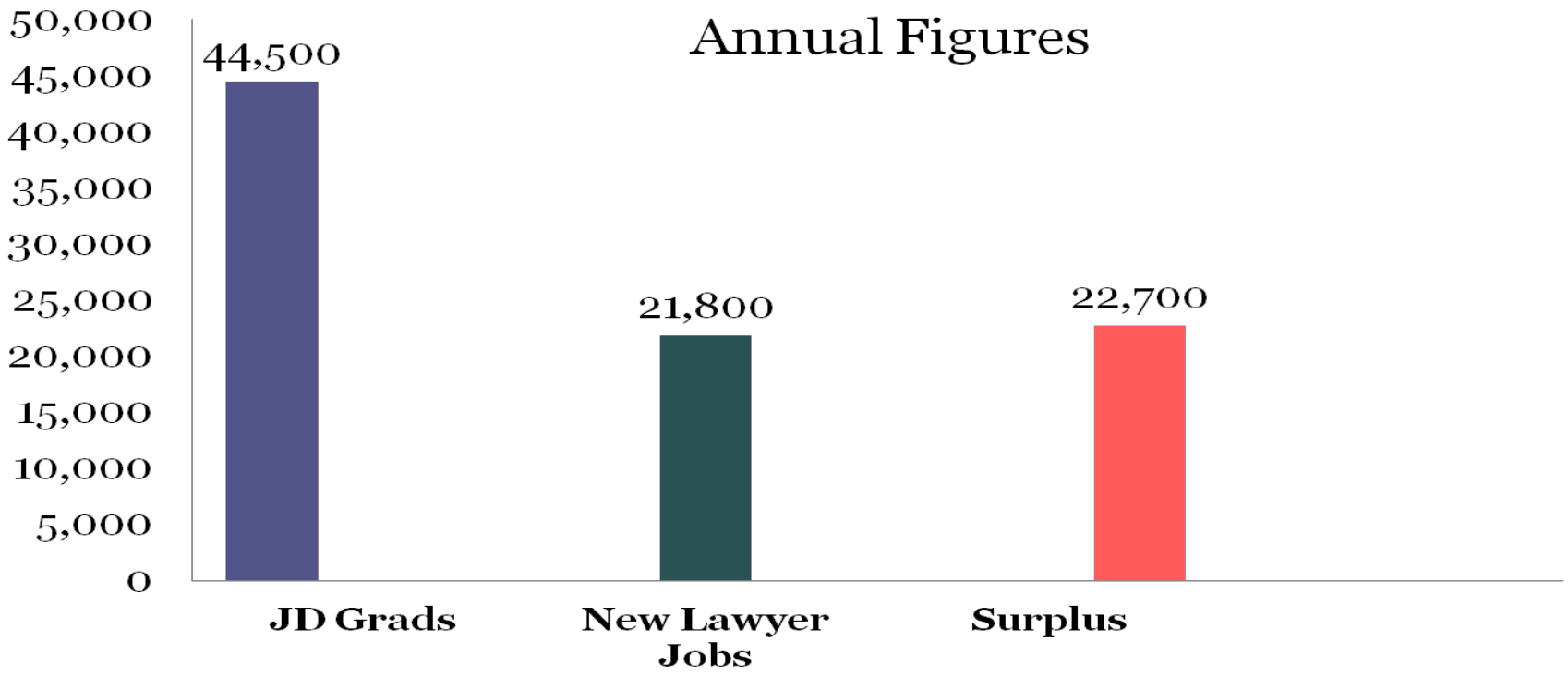
Legal Sector Employment (2010 – 2020): Supply *Greatly* Exceeds Demand

Source: Bureau of Labor Statistics and ABA



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What do Managing Partners think?

(2013 Altman Weil Flash survey)

'Yes' - Permanent Change	2009 Response	2012 Response	Change in %
More price competition	42.4%	95.6%	+53.2
More commoditized legal work	25.5%	89.7%	+64.2
More non-hourly billing	27.9%	79.5%	+51.6
More contract lawyers	28.3%	74.6%	+46.3
Fewer equity partners	22.8%	72.1%	+49.3
Smaller first year classes	11.4%	62.2%	+50.8
Reduced leverage	12.1%	56.7%	+44.6
Lower PPP/Slowdown in PPP	13.2%	55.6%	+42.4
Outsourcing legal work	11.5%	46.4%	+34.9

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Some other trends/metrics of note…

- Equity partners billable hours exceeded hours of non-equity partners, counsel/of counsel by 300 hours/yr.
- Billing rates continue to rise but realization has fallen from 92% to 83.5% -- and that is after write-offs and discounts.
- Low correlation between firm size and profitability; once a certain size, diseconomies of scale can set in.
- Mergers are at an all time high, and lateral hiring is the strategy of choice.

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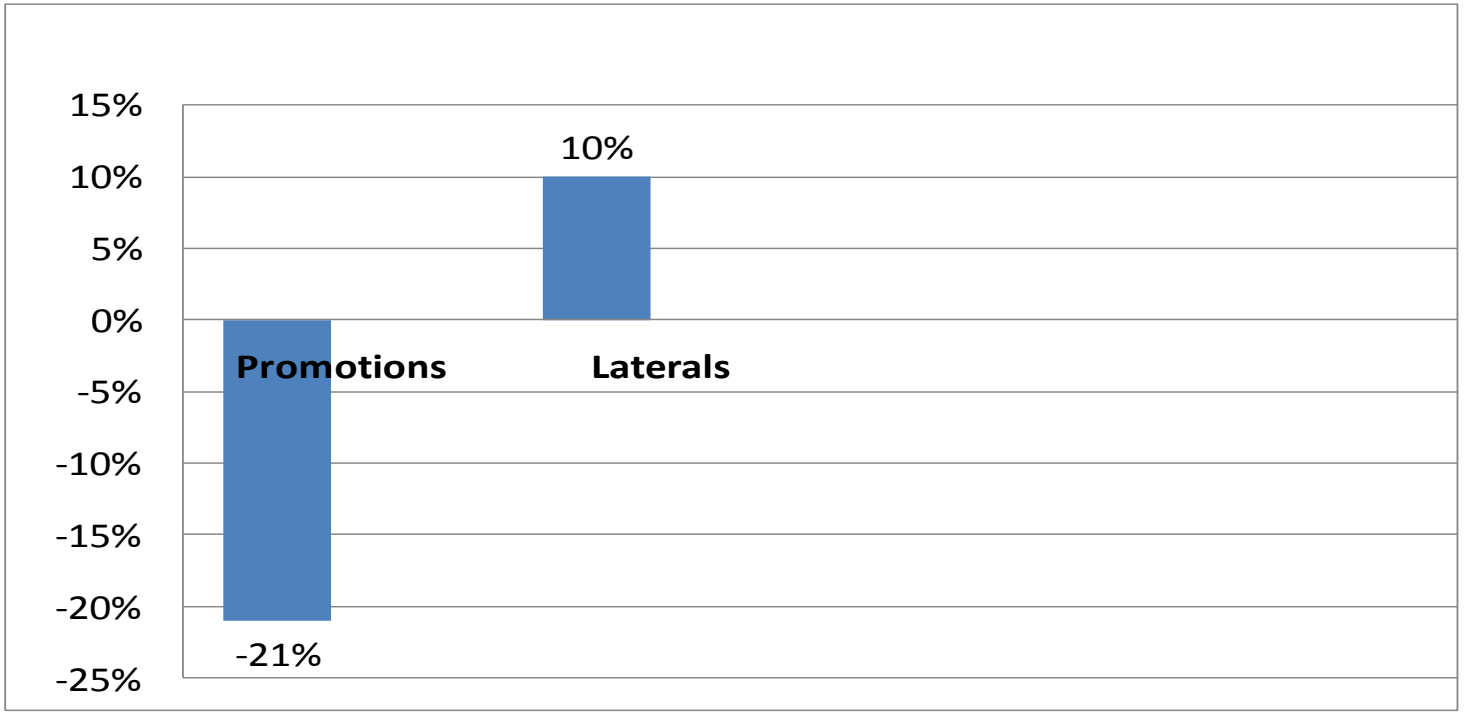
Growth in Promotions vs. Laterals: 2007 vs. 2011

(Source: Citi Hildebrandt 2013 Client Advisory)

What does this portend for current associates/counsel?



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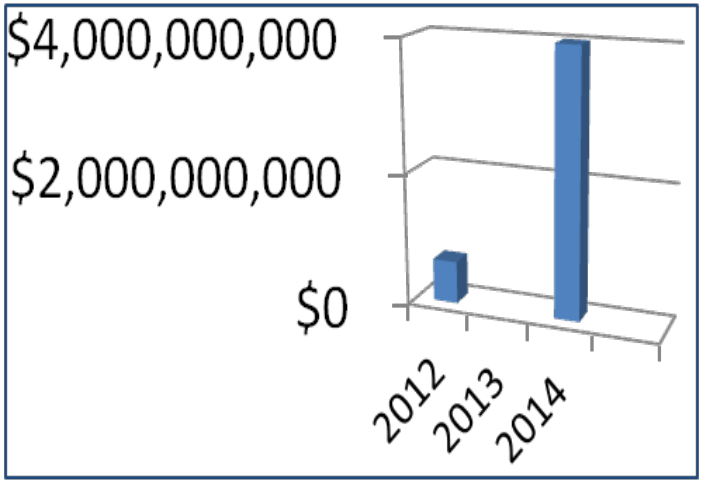
Legal Process Outsourcers:



- 2012: $640 million
- 2014: $4 billion
- 84% annual compound growth!

1. Bodhi Global Services Ltd.
2. Clutch Group
3. Cobra Legal Solutions, LLC
4. CPA Global Ltd.
5. Integreon Managed Solutions, Inc.
6. LawScribe, Inc.
7. Mindcrest
8. Pangea3
9. Quislex
10. UnitedLex

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Other Legal Service/Content Options for Clients: Competitors or alliances?

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Lex Machina

Patentory

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JURISTAT

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Online Dispute Resolution

MODRIA

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Other Trends Affecting Law Practice

- Deregulation: ABS and MDPs are evolving; they will eventually come to US (already 70+ law firm subsidiaries/ consultancies in US)
- Accounting firms outside the U.S. often employ more lawyers than the law firms
- Early adopters have been innovating:
  - Service centers in low cost markets
  - Project management, process improvement, technology, KM
  - Radically different office structures to reduce real estate costs
  - Virtual practices
  - Value adjustment lines in invoices; more pricing approaches
  - Collaboration with other firms and legal service providers

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Technology is Transforming/Disrupting Business and Law

- By 2020, average desktop will have same processing power as human brain. By 2050??
- Predictive coding, artificial intelligence – can often do first 80% discovery.
- "Disruptive" means these don't merely sit alongside traditional work methods – fundamentally change habits.

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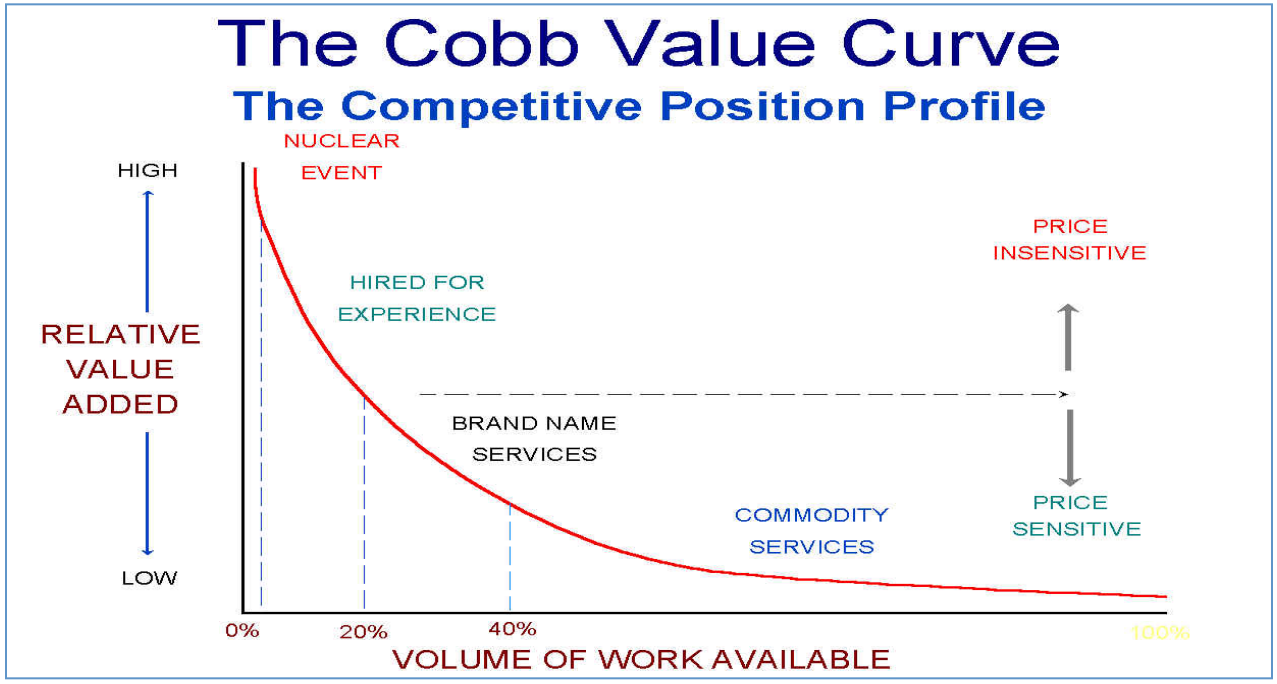
Evolution of Legal Services

Richard Susskind:

Bespoke → Standard-ized → System-atized → Pack-aged → Commodi-tized



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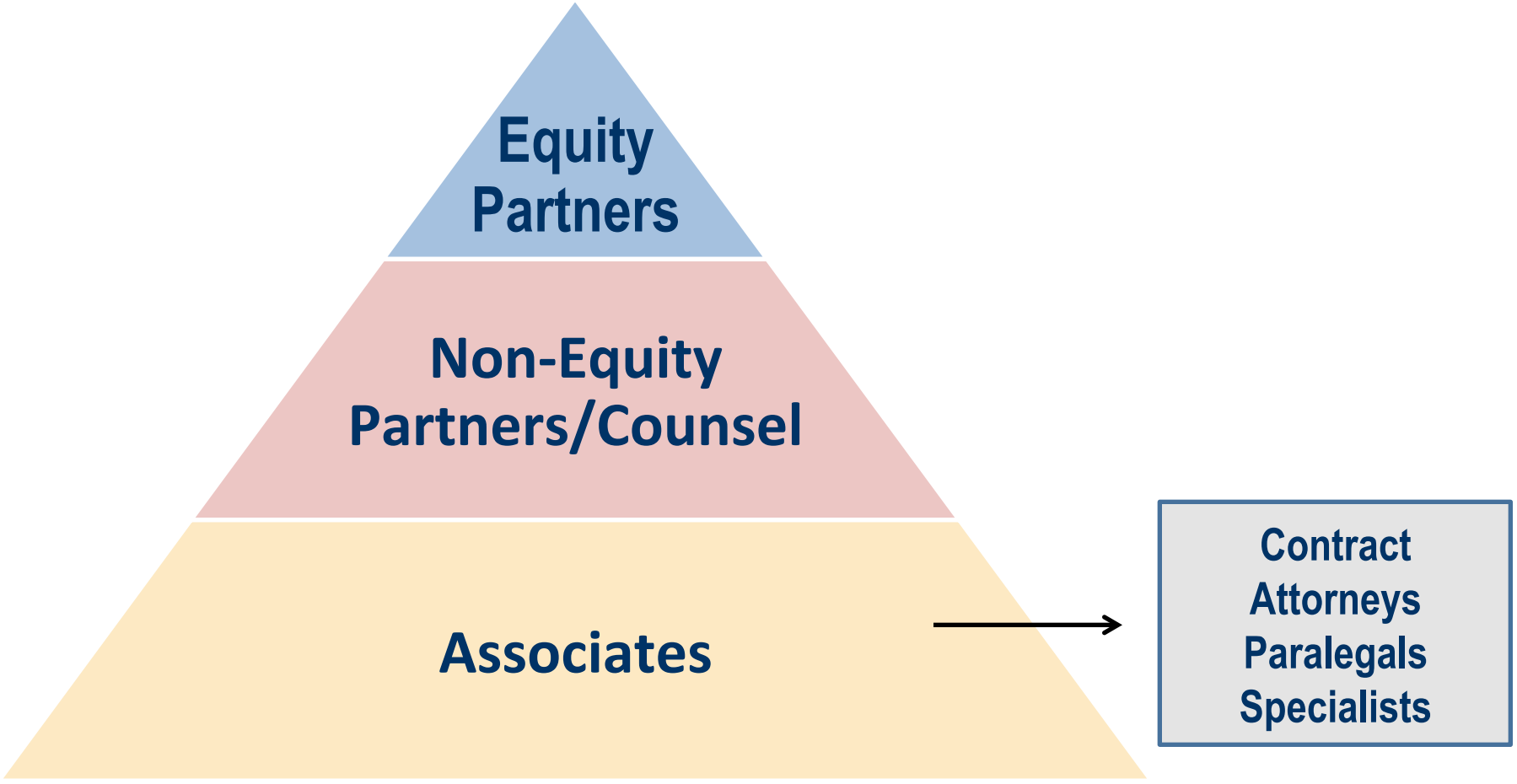
Traditional/Current Model



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“Next Normal” Law Firm (my view)

List of New Roles in Law Firms/Other Employers

Source: Richard Susskind's *Tomorrow's Lawyers*

- Expert trusted adviser
- Enhanced practitioner
- Legal knowledge engineer
- Legal technologist
- Legal hybrid
- Legal process analyst
- Legal project manager
- ODR practitioner
- Legal management consultant
- Legal risk manager
- Technical specialists: patent agents, economic analysts, etc.

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Susskind's List of New Employers

(in addition to current employers: firms, companies, governments, contract firms)

- Global and regional accounting firms
- Management consulting firms
- Legal publishers
- Legal know-how providers
- Legal process outsourcers
- Retail businesses
- Legal leasing agencies
- New-look law firms
- Online legal service providers
- Legal management consultancies

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Future Work Skills

Source: Report by The Institute for the Future

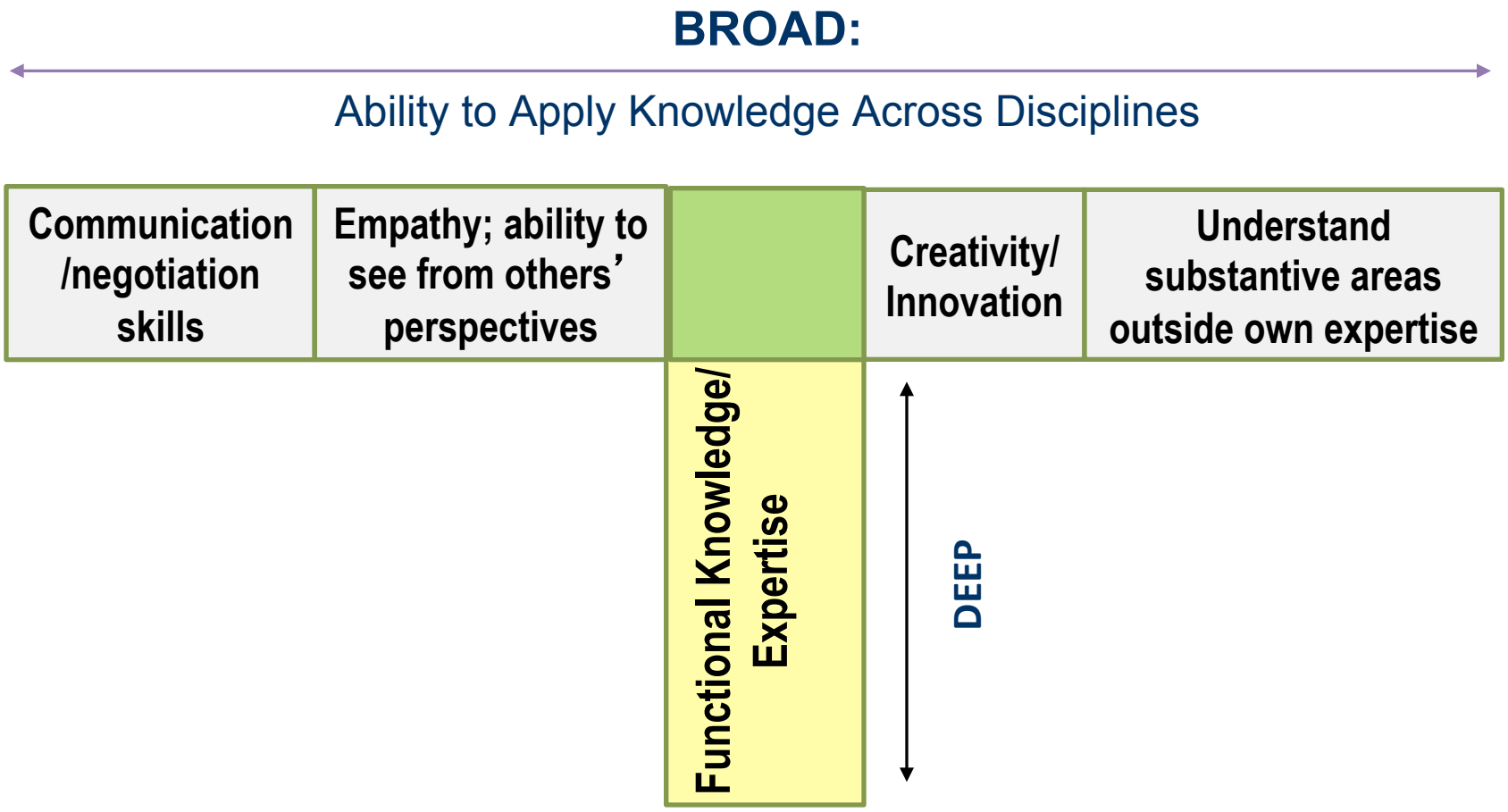
Six Drivers of Change:

1. Extreme longevity
2. Rise of smart machines and systems
3. Computational, programmable, designable world
4. New media ecology
5. Super-structured organizations; new training paradigms and tools
6. Globally connected world

Ten Required Work Skills:

1. Sense-making
2. Social intelligence
3. Novel and adaptive thinking
4. Cross-cultural competency
5. Computational thinking
6. New media literacy
7. Transdisciplinarity
8. Design mind-set
9. Cognitive load management
10. Virtual collaboration

The T-Shaped Professional: Talent Needed for Future



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How will this impact your firm? How will you lead change? How will you sell?

- What are you selling? To whom will you sell it?
- How will you package and price it?
- With whom are you competing?
- Who is providing these "solutions"? Lawyers, others?
- Do your lawyers have the skills needed? Do you have the right talent to successfully adapt?
- What can your lawyers do uniquely that other professionals or technology solutions cannot?

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Group Brainstorm Exercise:

What can you do with others in your firms to consider and address the trends and inevitable need for change?

1. In your group, select (1) a Facilitator to guide discussion and (2) a Recorder/ Reporter to record notes.
2. Read the scenario and read all of the questions.
3. Spend 20 minutes discussing and responding to the questions.
4. We will have time for one table to report back.

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Conference Wrap-Up & Pricing Bootcamp Summary

Thank you for Attending

LSSO's RainDance Conference!