THE LEGAL SECTOR IN THE DIGITAL AGE

HOW FIRMS NEED TO INNOVATE TO SURVIVE AND THRIVE
An **OfficeTeam** White Paper

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EXECUTIVE SUMMARY

This report examines the issues affecting the UK legal sector in today’s digital age. A traditional industry being disrupted, it examines how the sector is facing a series of challenges as it attempts to modernise; including changing client needs, artificial intelligence (AI) and alternative business structures.

It also explores how firms may overcome such challenges in order to not only survive, but thrive. This series of transformative approaches underline the importance of new business models and greater efficiency for legal practices. The paper used desk research and client feedback to present the findings.

The Legal Sector in the Digital Age: the report is aimed at managing partners, financial directors and procurement directors, and employees tasked with strategic purchasing and cost efficiency.

For law firm leaders, it highlights how the challenges faced by the sector are forcing legal practices to modernise to survive, and encourages innovation to remain competitive.

For those with responsibility for strategic purchasing, it highlights the importance of a number of strategies required to help firms compete; and the role that procurement can play in helping law firms to embrace initiatives and respond to market conditions.
INTRODUCTION

The legal sector is changing. Globalisation and digitisation are transforming the industry, along with evolving client demands. The modern legal firm needs to adapt and innovate in order to thrive in a competitive market.

There is a necessity for new thinking and large scale change. Successful firms will be those that embrace new technologies and employ a ‘modernise’ mindset. But it’s not just about IT. Although legal sector CIO’s are faster to adopt artificial intelligence (AI) than their peers (Information Age), more transformative approaches are required.

PWC reports that workforce changes are becoming more frequent, with 70% of firms implementing remote and mobile working. More firms are recognising the value of procurement teams, and their role in delivering process efficiency across the firm. Indeed Linklaters is looking at the skills required by lawyers of the future – even trialling a scheme that teaches 40 staff (including lawyers) how to code (Raconteur).

This is a far cry from the traditional image of law firms, with staff drowning under case-critical paperwork. Buzzwords like efficiency, productivity and innovation are becoming entrenched, as modern firms look to differentiate and ensure survival.

There are many reports on the impact of automation and AI, and in particular the loss of jobs these will cause. However, the ripple effect will prompt new ways of working, new roles and new collaborations. As lawyers pool resources joint ventures between firms and clients, or even rival firms, are possible.

Innovative firms will embrace new models of work. Survival is about more than legal service delivery – creating or providing new, enabling solutions and consulting services is key to future client relationships. Consolidation of services is also playing a key role, as clients seek the benefits of working with their legal teams across disciplines. Firms who can combine these skills will be well positioned for broader, more sustainable relationships.

UK LEGAL SECTOR

- 370,000 people are employed in legal services in the UK
- 63% of these are solicitors or employed by solicitor firms
- The legal sector is worth £25.7 billion to the UK economy
- The sector contributes 1.5 percent to the UK’s GDP
The legal sector in the digital age

As in many industries the need for innovation and productivity is clear. However there are a number of critical issues facing the legal sector. Even in firms that already embrace a ‘digital-first’ mindset, there are market forces and technological challenges to overcome.

The impact of globalisation, automation and competition are driving law firms to modernise. New business models are required to compete against the pressures of client demands, market uncertainty and overall efficiency. In addition, firms must also be able to differentiate their offer in the face of significant change.

Here we outline five major challenges affecting today’s law firms.

1. Changing Client Needs

Reflecting globalisation and digitisation, there is a shift in the services and performance demanded by clients. The traditional cost and models associated with full service delivery are becoming outdated. As Dan Wright says in the Financial Times:

“We didn’t always sell what our clients wanted to buy. We just sold what we’d always sold and often clients had to re-engineer it within their legal departments.”

Dan Wright, Partner, Osborne Clarke

Clients are more sophisticated and expect more flexible service delivery, as in other industries. In a move for greater efficiency many businesses employ in-house legal teams and, as a result, need firms for additional ‘on demand’ work.

They seek a more integrated global service, consolidating law providers to work with firms who have a deeper understanding of their business. As well as better relationships, clients seek value, speed, innovation and security. Accommodating these factors will require transformative approaches by many firms.
2. Technology and artificial intelligence (AI)

Business communications firm Incom reported that 80% of legal firms identify the upgrade of IT systems as their top priority. The speed of advancing technology is a primary challenge for the sector. The challenge this presents in investment terms, as well as learning to manage and use new systems, is complex. Indeed, firms that embrace and harness the strategic potential of IT will prosper.

However the legal sector has traditionally been a late adopter of IT, led by clients rather than innovating. This is set to change due to the pace of developments, and firms who drive IT innovation will lead.

The Legal Technology Future Horizons report found that 73% of people agree that IT-enabled innovation will be a critical differentiator. A vital enabler of the delivery proposition for the modern law firm; those who do not embrace and invest in IT will be left behind. AI will radicalise efficiency and output, with eDiscovery systems and specialist applications already in use. These are set to increase as the market grows.

In addition, IT teams need to accommodate changing working practices such as remote working and virtual teams, plus cyber security and GDPR compliance. In order to survive and thrive it is clear that IT is an essential priority for firms.

3. Greater competition

There is more competition in the legal services sector. While the overall impact of alternative business structures (ABS) has been more muted than it could have been, it has undoubtedly widened the market. According to Raconteur ‘around five percent of legal services are no longer provided by traditional law firms, but by radical newcomers.’

Smaller, more agile businesses can now compete with larger, more established firms. Innovating to ensure the right business model is essential as competition intensifies in the market. Firms must also compete harder for the best talent to ensure long-term success.

4. Cyber Security

Law firms are attractive targets for hackers due to the large amount of confidential and valuable information they hold. Ensuring that client data is securely protected is a crucial but difficult task, as the number of threats increase and attacks get more sophisticated.

Any breach could leave firms open to claims of professional negligence, in failing to adequately secure data. It would also have severe repercussions for the firm’s reputation, causing short-term risk and long-term damage.

Now that the General Data Protection Regulations (GDPR) has also come into effect, firms must ensure that all data handled by the firm is compliant with the obligations.
5. Brexit

Brexit talk may have subsided since the referendum, with the predicted economic pessimism not yet coming into effect. While things are generally better than expected now Brexit will create mixed fortunes for legal firms as we approach 29th March 2019.

Exiting the EU will potentially mean dramatic changes for legal providers in the UK, causing uncertainty and risk for the industry. The flip side is that it could create opportunity too.

The impact will be broad; ranging from the substantive content of the law, the economic implications that Brexit will have on UK firms and the ability of lawyers to work abroad. In the short-term, Brexit may actually provide a boost as firms are engaged to explain the effects of exiting on existing contracts and transactions. Yet the long-term picture is unclear, and depends on the terms of exit and whether the UK retains access to the Single Market or an equivalent.

If no such agreement is reached, the ensued higher costs may force many clients to relocate their legal services. As in the banking industry, increased administrative requirements may encourage clients to move from the UK altogether. This may be covered by large firms with established European offices, but won’t always be the case.

**SURVIVE AND THRIVE**

In the face of numerous challenges, it is clear that today’s law firms cannot stand still. New strategies and innovations must be made to ensure the survival of firms. Here we summarise some of the ways that firms can modernise, helping them to thrive in the digital age.

**Adopt an agile mindset**

As we have seen the many challenges affecting the sector are bringing transformation, new ideas and uncertainty to the market. Being able to quickly adapt to client needs will be critical; with new business models and flexibility being key. Instead of working in the same way and offering the same things, new models enable firms to work collaboratively with clients to find new solutions.

An agile firm is quick to adapt to the shifting marketplace, and may be better placed to meet changing client demands. While new technology is constantly emerging, small and mid-size firms, in particular, can try new systems and provide flexibility more easily than their big law counterparts.
Offer great value

In line with cost and business efficiencies clients are seeking to work with fewer firms over multiple disciplines. Consolidation will lead to longer-term, deeper relationships with firms who, as a result, can offer greater value.

"Clients are driving consolidation because they believe there is an economic incentive. They also believe that they get higher quality services. The more work they consolidate into law firms, the better the lawyers in those firms understand their company."

Joseph Andrew, Global Chair, Dentons

To achieve this, firms will need to withstand rigorous procurement processes from clients to be named exclusive provider. However, consolidation and closer working means that firms will gain insight across a client’s business. This knowledge will enable a strategic partnership between the firm and client, extending relationships across the business.

Ensure process excellence

In an era of digitisation, high competition and rising client expectations, efficiency, process and quality are essential. Among the many changing factors within the market quality cannot waiver; creating a need for operational efficiency and cost control.

This is why more firms are recognising the value of procurement teams, who can enable greater efficiency while lawyers focus on their role. Legal teams rely heavily on key suppliers for support services which can be essential for service delivery. For example, when a court gives a deadline to deliver papers it is absolute. Therefore services like couriers are relied upon, putting service above price.

Procurement teams are well placed to assess supplier services and benefits, but also to review processes for efficiency. With their input, law firms can ensure better cost control and move towards streamlined service delivery, helping the firm’s bottom line survival.

Embrace globalisation

One way for firms to thrive is to adapt to globalisation and consider emerging markets. For firms who have no desire to expand their own footprint, it will be essential to have the capability to support international clients as they enter new markets.
For firms who already conduct international work, a 2017 study by Lawyer Monthly found that nearly two-thirds (63%) of Partners at Top 20 firms are based outside of the UK. However, only 20% are based outside of Europe and US markets, leaving opportunity for British firms to extend their reach into emerging markets such as Asia Pacific and Latin America.

## Differentiate your brand

A difficult aspect of marketing a practice is differentiating the firm from others in a crowded sector. Essentially firms’ offers similar services, with many competing on price alone. A start is to ask where do you compete? And how can you win?

> Unlike traditional companies and organisations, law firms can’t innovate and bring out ‘new law’ in the way some companies can bring out ‘new products’.

Adriana Giometti, Chief Marketing Officer, Holman Webb

Some firms find and develop a niche, while for others it is simply about service and added value. Understand your market position; essentially what the firm does, how and what makes it different. Demonstrating experience, offering added value and developing clear branding will all help firms to stand out.

Traditionally firms have utilised traditional means of marketing such as advertising, sponsorships and events; however more firms are educating lawyers on business development and soft skills. These may include networking, communication and persuasion skills, thought leadership and even social media.

Adriana Giometti notes that there is a danger that content marketing is overdone however, so there is a need to find new and innovative ways to engage prospects and clients. To differentiate opt for multimedia messaging; engaging audiences with webinars, podcasts and video content.

## Prioritise innovation

In the face of upheaval in the sector some leading UK firms, such as TLT and Baker McKenzie, are prioritising innovation from within.

Linklaters has an innovation steering group, which is tasked with helping to drive change across the firm (Raconteur). This includes looking at the skills required by lawyers of the future, trialling a scheme that teaches 40 staff (including lawyers) how to code. It also encourages staff to come up with new ideas, submitting them for evaluation and possible adoption.

Challenging all staff to embrace innovation and strategic thinking is wise; contributing to a culture that fosters new ideas and growth.
Adopt AI technology

There are many reports on the impact of automation and AI, and in particular the loss of jobs these will cause. A 2016 report from Deloitte predicted that around 114,000 legal jobs could be automated in the next 20 years, whilst technology has contributed to around 31,000 job losses within the sector (FT).

"I don’t subscribe to the notion that lawyers will be replaced by robots, but lawyers will be augmented by machines."

Paul Lewis, Partner, Linklaters

Despite this we have seen that technology and AI remain a major challenge. Automation is a strategic priority and IT teams have identified the need for upgrades, yet the speed of development is quicker than many firms’ speed of change.

Law firms are gradually introducing technology. AI applications help lawyers to perform due diligence and research, provide analytical shortcuts and automate some legal writing. The AI in Law and Legal Practice report from Tech Emergence identifies six categories of available AI, covering:

- Due diligence
- Prediction technology
- Legal analytics
- Document automation
- Intellectual property
- Electronic billing

It is time to adopt AI and embrace technological change. While this will affect some roles, others will be beyond the scope of automation – for example those involving judgment. AI does not have the creativity or empathy of a human lawyer; while automation also allows junior lawyers to do more interesting and profitable work instead of working long hours on data review.

Attract future talent

With a diverse set of challenges affecting the sector, future lawyers will require a new set of skills too. Embracing modernisation and technology, the next generation of lawyers need to be prepared for the digital age.
There will be fewer traditional lawyers as firms see more employees from non-legal backgrounds, and overall greater flexibility and mobility within the industry (Deloitte). Elite lawyers will combine a new mix of skills, reflecting the emphasis on technology and commerciality. Staff will expect working practices such as remote and flexible working and a modernised route of progression.

For firms to thrive, 21st century legal advisers must also be legal technologists. It will be imperative to maintain a succession pipeline in the face of increasing automation in the role of junior lawyers. Firms that can accommodate these demands will win future talent.

CONCLUSION

As we have seen, the legal sector is undergoing fundamental changes. The traditional law firm’s delivery model won’t cut it in the digital age: excellent legal advice and services is a basic expectation. A good reputation will not be enough to be competitive or sustainable.

Law is not just about law firms anymore, and that is forcing firms to modernise; from the structure of firms, to technology and new business models. As in other industries, clients are seeking better efficiency, fixed or transparent pricing and cost-effectiveness.

"If you’re going to be disrupted, disrupt yourself."

Dan Wright, Partner, Osborne Clarke

It’s never been more important for firms to assess wide-ranging initiatives to get ahead, from the use of technology to brand differentiation and a sustainable value proposition. This ensures effective service delivery by the most efficient means. Technology has an important role to play, and is part of the solution for firm’s looking to modernise. However, it is not the solution (Sigurdson).

For firm’s to truly evolve and thrive, a range of transformative initiatives are required. Encompassing flexible business models, pricing and staffing, there is a new focus on process and utilising the right person for the job (who may not be a lawyer).

The legal industry is seeing a shift from reactive, inefficient and expensive roots to becoming a modern, client-focused, cost-effective business. The law firms who can adapt and grow profitably (by increasing both revenues and margins) will thrive, maximising the opportunities of the digital age.
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“Our Account Manager has adapted his approach as our business has evolved in line with the changing industry. Through having one consolidated invoice we have dramatically reduced unnecessary administrative time as there is far less paperwork to process and any inefficient processes are now redundant.”

BLM

“We use the Management Information to ensure that users are ordering inside of the core list. It gives us great visibility as a management tool and helps considerably with budget adherence. As we expand going forward the analysis will prove increasingly helpful to calculate savings ‘per person’ based on head count.”

Pinsent Masons

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Wiseman Lee

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