

New ways of collaborations of firms and corporate clients

Change of the service delivery model of law firms

Currently, law firms deliver their services directly between the lawyer and the client contact. This is supported by the traditional means of communication and formal documentation (e.g. telephone conferences, e-mails, files, printed documents). In addition, there are electronical connections in use like extranets, virtual deal rooms or microsites. But what this basically means is the fact that legal advice is almost completely a peoples' business. Not only that it is a peoples' business, it is limited to professionals at the law firms as well as on the in-house side. This model of service delivery has remained unchanged for more than 100 years in the legal profession. It forms and formed the basis of the business case and model of law firms. The business model relies traditionally on selling the billable hour even though in the past two decades alternative pricing models were introduced into the market (e.g. fixed price, caps, success fee-based pricing). However, all calculations are based on the time and leverage model of law firms. The leverage model meant selling the time of associates (employed lawyers) in order to generate the profits needed for the partners to be distributed at each year end according to individual profit share and remuneration structures. The alternative pricing models have been introduced out of many reasons while two main criteria became more important from the clients' perspective. One is that in-house departments got not only more sophisticated and professional but also got under pressure with regards to manage their budgets for external advice in a much more efficient way. This cost pressure ("more for less") and the aforementioned sophistication of the in-house departments led also to a more critical view with regard to accepting (junior) lawyers working on their matters. The client expectations developed in a way that the clients expect bespoke and high-end legal advice in particular from senior lawyers or partners while they are more and more unwilling to pay for – as it is often stated by the clients – the education of the young lawyers in a law firm. This has already now a serious effect on the leverage-based business model of a law firm. In addition, it comes along with the expectation of the client that parts of the legal advice requested are perceived as a commodity and therefore should come at a much lower price point which often cannot be matched internally at the law firm given the time and processes needed to come up with a standard, commodity type of advice.

This development in itself challenges law firms with regard to their existing business model. Amongst other factors it will require law firms to rethink their recruitment and education processes and therefore the existing career model. It also forces law firms to introduce technical and digital tools in order to automatize work flows and standardize parts of their legal expertise. Ultimately, this in itself would mean to reconsider the current business model since the levels of profitability law firms have been used to benefit from many years won't be sustainable in the new future.

Besides this current threat for the existing business model the general digital change of all industry sectors, including the one of professional service firms, will hit the law firm industry rather sooner than later. Similar to other industries the legal industry will undergo a change in terms of how the service is produced and delivered due to the digital options available now and in the future. It can be assumed and almost for sure forecasted that the digitization will lead to even more standard and automatized processes meaning that legal knowledge and advice will be stored and delivered in an electronical way. Paired with AI technologies already now intelligence algorithms are available to read, write and analyze legal documents and therefore are in a position to render legal advice with very little "human input". Many

people see for the future a platform economy model arising. These platforms will be able to give fully automatized legal advice (maybe even from machine to machine). In addition, there will be hybrid legal advice solutions where AI tools plus the work of non-lawyers may be supervised by one lawyer/partner and that will be offered to clients through a platform. In this scenario, there will still be a need for high-end personal and individualized advice given by (senior) lawyers/partners to the client. But what is clear from such a scenario is the fact that it will be inevitable to reinvent the business model of law firms since a platform economy solution in the legal industry will impact the way of how legal advice is developed, produced and delivered. It will affect the pricing structure and definitely and ultimately challenge the time-based pricing models. In the future, a new business will arise by selling “software licenses”, fees for accessing service platforms and provisions from various and very different players in the legal industry ecosystem. As if this would not already be enough of a challenge for law firms, it comes along with the possibility that players which are not existing yet or players from other industries (with the advantage of being experts in digitization of business models) will enter the legal industry market and come up with service delivery solutions which have proven to be successful in other industries and only will need the add-on of the high-end legal individual, “human touch” advice. The dilemma for law firms is and will be how and when to invest in changing their own business model given that, because of the difference to the Corporate environment, the significant means necessary for investing are not available due to the partnership model.

These briefly described challenges come along with a myriad of potential research questions. The most important one is of course whether or not the digital revolution will lead to a platform-like industry model in the legal industry. Assuming, in one way or the other, that digital platforms will become more common in the legal industries it raises the question of when to begin, where and how to start with the change of the current business model. How could and will the legal education embrace the digital expertise needed in order to transform legal knowledge and advice into a digitally marketed product. How will the digitization affect the current education and career model inside a law firm (e.g. the code expert being more valuable and important than the senior partner)? Will the market further consolidate in the direction of there being even bigger and more global but fewer law firms than there are now? Will we see new players, even unknown to the legal industry yet, enter the market? How strong will bar rules and regulations protect the legal privilege of the profession?

We live in exciting and challenging times where one of the oldest professional service industries will undergo a radical transformation. It comes along with the opportunity to enter into a new digital service delivery and connectedness to and with clients, embedding law firms even closer than ever into the lifeline and ecosystem of businesses.