

New ways of collaboration of firms with corporate clients

By Maurus Schreyvogel

Observations on the changing market realities

Shift to a buyer's market

- In the last decade corporate clients have become more savvy in their buying behavior and rely on market reports¹ and data analytics to negotiate hourly base rates, discount arrangements and matter specific fee structures
- Many corporate clients adjusted their panel structure to account for different risk profiles of their cases and learned to distinguish between bet-the-company and routine cases
- The entry of (1) alternative service providers and (2) technology companies to the legal sector has enabled corporate clients to disaggregate work that before was mostly awarded to firms

Digital has an impact on how lawyers work

- Adoption of technology has been significant by firms and corporate legal functions especially in the areas of M&A, litigation & investigation and regulatory compliance
- Firms have been struggling to adjust their revenue model to account for the fact that an increasing proportion of billable time is now assigned to technology
- Not many firms have understood to use *data and digital* as an advantage to offer value-add services to corporate clients and leverage it as a means of customer retention

Competition is more fierce than ever

- Firms face a difficult competitive environment and it seems that many of the measures that were taken to date might backfire:
 - Slowing the promotion of equity partners short time could lead to experienced talent leaving the firm and long term could create a whole in the talent pipeline (which might be costly to fill)
 - Raising associate compensation to attract talent could have a significant effect on the firms bottom line and
 - Pursuing mergers to make a firm's footprint more competitive could disturb its inner stability

Firms are losing market share

- Whereas most outside spending of corporate legal functions was directed to firms a decade ago, a significant portion today flows to alternative service providers (most significantly in the area of document review in support of litigations, investigations or M&A transactions)
- According to a recent report on corporate law department the proportion of legal budget allocated internally has increased from 37 percent in 2013 to 43 percent in 2017²

(Some) Firms are losing some of their glamor

- Positions with corporate clients become more attractive and according to a recent report by McKinsey³ women are less excited than men to make partner, i.e. invest in a firm career. Whereas this research focused on women, similar drivers are likely relevant for the generation of young professionals. Top three reasons why becoming a partner are no longer seems appealing:

¹ For example the Wolters Kluwer Real Rate Report: <https://www.wkelmsolutions.com/products/real-rate-report>

² 2018 state of the corporate law departments report: <http://www.legalexecutiveinstitute.com/wp-content/uploads/2018/02/2018-State-of-Corporate-Law-Departments-Report.pdf>

³ <https://www.mckinsey.com/featured-insights/gender-equality/women-in-law-firms>

- Inability to balance family and work commitments
- Not enough benefits for the personal costs
- Not wanting the pressure

In summary

In January of this year Marc A. Cohen – the CEO of the Legal Mosaic - summarized the situation of the US firm market⁴ in response to the 2019 Citi Hildebrandt client advisory⁵ that painted a somehow positive outlook: “The Report affirms that some firms continue to prosper, even as many are experiencing unaccustomed “dispersion.” The trend lines suggest that firms' short-term approach will continue to erode internal stability, impede structural and economic reform, and discourage investment in resources required to better align with and satisfy legal buyers.”

The research proposal targets to help ensure continued, reliable and state of the art legal services and provide a contribution to expedite change in the legal sector.

Research proposal

Many of the underlying facts and data of the above observations stem from reports covering the US legal market. It seems that the European / Swiss market experiences similar realities but its development seems less immediate / advanced. This offers more freedom to operate and opportunity to reimagine legal services. Therefore I propose to organize workshops with representatives from firms, corporate clients and alternative service providers to reimagine the legal market with focus on key strategic choices.

Firms / alternative providers

- Where to play
 - What legal verticals
 - Geography / industry
 - What type of work e.g. bet the company, routine
- How to win
 - Innovate talent, digital, revenue model
 - Sell e.g. services / products
 - Operate e.g. make vs. buy / partner

Corporate clients

- Where to play
 - Link to enterprise priorities / strategy
 - Align with other functions
- How to win
 - Sourcing / collaboration strategies
 - Service delivery models
 - Focus on innovation: specialist and strategic advice
 - Focus on operational excellence: self-service and managed services

⁴ <https://www.forbes.com/sites/markcohen1/2019/01/07/a-banner-year-for-law-firms-a-different-take-on-the-2019-citi-report/#7fccff1b8ed3>

⁵ <https://www.privatebank.citibank.com/home/fresh-insight/citi-hildebrandt-clientadvisory.html>