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The Legal Market in 2020

A Special Report from the Consultants at Altman Weil

Many firms struggle to plan for the next three years — or for this year, for that matter — due to the accelerated pace of change in the legal market, the decline in the U.S. economy, changing demographics in the profession, the impact of political, regulatory and legislative changes, increasing client demands and other factors. Despite these shifting sands, thought leaders in the legal industry took on the daunting task of looking beyond the typical three to five year planning horizon and analyzing what law firms might expect in the next decade. The *Legal Transformation Study – Your 2020 Vision of the Future*, was conducted by Decision Strategies International (DSI) and sponsored by Altman Weil, Jomati and others. The study was conducted with the input of legal industry strategists and stakeholders, including managing partners, general counsel, consultants and legal vendors. The study is an attempt to look beyond day-to-day concerns to potential futures. As Tom Sager, Vice President and Assistant General Counsel of DuPont, says in his introduction to the study, “We must believe that our own blind spots and myopic mindsets are the biggest threats to our survival and success.”

The Implications

Think of leaders in other industries who ignored what was before them, e.g., music industry giants, who after three decades of change in technology and product delivery, refused to acknowledge the power of the

Internet in delivery and pricing, to their apparent demise. Examples abound of industry behemoths who were either oblivious to or chose to ignore rising trends — think IBM with mini and microcomputers; Levi Strauss with designer jeans; United Airlines and UPS with overnight package delivery; Keds and Converse with running shoes; Swiss watchmakers and Timex with digital watches. The list goes on and on. One only has to look at Encyclopedia Britannica to see an industry giant who fell much more quickly than it rose because it failed to understand the changing needs of its customers (why would anyone want all of the information now published in large, heavy books to be delivered to them in a neatly packaged CD?).

Think back to your own law practice in 1996 — the same 12-year timeline proposed by the study. At the time, could you have envisioned numerous global law firms with thousands of lawyers? Clients who would require services in Hong Kong and Dubai? The outsourcing of legal services to India? Long-standing legal institutions no longer

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in existence? Non-lawyer professionals driving law firm strategy? Being available 24/7 to your clients via cell phones and PDAs? New lawyers not eager for the prospect of partnership? Women accounting for a majority of law school graduates? Diversity being a key factor in outside counsel selection? Conducting firm meetings via videoconference? First-year lawyers earning nearly \$200,000 in total compensation? Typing your own letters? Now consider that change is accelerating — and ask yourself what the next 12 years will look like.

Scenario Planning

To conduct this landmark study, DSI utilized scenario planning. Unlike traditional strategic planning which uses historical analysis and forecasting to develop strategies for a limited horizon (typically three to five years), scenario planning starts with an end date farther in the future and then utilizes a complex analysis of trends and uncertainties to develop plausible descriptions of future scenarios.

While the methodology is widely accepted in other industries, in the legal industry, filled with very bright, highly skeptical, change-averse professionals, this method has been slow to be embraced. Legal leaders, bound by precedent not only in their substantive practice, but also in their organizational cultures, have had difficulty in moving their “followers” into future-based thinking. Some firms have fared well. Many, however, have survived despite themselves. In the complex, global business world in which law firms now find themselves, relying on precedent, even if it is simply the previous year’s performance, to develop strategy can be dangerous. (Consider, for example, Brobeck; Altheimer & Gray; Coudert; etc.)

While many firms continue to be focused only on the short-term production of revenues, per partner income and fee production, forward-thinking law firms can utilize the study to check the resilience of their current strategies against a range of potential market changes and conditions. They can also use the study to create new strategies, based on a thoughtful analysis of potential and likely changes in the industry.

Trends and Uncertainties

After hundreds of interviews with stakeholders and hundreds of hours of research, Legal Transformation Study authors, DSI, a team of distinguished Wharton alums and experienced business experts, developed four scenarios for the legal market in 2020. The scenarios are based on external forces including societal, technological, economic and environmental. The scenarios are based on 11 important trends, and ten uncertainties facing law firms and corporations.

The trends identified by the study were:

Trends	
1	Gen X and Gen Y lawyers seeking work/life balance
2	Rise in the demand for diversity in the legal profession
3	Increased application of technology
4	Increase of Internet-based service delivery
5	Standardization of legal information
6	Unbundling, outsourcing, and bifurcation of legal services into higher- and lower-end offerings.
7	Legal practice globalization
8	Increased demand for specialized experts due to more knowledge-based legal services
9	Non-lawyer business managers; enhanced roles in law firms and corporate legal departments
10	Increased authority of corporate management (i.e., strategic sourcing departments) in the legal purchasing decision
11	Economic and political/regulatory forces increasing demand for legal work

The uncertainties for the year 2020 identified by the study were:

Uncertainties	
1	What will the regulatory and compliance environments be like?
2	What will the legal services delivery model be like?
3	What will be the state of the global economy?
4	To what extent will non-attorney legal service competition move upstream?
5	Will the industry face a skill shortage?
6	How focused will third parties be on costs?
7	Will the growth of privacy/data security issues lead to increased litigation?
8	Which litigation model will prevail globally?
9	Will non-governmental organizations (NGOs) be shapers and influencers of legal policies and regulation?
10	What will be the level of penetration of smart technologies that mimic selective processes, actions and expertise of attorneys?

The Scenarios

The scenarios outlined in the study are all plausible, although some may be more likely than others. None of them is meant to be accepted wholly. The reality is that an understanding of *all* the likely scenarios and the questions that arise from them are necessary to assess how prepared or ill-prepared your firm or law department is for the future — whatever the future may hold.

Blue-Chip Mega-Mania

For example, the first scenario (“Blue-Chip Mega-Mania”) envisions a world where the consolidation in the legal market has continued. Large and midsized firms that exist today either have been assimilated into global giants or no longer exist. General counsel struggle to ensure consistency in the delivery of legal services across a global landscape where the world remains distinct, based on geography, with local jurisdictions retaining prominence through legislation and regulation. Work/life balance is a thing of the past in this hyper-competitive world of global travel. The legal industry is, in a way, where accounting firms and consulting firms find themselves today. In considering this scenario, the following questions might seem apt:

- How will your law firm fare if mega-firms gain even more control of the legal market?
- What impact will mega-firms have on your law department’s bargaining power?
- How can your law firm or law department ensure effective, consistent quality of work product and services in different jurisdictions throughout the world?

Expertopia

In this second scenario, as the regulatory regimes of independent jurisdictions have remained intact,

mega-firms have failed to retain their dominance. The world’s distinct economic blocs survive, and understanding the intricacies of each area of expertise, including geographic idiosyncrasies, has become tantamount to full-service global reach. Credible means of verifying lawyer expertise have been established, and niche firms defy geographic barriers. In considering this scenario, one might ask the following questions:

- For large-firm lawyers, how will you survive in a post-mega-firm world?
- For small and midsize firms, what can you do now to establish very specialized areas of expertise so that you will be competitive with former mega-firm lawyers?
- How ready and willing is your law department to manage numerous outside firms in a world with little convergence?
- Are you ready to trust technology to verify lawyer expertise and experience in the selection process?

Emarketplace

In the third scenario, deregulation has occurred. As America once unified its system of commercial laws, so has the world, and jurisdictional predominance is lost. So too are lawyer credentials, as numerous types of legal service providers now compete with traditional law firms. Process automation has aided general counsel and content aggregators in utilizing technology to provide a constant stream of relevant data to company lawyers. Utilizing fiber optic and other technology, lawyers can work seamlessly from home or any location. In considering this scenario, the following questions could be asked:

- Law firms, are you prepared for additional competition from non-traditional service providers?

- What will you do when there are no more jurisdictional barriers preventing you from practicing in any jurisdiction, or any lawyer from practicing in yours?
- Are general counsel ready to run “virtual” law departments?
- Does your law department have a solid understanding of content aggregators and value-added content provider business models?

Technolaw

In the fourth scenario, the world is in an era of peace. Conflicts and jurisdictional restrictions are a thing of the past — electronic Chinese walls exist now. With technology, mega-firms thrive in a world where the billable hour is dead. Outsourcing is not even a term, as it is so prevalent in legal practice. New pricing models have been incorporated, and legal content is easily reproduced, so law school enrollments are down, as the risk of not becoming one of the elite is too great. In considering this scenario, the following questions might be appropriate:

- Is your law firm prepared to develop and deliver new products as well as services?
- Are you integrating non-lawyer managers and tech-savvy lawyers into your business?
- Are your law department lawyers experts at outsourcing services?
- Does your law department have a sufficient understanding of its legal and business processes?

Conclusion

For each law firm, the choice, it seems, is to continue to function as is, hoping that your firm’s history of surviving despite itself continues, or to assess future strategies based on observable trends and realistic uncertainties in the global market —

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whether the firm is in Manhattan or Omaha. For law departments, the choices include whether to continue to accept the services of an industry that lags significantly behind your own, or whether to demand the change required by your client's business via a method of service delivery that is not only achievable but more affordable.

The pace of change in the world is accelerating on all levels — econom-

ically, politically, socially, and culturally. The Legal Transformation Study presents the impending changes and their implications. Are you ready?

Note: to learn more about the *Legal Transformation Study* or to purchase a copy, go to our web site at www.altmanweil.com/LTS.