



## Market Disruptors: Past, Present & Future

We hear every day about the New Normal and the impact of the global financial crisis on the legal industry. While we have certainly seen significant changes in the last 6 years, in reality the legal industry has been changing for the last 3 decades, and will continue to evolve. Some of the changes are driven by single events that have a transformative effect on the industry while others are more incremental. It is not always easy to recognize the significance of those big events immediately. Looking back at history and a sample of these events and market forces, however, gives us some perspective on the impact of these and perhaps provides a framework for thinking about future disruptors.

### Historical Disruptors

One landmark event whose impact remains undiminished was the publication of the AmLaw 100 in 1987. While there were occasional legal industry surveys prior to this date there was limited insight into the economics of specific firms. Today financial information is available on the 200 highest grossing US firms, the 100 highest grossing global firms, the 200 highest grossing UK firms, and more. In the UK LLPs are also required to file their financial reports with Companies House and these then become publicly available. While the initial surveys were viewed with interest, it is not clear that many anticipated the profound impact that increased transparency into firm economics would have on the legal industry. For better or worse it marked the start of the era of law firms as businesses and increased the emphasis on the profits generated by law firms. Some would argue that it fueled the era of lateral movement in firms.

Revenue and profits have grown dramatically since the 1987 publication – Profits per Equity Partner in the AmLaw 100 have increased fourfold in the last 27 years – from an average of \$325,000 in 1987 to over \$1.5 million in 2014. Of course some of that increase is attributable to inflation and, at least until recently, increased demand for legal services. But much of that growth can be attributed to an increased focus on the bottom line in firms and a reshaping of the structure of partnerships including the dramatic growth in the number of income (non-equity) partners, among other things.

A second, more subtle, disruptor was the publication of practice rankings. While the AmLaw 100 and other financial rankings provided a window into the business of law, the practice rankings provided a window into the practice of law. This started with the Chambers Guides and the Legal 500 and has evolved into a multitude of different rankings. Chambers is well established in the UK market, is increasingly relevant in the US market and also covers Europe, Latin America, and Asia Pacific. The rankings provide in-house counsel with a perspective on the perceived leaders in a range of practice areas by market, nationally and globally. Some in-house counsel use the rankings as part of their fact finding when seeking experienced outside counsel, and they are increasingly used as a way to validate a hiring decision. This increased access to information, while imperfect, is far more comprehensive than the referrals or colleague recommendations that were all that were available previously and contributes to the overall increase in the sophistication of the outside counsel hiring process. If we look to the experience of other industries we might see this evolve to unfiltered client driven rating systems, not unlike Yelp, TripAdvisor, or other customer focused rating sites.

Unquestionably these rankings and perceptions of the relative strength of firms and practices have contributed to the segmentation of the legal industry. Firms with highly ranked practices tend to attract the top tier work, often at higher average rates. This in turn attracts the top lawyers to the practice/firm, further solidifying the position of the practice. While the rankings typically do include some smaller and midsize firms overall they tend to favor larger firms and this has certainly contributed to some of the consolidation in the legal market.

### Future Disruptors

What are the current or future disruptors that, with the benefit of hindsight, we might look back on 10-20 years from now and marvel at their impact on the legal industry? Of course the global financial crisis has had a significant impact on the legal industry particularly in terms of reduced or flat demand for legal services from outside law firms, pressure on the pricing of

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legal services, and the resultant impact on profitability, cost structure and the like. However, to some extent it was an event which created more of a tipping point for forces that existed before the autumn of 2008 as clients were already frustrated with the cost of legal services and the perception of outside rewards for outside lawyers (again, thanks to the financial transparency commented on above). We expect that clients will continue to focus on reducing the cost of most legal services and firms will need to rethink the approach to delivering legal services to remain competitive.

One likely disruptor could be the more widespread introduction of Alternative Business Structures and outside investment to the legal market - already allowed in a number of jurisdictions such as the UK and Australia. While not yet a factor in the US market, it is not hard to imagine that it might be possible at some point in the next decade or so. The development of new models for providing legal services that aren't based on the traditional partnership model, coupled with the availability of outside investment and the introduction of long term financial incentives may lead, among many things, to a fundamental restructuring of the career paths available to lawyers.

Another might be the introduction, as has happened in other industries such as travel, of the self-serve model. People increasingly expect to exclude the middle man and get instant answers to questions. While existing applications of the self-serve model in legal services have initially been on the individual consumer side (e.g. LegalZoom), we are already seeing corporate clients expecting answers to basic questions quickly and cheaply. Some firms have been developing products and apps that provide basic forms and assessments on an inexpensive or subscription basis. We anticipate future versions of the self-serve model to encompass a broader array of legal needs and offer more sophisticated purchasers of legal services access to simplified solutions to more complex legal problems. As this increases, it puts a premium on leveraging technology more than traditional associate talent. Over time this may drive down the traditional leverage in firms.

While change is almost invariably unsettling, firms who are best positioned to succeed long term are those who anticipate it best and think about how to adapt to and capitalize on the opportunities it creates.

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