



Making the Business Case for Innovation

This is the first in a series of Insights on innovation. In Part 1, we seek to define innovation in the context of law firms and argue that innovation is an imperative that cannot be ignored by law firms. In future Insights, we will explore examples of past innovations and discuss ways in which law firms can become better innovators.

Steve Jobs once observed, “Innovation distinguishes between a leader and a follower.”

Until recently, law firms have seen little need to innovate. For much of their history, law firms have grown and prospered by focusing on what they know best - the practice of law. Changes within law firms tended to occur slowly and often only in reaction to other firms having already adopted the change. Of course, those days are long gone, and while most law firms today recognize that it takes more than being a great lawyer to be a market leader, and a follower strategy isn't necessarily a winning one, only a limited number of firms are seriously innovating.

We do work with and observe leadership teams at firms around the world contemplating, to varying degrees, innovation in the context of strategic and operational planning. However, in our experience, regular conversations among partners about opportunities to innovate in the practice of law or client service delivery occur far less frequently, and the term innovation is still met with a fair degree of skepticism by many partnerships. Perhaps the path for opening the innovation discussion to broader groups of partners involves first defining what is meant by innovation in law firms, and then seeking to offer the business rationale for it.

What does innovation mean in the context of law firms?

In the law firm world, innovation translates to opportunities to leverage brand, develop new products or services, redesign client service delivery processes, or restructure internal operations. It involves looking at old problems in new ways, thinking about and doing things differently, adopting new approaches, or developing new opportunities. Although many of the examples of innovation in law firms don't necessarily involve dramatic change, they do represent a new way of doing things within the traditional law firm model.

Firms most successful at innovation recognize that innovation must be based on a deep understanding of client needs. It also must deliver superior value – meaning it must go beyond what is already being done. All of this translates into firms focusing on the needs and wants of their clients and basing innovation on what clients value most. Whatever form it takes, innovation represents doing something differently, and when successful, results in long range, strategic impact on the firm and value delivered to the firm's clients.

The business case for innovation: why should law firms innovate?

The rationale for serious attention to innovation can be considered within three primary contexts: clients, non-traditional competitors or substitutes and innovation from within the profession leading to differentiation.

Client Pressures: Clients are more discriminating today than ever before in purchasing legal services, developing a broader understanding of their own legal requirements and a more sophisticated approach to managing legal service providers and their fees. This has led to intensified client pressure on billing rates, increasing client demands for discounts and write offs, client refusal to pay for certain types of staffing and services (e.g. paralegal and junior associate time), client constraints on staffing and other client driven pressures on law firm pricing and business models. Innovation offers firms an opportunity to shift from a reactive mode – simply waiting for the next series of client pressures on margin – to a proactive approach to identifying the staffing, pricing and operational models which will allow firms to preserve profitability while serving clients more efficiently.

Fairfax INSIGHTS

Rise of Substitutes: The high cost of legal services has driven clients to seek lower cost alternatives, and over the past 15 years, a range of substitutes to the traditional law firm model have emerged (or re-emerged) from technology to accounting firms. Technology's role as a substitute to the traditional law firm takes many forms. From the advances in legal review technologies like predictive coding to the development of more sophisticated online research capabilities in law departments and improved forms software, we see a range of ways in which technology is offering clients substitutes for their law firms (For a further and humorous discussion on this topic, see *The Economist* article, "[Technology Offers 50 Ways to Leave your Lawyer](#)").

Other examples of substitutes include legal process outsourcers (LPOs) and virtual law firms. LPOs continue to grow and today reportedly represents over a \$1billion industry. Long known for their work in legal research, discovery, and M&A due diligence, LPOs are leveraging technology to move up the food chain and provide higher value services. Virtual firms have also gained traction since the launch of Woolley & Co. in the UK in 1996. Today, Axiom represents the largest of these (with over 550 lawyers), and clients are increasingly mandating that law firms outsource select segments of work within a given matter to Axiom or others to further reduce the costs of the matter. And finally, accounting firms are re-emerging as legal service providers, particularly outside the US. PwC has said it is aiming for \$1 billion in global legal revenue over the next few years. E&Y has 1100 lawyers in 52 jurisdictions.

Differentiation & Primary Competitor Innovation: In addition to its value in combating market pressures, innovation also offers law firms a unique opportunity for differentiation. Most law firms look incredibly similar. Our research and client interviews indicate that clients view many mid-size and large firms as highly comparable across a range of service characteristics; pricing, geography, types of services, and even quality. By seeking to innovate, firms have the opportunity to step away from the median - to approach their clients and their business in a new and different way, which will ultimately distinguish them from their primary competitors such that they become more attractive to both clients and talent.

Interestingly, as more firms pursue opportunities to innovate in service delivery and the practice of law, follower firms will be forced to adopt change at a more rapid pace in order to maintain market share. While these firms are unlikely to benefit from differentiation advantages associated with being an early innovator, they will run the risk that failing to adopt the changes other firms have already made will threaten their ability to retain clients and talent.

Innovation is a critical topic in today's law firm environment. It offers firms an opportunity to remain competitive or even out-compete the market in terms of securing both clients and resources. Innovation also offers law firms a viable method for differentiating themselves from their peers and primary competitors – an opportunity to overcome the 'sameness' which has plagued law firms for decades. Innovation in law firms isn't without its challenges (we will also cover those in a future Insight), however, it can be done. In the coming years, we expect to see a growing number of firms aggressively seeking innovation, and through innovation establish a competitive advantage. Innovation represents the next great and relatively untapped frontier for firms looking to expand their businesses and outperform their competitors.

London

Principal: Giles Rubens
giles.rubens@fairfaxassociates.com
44 (0)20 3633 3943

Washington

Principal: Lisa Smith
lisa.smith@fairfaxassociates.com
202.365.4180

California

Principal: Kristin Stark
kristin.stark@fairfaxassociates.com
415.215.9294