



The Potential Impact of Generative AI on Law Firms

While Fairfax is not a technology consulting firm, recent advances in generative artificial intelligence (AI) merit strategic discussion, and law firms must be prepared to respond to disruption to certain segments of the practice of law. The potential for AI is not a new topic, but the introduction of ChatGPT, with its easy-to-use interface, has certainly accelerated the awareness of how it might be applied in the law firm context.

The legal industry has experienced past technological disruption, and we have observed a pattern in law firms' initial reactions to those disruptors – skepticism, resistance, denial – followed by reluctant adoption. We are seeing some skepticism and denial now, although there are also many lawyers and firms embracing and investing in AI to see how it might benefit clients. The potential for AI to take hold is on a faster trajectory than other disruptors, and like some other innovations, is likely to be driven in part by client demand for efficiency and innovation.

So how might generative AI impact law firm practice? We asked Chat GPT what impact generative AI will have on the practice of large law firms and which services of high-end firms are most likely to be impacted by AI. The answer was:

“Generative AI technologies such as Chat GPT have the potential to significantly impact the practice of large law firms in a number of ways. Some of the key impacts may include:

- 1. Document automation: AI can be used to automate the drafting of legal documents such as contracts, agreements, and briefs. This can save significant time and reduce the need for junior lawyers to spend time on routine tasks, allowing them to focus on more complex legal work.*
- 2. Legal research: AI can assist with legal research by quickly analyzing vast amounts of case law and other legal materials to identify relevant information and insights.*
- 3. Predictive analytics: AI can be used to analyze data and make predictions about outcomes in legal cases, such as the likelihood of success in litigation.*
- 4. Contract review and analysis: AI can be used to quickly review and analyze large volumes of contracts to identify potential risks or opportunities.*
- 5. Due diligence: AI can assist with due diligence in mergers and acquisitions by quickly reviewing large volumes of documents to identify potential issues.*

The services of high-end law firms that are most likely to be impacted by AI are those that involve routine, repetitive tasks such as document review and analysis, contract drafting, and legal research. These tasks are often time-consuming and can be automated using AI, freeing up lawyers to focus on more complex and high-value work. However, it is important to note that AI is not likely to replace lawyers entirely, as there will always be a need for human expertise and judgement in the practice of law.”

These are all realistic applications of AI in the near term, and there are likely more in the longer term. While the current focus of attention is on Chat GPT, think about a Chat GPT type interface with a legal focused back end, like CoCounsel or Harvey. That is what is likely to be the game changer, and these are already in place in some firms.

Impact on Firm Strategy and Structure

Generative AI raises questions for firms about technology investment and risk management, but also has the potential to impact the structure and profitability of firms. Key impact areas include:

Staffing Needs. Thanks to e-discovery, we have already evolved from junior associates spending days poring over boxes of paper files. But to the extent that more of the routine work, often handled by associates and paralegals, is replaced by AI, there will be an impact on the number of associates and paralegals required to deliver services. Of course, lawyers will still need to review the output, but the time will be lower and the experience level required may be higher than it is today. Ultimately this will reshape the leverage model of law firms, requiring firms to think differently about associate classes and developing future partner talent.

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On the staff side, an increased reliance on AI will put a premium on skilled technology staff to support it.

Pricing. As firms adopt AI and replace human tasks with technology, the hourly rate model will again be under pressure. This will likely accelerate a move to alternative fee arrangements, but firms may also have to accept that clients will not be willing to pay the same price they are paying today and will expect to get the benefit of efficiency, particularly for work that is more routine in nature.

We again turned to Chat GPT to ask how AI will impact the pricing for large law firms. The answer was:

1. *“Cost savings: One potential impact of AI is that it can help to reduce the cost of providing certain legal services, such as document review, legal research, and contract analysis. This could allow law firms to offer these services at a lower cost, or to offer more competitive pricing for these services.*
2. *Efficiency gains: AI can also help to improve the efficiency of legal service delivery, allowing lawyers to complete tasks more quickly and accurately. This could lead to faster turnaround times for clients and more efficient use of lawyers' time, which may be reflected in lower pricing.*
3. *Value-based pricing: As AI becomes more prevalent in the legal industry, there may be an opportunity for law firms to shift towards value-based pricing models, where the price of legal services is based on the value delivered to the client rather than the time spent on a task. This could allow law firms to capture more of the value they create for clients, while also potentially reducing the pressure to bill by the hour.*
4. *Differentiation: Law firms that are early adopters of AI may be able to differentiate themselves in the market by offering more innovative and efficient services. This could allow them to command higher prices for their services, as clients may be willing to pay a premium for these benefits.”*

Of course, there will continue to be legal work less impacted by AI because it is heavily based on expertise and judgment, and it will continue to demand high rates/prices. But that work may be less leveraged, and firms may want to consider alternative pricing as a way to capture more value for that work than hourly billing allows.

Strategic Cannibalization. Over time, generative AI will reshape the revenue stream and profit drivers of law firms. One of the common responses to any push to efficiency is to worry about giving up billable hours and revenue. Generative AI will certainly reduce billable hours. But firms need to recognize that they need to be willing to cannibalize their existing business because if they don't, someone else will. Holding on to short term revenue at the expense of long-term client relationships will not be a successful strategy. Kodak and Blackberry are two companies that were not willing to cannibalize their core business, and it opened the door for new competitors to take over market share in the emerging aspects of their market segments. Instead of trying to preserve the current billable hour model for routine services, firms must invest in developing the tools, capabilities, and staffing needed to harness the revenue and profitability associated with generative AI. Firms also need to identify ways to expand their more complex areas of expertise and specialization – ones which are less likely to be as impacted by generative AI.

Not For the final word, we again turned to Chat GPT to ask what the risks of being slow to adopt AI are:

1. *“Falling behind competitors: Law firms that are slow to adopt AI may find themselves falling behind competitors who are able to offer more efficient and innovative services using AI technologies.*
2. *Higher costs: Firms that are slow to adopt AI may find themselves at a disadvantage in terms of efficiency and cost-effectiveness, which could put them at a disadvantage when competing for business.*
3. *Missed opportunities: Firms that are slow to adopt AI may miss out on opportunities to improve their services and create new revenue streams using AI technologies.”*

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