



INSIDE E-DISCOVERY & BEYOND:

Lessons for Law Firms

CONTENTS

Step Up or Step Aside	1
Driver of Client Discontent	2
Opportunities for Improvement	3
Conclusion	8

Earlier this year, in our report, [Navigating Legal Digital Disruption](#), we explored the ways in which digital disruption is impacting the roles and responsibilities of in-house legal professionals.

These revolutionary changes also have significant implications for corporate counsel's outside law firms. As their clients' needs, attitudes and behaviors shift, law firms must adapt and evolve their value propositions and operating models.

Based on the opinions and insights of more than 100 senior in-house counsel, here are our top takeaways for law firms.



Step Up or Step Aside

Law firm disruption is a bit like the boy who cried wolf. For years, industry experts have foretold the end of the legal industry as we know it, only for those doomsday predictions to fall short. Even in the wake of the recession, when some of the biggest law firms in the world shuttered their doors, change has moved at a slow, reluctant crawl.

Perhaps, for the legal industry, an Amazon-esque takeover isn't in the cards. But even if the Amazon of Law never comes along, complacency is no less a death sentence. Law firms can't afford to forget that their clients pay the bills and ultimately set the rules. If clients don't see value, the firms will be transitioned out.

According to [our survey](#), client expectations are changing. Corporate counsel face more demands than ever before and, in turn, demand more from their law firms. Corporate legal departments have begun to embrace technology—slower than other corporate functions, but faster and more willingly than their outside counsel peers. Meanwhile, in-house counsel have access to more alternative options to traditional law firms than ever before, and often at a much more attractive price.

For outside counsel, this boils down to one thing: Shape up or be shipped out.

36% of corporate counsel are considering replacing their law firms in the next **12 months.**



Drivers of Client Discontent

What might be driving legal departments' desire to insource more work or seek alternative options to law firms? Two major factors are the increasing commoditization and automation of legal tasks and growing competition from alternative legal service providers (ALSPs).

Increasing Commoditization & Automation of Legal Tasks:

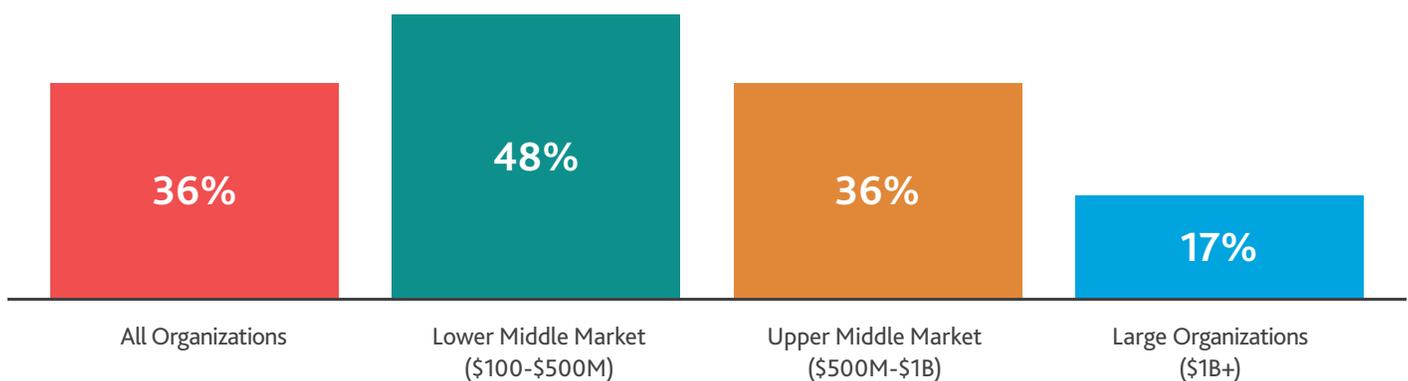
One trend that's unavoidable is the commoditization and automation of many legal tasks traditionally done by law firms. Manual efforts have not been replaced completely by artificial intelligence (AI) and always will have some role. Nonetheless, the forces behind widespread digitization—a result of oversupply, industry consolidation and faster, cheaper alternatives—have already started to spell huge ramifications for traditional firms that have not yet begun to digitally transform. Law firms, as a result, are failing to keep up with their clients.

The proliferation of automation has created a new *modus operandi* for general counsel, in which they are able—and perhaps prefer—to do more themselves with the help of technology rather than outsource the work. An increased focus on enterprise risk management across the entire organization—a process that requires in-depth knowledge and active participation in the company—is perhaps another reason why many organizations may be keen to do more themselves.

Increasing Competition from ALSPs: Besides insourcing their work, corporate counsel now have a growing number of options to choose from other than law firms—including the services of ALSPs, services that can be more affordable, technologically friendly and accessible than those offered by traditional law firms.

In fact, more than a third (36%) of in-house counsel are considering leveraging an ALSP in the next 12 months. This rises to nearly half (48%) among lower middle market organizations.

ARE YOU CONSIDERING LEVERAGING AN ALSP IN THE NEXT 12 MONTHS?



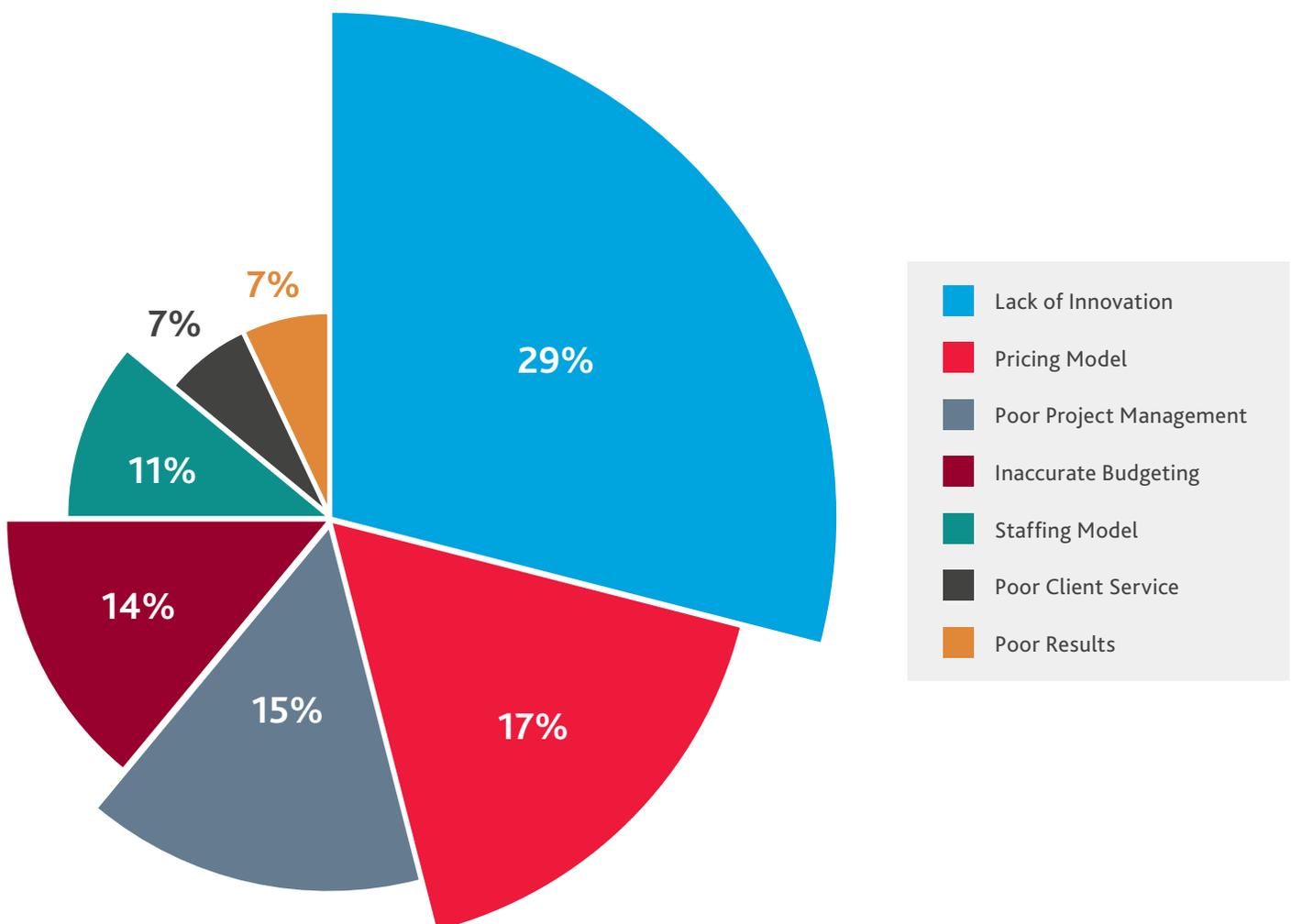
This trend won't be slowing down anytime soon: ALSPs won \$10.7 billion in services last year, according to a 2018 Thomson Reuters Legal Executive Institute study. The overall industry is projected to grow by 25% over the next several years.

Opportunities for Improvement

In the face of these challenges, what can law firms do to better showcase their values and win more business?

Fortunately, there are many steps outside counsel can take to prove their worth. These include fostering innovation, developing more competitive pricing models and focusing on cultivating project management skills.

WHAT IS YOUR BIGGEST COMPLAINT ABOUT YOUR OUTSIDE COUNSEL?

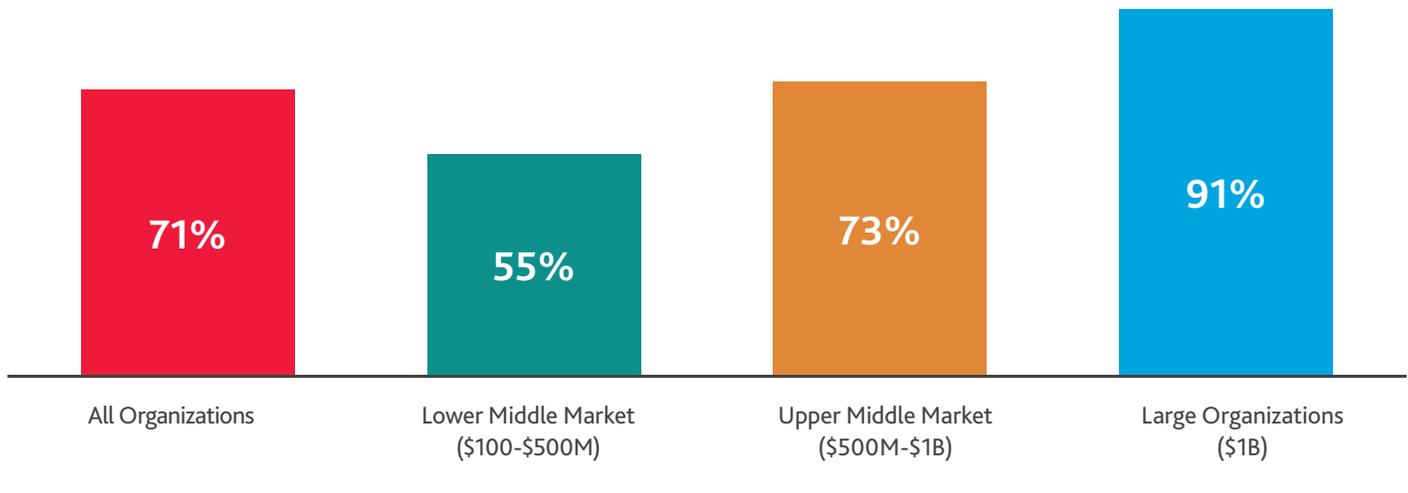


FOSTERING INNOVATION

More than a quarter (29%) of corporate counsel cite a lack of innovation as a top concern they have about their current outside counsel. While this may seem discouraging, it actually can be the catalyst law firms need to embark on a path to meaningful digital transformation.

Nearly three-fourths (71%) of corporate legal departments expect to leverage technology to streamline their legal operations sometime over the next year. This figure rises to 91% for large organizations—meaning law firms have no choice but to keep up.

ARE YOU PLANNING ON LEVERAGING TECHNOLOGY AND/OR BEST PRACTICES TO STREAMLINE LEGAL OPERATIONS IN THE NEXT 12 MONTHS?



TO FOSTER INNOVATION, LAW FIRMS CAN:

- ▶ **Develop one or more specializations in emerging technology legal areas, such as privacy and data protection or digital tax law.** Cybersecurity, privacy and data protection have become two of the hottest legal practice areas in the past several years. With the General Data Protection Regulation in effect and a host of other privacy rules and regulations here or looming, law firms that develop specialties in these areas can expect to find soaring demand for their services—especially if the firms fold automation in as part of those services.
- ▶ **Enhance service delivery via automation and process improvements.** With clients increasingly focused on service delivery, law firms need to figure out how they can better meet their clients' needs—whether that's by building a more user-friendly client portal or by using automation to speed up their delivery.
- ▶ **Improve case and knowledge management capabilities from inception to conclusion.** Why re-invent the wheel when you already have so much to work with? The importance of information and data management cannot be stressed enough in knowledge sharing. Spending time to build up a robust intranet or knowledge library can be invaluable to retaining and sharing institutional knowledge.
- ▶ **Create new services or alternative service models.** This can range from introducing AI-driven services to expanding into underserved markets, or developing automated low-overhead solutions to diversify revenue.
- ▶ **Establish partnerships with industry providers.** Creating separate ventures with industry providers is becoming an increasingly common practice among many law firms. Not only can this help firms distinguish themselves as innovators, but it also creates additional revenue streams.

Thirty percent of the biggest law firms now have someone dedicated to fostering legal innovation, according to a 2018 Aderant Survey. Nevertheless, that isn't nearly enough. Innovation must be both a top-down and a bottom-up approach, evangelized and championed by leaders who take it seriously and practiced by everyone from staff to associates to partner.

BENCHMARK YOURSELF: ARE YOU PROVIDING THESE VALUE-ADDS TO YOUR CLIENTS?

	All Corporate Counsel	\$100M- Under \$500M	\$500M- Under \$1B	\$1B+
Online Client Portal	61%	67%	55%	65%
Knowledge Management System	56%	55%	52%	65%
E-Discovery Management	55%	33%	66%	65%
Alternative Fees/ Billing Structures	57%	61%	52%	61%
Client Education	66%	64%	73%	57%

BIG FIRMS SPONSORING INNOVATION INITIATIVES

A group of large and medium law firms are leading the way when it comes to innovation. While not a comprehensive list, here are a few notable examples:

- ▶ BrownGreer's MDL Centrality Platform: [BrownGreer LLP's](#) program helps bring clarity and organization to large-scale mass tort cases. MDL Centrality allows the parties in these cases to exchange plaintiff-specific documents and information in a single, online portal, eliminating the need to transfer files by email or file-sharing software. MDL Centrality automatically aggregates plaintiff data and builds a large-scale database that contains detailed information about each plaintiff in the litigation. MDL Centrality also serves as a central informational hub for the litigation, with document repositories for key documents, a keyword-searchable online docket, case calendars, automated email notifications, real time reports and other customized litigation management features.
- ▶ Holland & Knight's pro bono initiative: [Holland & Knight LLP](#) recently announced the launch of a new innovative platform, developed in collaboration with legal tech startup Paladin. The goal is to better match the firm's attorneys and paralegals with pro bono opportunities, increasing access to justice for organizations and people in need.
- ▶ King & Spalding's cross-practice Automotive: [King & Spalding LLP](#) is leveraging the firm's collaborative culture to provide a platform for approximately 120 lawyers from more than a dozen practice areas (including environmental, regulatory, trial, global disputes, corporate, finance and intellectual property) to identify trends and pressing issues facing the firm's clients in the automotive, autonomous vehicle and technology industries. This multi-disciplinary approach "sees around the corners" of complex legal and business issues and provides clients with a holistic perspective and comprehensive solutions.
- ▶ Kobre & Kim versus 'Bad Bots' initiative: [Kobre & Kim LLP](#) develops strategies under federal and state laws in which companies with a digital footprint can both protect themselves and combat malicious activity from unauthorized bots. The firm developed this offering after witnessing companies having their vulnerabilities exploited.
- ▶ Sidley Innovation Labs and enterprise-wide initiatives: [Sidley Austin LLP](#) created SidleyLabs as a technology development incubator for the firm to experiment with and perform proof of concepts on innovative AI and cognitive computing technologies in an extremely agile and secure way. Over the past year, SidleyLabs has created Immigration Dashboard, Anti-Dumping Calculator and Cyber Breach Tracker—proprietary tools for litigation, regulatory and transactional areas of law. Sidley's enterprise-wide innovation initiatives increase lawyer efficiency and quality through custom Practice Collaboration Sites and an AI-based Enterprise Search platform (Illuminate) that links data between the firm's document management system (iManage), experience management system (Foundation), people management system (PeopleSoft) and accounting system (Elite), to bring back relevant information to very complex searches.

"Law firms need to get their innovation house in order. They should be looking to incorporate new technologies so that they can compete in the ways their clients need and want. With tools like predictive modeling, data analytics, artificial intelligence, and automation, operational efficiency by way of innovation is an achievable aim. Larger firms around the world already are investing seed money and starting incubators to figure out how to operate more effectively and efficiently to do higher quality work faster and at a more competitive rate."

GEORGE SOCHA
EDRM Co-Founder and Managing Director,
Forensic Technology Services



DEVELOPING COMPETITIVE PRICING MODELS

Seventeen percent of corporate counsel reported feeling disgruntled with their law firms' current fee arrangements. Some of this can be attributed to broader reasons—such as greater general scrutiny of legal fees post-recession. To maintain high client satisfaction, law firms need to focus more on creating win-win situations than on pursuing zero-sum games.

To improve pricing, law firms can:

- ▶ Focus on producing more accurate pricing, with fewer surprise costs and/or unanticipated billable hours. Inaccurate budgeting was ranked by 14% of corporate counsel as their top complaint about their outside counsel. Fortunately, this is where predictive analytics come in handy. By examining past billings to predict future costs, firms can provide clients with more accurate quotes.
- ▶ Create a virtual law firm. Virtual firms—including ones where existing firms as well as individual lawyers join forces—have a key advantage: They can operate digitally (for example via cloud technology) without needing to maintain a “bricks and mortar” office. This can translate into lower overhead costs as well as greater flexibility.
- ▶ Propose alternative pricing models or fee arrangements. Alternative fee arrangements (AFAs) have finally begun to pick up speed. In response, many law firms have started offering AFAs to compete with the lower prices offered by small firms who can handle larger cases with the help of technology. A few of the most common types of AFAs include fixed fees or caps, contingency or success fees (whole or partial) and retainers and subscriptions.

OPTIMIZING PROJECT MANAGEMENT

Poor project management is a top concern for 15% of corporate counsel, who wish their firms would maintain clarity, flexibility, organization, transparency and an adherence to timelines. Corporate counsel are less inclined to tolerate higher prices resulting from inefficiencies, unmet expectations for collaboration and communication, overcapacity, or outdated processes.

To improve their project management abilities, law firms can:

- ▶ Optimize staffing models. Eleven percent of corporate counsel are unhappy with the current staffing models of their outside counsel. Some of this discontent comes from the natural reluctance to pay more than is deemed necessary—including support for transitioning positions, onboarding, or even associates' vs. partners' time. While some of this may be unavoidable, firms should draw on technological tools that help them optimize their staff's roles and time.
- ▶ Expand information sharing and reporting.
- ▶ Invest in project management tools (i.e., digital project management).
- ▶ Rethink processes for a digital world (i.e. adopt agile, lean principles).
- ▶ Consider hiring project managers or training paralegals in project management skills to fill current gaps.

Clients want to see their firms keeping on top of important deadlines and deliverables no matter what the method—it could be by incorporating AI, adopting project management software or hiring high-end project managers, or, of course, a myriad of other approaches. Fortunately, there is no shortage of vendors and outside consultants that can help firms digitally transform and optimize the use of their resources.

“For decades, the billable hour has been the acceptable standard for the legal industry. However, times are quickly changing, and that is no longer the case. With general counsel starting to take on more prominent in-house roles, firms are finding their pricing models to be more heavily scrutinized by organizations that have their own ranges and expectations. Fortunately, firms can take a proactive approach to this issue by leveraging AI and other technology-enabled solutions to derive more accurate pricing models that can lead to both higher client satisfaction and business profit.”

GEORGE RUDOY
Managing Director & Legal Management
Consulting National Leader



Conclusion

For law firms, more effective use of technology is a path to salvation. While client dissatisfaction may seem, at first, an impediment to success, it can also serve as a critical catalyst for innovation and transformation. By “future proofing” their operations, systems and processes, law firms can not only mitigate their business and digital risks, but also make themselves a critical and indispensable part of their clients’ goals and journey.

For more insights on law firm clients, download the full *Inside Discovery & Beyond: Navigating Legal Digital Disruption* survey of corporate counsel [here](#).

“The legal industry today is experiencing significant disruption on all fronts—from regulatory disruption stemming from new geopolitical developments to digital disruption from the advent and proliferation of new technologies and business models. Law firms must embrace digital solutions to not only keep pace with their clients’ own transformative changes, but to be prepared for the myriad of risks and uncertainties in the future.”

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