



State of the UK Legal Market 2021:

After pandemic year,
client relationships
emerge as critical

Executive Summary

For all of the upheaval, changes, challenges, and opportunities that the pandemic year of 2020 threw at the United Kingdom's (UK) legal market, there has been at least one constant and recurring question occupying the minds of leaders and decision-makers across the industry: "Are we doing the right thing?"

In so many ways, 2020 was a seminal year within the UK legal market, as the impact of the pandemic acted as a catalyst for self-reflection and re-evaluation of what is important and what is necessary for survival.

Research from the Thomson Reuters® Institute has shown that 2020 was the year that many issues that have long bubbled under the surface reached a point at which they could no longer be ignored. Issues such as:

- Looking beyond short-term transactional goals and investing in the creation and development of longer-term relationships
- Addressing the value proposition within legal services and the extent to which new delivery models are becoming a sustained, genuine threat to those firms that cannot get the balance right
- Appraising the skills which the industry needs and values the most — and how those skills are to be developed and measured
- Reimagining the relationship with the physical office and how this will need to adapt as the industry moves forward
- Recognising the roles that technology and knowledge-sharing can play in enhancing the value of legal services and supporting a better work-life balance
- Appreciating the global needs of UK businesses and the crucial role UK law firms play in supporting those businesses

This report on the state of the UK legal market combines research of more than 250 senior corporate counsel, 156 stand-out private practice lawyers, and the financial results of the UK operations of 34 US-based law firms, to explore how these issues unfolded in the market and the implications for all those legal leaders looking to make the right strategic decisions in 2021.



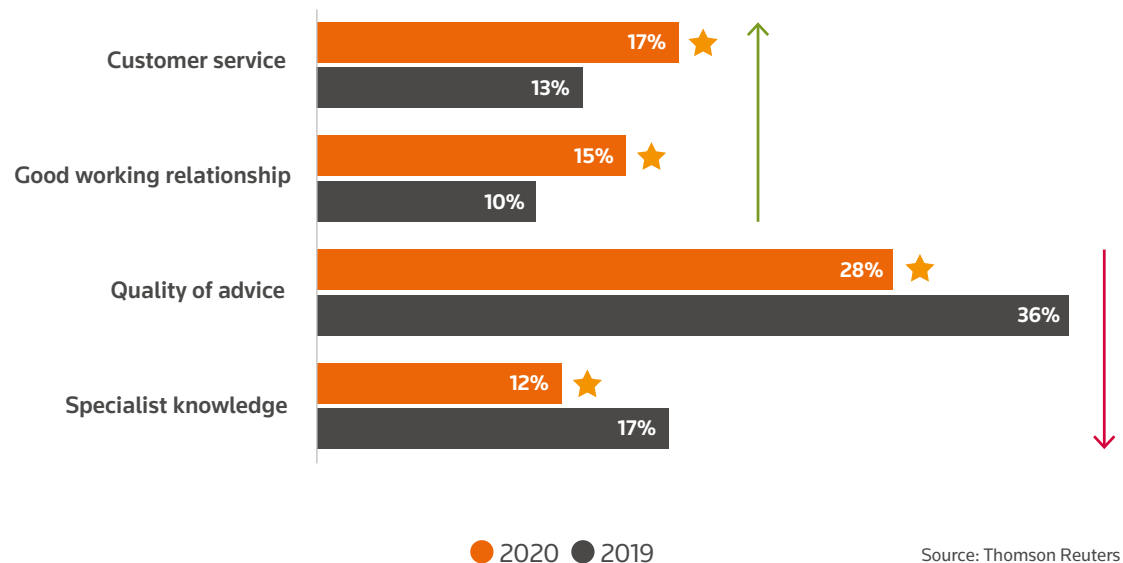
Key trends that defined an extraordinary year

The market realised the true importance of proactively investing in broad, longer-term relationships

For all involved in the UK legal market, 2020 was the ultimate relationship test. It was the year that UK corporate legal departments looked at their external law firms and asked themselves, which ones do we trust the most? Which do we feel has invested in this relationship? And to which one are we going to turn to for navigating this extraordinary period?

While a reputation for quality and technical expertise remained key driving factors of what corporate clients valued the most, as their legal departments were put under increasing stress, there was a significant swing in momentum towards the importance of the strength of the working relationship in place between client and law firm, and the high levels of service which underpin that relationship.

Biggest changes in what drove favorability towards firms in the UK market

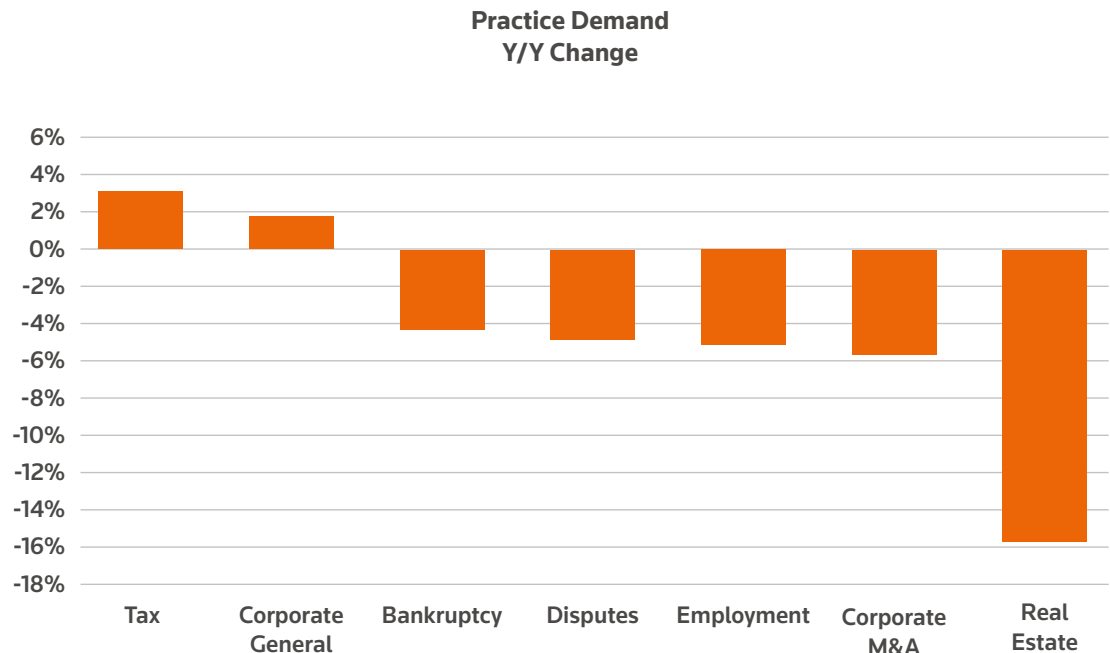


Not only did clients start to react more favourably to those firms that were investing in the longer-term development of the relationship, they started to give those firms more work. Clients also became more likely to refer firms internally on the basis of the trust developed through these historical relationships as the desire and motivation to develop new relationships declined.

"It is the commitment that we receive from the partners, the interest in our business and the willingness to build a relationship with us. They've really demonstrated that they want to be a long-term partner, have been very responsive to any feedback we've given and really listened to what we've said."

This evaluation was felt acutely within private practice as firms up and down the country carried out their own reflective self-assessments by asking themselves: “Could we have done more? Had we taken clients for granted? Or indeed, are these the right relationships for us?”

Anxieties underpinning these questions were amplified by a backdrop of falling demand as restrictions imposed upon in-house spending reduced the ability to engage external counsel almost across the board. The data from our analysis of US operations in the UK shows the year on year change in billable hours mapped by practice area. In 2020, the average law firm saw demand drop on 2019 in almost all practice areas with the exception of tax and general corporate work.



All timekeepers
Billable time type; non-contingent matters

● 2020 v 2019

Source: Thomson Reuters

Add to this the challenges law firms experienced in winning new business while working remotely. (Indeed, 80% of stand-out lawyers confided that developing new business was one of the biggest drawbacks to remote working.) And the stage is set for a reappraisal of what constitutes a strong firm-client relationship. As we move further into 2021 and beyond, we anticipate that many firms will be readdressing and refocusing efforts to create sustainable servicing models with opportunities to develop more depth and take a long-term, more strategic view of the client relationship.



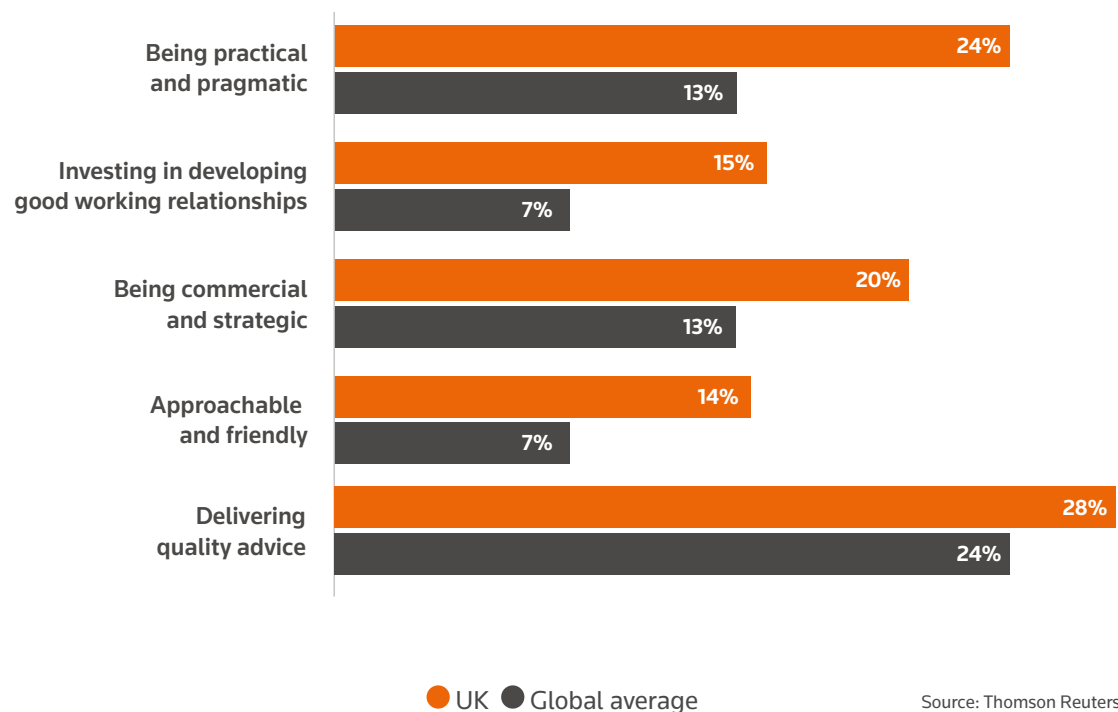
Firms need to look beyond technical skills to unlock these relationships

The skills and qualities to which clients within the UK react positively are relatively unique within the global context, and in fact, reflect UK corporate counsels' desire to develop a more integrated, strategic relationships with their external law firms.

While experience and technical knowledge are important, UK corporate general counsel (GCs) are less likely to identify the stand-out performers in their relationships for these qualities than in other legal markets. For example, UK GCs place higher value on the ability to provide commercially focused, practical advice and a commitment to ongoing working relationships — and these skills have only gained currency within the upheaval of the last 12 months.

Fundamentally, UK GCs value the type of advice that speaks to the business drivers sitting underneath the legal issue, the type of advice clients feel they can use — and use with confidence. It is the holistic problem-solvers that the market is reacting to most.

Skills that make top-performers stand-out to UK legal departments compared to global markets



If the currency of these skills continues to grow, there are big implications for how external law firms are investing in and developing of their talent. Similarly, there is a potential structural conflict that may need to be addressed. Those firms that have invested the time off the clock to understand their clients' business are being rewarded in the current environment, demonstrating that the ability to develop commercial skills comes through time spent learning about what clients are trying to achieve.

Arguably, these benefits come as a result of investing non-billable time in clients. So, how can firms realistically expect to achieve these goals, while using demand as a key performance metric and setting short-term billable hours targets which disincentivise this crucial investment of time?

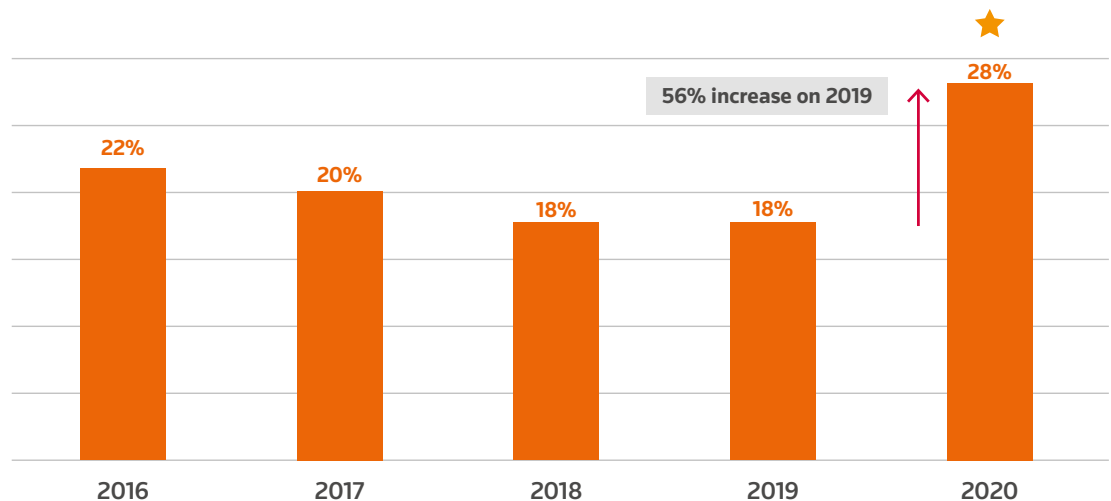


Price became an issue that the market could no longer ignore

The extent to which UK corporates were feeling financial pressure and pushing back on firms to understand and react in a positive manner to this dynamic was huge. The desire for more competitive pricing has long been the primary and often most vocal area of pushback from in-house legal departments. In 2020, however, this desire became paramount and those firms that may have been insensitive to clients' cost pressure likely saw the quality of their client relationships significantly erode.

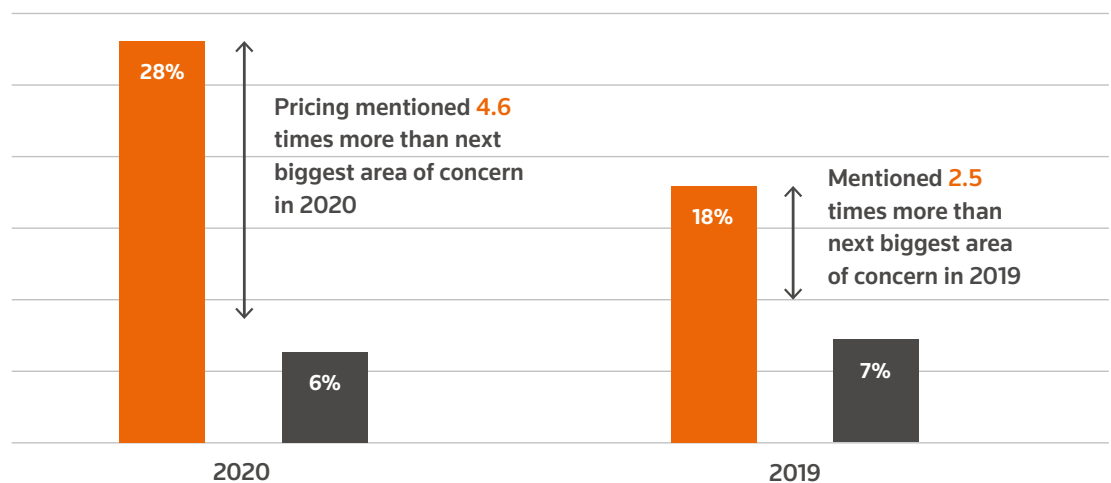
The proportion of corporate legal departments that cited what they considered to be expensive, uncompetitive, or insensitive pricing increased by more than 50% and the gap to the next largest area of complaint (*not adding enough value and poor communication around fees*) almost doubled.

Proportion of UK based buyers who felt the main thing that firms could do to improve their satisfaction was to be more competitively priced



Source: Thomson Reuters

Gap between competitive pricing and next biggest area of concern for corporate legal departments

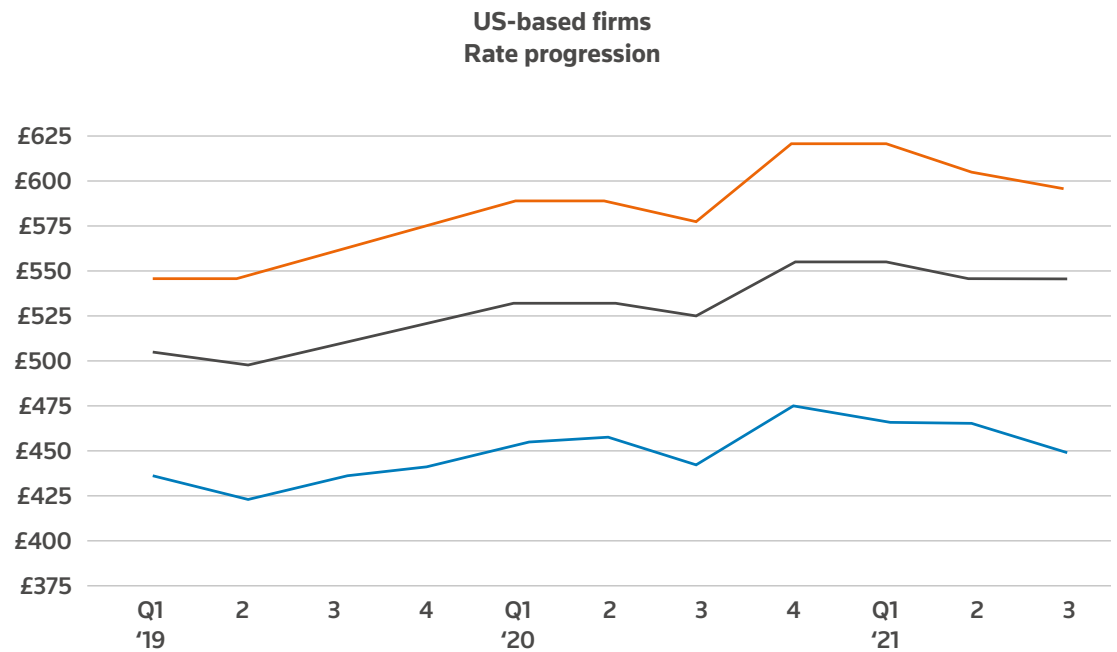


Source: Thomson Reuters

With this level of sentiment shift among clients, how long can firms continue to ignore this issue?

Latest financial data from US firms' operations within London crystalise the conflict at play between clients wanting the best possible work, while also wanting firms to be more sensitive to budget pressures.

Across 2020, US firms demonstrated strong rate progression as clients gravitated to trusted partners who could deliver results in a time of stress.



Lawyers
Billable time type; non-contingent matters

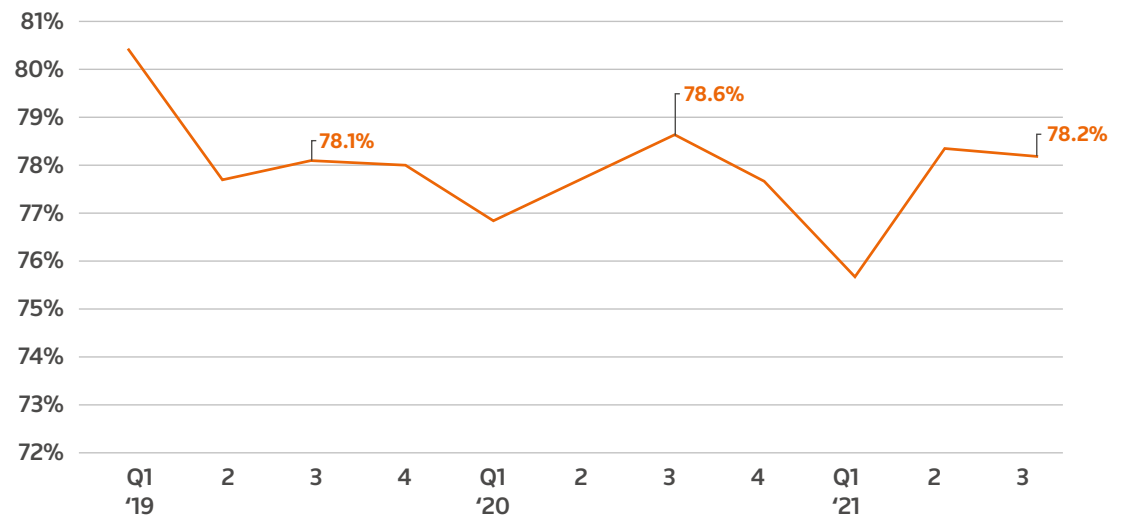
Standard Worked Billed

Source: Thomson Reuters



However, against the backdrop of this growth, the realisation of billed rates against standard remained flat. And the shift in the proportion of hours worked towards more senior roles created a dynamic, where on average, firms saw relatively high worked rate growth of 6%. This helped to offset the demand and productivity contraction seen in 2020.

US-based firms Billing realisation against standard

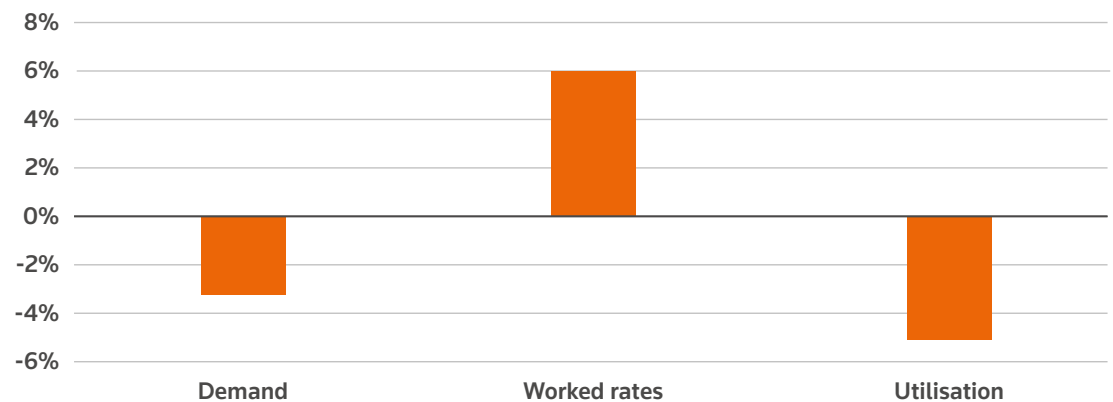


Lawyers
Billable time type; non-contingent matters

● Billing

Source: Thomson Reuters

Key Performance Measures Y/Y Change



All timekeepers
Billable time type; non-contingent matters

● 2020 v 2019

Source: Thomson Reuters



Importance of understanding, defining, and delivering on the value proposition

With client costs under more pressure than ever, the importance for law firms to understand where their value in the relationship lies, and the ability to deliver on that, became increasingly crucial factors in driving client satisfaction in 2020. UK corporate law departments sent a very clear message to firms as to where they felt the focus should be.

1. Be a business partner

Almost half of corporate legal departments said the main way law firms can bring more value into the relationships was to commit to the longer-term journey alongside the client. Firms should invest in understanding the industry in which their clients operate and the challenges that industry brings. Also, they should invest in understanding how clients' businesses work, as well as the cultural and economic drivers which underpin the need for legal advice. And crucially, when firms have that knowledge, they need to use it.

2. Address the pricing issue

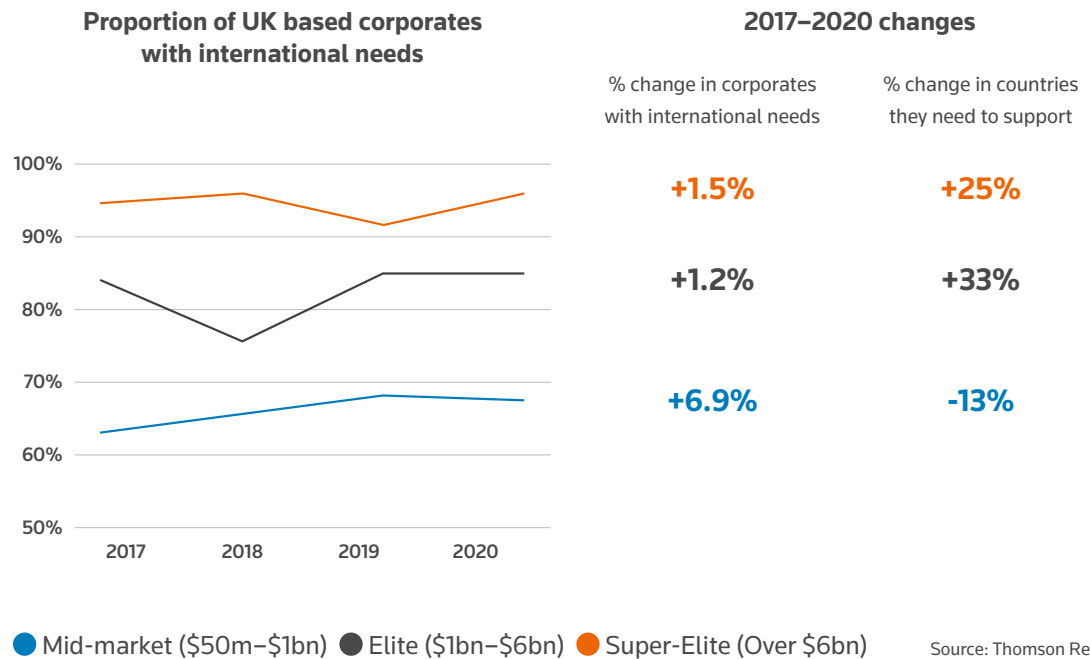
Explore alternative fee arrangements (AFAs), demonstrate awareness of clients' budgetary constraints, offer alternative solutions, and engage in ongoing dialogue with the client.



Staying connected internationally

While the impacts of the pandemic seriously reduced physical movement and ongoing Brexit negotiations maintained the atmosphere of uncertainty that has hung over the continent for much of the last five years, one thing remained constant: The need for UK businesses to access legal support overseas.

- Four-out-of-five businesses surveyed said they are actively looking for support overseas with legal needs growing over the last four years.
- Germany and the US remained the two key outbound legal markets for corporate clients in 2020 with the need for corporate and employment work increasing over the last 12 months.
- The breadth of markets that clients are accessing and trying to navigate is increasing:
 - Among larger organisations, the average number of countries where a \$6 billion-plus revenue business needed support has increased by 25% in the last four years to reach 50 countries.
 - Organisations with between \$1 billion and \$6 billion in revenue, on average, needed support in 20 jurisdictions, an increase of 33% compared to 2017.
 - Midsize-market organisations remain fairly focussed, with little change in the number of markets where support is needed to seven markets, down from eight in 2017. However, this segment has seen the highest levels of growth in last four years in terms of the proportion of businesses which need support overseas.
- Proportion of budget which is dedicated to international (non-UK) spend was 42% in 2020 - compared with the 35% average that corporations globally spend internationally outside their respective home markets.
- More UK-based corporate clients are looking to increase their international legal spend (38%) than decrease (21%).



The extent to which UK corporate legal departments need support overseas creates a series of challenges and opportunities for law firms, especially for those that can be an integrated, coordinated cross-border partner that can manage the client's interests and experiences seamlessly across markets. However, many UK partners (83%) report internal barriers to international working, with practical challenges such as creating time to develop these relationships, as well as the IT and knowledge sharing structures needed to enable a seamless experience cited as some of main barriers.

While remote working has largely been embraced, and produced many benefits, it has created some challenges with many partners suggesting collaboration between teams has been more likely to deteriorate than improve as a result of remote working. Law firms that can proactively lean into developing their culture of cross-border collaboration and invest in the infrastructure which removes those barriers will find themselves far better positioned to support and benefit from their clients' international needs.

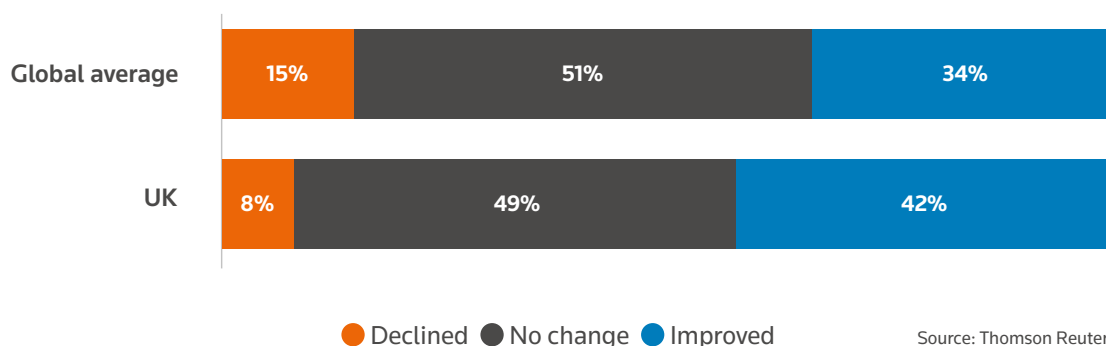




The future of remote working

Of all the global legal markets, arguably it was the UK that embraced the challenges and benefits of remote working with more positivity than most. UK-based stand-out lawyers were significantly less likely to feel that working remotely caused a deterioration in working practices.

Partners cited greater efficiency, more productive use of technology, less commuting (which was particularly beneficial to those London-based partners who reported having longest commute times of any city), and stronger adoption of a better work-life-balance as the greatest benefits of remote working.



For many lawyers, these benefits extended beyond the ability to deliver for clients. Almost two-thirds of stand-out lawyers (65%) said that remote working has had a positive impact on their well-being, which was higher than the global average.

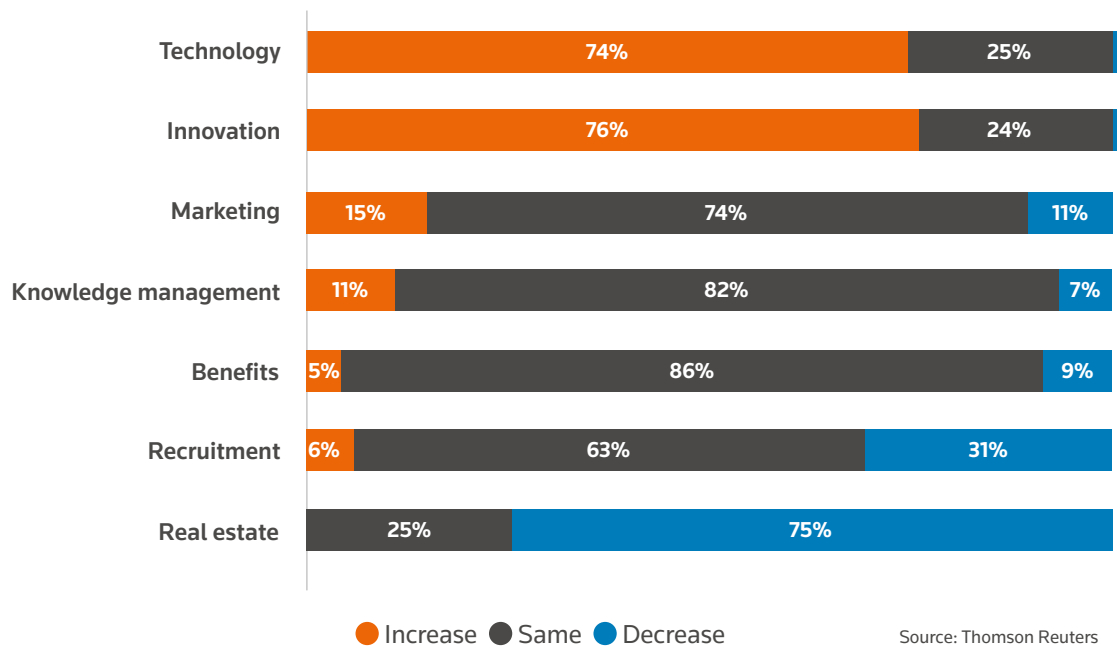
In total, 86% of UK stand-out lawyers would like to change the way they work moving forward (higher than global average of 77%). In fact, on average, these stand-out lawyers would like to:

- Work remotely at least two days a week
- See a 10% reduction in working hours (indeed, 34% are willing to reduce their compensation in exchange for less work)
- Utilise more flexible working arrangements, which is marked by the ability to have different start and finish times each day and/or spread hours across the day (half of those surveyed wanted this)
- Consider going part time (14% said they would do this)

And if their law firms can't make this happen, almost one-third of senior lawyers suggested that they would leave the firm within the next two years. This creates a huge challenge for leadership as they try to balance their lawyers' desire for greater flexibility and reduced hours with the need for more off-the-clock investment to better understand clients' business goals.

Still, the message from some partners is clear: They consider unlocking the ability to deliver work more efficiently as a key priority for those who desire more flexibility and balance.

Areas UK partners feel firms should be focusing investment



This sentiment was mirrored by corporate counsel where 89% of UK general counsel felt it was important for their law firms to explore more innovative ways to use technology. And 95% felt it was important for firms to be investing in more innovative ways of knowledge sharing.

If a hybrid firm that features both remote and in-person workers is most likely to stay within the UK, then those firms will need to invest in the infrastructure to ensure that productive and equitable work allocation and smarter project management tools are embedded within the firm's culture. In this way, firms can make certain that resources are optimised, and communication and collaboration within the firm is not compromised.



ALSPs and the new law market

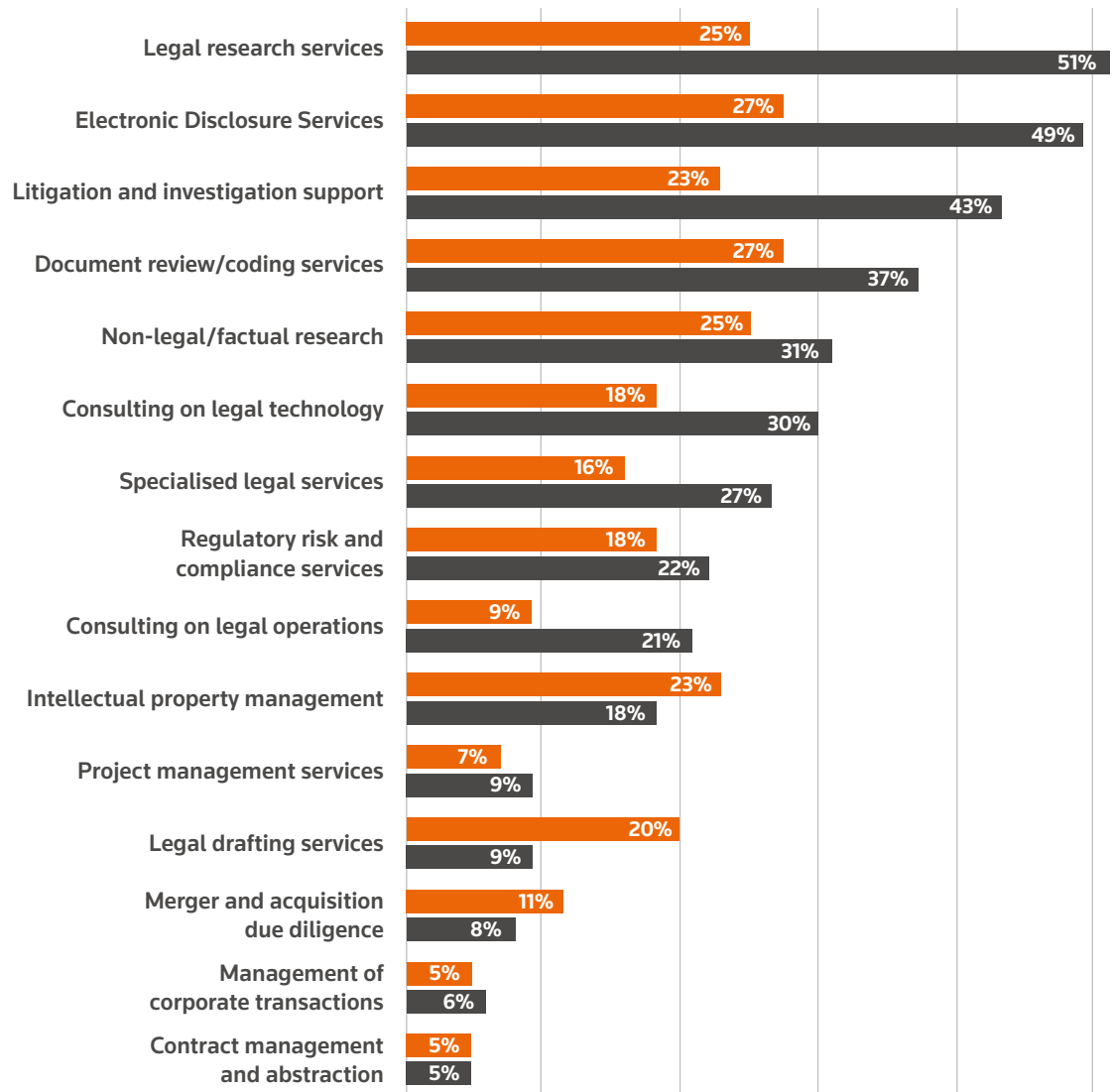
Against the backdrop of an intensifying clamour of client pressure, law firms are seeking to reassess their value proposition, invest in innovative ways to unlock efficiencies in the delivery process, and remodel their relationship with the billable hour. The alternative legal service providers (ALSP) market, which originated from a desire to address these issues, has grown significantly in recent years, to the point where it is now worth around \$14 billion globally. And engagements with ALSPs have increased by 42% among corporate legal departments and 58% among law firms over the last four years.

The pressures created by the pandemic have not just validated the ALSP approach but magnified the attractiveness of their proposition. The acceptance of new ways of working and the shift to remote, technology-enabled, and more flexible working styles, coupled with a step-change in the desire to redesign legal delivery models toward cost-savings and process efficiencies, is driving this sector's growth.

However, our research has shown that the UK market is potentially one of the slowest adopters of the ALSP segment. The 2021 ALSP report showed that 29% of UK corporate legal departments had not used ALSPs compared to 22% of US corporate departments, and UK law firm engagement is even slower. While only 16% of US law firms had not engaged with ALSPs to support their legal delivery, 41% of UK law firms were yet to work with the segment.

The chart below illustrates the gaps and opportunities for law firms to engage more with business partners that can support the efficiency/value challenge.

Areas law firms have used ALSPs to support



● UK Currently use ● US Currently use

Source: Thomson Reuters

Summary

None of the issues raised in the State of the UK Legal Market 2021 report are particularly new. The desire for deeper institutional relationships that deliver both clients and their external law firms more certainty and are built on a mutual appreciation of where the value proposition lies, have underpinned the evolution of procurement panels and client development programmes over the last 10 years.

The desire for law firms to develop a greater level of business understanding and commercial application is not new either, and it can be seen in the proliferation of sector programmes up and down the country as firms attempt to embed structures that refocus the spotlight away from the product-led concept of practices and towards an approach that provides client-led solutions and speaks to their business needs.

Other aspects of the industry are equally familiar: UK-based general counsel are perhaps more international in outlook than ever; the billable hour has been the primary source of dissatisfaction for the 10 years we have been tracking it; the impending threat of new business models has long been part of the discourse; and the desire to unlock greater flexibility and work-life balance in the profession is by no means a new one.

However, while none of these issues are new, this report does show that after the upheaval of 2020, something is definitely different. The pandemic has significantly amplified and crystalised why these issues need to be addressed and, for the first time, the industry may be feeling a sense of the consequences of failing to react and adapt.

Across all of the issues raised within this report, there are three key themes which, if the industry is going to emerge in a healthier position as it moves forward, it is going to have to address, including:

1. A frank and honest reappraisal, on all sides, of where the value lies in relationships.
2. A more purposeful and open approach to collaboration across borders and between legal service providers.
3. Adoption of technology that can unlock and enable the flexibility and efficiency that everyone is craving.

Background to the research

Findings from this report are derived from analysis of proprietary primary research conducted by the Thomson Reuters Institute. All research was based on data collected from Acritas, now part of Thomson Reuters, and Thomson Reuters Peer Monitor.

Acritas is the leading provider of market research in the global legal industry. Its annual market studies with in-house legal departments and top law firm talent provide a bedrock of data to help law firms and legal services providers develop strategies which will enable them to gain competitive advantage. In addition, Acritas provides custom research and consulting services from its offices in the UK and the US.

Stellar Performance, powered by Acritas, an evolving body of research among stand-out lawyers to challenge and evaluate law firm talent management that will deliver on clients' needs.

Thomson Reuters® Peer Monitor is a dynamic, live benchmarking program that provides any-time access to critical firm assessment information and allows comparison against selected peers, with details for practice performance. It covers key metrics such as demand, rates, utilisation, and expenses broken out by practice groups, offices, and individual fee earners, enabling easy views to managing partners, practice group leaders, and other law firms leaders at summary and detailed levels. Peer Monitor is a product of Thomson Reuters, the world's leading source of intelligent information for businesses and professionals.

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