



LEGAL EXECUTIVE  
INSTITUTE

GEORGETOWN LAW  
Center on Ethics and the Legal Profession

Acritas



# ALTERNATIVE LEGAL SERVICE PROVIDERS 2019

**Fast Growth, Expanding Use and Increasing Opportunity**

## EXECUTIVE SUMMARY

Two years ago, the alternative legal service provider (ALSP) sector was still nascent and poorly defined. Today, as corporations and law firms increasingly engage ALSPs, the modern legal industry recognizes this market as better defined, quickly growing, and broadly adopted.

ALSPs perform many of the tasks traditionally done by law firms, with the top five tasks identified in our survey as:

- Litigation and Investigation Support;
- Legal Research;
- Document Review;
- eDiscovery; and
- Regulatory Risk and Compliance.

However, ALSPs are leveraging different business models, and they come in different shapes and sizes. They range from small startups to massive disrupters, such as the Big Four accounting firms. Where law firms lead with specialized expertise and highly trained legal judgment, ALSPs may employ contract lawyers for specific time-bound needs, implement rigorous process and project management across massive volumes of work, or deeply integrate technology to gain efficiency. While many ALSPs are not law firms, some law firms recognize the potential of new business models to transform the industry and have established their own in-house ALSPs.

Technology adoption marks another important attribute of ALSPs, and it is often emphasized more strongly in ALSPs than at traditional law firms. Technology-enabled services allow ALSPs to provide higher value and take on different and more complex tasks. Some ALSPs may rely on third-party technology, but others are developing proprietary systems in search of sustainable competitive advantage. Further, the technology being adopted is often state-of-the-art; about a quarter of ALSPs interviewed say their systems use artificial intelligence (AI).

The findings show ALSPs to be a dynamic, growing industry. These four themes appeared as prominent trends throughout the research:

### 1. The ALSP industry has made dramatic progress in the past two years

In just two years, revenues for alternative legal services providers have grown from \$8.4 billion in 2015 to about \$10.7 billion in 2017. This represents a compound annual growth rate of 12.9% over that period.

Those figures are driven both by an increasing number of providers across segments, as well as the growth of individual providers. The ALSPs interviewed expect to grow at 24 percent a year, and the research supports that high-growth expectation. The number of law firms and corporate legal departments that expect their spending on ALSPs to increase far outnumber those who expect it to decrease.

Among the largest and fastest growing ALSPs are the Big Four accounting firms – Deloitte, EY, KPMG, and PwC. The Big Four's legal service offerings compete more directly with law firms than those of other ALSPs: about 23 percent of large law firms say that they competed for and lost business to the Big Four within the past year. Interviews with decision-makers at the Big Four showed them to be optimistic about their ability to capture market share and confident in the strength of their unique selling proposition.

## 2. Growth in corporations' use of ALSPs is stronger than projected

Two years ago, corporate users of ALSPs were asked to predict their future use of these same service providers. In four of the top five categories – litigation and investigation support; legal research; document review; and e-discovery – use by corporations has already exceeded or approached the usage levels earlier predicted for 2021, and expectations for future use remain high. (Only regulatory risk and compliance did not surpass expectations.) This year, 25 percent of corporations say they plan to increase their spending on ALSPs, compared to only five percent who expect spending to decrease.

Once a corporation or a law firm begins using ALSPs, it tends to look for new opportunities to leverage the ALSPs' capabilities. On the corporate side, each of the top five functions for ALSPs is now used by about one-third of corporations. Among law firms, the top five use cases were all cited by more than half of large law firms and between one-half and one-third of midsize firms.

There are multiple reasons that both law firms and corporations turn to ALSPs, but access to specialized expertise – a strong factor two years ago – is now even more important. Corporate legal departments are especially likely to cite access to expertise when using ALSPs for legal research, regulatory risk and compliance, and litigation and investigation support.

Outside the United States, corporations in the United Kingdom and Canada say they are less likely to work with ALSPs than their counterparts in the U.S., but there are important exceptions. On the corporate side, projected growth rates would bring the three countries into close alignment within the next five years.

## 3. Law firms are actively experimenting with ALSP strategies

One of the easiest ways for law firms to more aggressively take advantage of the ALSP model is to establish a partnership with an existing ALSP. About half of law firms that use an ALSP for intellectual property management, for example, do so through a partnership. Large law firms are the most likely to work with multiple ALSPs to better provide an umbrella of legal solutions to clients.

On the other hand, about one-third of law firms say they plan to establish their own ALSP affiliate within the next five years. Those affiliates are predicted to take a variety of forms, the most common being an interdisciplinary practice offering a mix of services. Law firms are also learning to go to market with an ALSP component. About half of law firms say ALSPs can help them expand and scale their business. Firms also say that ALSPs help them differentiate their services and, in some cases, retain client relationships. Additionally, law firm concerns about security and quality over the use of ALSPs are decreasing.

As with corporations, law firms say a key benefit of using ALSPs lies in their specialized expertise. This is particularly powerful in litigation and investigation support, where specialized expertise is specifically cited as a benefit by 74 percent of law firms.

Among law firms, those in the U.K. are most likely to use ALSPs for legal drafting services, due diligence in mergers and acquisitions, and project management services, whereas U.S. firms are most likely to turn to ALSPs for litigation and investigation support. Law firms in both countries are expecting substantial growth in their use of ALSPs over the next five years.

## 4. ALSPs are offering more sophisticated services to more customers

ALSPs are steadily moving up the legal value chain to offer more sophisticated services. They have gained substantial market share in litigation and investigation support, and they are even becoming players in the market for legal research, long considered a quintessential law-firm competency.

The top three uses of ALSPs for corporations are litigation and investigation support, legal research, and regulatory risk and compliance services, with more than one-third of participating corporate legal departments saying they use ALSPs for these purposes. For law firms, legal research is the second-most frequent use overall: half of large firms and 37 percent of smaller firms using ALSPs in this way.

Further, ALSPs themselves see technology as key to continued migration up the value chain. About one-quarter of the 35 ALSPs interviewed for this report say they are currently using AI in their offerings, and another one-third say they are actively evaluating AI's potential use for their purposes.

## ABOUT THIS REPORT

In June 2018, Thomson Reuters Legal Executive Institute, in partnership with Georgetown University Law's Center on Ethics and the Legal Profession, University of Oxford Saïd Business School, and U.K.-based legal research firm Acritas, launched a major study to determine and quantify the impact of ALSPs across the legal service industry. This report is the second time these institutions have partnered on a comprehensive study of ALSPs. The first study, conducted two years ago, examined a young industry carving out an important niche market. Just two years later, this study returns to find an industry that is quickly becoming mainstream.

This year, for the first time, the four organizations conducted research on the use of ALSPs within the United States as well as outside of it, specifically, in the United Kingdom and Canada. To do so, the four organizations analyzed survey responses about the use of ALSPs from 517 decision-makers at law firms and in corporate legal departments. This research was augmented by 35 interviews with executives at ALSPs.

## AN EXPANDING AND DEEPENING MARKET FOR ALSPs

The ALSP market is worth an estimated \$10.7 billion in 2017 revenue. This is an increase of \$2.3 billion over our \$8.4 estimate in our first ALSP study two years ago.

That increase represents a 12.9% compound annual growth rate (CAGR) in that period.

The industry can be roughly divided into five segments: Big Four; Captive Legal Process Outsourcers (LPOs); Independent LPOs; Managed Services; and Contract and Staffing Services. The table below identifies key players in each segment and the relative size of the segments.

### THE SIZE AND SCOPE OF THE ALSP MARKET

	Big Four	Captive LPOs	Independent LPOs	Managed Services	Contract and Staffing Services	Total
Representative ALSPs	<ul style="list-style-type: none"> <li>• Deloitte</li> <li>• EY</li> <li>• KPMG</li> <li>• PwC</li> </ul>	<ul style="list-style-type: none"> <li>• Allen &amp; Overy</li> <li>• Clifford Chance</li> <li>• Eversheds</li> <li>• Orrick</li> <li>• Reed Smith</li> <li>• WilmerHale</li> </ul>	<ul style="list-style-type: none"> <li>• Consilio</li> <li>• DTI</li> <li>• Integreon</li> <li>• KLDISCOVERY</li> <li>• Mindcrest</li> <li>• QuisLex</li> </ul>	<ul style="list-style-type: none"> <li>• Elevate</li> <li>• Thomson Reuters Legal Managed Services</li> <li>• UnitedLex</li> </ul>	<ul style="list-style-type: none"> <li>• Axiom</li> <li>• Halebury*</li> <li>• LOD</li> <li>• Special Counsel</li> <li>• Update Legal</li> </ul>	
Estimated Segment Revenue	\$1,200 million	\$300 million	\$7,400 million	\$700 million	\$1,100 million	\$10.7 billion

\*Halebury was acquired by Elevate in January 2019.

- **The Big Four** refer to the largest accounting and audit firms which derive a large amount of revenue from legal services.
- **Captive LPOs** are law firms' wholly-owned captive legal services units, often located in lower-cost regions.
- **Independent LPOs** perform legal work on behalf of corporate legal departments and law firms, often via matter- or project-based engagements.
- **Managed services providers** contract for all or part of the function of an in-house legal team, typically ongoing work.
- **Contract and staffing services** provide lawyers on a temporary basis to companies and law firms, ranging from entry-level document review to highly skilled specialists.

## THE BIG FOUR INTENSIFY COMPETITION WITH LAW FIRMS

Among the largest ALSPs, and rightfully earning a category unto themselves, are the Big Four accounting firms. While regulatory hurdles prevent them from practicing some types of law in jurisdictions like the U.S., they are increasingly offering a deeper array of alternative legal services to corporate clients. Because of their strong C-level relationships with many corporations, the Big Four possess a unique strategic advantage. They have made big investments in technology, and, of course, in the broader reputation of their brands. They are also able to integrate their legal services with their other offerings, and they have expertise that stretches around the world.

Indeed, the Big Four themselves cite their strengths as:

- Existing networks and coverage of the market;
- Ability to integrate legal services with other offerings;
- Ability to practice at least some types of law in many jurisdictions; and
- Ability to hire and recruit lawyers by offering an alternative career progression.

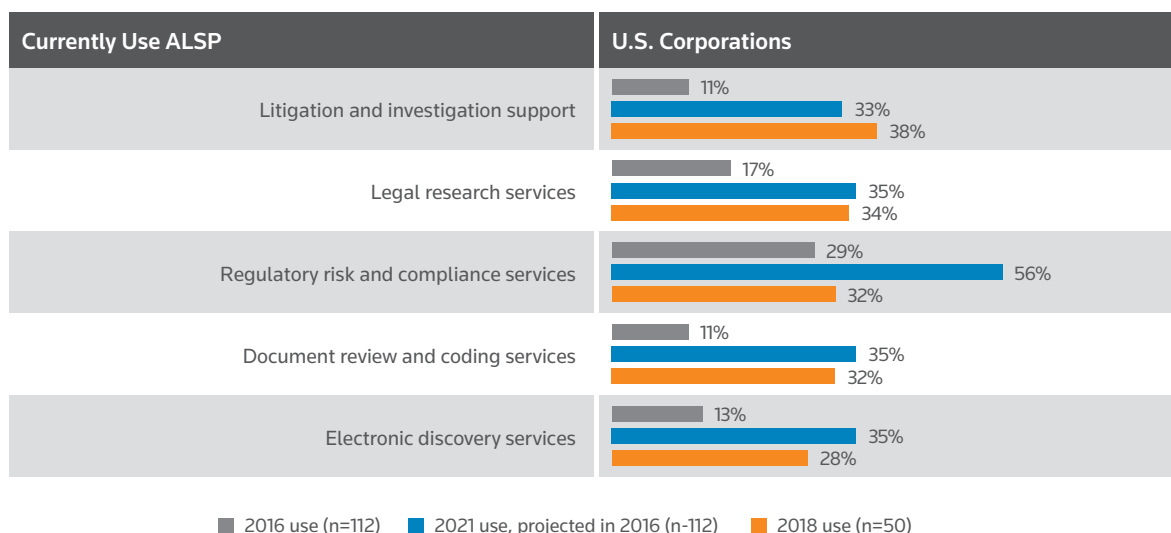
Not surprisingly, 20 percent of large law firms say they have competed against a member of the Big Four in the past year, and 23 percent said they have had a client use a Big Four accounting and audit services firm for work that the law firm said it had expected to win. Almost the same share of midsize firms, 21 percent, have lost business to one of the Big Four.

The services for which the Big Four most often compete against traditional law firms include regulatory risk and compliance services – which was reported by half the firms that have competed against one of the Big Four – and merger and acquisition due diligence, reported by 43 percent. Though a smaller representation, a substantial numbers of law firms have competed against the Big Four for management of corporate transactions; legal drafting services; and litigation and investigation support.

## CORPORATIONS EXPAND USE OF ALSPs FOR WIDENING ARRAY OF SERVICES

In the U.S., corporate legal departments showed an expanded and more diverse use of ALSPs across multiple categories, and in some cases, have already exceeded their 2021 projections from two years ago. Among the top five corporate uses of ALSPs, one has already exceeded projections for 2021, and three others are already very close to 2021 expectations. Use of ALSPs for litigation and investigation support was particularly strong, with 38 percent of corporations saying they used ALSPs for this purpose. That makes litigation and investigation support the most common use case for corporations – even though just two years ago, only 33 percent of corporations thought that they would be using ALSPs in this way by 2021. Similarly, when asked about projected 2021 use two years ago, 35 percent of corporations said they would be using ALSPs for legal research in 2021; that number has already reached 34 percent. Document review and coding services jumped to 32 percent from 11 percent. Compared to just 13 percent two years ago, now 28 percent of corporations used ALSPs for e-discovery.

### Corporations: U.S. Projections and Trends in Use of ALSPs



Overall, corporate use at least *doubled* in four of the five most common use cases in two years time. Additionally, a fair number of corporations ask their law firms to use ALSPs on their behalf. (This is termed “indirect use,” which expands the market significantly and is addressed below.) With a law firm in the mix, the onus for managing an ALSP often falls on the law firm, as does the responsibility for the quality and timeliness of the work provided.

**U.K. Corporations’ Use of ALSPs** — More corporations in the U.K. are bringing ALSPs into their workflow as well. U.K. corporations are especially keen to use ALSPs to acquire specialized legal services from licensed lawyers, with 40 percent of U.K. corporations leveraging ALSPs in this manner.

The next most popular use cases among U.K. corporations are: legal research, at 30 percent; regulatory risk and compliance services, at 23 percent; document review and coding, at 22 percent; and, surprisingly, non-legal/factual research and legal drafting services are tied at 21 percent.

**Canadian Corporations’ Use of ALSPs** — Comparing the countries studied, Canadian corporations are most likely to be using ALSPs for non-legal or factual research, with 32 percent reporting this use case. Also, at 32 percent, Canadian corporations are using ALSPs for litigation and investigation support. Other most-frequent uses of ALSPs by Canadian corporations are e-discovery and regulatory risk and compliance services, both at 26 percent, and legal research services, at 23 percent.

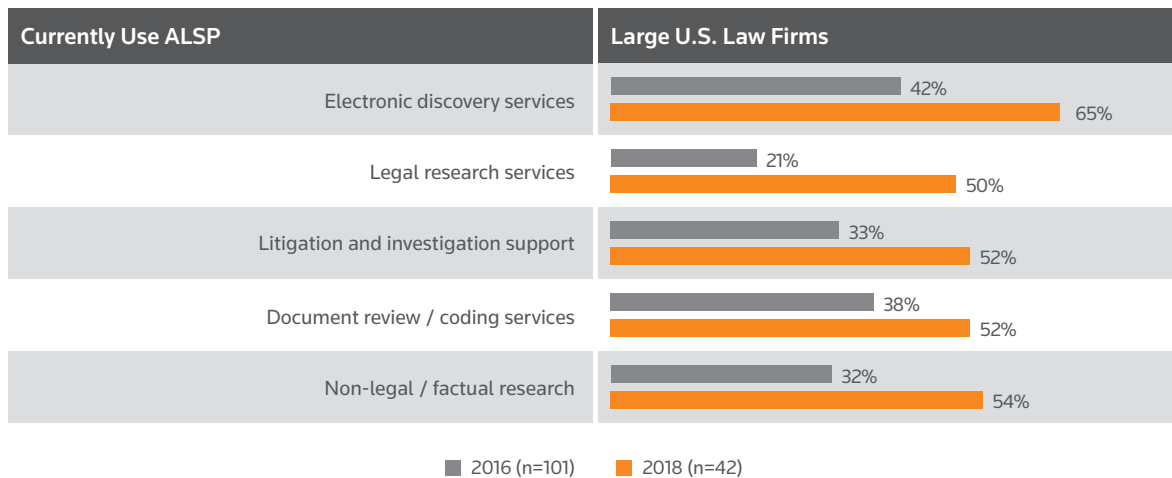
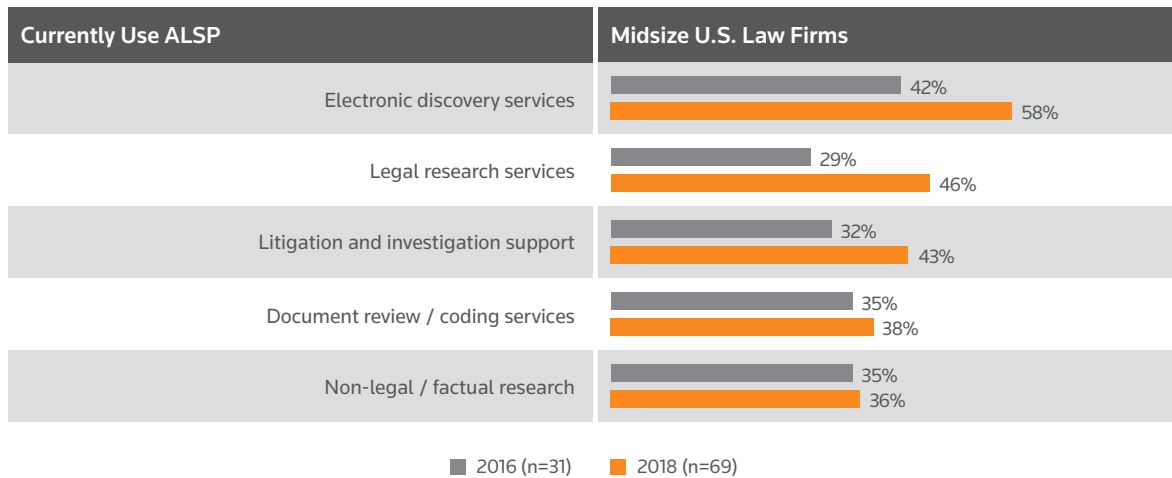
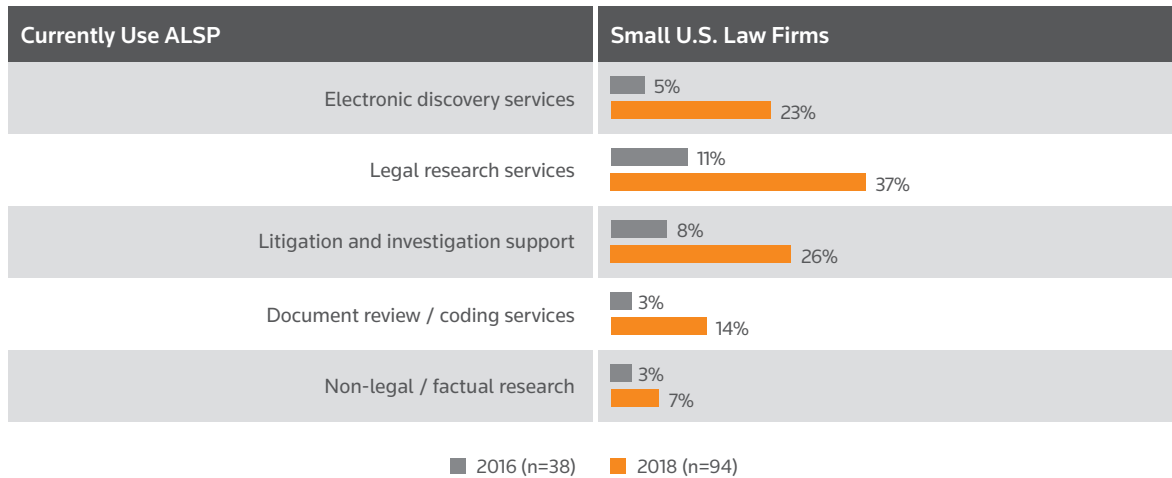
For further analysis of how corporate use of ALSPs differ by segment and country, see Appendix 1.

## LAW FIRMS TAKE ALSP USE MAINSTREAM WITH NOTABLE BENEFITS

Among U.S. law firms, use of ALSPs is becoming quite commonplace. Large law firms are also greatly expanding *how* they use ALSPs. As firms gain increasing confidence in the ALSP model, they aim to deploy ALSPs against a wider range of work. More than half of large law firms use ALSPs for five or more functions, with the most common being e-discovery, legal research, litigation and investigation support, document review/coding, and non-legal/factual research.

The percentages of large U.S. law firms using ALSPs for these functions is up significantly from just two years ago, and in a few cases, they have nearly doubled. Around 65 percent of large law firms are using ALSPs for e-discovery purposes, compared to 42 percent just two years ago. Half of large law firms are currently using ALSPs for legal research, compared to just 21 percent two years ago. Non-legal and factual research was cited as a use by 54 percent of large law firms in 2018, up from 32 percent. Litigation and investigation support jumped to 52 percent from 33 percent, and document review/coding is now used by 52 percent of large law firms, up from 38 percent.

Law Firms: U.S. Trend in Use of ALSPs in 2016 and 2018



**NOTE:** For purposes of this study, we defined the size of law firms as follows: large law firms as those with 175 or more lawyers; midsize firms as those with between 30 and 174 lawyers; and small firms as those with 29 lawyers or less.

There is also plenty of activity among the largest law firms outside of the top five use cases, as U.S. law firms continue to try new applications of ALSPs. More than one-third of large law firms are using ALSPs for specialized legal services provided by licensed lawyers. Twenty-one percent are using ALSPs for regulatory risk and compliance services; 17 percent are turning to ALSPs for project management; and, 10 percent are using ALSPs for legal drafting services.

In general, midsize law firms are mirroring the behavior of large firms, although the adoption rates are lower. One area in which midsize law firms seem to be experimenting more frequently is using ALSPs for regulatory risk and compliance. Indeed, 25 percent of midsize law firms cite this practice – up from 10 percent two years ago – and are leading the way for this particular use.

**A Burst of Activity at Smaller Law Firms** – Smaller law firm ALSP utilization still lags behind large law firms, but adoption growth is ballooning. Use of ALSPs has more than doubled in all top five categories. While sophisticated clients drive larger law firms to discover ALSPs, small law firms are finding that ALSPs allow them to extend and scale their capabilities in new ways.

Two years ago, the most likely use of ALSPs at small law firms was to gain access to specialized legal services from licensed lawyers, which often, but not always, meant staffing assistance. Even though this was the top-ranked use, only 18 percent of small law firms were participating.

In 2018, the top-ranked use among small law firms was legal research, and 37 percent of small law firms – up from 11 percent two years ago – are leveraging ALSPs in this way. Twenty-six percent are turning to ALSPs for litigation and investigation support, compared to just eight percent two years ago. The percentage of small law firms using ALSPs for e-discovery services, at 23 percent, has more than *quadrupled* in the past two years. Smaller law firms are also showing interest in categories that previously had seen slower adoption. For example, 10 percent of small law firms are using ALSPs for legal drafting services, which is on par with both midsize and large firms.

**Widespread Use of ALSPs among U.K. Law Firms** – Large law firms in the U.K. and the U.S. use ALSPs in similar ways, although the adoption rates are lower in the U.K. The top five use cases for large U.K. law firms are: e-discovery, at 49 percent; research (both legal and non-legal), at 42 percent; document review/coding, with 40 percent; and, litigation and investigation support, at 36 percent.

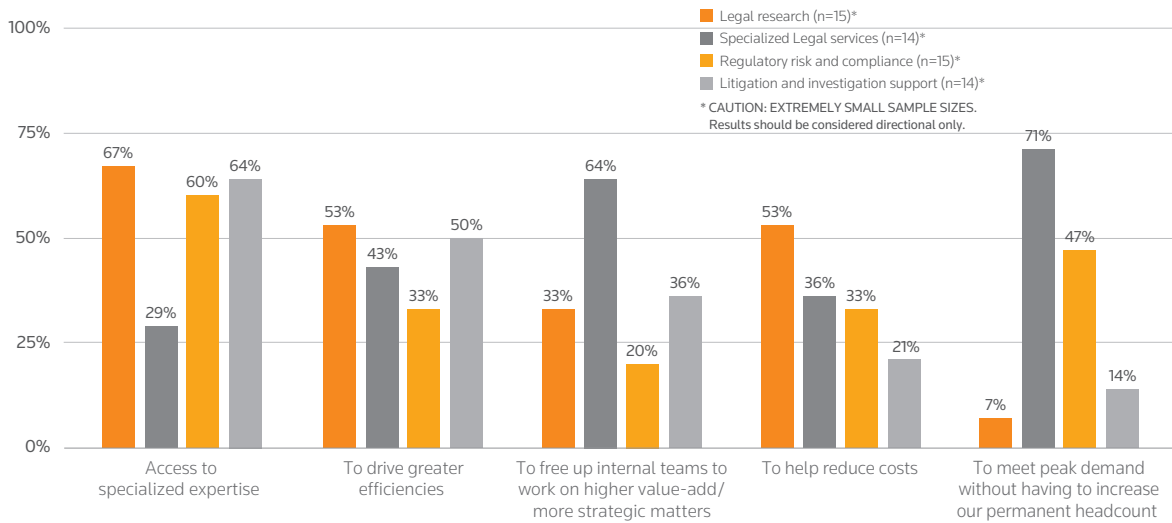
The larger differences can be seen in the use patterns of midsize U.K. law firms. The midsize U.K. law firm is most likely to use ALSPs for e-discovery and non-legal/factual research, with 26 percent of midsize law firms saying they use ALSPs in this way. But the next most-frequent uses of ALSPs by this group are for specialized legal services provided by licensed lawyers and intellectual property management, at 21 percent each. The fifth-most-common use case by midsize U.K. law firms is actually a tie: 16 percent of these firms said they use ALSPs for legal research, and the same number say they use ALSPs for litigation and investigation support. Again, given the less litigation-heavy landscape of the U.K. legal system, these differences are to be expected.

## CORPORATE LEGAL DEPARTMENTS EXPAND ALSP USE FOR A VARIETY OF REASONS

### CORPORATE LEGAL DEPARTMENTS SEEK ALSPs FOR EXPERTISE AND EFFICIENCY

Historically, ALSPs have often been engaged for cost savings, but that tide is turning. In fact, depending on the use of ALSPs, corporations often rated cost as a third-place concern. Instead, corporations appear to be using ALSPs to access expertise that they lack in-house, as well as to use their existing resources more efficiently and strategically.

**Corporations: Drivers of ALSP Use (All Geographies)**



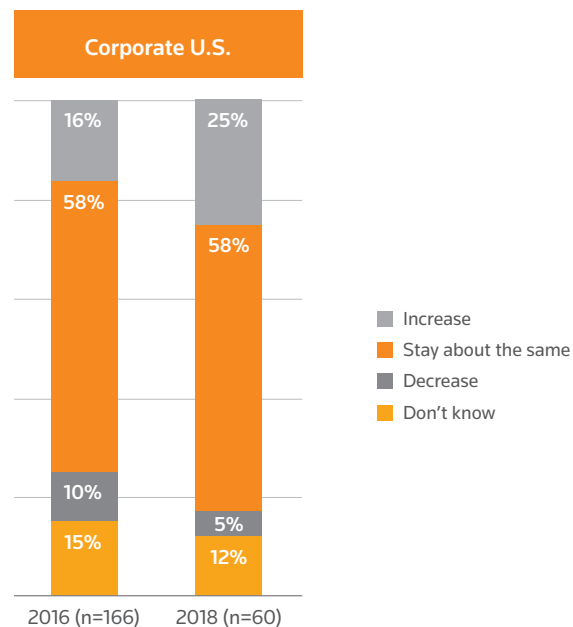
At least 60 percent of corporations cited access to expertise when using ALSPs for legal research, regulatory risk and compliance, or litigation and investigation support. Those that used ALSPs for specialized legal services, on the other hand, did so primarily to free up their internal teams to do more strategic or value-added work, and to meet peak demand without having to permanently increase their headcount.

**CORPORATE LEGAL DEPARTMENTS EXCEEDING THEIR OWN PREDICTIONS ON ALSP USE**

As indicated in previous charts, corporations are exceeding their own predictions of how frequently they would use ALSPs; and not surprisingly, corporate law departments expect their ALSP use to increase during the next five years, with some indicating a significant increase is likely. About 25 percent of corporations say they will be spending more on ALSPs, compared to 16 percent two years ago.

Also notable is the lower percentage of corporations that anticipate a decrease in ALSP use, from 10 percent two years ago to five percent today. Those expressing uncertainty about future ALSP use also decreased, indicating that ALSP utilization is receiving slightly more planning than it was two years ago.

**Predicted Spending on ALSPs by U.S. Corporations\***



\*Trending data not available for non-US respondents due to insufficient sample sizes in the base year.

In 2016, for example, 25 percent of corporations said they planned to use ALSPs for specialized legal services. In 2018, that number jumped to 40 percent. The increase is similar for the use of e-discovery services: 37 percent of corporations say they plan to use such services within the next five years – up from just 22 percent.

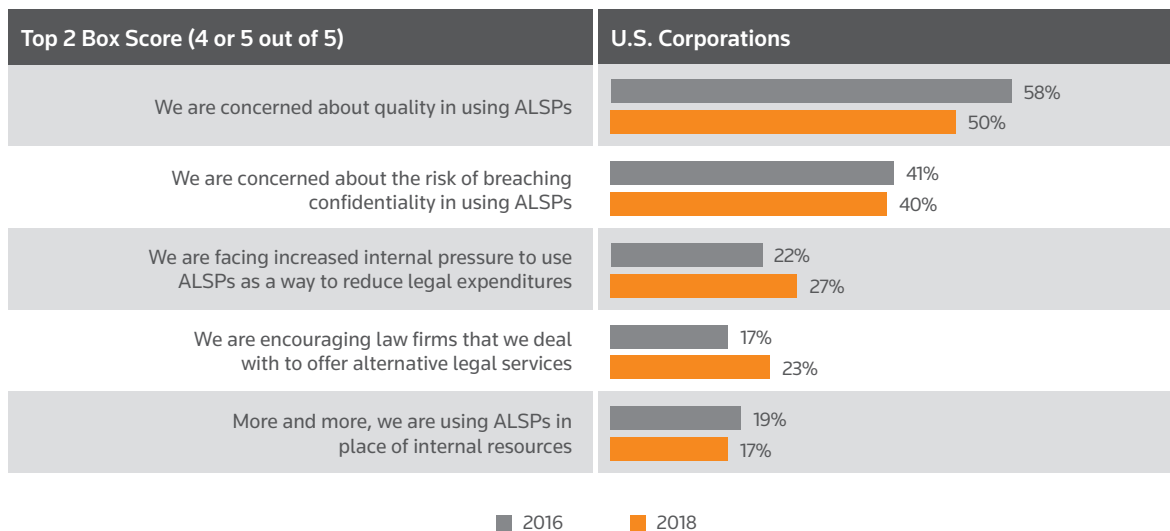
Other aspects of legal work may be more likely to stay in-house. Compared to two years ago, corporations say that they are somewhat less likely to use an ALSP in the next five years for project management or intellectual property management.

## CORPORATE LEGAL DEPARTMENTS RE-EVALUATE THEIR CONCERNS OVER ALSPs

In the U.S., attitudes about ALSPs – especially concerns over security of data and quality of work – have shifted somewhat over the past two years. These concerns are starting to diminish as corporations and law firms become more receptive to the advantages ALSPs can bring.

On the corporate side, 50 percent said they are concerned about ALSP quality, compared to 58 percent two years ago. The next biggest concern identified by corporations is a breach of confidentiality, with 40 percent – about the same as two years ago – saying they were concerned about a breach.

### Trends in U.S. Corporate Attitudes Towards Use of ALSPs



Corporations that do not use ALSPs rarely mention quality – that is number four on their list, with 34 percent of respondents citing quality concerns. Instead, 72 percent of corporate legal departments say they simply prefer to handle the work using in-house resources. A significant portion of those that do not use ALSPs were skeptical about cost reductions: 44 percent said ALSPs would not necessarily reduce costs.

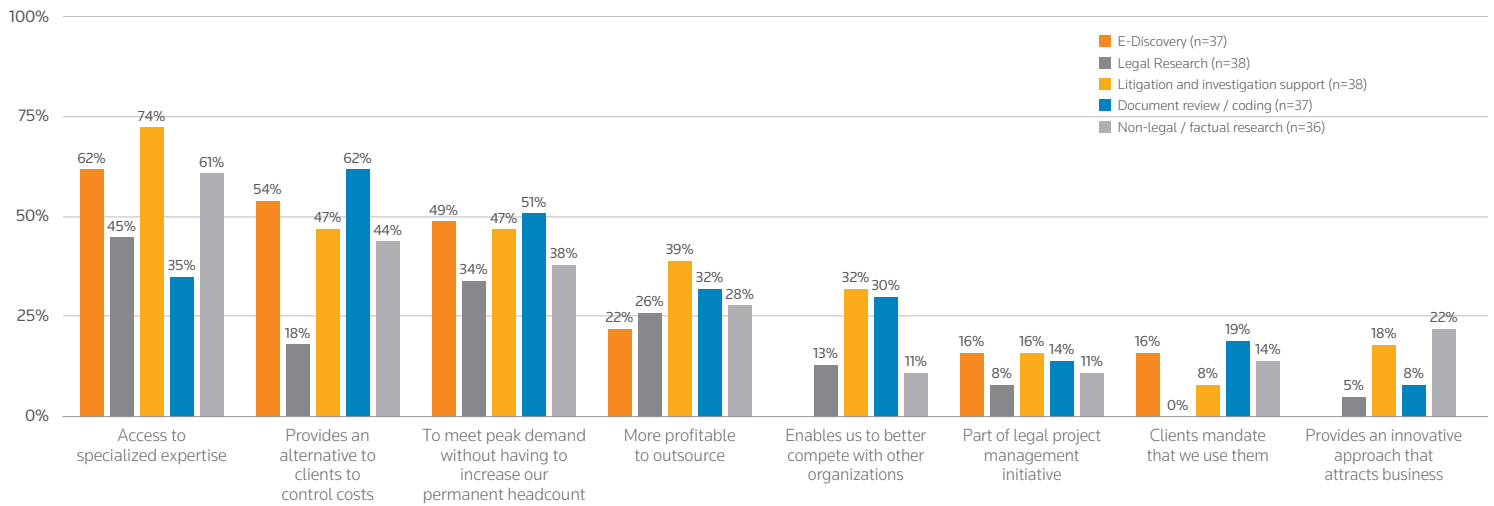
## LAW FIRMS' RELATIONSHIPS WITH ALSPs EVOLVE

### MULTIPLE FORCES, NOT COST ALONE, DRIVE LAW FIRMS TO ALSPs

When asked why they use ALSPs, law firms predominantly replied with answers that fall into three categories: to save money; to access specialized expertise; and, for client satisfaction. Of course, there is still plenty of overlap within and between these categories, and the drivers pushing law firms to use ALSPs are different depending on the particular service being accessed.

Across law firms, cost is recognized as an important driver. But more surprising in this year's report is the extent to which law firms, as well as corporate clients, are turning to ALSPs for specialized expertise. Law firms are most likely to cite the specialized expertise of ALSPs when engaging them for litigation and investigation support, by 74 percent; e-discovery by 62 percent; and, non-legal/factual research by 61 percent. Cost was the most important factor for clients that were using ALSPs for document review/coding.

## Law Firm Drivers of ALSP Use (All Geographies)



Across almost all services, access to specialized expertise was cited as the top driver for using that service. For example, expertise was cited as driving litigation and investigation support 74 percent of the time, although cost-related drivers also received considerable note.

The counter-example is document review/coding, the sole service that did not have expertise as the most frequently cited driver – although 35 percent of law firms did cite that as a driver. Instead, cost-related reasons were in play: 32 percent of firms said it was more profitable to outsource this function, and 19 percent said client mandates were a factor.

No matter the function for which a law firm is using an ALSP, firms were reluctant to credit a client mandate for their use. As noted above, the area that most frequently seems to involve a client mandate is document review/coding, with 19 percent of firms saying this is guiding their use of ALSPs. No law firms said that clients had instructed their use of ALSPs for legal research, and only eight percent said their clients insisted on ALSPs for litigation and investigation support.

While a flat-out directive from a client to use ALSPs may be relatively rare, clients have other ways of making their preferences known. Overall, the second-most frequently cited reason for using ALSPs was “provides an alternative to clients to control costs.” It was most common in document review (62 percent), e-discovery (54 percent), and litigation and investigation support (47 percent). This, and other indications presented below, demonstrates that client pressure for ALSPs is growing, even if it’s not cited as the primary driver.

In what may be a sign that law firms are beginning to see ALSPs more as allies than as competitors, a few firms admitted that using an ALSP “provides an innovative approach that attracts business.” This was most common when ALSPs were used for non-legal/factual research, with 22 percent of firms agreeing, and litigation and investigation support, with 18 percent.

## LAW FIRMS ARE RECOGNIZING THE ADVANTAGES OF ALSPs

Meanwhile, law firms’ reasons for turning to an ALSP have evolved substantially. About half of all law firms say that ALSPs can help them scale and expand their business. That is an increase across all law firms, but especially at the smaller end, where only 30 percent of small firms agreed with this statement two years ago. Law firms also see ALSPs as potentially offering a point of differentiation to clients. Fifty-three percent of large law firms said ALSPs offered this, up from 38 percent two years ago. Again, the smallest law firms are showing the greatest newfound appreciation for what ALSPs can bring to the table – 43 percent said ALSPs could provide differentiation, up from just seven percent two years ago. There is anecdotal evidence that ALSPs see small boutique law firms as particularly good candidates for their services, because on-boarding an ALSP at one of these firms is likely to benefit a wider proportion of the partnership than it would at a large law firm.

### LAW FIRMS ARE ALSO FEELING CLIENT PRESSURE

Law firms are also feeling more pressure from clients to consider ALSPs. The number of corporations who say they are encouraging their lawyers to use ALSPs came in at 23 percent, up from 17 percent two years ago. And it seems that law firms are getting the message: across the board, firms say they are facing increased pressure from clients to consider ALSPs.

Again, the largest change is among smaller law firms. Two years ago, zero small law firms said their clients were increasingly pressuring them to use ALSPs. This year, 24 percent of small law firms reported more pressure from corporate clients. The number of midsize law firms facing this pressure more than doubled, to 23 percent. Large law firms also witnessed more client pressure: 39 percent say they are facing increased pressure, up from 18 percent two years ago.

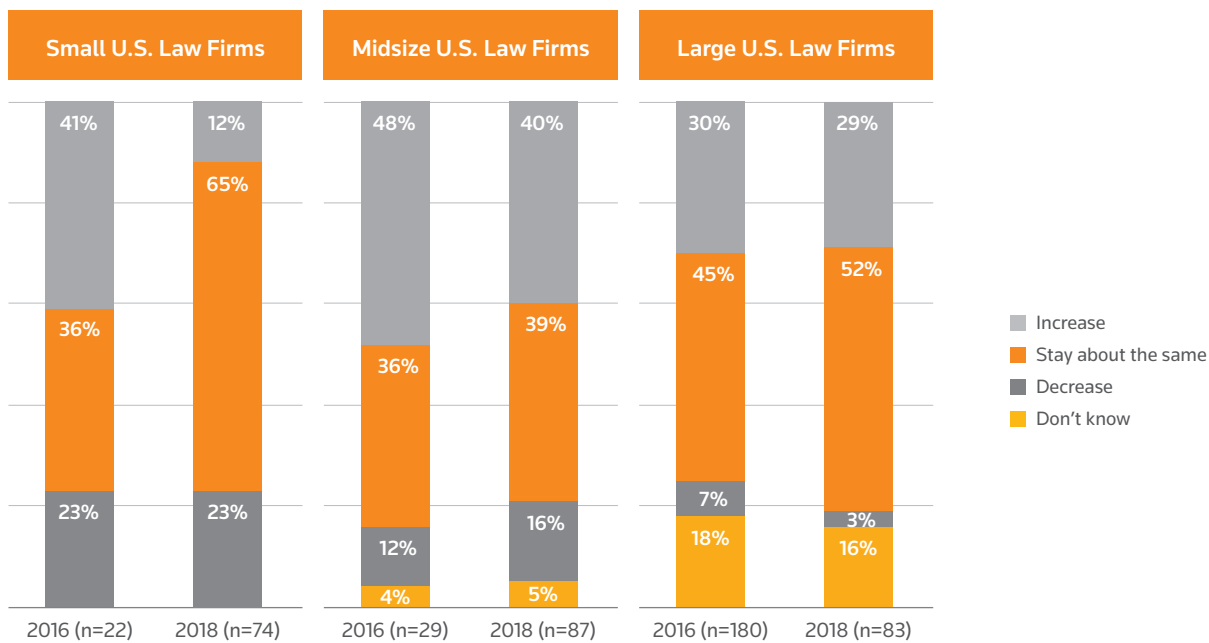
### LAW FIRMS DESIRE A NEW WAY OF DOING BUSINESS

Despite the significant broadening of ALSP engagements within law firms that use these providers, law firms that don't use ALSPs are generally not much more likely than they were two years ago to say they plan to use them in the future. But it's a mixed picture; they report that they are more likely to use ALSPs for some services in the future, and less likely to use them for other services.

This shouldn't be a surprise. Law firms have long been skeptical of the ALSP model, oftentimes seeing ALSPs more as a threat to the billable hour than as force-multipliers that can help firms better serve clients. As seen above, firms that do use ALSPs have integrated them relatively quickly into a steadily increasing variety of offerings. But that initial use often comes at the behest of a client, who insists upon the economies and legal expertise that ALSPs can bring. Few law firms would say they are planning for that sort of request.

Once law firms begin using ALSPs, they tend to continue using them and ultimately increase their spend. Among the largest U.S. law firms, 29 percent say their spending will increase, which is about the same as two years ago. Only three percent think their spending will decrease, and 52 percent say it will stay the same. Twelve percent of small law firms anticipate increasing spending, as do 40 percent of midsize law firms. Very few law firms are anticipating a decrease in spending.

Predicted ALSP Spending by U.S. Law Firms



There are a few areas where expectations for the use of ALSPs are increasing compared to two years ago. Among large law firms, 29 percent say they expect to use ALSPs for specialized legal services and for project management within the next five years. That compares to 14 percent, in both categories, two years ago. Midsize law firms show the same general trends. Small law firms show increasing expectations of use for document review/coding services.

These numbers may be unrealistically low, since historically, ALSP adoption has been driven more by the client side than by the law firm side.

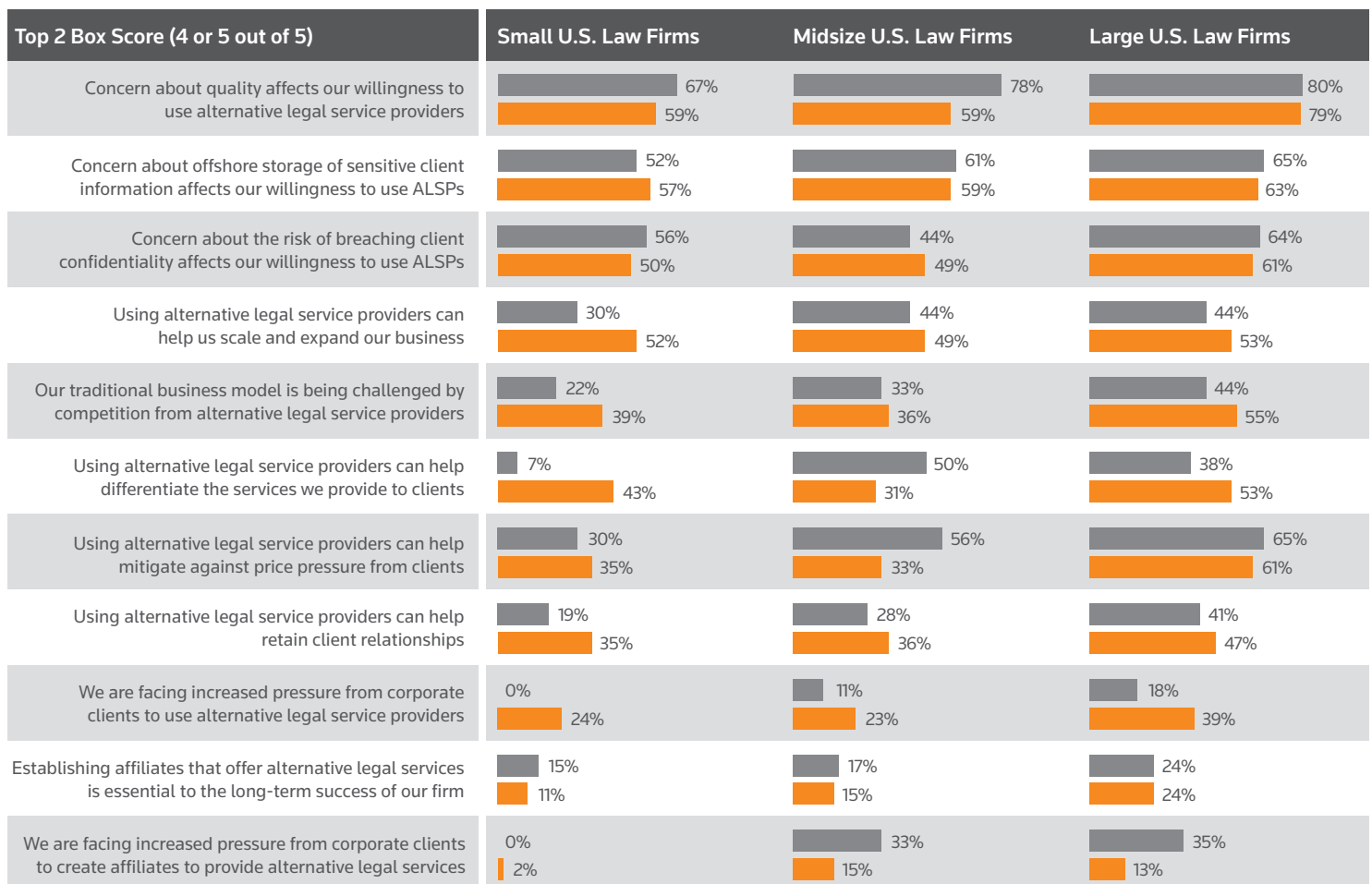
### LIKE CORPORATES, LAW FIRMS FEELING MORE AT EASE WITH ALSPS

In the U.S., law firms' attitudes about ALSPs, like their corporate counterparts, have evolved over the past two years: concerns about quality and security are declining overall, and law firms are increasingly realizing the benefits that strategic use of ALSPs can offer. Different patterns are observable depending on the attitude cited and the size of law firm responding.

Law firms have also been concerned that quality of work from ALSPs will not be high enough for their needs. The largest law firms are still wary: 79 percent say that concern about quality affects their willingness to use ALSPs, which is about even with the 80 percent of firms that held this view two years ago.

However, this concern has subsided more among small and mid-sized law firms. Among midsize and smaller law firms, quality is becoming less of an issue. Two years ago, 78 percent of midsize law firms cited quality as a concern. This year only 59 percent said quality concerns affected their willingness to use ALSPs. Fifty-nine percent of small law firms also said quality could be an issue, down from 67 percent two years ago.

#### US Law Firms: Trends in Attitudes Towards Use of ALSPs



■ 2016 ■ 2018

The next biggest concern has to do with offshore storage of sensitive client information. About 60 percent of U.S. law firms, of all sizes, said this was an issue. That is a number that has hardly budged in the past two years. Concerns about breaches of client confidentiality didn't move much either, coming in at about 50 percent for small and midsize law firms and 61 percent for the largest law firms.

There is evidence that the educational challenge for providers is becoming harder: Two years ago, many law firms weren't all that aware of the capabilities of ALSPs, and firms presented that as a reason for not using them. Now, according to interviews with ALSPs, there seems to be an increasing attitude among some law firms that some work should simply stay in-house.

Among those law firms that do not use ALSPs at all, the top reason was simply, "Prefer to handle it using in-house resources," cited by 66 percent. That, again, points up the significant educational challenges faced by ALSPs. Clearly, there are many law firms that are yet to be convinced ALSPs either address a significant pain-point or provide a competitive advantage. It is especially interesting that just two years ago, the top concern among law firms that don't use ALSPs was data security. That issue came in at number five this year, at just 25 percent.

Forty-three percent of law firms said they weren't using ALSPs because no client had requested it, showing again that significant law firm adoption – or lack thereof – is often driven by the client side.

Not until the third-most-popular response do law firms mount an objection that is specific to ALSPs or to their business models: 34 percent say they are concerned about ALSPs' quality of service, and 33 percent say they don't think ALSPs would necessarily reduce costs.

For further analysis of how law firm use of ALSPs differ by country, see Appendix 2.

## IMITATING THE MODEL: LAW FIRMS' USE OF PARTNERSHIPS AND AFFILIATES

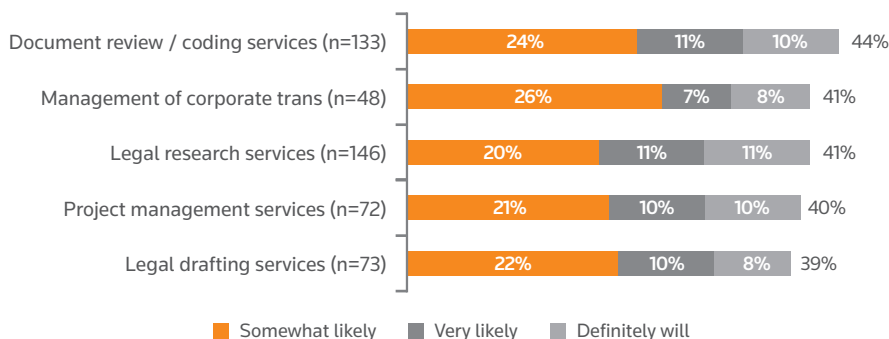
Given the early success and fast growth of ALSPs, it is not surprising that at least some law firms would attempt to imitate the model themselves and do so in a way that retains the primacy of their client relationships. To that end, some law firms are forming partnerships with ALSPs, and in certain cases, creating ALSP affiliates themselves.

For most firms, partnerships are by far the easier path. About half of all law firms that use ALSPs for either intellectual property management or specialized legal advice provided by licensed lawyers do so via a partnership. Partnerships are also common in litigation and investigation support, legal drafting services, and e-discovery – more than 40 percent of law firms using ALSPs for these functions do so through a partnership.

Large law firms are the most likely to use a combination of ALSPs to offer a complete solution to clients. There is even some evidence that firms will on-board multiple providers, acting as a filter for their clients and helping to establish who the ALSP leaders will be. Corporations are generally more likely to work with a single provider, or with a combination of a law firm and an ALSP, than they are to work with multiple ALSPs.

A relatively small number of firms have established their own ALSP affiliates. That is not surprising, given the significant barriers to building an in-house ALSP. The business model of an ALSP is completely different from that of a law firm. To make an ALSP work, a firm needs more than just legal talent, it also needs business acumen and pricing specialists.

### Law Firm Plans to Establish In-House Affiliates (All Geographies)



Internally, law firms face tremendous barriers to creating any sort of alternative legal model. Creation of new initiatives such as an internal ALSP are generally driven by internal stakeholders rather than by client demands. Compounding this, law firms may face less pricing pressure than many other industries, which also slows the growth of in-house alternative providers. Firms also face skepticism from among their corporate clients that the firms really know how best to drive value from the combination of legal expertise, technology, and business process innovation.

Law firms do have one important advantage in establishing their own ALSPs: recruitment, buoyed by brand prestige and higher wages. In interviews, ALSPs consistently cited access to talent as one of their biggest challenges to growth. The exception to this may be the Big Four, which offers their employees prestige similar to that of major law firms. For other ALSPs, the challenge is to develop attractive employer brands that demonstrate to potential hires that ALSPs offer the possibility of doing high-quality, challenging legal work on a more reasonable schedule than many law firms allow.

A relatively large number of firms say they are considering establishing an affiliate within the next five years. The most popular is an interdisciplinary practice involving a mix of services, which was appealing to 34 percent of firms. Twenty-nine percent said they were considering a legal process outsourcing firm or managed service provider.

Clearly, law firms are intrigued and perhaps a little alarmed by the growth and prominence of ALSPs. As the traditional law firm business model continues to come under pressure from a variety of forces, law firms will continue to investigate new ways to partner with, imitate, and leverage these legal service innovators.

## ALSPs ARE BECOMING MORE MAINSTREAM

### ALSPs MOVE UP THE VALUE CHAIN

By taking a look at precisely how both law firms and corporate legal departments are using ALSPs, it becomes clear that ALSPs are working their way up the value chain.

Indeed, this is a conscious goal of many ALSPs interviewed for this study. Remember that ALSPs are heterogeneous, including the Big Four, captive and independent LPOs, and providers of staffing services. Nevertheless, ALSPs, regardless of their specialization, have targeted areas such as managed legal services, legal operations, legal advisory, and legal project management, where they believe they can do more high-end, consulting work. For ALSPs, the end goal is to work more closely with lawyers, provide more value-add, and rely on technology to deliver legal services more efficiently and effectively.

This strategy, already under way, accounts for 25% year-on-year revenue growth commonly expected by the ALSPs interviewed for this study. Major ALSPs are already diversified, and provide services in more than one area, ranging from project management, regulatory risk and compliance, staffing, contract management, document review and coding, M&A due diligence, and litigation support. Within each area, ALSPs are performing more complex tasks such as preparing for depositions in litigation support, and predictive coding in e-discovery.

Major ALSPs already operate internationally, but 55% of those interviewed expected growth to come from further geographic expansion, by targeting large corporations as clients, and large law firms as clients or partners.

Incorporating new technology into their business model is high on the agenda of ALSPs. They see technology as a catalyst for migrating up the value chain in legal services. In 2018, ALSPs cited contract management and process-mapping tools as the most commonly used technologies. Moreover, around a quarter of the ALSPs interviewed reported using technologies that involve an element of artificial intelligence (AI), and an additional one-third were in the process of evaluating AI's potential. While some acknowledged the hype and the infancy of AI, many saw the potential of using the technology to support core services rather than just the back office.

ALSPs recognize that their clients – corporations and law firms – regard low pricing and value-for-money as a key component of their competitive advantage. However, as is evident from the variety of reasons why clients use ALSPs in our survey, ALSPs themselves articulate their own unique selling proposition as combining quality talent and technology to offer holistic solutions to customers.

## A BOOM IN LITIGATION AND INVESTIGATION SUPPORT

Across all law firms, no matter their size or geography, the growth in use of ALSPs for litigation and investigation support may best point the way toward the future success of the industry. These higher-value services illustrate one of the unsung reasons that law firms and corporations turn to ALSPs: not just for improved technology and flexibility around headcount, but for specialized legal services, which was cited by a stunning 74 percent of large law firms. Indeed, the extent of litigation support offered by ALSPs clearly shows the need for that expertise: everything from trial and deposition support to the creation of courtroom exhibits and case analysis.

In 2016, just eight percent of small law firms in the U.S. used ALSPs for litigation and investigation support; now 26 percent of these firms are doing so. Midsize and large law firms were more likely to be using these services two years ago; now, they are increasing their use. Forty-three percent of midsize U.S. law firms use ALSPs for litigation and investigation support, up from 32 percent. Growth at large law firms is even more aggressive: More than half, or 52 percent of large U.S. law firms, use ALSPs for litigation and investigation support, up from 33 percent. In the U.K., some 36 percent of large law firms use ALSPs for litigation and investigation support, as do 16 percent of midsize U.K. law firms, making it a top-five use case in the U.K.

## LOOKING FORWARD: ALSPS ANTICIPATE SIGNIFICANT GROWTH... AND CHALLENGES

In our direct interviews with representatives of ALSPs, a clear sense of optimism and a forward-looking perspective prevails. Many expect annual growth to be in the 25% range, and for some expected growth rates exceed 100%. And even if most expect solid organic growth, acquisitions are also part of the growth perspective. Indeed, Elevate's recent acquisitions of LexPredict, Sumati, and Halebury, and EY's acquisition of Riverview Law last August are just two examples of that strategy.

Law firms, too, are experiencing growth in their affiliates and captive LPOs. Some report significant increase in terms of hires and staffing; others cite volume gains that are accomplished without headcount growth due to the application of technology.

Still, the ALSPs' optimism is tempered by a few challenges. The first among these is a struggle for high-quality talent to support these growth plans. Law firms seemed to be more optimistic here, in the belief that their brands will continue to be a draw for good talent. Law firms also reported a level of internal resistance to change as they moved to alternative models for service delivery. Independent ALSPs, in the meantime, reported that they are building attractive brands that provide an alternative and more flexible work life.

Both ALSPs and law firms report that competition is a barrier at times, but that there is plenty of headroom for all to grow. And finally, both independent ALSPs and law firms with ALSP affiliates see change management and resistance to adoption by lawyers as significant challenges for their future success in this area.

Still, for all those challenges, the outlook of most ALSPs is that the coming years will be characterized by both financial growth and market acceptance of their new legal service delivery models. A big part of this is the mainstreaming of the idea of ALSPs that is evident throughout this report.

It's safe to say that ALSPs have gone from a new and somewhat unknown phenomenon a few years ago to a well-established segment that is an integral part of the legal services industry today.

## METHODOLOGY

An online survey was distributed to decision-makers in corporate legal departments and law firms in the U.S., the U.K., Canada, and Australia, with the ability to respond from June 20 to July 16, 2018.

In all, 517 respondents (representing 335 law firms and 182 corporations) answered initial questions about their use of alternative legal services providers. A total of 252 respondents who used at least one type of ALSP completed the entire survey. Of the 517 responses, 264 are from the U.S. and 171 from the U.K.

In addition, Acritas conducted telephone interviews with representatives of 35 ALSPs located in the U.S., U.K., Australia, India, Switzerland, Germany, and Ukraine. Some 42 percent of the interviews were with the founders of the ALSPs, and 58 percent were with other senior executives.

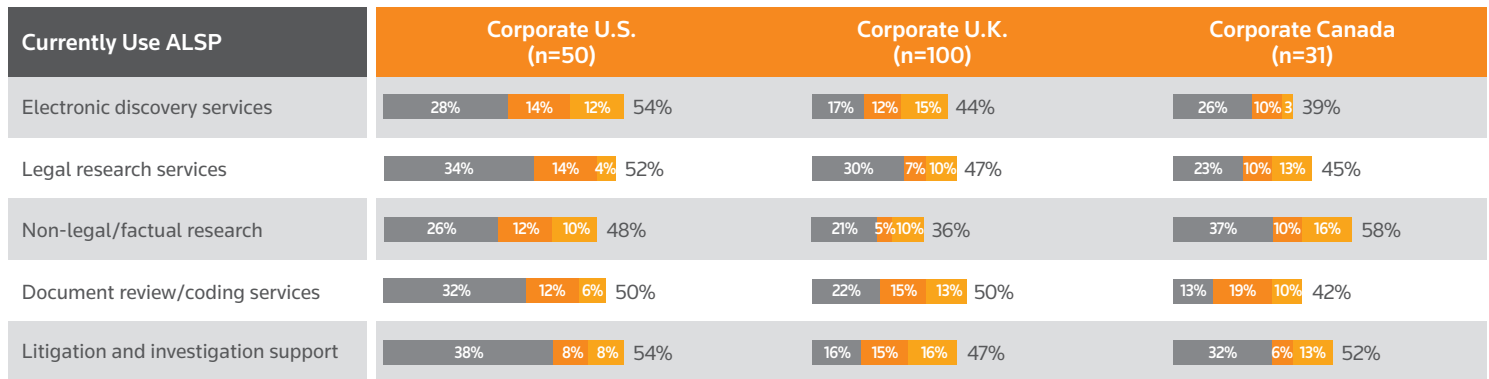
Market size estimates are derived from published figures, industry reports, and Thomson Reuters' best estimates of the size and revenues of the various players in the ALSP space.

## APPENDIX 1

### CORPORATE USE OF ALSPs DIFFERS BY SEGMENT AND COUNTRY

This first-ever study of the ALSP market in the U.K. and Canada found significant adoption of ALSPs. Those rates, however, are generally not as high as those in the U.S. It seems that U.K. corporations, as well as those in Canada, are more satisfied working directly with their lawyers, but certain regulations may be a factor as well: The U.K. Legal Services Act enabled Alternative Business Structures (ABSs), in which lawyers and non-lawyers can co-own and co-manage law firms. As a result, some law firms and some ALSPs have taken advantage of the benefits of the new model and became ABSs.

#### Corporate Use of ALSPs by Country



■ Currently use ■ Plan to use within the next year ■ Likely to use in the next 5 years

Among corporations, use of ALSPs for electronic discovery services is nearly the same in the U.S. and Canada: 28 percent and 26 percent, respectively, with the U.K. coming in at 17 percent. When it comes to legal research, the U.S. is the fastest adopter, at 34 percent, with the U.K. at 30 percent and Canada at 23 percent. For non-legal research, the market seems most developed in Canada, where 37 percent of corporations use ALSPs for this purpose. U.K. corporations are most likely to use ALSPs for access to specialized legal services provided by licensed lawyers, at 40 percent. Only 24 percent of U.S. corporations and 13 percent of Canadian corporations use ALSPs in this way. For document review/coding services, and in litigation and investigation support, ALSPs are most popular in the U.S. Only 13 percent of Canadian corporations use ALSPs for this service, as do 22 percent of U.K. corporations.

Projected growth rates would bring the corporate side of the business into close alignment across the three countries. In five years, U.S. corporations predict that, on average, 52 percent of firms will be using ALSPs across their top five use cases. U.K. corporations predict a 50 percent use rate, and Canadian corporations a 49 percent rate.

**Indirect use of ALSPs across the U.S., U.K., and Canada** – Corporate use of ALSPs is shown to be more extensive when indirect use – through a traditional law firm – is included. What’s less clear is whether this is work that the corporation would normally have handled in-house, or if it is work that would have otherwise been handled by the law firm’s own staff. But given that a sizable number of law firms say they are using ALSPs at clients’ behest, it is reasonable to assume that this so-called indirect use would account for a significant share of the market on the corporate side. This effect seems to be about the same across the U.S., Canada, and the U.K., adding an average of 10 percentage points to the popularity of each of the top 10 uses.

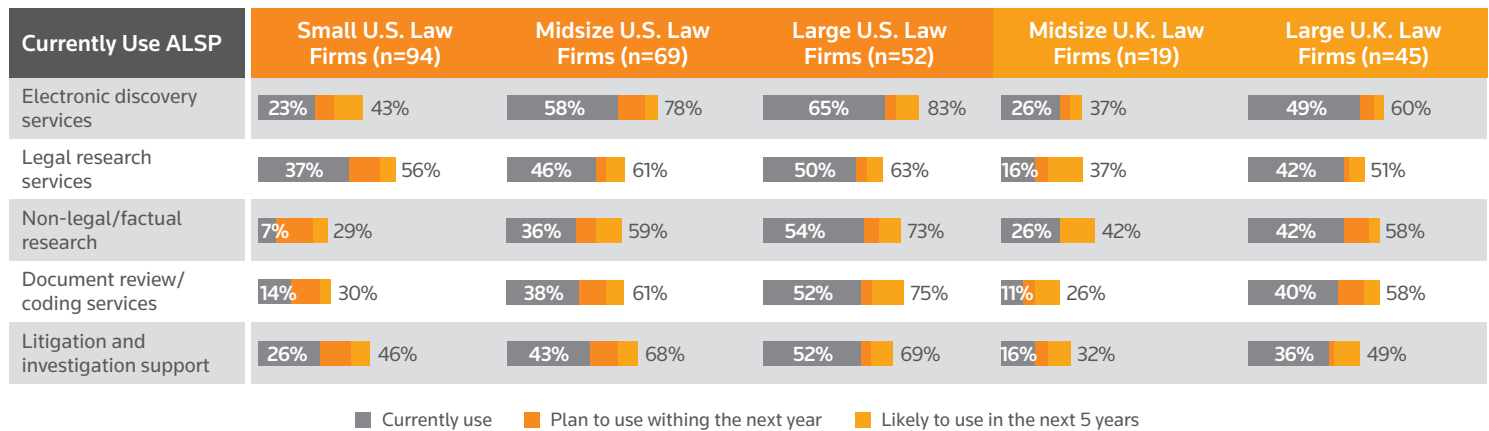
In the U.S., the most frequent indirect use of ALSPs by corporations, at 14 percent each, are for litigation and investigation support, specialized legal services from licensed lawyers, and due diligence for mergers and acquisitions. In the U.K., the top uses, also at 14 percent each, are e-discovery services, legal research, and document review/coding services. In Canada, corporations prefer to ask their outside counsel to use ALSPs for specialized legal services provided by licensed lawyers at 19 percent. The next most common indirect uses, all at 13 percent, were legal research, document review/coding services, litigation and investigation support, and due diligence in mergers and acquisitions.

## APPENDIX 2

### HOW LAW FIRMS USE ALSPs DIFFERS BY COUNTRY

On the law firm side, adoption rates in the U.K., in particular, are substantial: at least-one third of large firms say they are turning to ALSPs for each of the five most-common uses (*see below*) and expectations for future use are also high.

#### Law Firm Use of ALSPs Across the US and UK, by Size



The top use of ALSPs among U.K. law firms is for e-discovery services. Forty-nine percent of large U.K. law firms use ALSPs for this purpose, compared to 65 percent of large U.S. law firms. There's a slightly smaller gap – between six and 12 points – for the next three most-popular use cases: legal research, non-legal/factual research, and document review/coding. In litigation and investigation support, the gap is wider: 52 percent of large U.S. law firms use ALSPs here, compared to just 36 percent of large U.K. law firms.

In some areas, U.K. firms are significantly more likely to turn to ALSPs than their U.S. counterparts. U.K. firms seem much more amenable to working with ALSPs for legal drafting services, due diligence in mergers and acquisitions, and project management services. Some 27 percent of large U.K. firms said they used ALSPs for legal drafting services, and for due diligence in mergers and acquisitions. That compares to zero large U.S. law firms that said they use ALSPs for legal drafting, and 15 percent that use ALSPs for mergers and acquisition due diligence. Twenty-four percent of large U.K. law firms use ALSPs for project management services, compared to 17 percent of large U.S. law firms.

Midsize law firms in the U.K. are much less likely to be using ALSPs than their U.S. counterparts. For midsize U.K. law firms, the two top-ranked uses are e-discovery services and non-legal/factual research, with 26 percent of midsize law firms saying they use ALSPs for each. That compares to the 58 percent of U.S. midsize law firms that use ALSPs for e-discovery and 36 percent that use them for non-legal or factual research.

In general, U.S. midsize law firms are more likely to act like their larger peers than are midsize firms in the U.K. Among the top five uses of ALSPs, the gap in adoption between large law firms and midsize law firms in the U.S. is an average of 10 points. In the U.K., that gap averages 23 points.

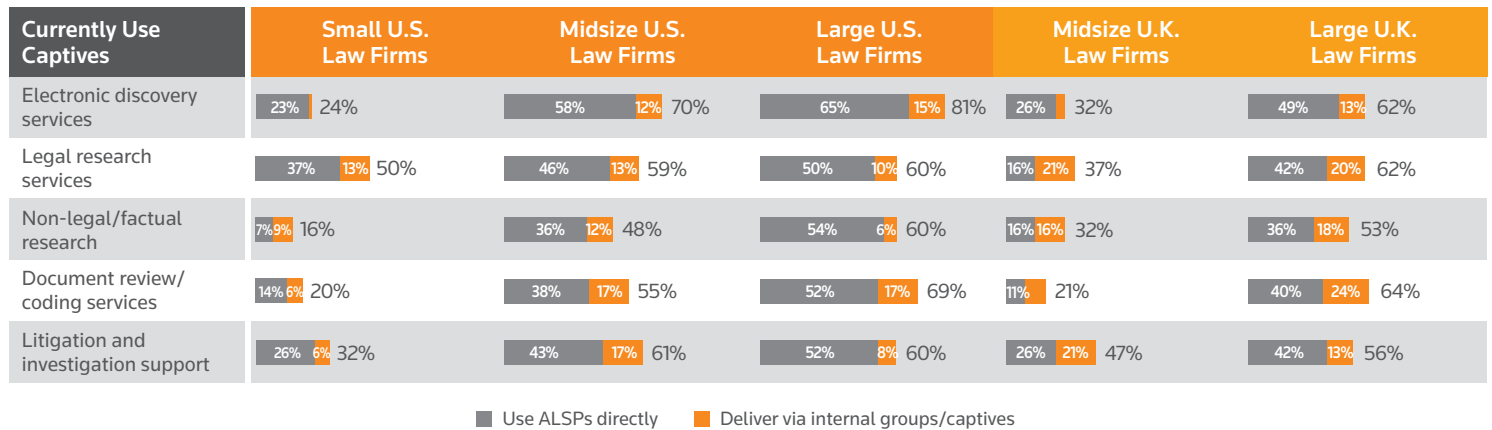
When asked about their likelihood of using ALSPs for different functions in five years, firms in both the U.S. and the U.K. predicted substantial growth, with ten-to-fifteen percentage point increases being common. ALSPs, for their part, are predicting median organic year-over-year growth at about 24 percent. If those growth projections are correct, adoption of ALSPs among large law firms will remain a bit slower in the U.K. than in the U.S. for the at least the next five years. Where they are most likely to run neck-and-neck is in the use of ALSPs for regulatory risk and compliance, management of corporate transactions, and contract management and abstraction.

## APPENDIX 3

### LAW FIRM USE OF CAPTIVES

This was also the first year the research asked about captives, which have made some headway among firms of all sizes in both the U.S. and the U.K. When captives are included, the scope of the alternative legal services model and market expands significantly.

#### Law Firm Use of Captives, by Country



Overall, U.K. law firms are more likely to implement the captive model than U.S. law firms. A full 33 percent of large U.K. law firms use captives to offer project management services, as do 26 percent of midsize U.K. law firms. It is also worth noting that no midsize U.K. law firms said they purchased project management services through other ALSPs. While just 15 percent of large U.S. law firms, and 14 percent of midsize ones, used a captive for this purpose. Twenty-four percent of large U.K. law firms use captives for intellectual property management and for document review/coding services, which are, again, higher than the U.S. large law firm numbers of 12 percent and 17 percent, respectively.

Surprisingly, in the U.S., midsize law firms are about as likely to embrace a captive model as are the largest law firms. Those firms could be in a sweet spot: their hourly rates are not so high that a captive could severely undercut their model, but the law firms are large and diverse enough to support what is essentially a separate in-house business. The captive model has yet to really take hold at small law firms, with the possible exception of legal research, where 13 percent of small law firms have captives.

In the U.S., captives are most likely to be used for document review/coding services: 17 percent of both large and midsize law firms say they have captives that perform these services. Among large law firms, 17 percent also have captives that provide specialized legal services provided by licensed lawyers; merger and acquisition due diligence; document review/coding; and, contract management and abstraction. A similar percentage of midsize law firms – 17 percent – also use captives for litigation and investigation support, and document review/coding.

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