



ALTERNATIVE LEGAL SERVICE PROVIDERS 2021

Strong Growth, Mainstream Acceptance, and No Longer an “Alternative”

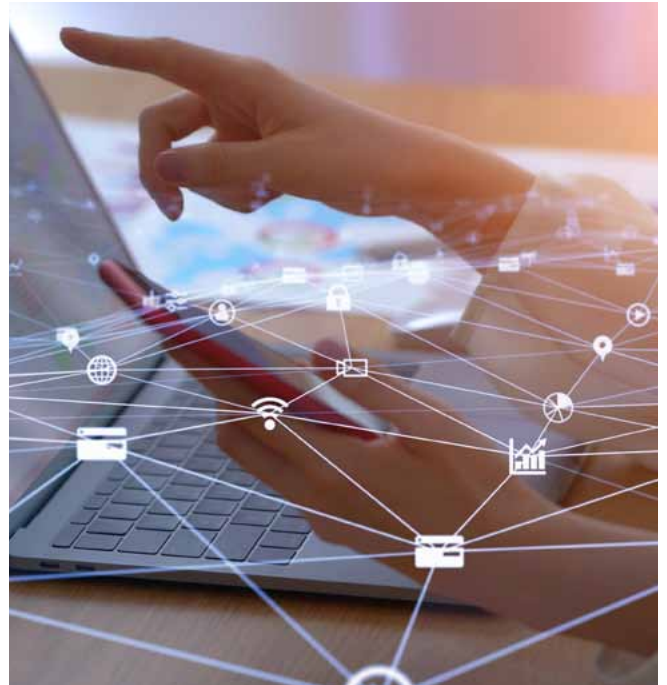
INTRODUCTION

Alternative Legal Service Providers (ALSPs) play an important and growing role in the legal landscape. They help provide clients—both corporate counsels and law firms—with specialized expertise, enable them to work more cost-efficiently, and are transforming the way that we think about the practice of law.

This year marks the third biennial survey of this important sector of the legal market, produced by Thomson Reuters in partnership with The Center on Ethics and the Legal Profession at Georgetown Law and the Saïd Business School at the University of Oxford.

EXECUTIVE SUMMARY

The 2021 report reveals a picture of an industry which has reached a point of maturity. ALSPs, or new law companies as they are increasingly known, are used by most corporations and law firms, for an increasing number of services. Both sets of ALSP customers have awakened to the complementary role ALSPs can offer, providing expert capacity in distinct areas, often at a more competitive cost, and freeing up internal resources to focus on higher value tasks.



What are the undisputable facts?

- The ALSP market started by offering services at the lower value end of the legal industry in new lower cost, more effective ways
- The ALSP market has grown during the last six years and is valued at nearly \$14 billion
- Market penetration is high. Some 79% of law firms surveyed are using ALSPs, along with 71% of corporate law departments
- The range of services being offered and used by both law firms and corporations have grown in volume and value, although e-discovery remains dominant
- ALSPs have yet to take massive market share from law firms. In the main, law firms retain the highest value services and depth of relationships
- Some law firms have responded to the threat of ALSPs by creating competitive services using ALSP models, often within a captive organization

ALSPs were not immune to the pandemic. The slowing of business-as-usual activity resulted in reduced demand for some, amplified by law firm and corporate customers hanging on to work they would have previously given to ALSPs. As activity resumes at more normal levels, the pandemic has, in many ways, validated the ALSP approach. The acceptance of new ways of working, thanks to the shift to remote, technology-enabled, and more flexible working styles, leaves ALSPs perfectly positioned for growth through 2021 and beyond.

There is a clear need in the market for cost-efficient and cost-certain solutions, and for measurable legal output reported through management information and dashboards. Converting legal documents into digital information creates huge potential for future savings and risk control.

Within this report, we consider the three different types of market players: law firm captives; independent ALSPs and the Big Four legal service providers. It is worth noting that the lines have been blurred in recent years as numerous acquisitions and joint ventures have taken place. In the absence of publicly available financial information, we've made a number of calculations to arrive at our market sizing estimate. We've kept our assumptions consistent year-over-year to provide a guide as to how the different groups of market players are evolving.

Collectively, law firm captives still have the smallest market size. However, they have achieved the highest growth rate in percentage terms. That's a big win for firms that have adopted this strategy, often to the surprise of resistant partners.

The independent ALSPs account for by far the largest share of the ALSP market and the growth rate is not far behind the captives. Because the independents account for a significantly larger share of market, their uplift accounts for approximately \$2.7 billion of the market size increase over the last two years. Technology is at the core of many of the independent ALSPs' business models. In addition to leveraging their technology solutions, law firms and corporations are increasingly turning to the independents as consultants on legal technology, accessing their expertise and experience.

In general, this round of research shows an increasing sense of collaboration, rather than competition between law firms and independent ALSPs. In prior years, corporations would be the ones mandating the use of an ALSP. Now law firms may be the ones bringing that idea forward. Comfort is growing in the use of ALSPs, directly or indirectly, for all parties.

The Big Four continue to be hampered by regulation in some markets and appear to be shifting their focus to a more 'client issues-led' and 'consulting-based' approach – two areas the Big Four are highly adept in. Their collective growth rate appears to trail the independents and the captives by some margin. However, they remain focused on significant growth and international expansion and, with their unmatched resources and know-how, are serious competitors.

The research revealed that half of law firms and corporations still harbor some doubts about the quality and security of the ALSP offering. But these negative perceptions are declining. Law firms and corporations now see the potential in using ALSPs to help their own operations stay focused on higher value activities, while saving cost at the same time.

This could well be the tipping point for the ALSP market, with widespread acceptance of the business model and benefits that are perfectly attuned to the current times, creating the conditions to rapidly scale up market share.

“In general, this round of research shows an increasing sense of collaboration, rather than competition between law firms and independent ALSPs.”

SECTION 1 – ESTIMATED MARKET SIZE

SUBSTANTIAL GROWTH OVER A SIX-YEAR PERIOD

Law firm captives achieve highest growth in last two years

Overall, the market for ALSPs reached approximately \$13.9 billion by the end of 2019, an increase of about \$3.2 billion during the past two years. While this number is necessarily imprecise given the fragmentation of the ALSP market and the data available on private companies and partnerships, we believe the market has grown by about 30% in that same time frame, a compound annual growth rate (CAGR) of 15%. That's more than twice the rate of the AmLaw 200* which stands at 6.4%.

Estimated ALSP Market Size 2015 v 2017 v 2019



The fastest-growing type of ALSP appears to be law firm captives, although they are growing from a much smaller base than other market segments. In a sign that law firms understand the appeal of the ALSP model and are experimenting with ways to deliver it to their clients, law firm captives have grown by about 60% in the past two years, or 30% CAGR. We estimate that captives brought in a combined \$480 million this year, up from roughly \$300 million two years ago. This is probably an under-representation, as not all captives are easy to quantify.

* AmLaw 200 is the ranking of the top 200 US law firms, by revenue, by the *American Lawyer* magazine.

By far the largest group of ALSPs is the independents. Independent ALSPs have also grown at a high rate—approximately 30% over the past two years, or a 15% CAGR, reaching an estimated market size of \$12.0 billion. In previous reports, the independent ALSPs were broken into sub-categories including document review, LPO, and ediscovery. Over the years, many ALSPs have developed more services and merged. Therefore, we have now grouped all independent ALSPs under one banner — however, ediscovery remains dominant in revenue terms.

While the entry of the Big Four into the legal market has been regarded with some trepidation, the legal services groups within the Big Four grew by about 17% over the same time period, for an 8% CAGR, bringing in a combined \$1.4 billion.

There are signs that the market for ALSPs is entering a new phase of maturity. While market sizing shows that growth is still strong, and ALSPs themselves are optimistic about their prospects, there is evidence that ALSPs are becoming more of a mainstream legal option, with well over half of law firms and corporations now using ALSP services.

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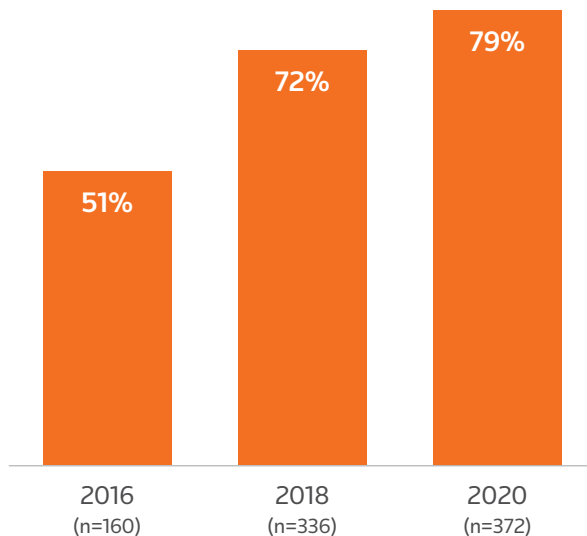
SECTION 2 – INCREASING USE OVER TIME, MOTIVATIONS AND BARRIERS

MORE LAW FIRMS AND CORPORATIONS NOW USE ALSPS

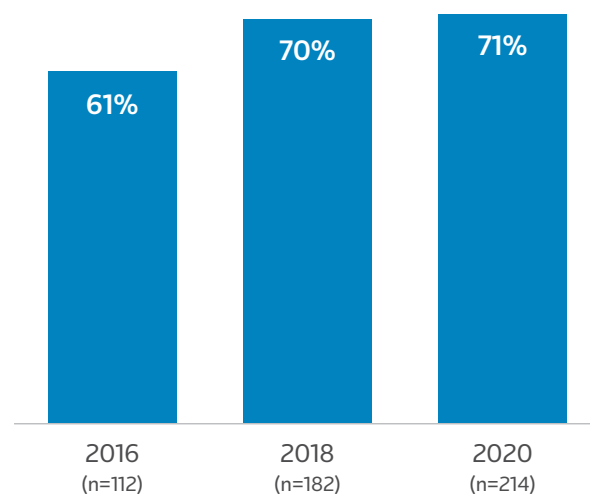
As indicated by the overall growth of the ALSP market, more firms and corporations are using ALSPs and finding new ways to partner with them. The corporate figure is fairly consistent with the Acritas global in-house counsel research study, which covers all aspects of buying behaviors, where 79% of corporations said they had used ALSPs.

ALSps report that law firms are now pro-actively bringing them into matters, whereas before their involvement was more likely to come at the behest of a client. Firms are also coming to understand that certain tasks, if performed by in-house attorneys, are probably always going to be loss-leaders – and that by outsourcing those to ALSps, they can do a better job both of preserving their margins and pleasing their clients.

U.S. Law Firms Using ALSPs



U.S. Corporations Using ALSPs



“As indicated by the overall growth levels of the ALSP market, more firms and corporations are using ALSps and finding new ways to partner with them.”

TOP MOTIVATIONS

Law firms and corporations both tap ALSPs for both specialized expertise and cost-control – and corporations get to free up time

At the bulk of law firms, motivations for using ALSPs are essentially the same as they were two years ago. The desire to access specialized expertise is the primary driver, especially when firms need litigation support and assistance with research. The second most-common driver, as it was two years ago, is cost. This is particularly evident in document review, where ALSPs provide an alternative to clients to control cost. And when a firm needs non-legal or factual research, it is likely to find it more profitable to send the work to an ALSP.

In-house teams typically use ALSPs for the same reasons law firms find them attractive: to access specialized expertise and to help reduce costs. They are most likely to cite specialized expertise when looking to use ALSPs for regulatory risk and compliance or litigation and investigation support. Cost control is more important for legal research.

But corporations are also more likely to use ALSPs to help them manage their own internal staffing hurdles. ALSPs are attractive because they help corporations free up internal staff to work on higher-value or more strategic matters, and also to help meet peak demand without having to increase permanent headcount. These criteria are most likely to be important when corporations need specialized legal services.

U.S. Law Firms: Top Drivers of ALSP Use



U.S. Corporations: Top Drivers of ALSP Use



Aggregate of all ALSP services evaluated and therefore multiple response, proportions are based on the number of responses.

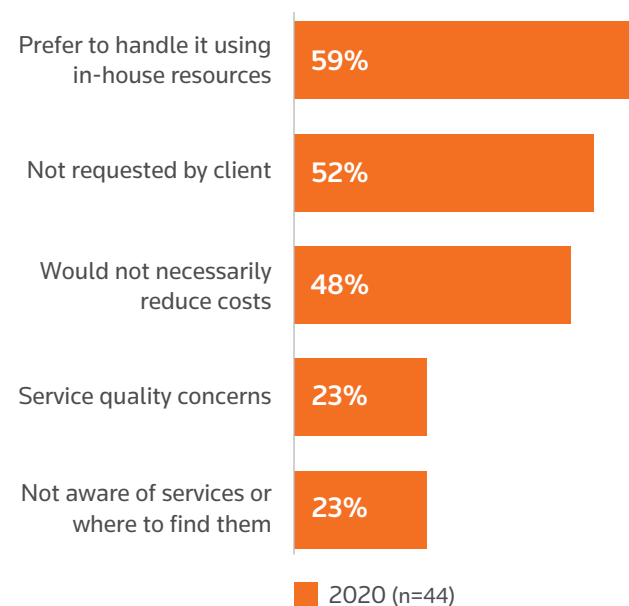
TOP BARRIERS

Firms want to hang on to work, clients aren't demanding ALSPs, neither party sees cost benefit, and both have service concerns

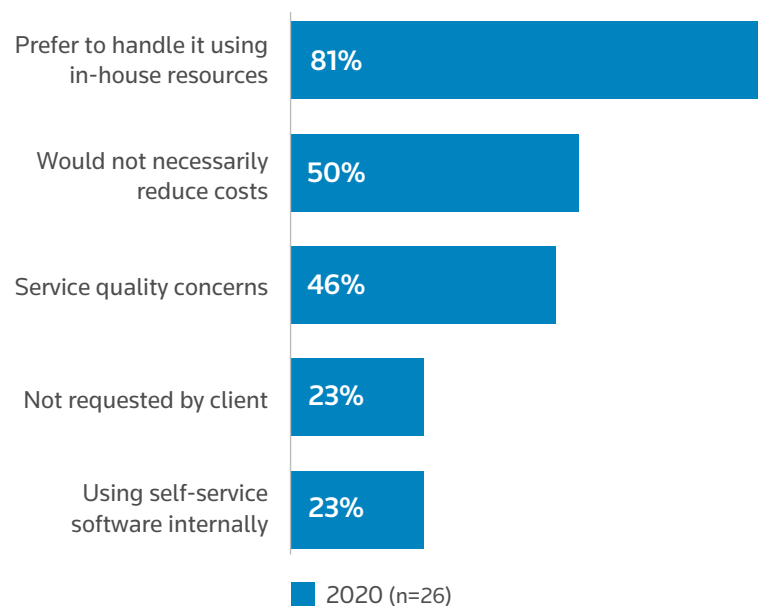
For the minority of law firms that don't use ALSPs, the reasons for not doing so have stayed consistent. The top four reasons remain the same as they were two years ago – with the top reason being that they want to retain the work. A slightly larger share claim that ALSPs were not requested by clients—52% noted that this year, compared to 43% in 2018. And 48%, up from 33%, doubt that ALSPs would save them money—even though, for firms that do use ALSPs, cost control is the second-most-popular driver of ALSP use.

The concerns of corporations that won't use ALSPs are similar to the resistant law firms. Some 81% say they simply prefer to keep the work in-house, and half say that using an ALSP wouldn't necessarily save them money. Nearly half of corporations have concerns about service quality.

U.S. Law Firms: Top Reasons For Not Using ALSPs



U.S. Corporations: Top Reasons For Not Using ALSPs



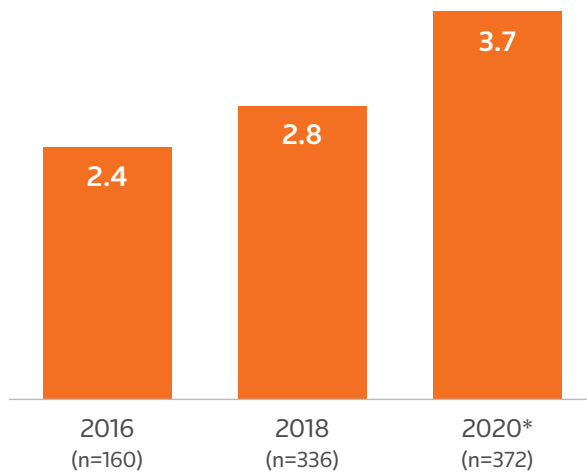
SECTION 3 – INCREASING BREADTH OF SERVICES

LAW FIRMS

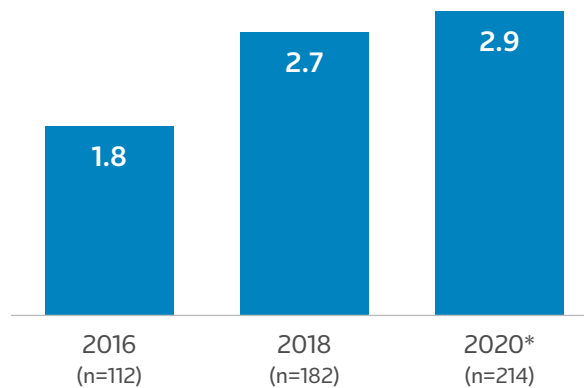
The average law firm has significantly increased the number of services for which they use ALSPs since 2018. The average law firm is now using an ALSP for 3.7 different service lines. It is worth noting that two additional service lines were added to the list in 2020, accounting for around half the growth. Without these additions, the average law firm would have increased use by 0.4 service lines.

Australian law firms show the most sophistication in their use of ALSPs, using the most service lines. U.K. firms use the fewest. The U.S. and Canada fall in the middle. Within the U.S., small firms use the least amount of services and large law firms use the broadest range – more than twice the amount as small firms.

U.S. Law Firms: Average Number of Services from ALSPs



U.S. Corporations: Average Number of Services from ALSPs



*Please note, we asked about two additional services in 2020 which account for 0.5 of the increase in service lines for law firms and 0.2 of the increase for corporations.

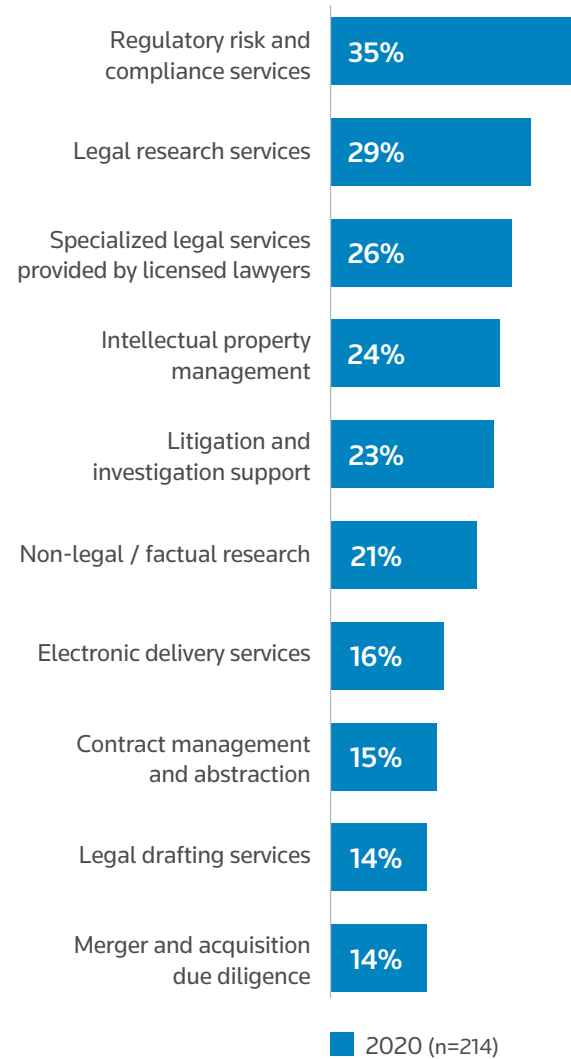
“The average law firm has significantly increased the number of services for which they use ALSPs since 2018.”

The top ten services used by law firms and corporations show some interesting differences. Ediscovery is now the number-one use case for law firms but drops to seventh for corporations. Conversely, regulatory risk and compliance services comes top for corporations but drops to eighth for law firms. Legal research comes in second for both customer groups. Litigation and investigation support is in the top five for both groups.

Top Services Used by U.S. Law Firms



Top Services Used by U.S. Corporations



Looking across markets we do see some different patterns. The U.K. firms, despite using fewer services overall, have higher demand for legal drafting and intellectual property management from ALSPs. Canadian firms are likely to turn to ALSPs for consulting on legal technology, project management services and management of corporate transactions.

Among U.S. law firms, the top five use cases for ALSPs remain the same as they were two years ago: legal research services, ediscovery, litigation and investigation support, document review and coding, and nonlegal/factual research.

International Law Firms: Use of ALSPs

	2020 U.S. (n=237)	2020 U.K. (n=44)	2020 Canada (n=40)	2020 Australia (n=51)
Legal research services	51%	25%	25%	43%
Electronic discovery services	49%	27%	35%	51%
Litigation and investigation support	43%	23%	33%	41%
Document review and coding services	37%	27%	35%	43%
Non-legal / factual research	31%	25%	23%	29%
Consulting on legal technology	30%	18%	35%	35%
Specialized legal services	27%	16%	23%	18%
Regulatory risk and compliance services	22%	18%	23%	29%
Consulting on legal operations	21%	9%	23%	20%
Intellectual property management	18%	23%	8%	8%
Legal drafting services	9%	20%	13%	18%
Project management services	9%	7%	20%	20%
Merger and acquisition due diligence	8%	11%	15%	18%
Management of corporate transactions	6%	5%	18%	20%
Contract management and abstraction	5%	5%	5%	12%

Drilling down by size in the U.S., small and midsize firms are increasing the breadth of services for which they use ALSPs, with legal research standing out as a more in-demand line. Some 47% of small law firms said they used ALSPs for this purpose, compared to 37% two years ago. At midsize firms, the numbers rose to 57% from 46%. Half of larger firms use ALSPs for legal research, but they're even more likely to use ALSPs for electronic discovery (74% of large firms, compared to 65% two years ago), document review and coding services (68%, up from 52%), and litigation and investigation support (62% of large firms use ALSPs for this purpose, up 10 percentage points from two years ago).

Large firms are also showing growth in their use of ALSPs outside the top five use cases, illustrating the degree to which ALSPs are starting to become integrated into multiple facets of the practice of law. Some 41% of large firms use ALSPs for intellectual property management, compared to just 21% two years ago. The two new service lines, added to in the most recent survey, are in relatively high demand—44% use ALSPs as consultants on legal technology, and 35% use them to consult on legal operations.

U.S. Law Firms: Use of ALSPs

	Small U.S. Law Firms (n=97)	Midsize U.S. Law Firms (n=72)	Large U.S. Law Firms (n=68)
Legal research services	47%	57%	50%
Electronic discovery services	23%	61%	74%
Litigation and investigation support	29%	44%	62%
Document review and coding services	16%	36%	68%
Non-legal / factual research	15%	36%	47%
Consulting on legal technology	23%	28%	44%
Specialized legal services	20%	19%	44%
Regulatory risk and compliance services	14%	28%	26%
Intellectual property management	6%	13%	41%
Consulting on legal operations	10%	21%	35%
Legal drafting services	12%	8%	6%
Project management services	4%	7%	19%
Merger and acquisition due diligence	1%	10%	16%
Management of corporate transactions	1%	8%	10%
Contract management and abstraction	1%	6%	12%

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.

SECTION 4 – CHANGING PERCEPTIONS OF ALSPs

Law firms continue to see opportunities in ALSPs for scale and cost advantage, but still harbor doubts on quality and information security standards

Overall, perceptions have stayed fairly consistent with 2018. Skepticism over standards remains but many see opportunities by working with ALSPs. There are some shifts in agreement levels, with less negative perceptions of ALSPs in general. However, there is also less agreement that ALSPs help to differentiate a law firm or that law firms should create their own affiliates, perhaps reflecting the increasing modernization of the traditional firm model, meaning ALSP involvement makes less of a difference.

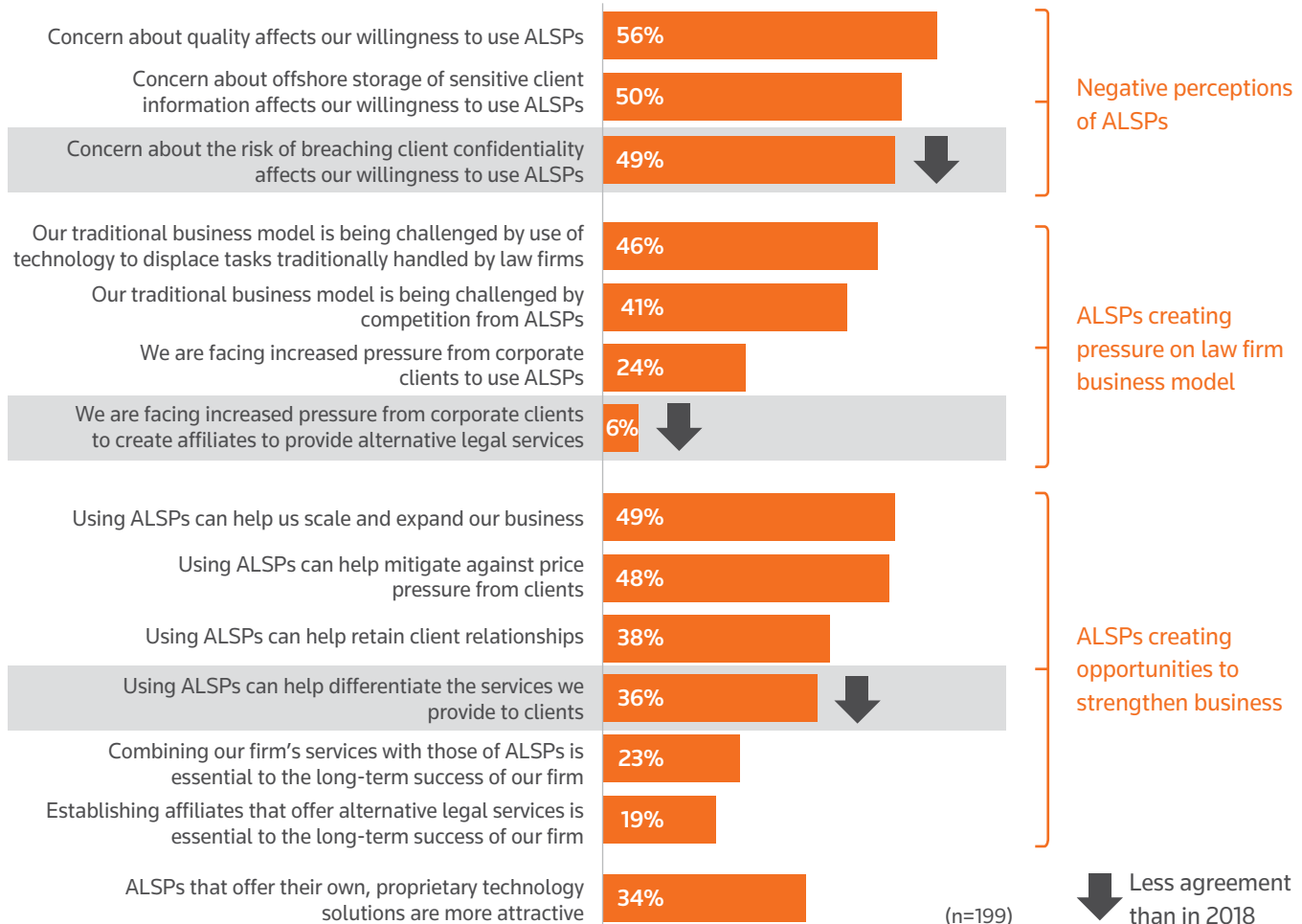
Over half of law firms surveyed still have concerns that ALSPs can deliver to the standards they need – whether that is quality, client confidentiality or storing sensitive information, although significantly fewer law firms had concerns about client confidentiality than in 2018.

Nearly half agree that the traditional law firm business model is being challenged—46% by technology and 41% by ALSPs directly. Just less than a quarter agree that there is client pressure to use ALSPs and only 6% agree that clients are pressurizing firms to create affiliates themselves—a drop since 2018.

Nearly half of law firms see opportunities in using ALSPs, most often to increase scale and mitigate price pressure—the latter becoming a reality for more firms this time round. Over a third agree that using ALSPs can help to retain client relationships. Fewer law firms than last year, however, perceive that using ALSPs differentiates their firms. Nearly one in five say they need to set up affiliates.

Lastly, a third of law firms agree that ALSPs with proprietary technology systems make more attractive partners.

U.S. Law Firms: Trends in Attitudes Toward ALSPs

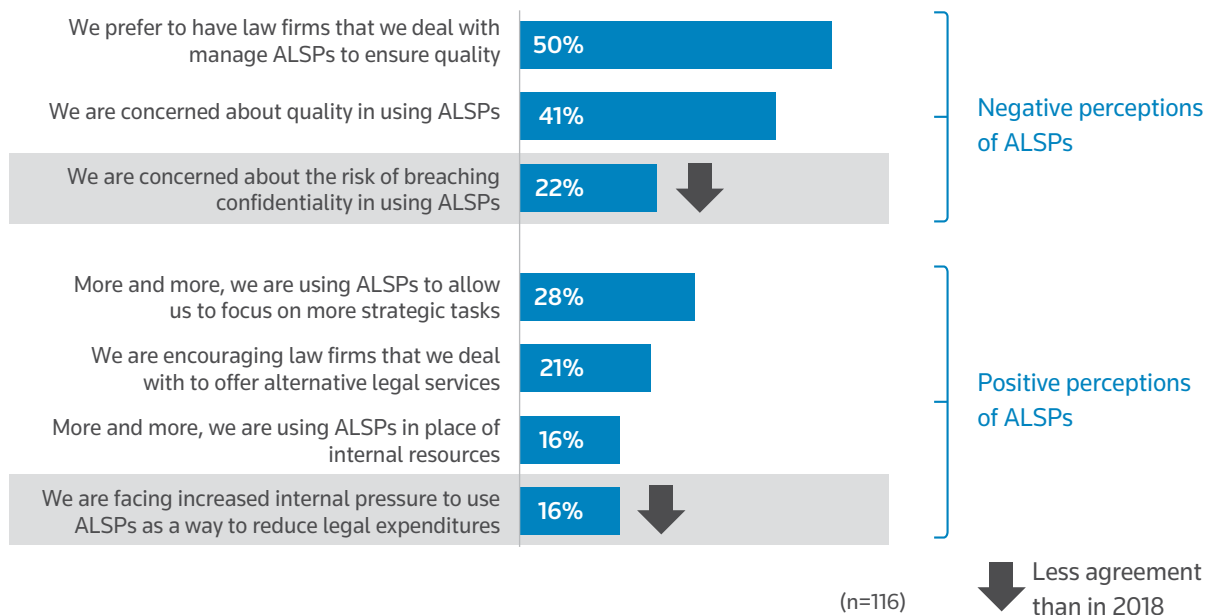


Corporations gaining confidence in ALSP quality, confidentiality and in using ALSPs for lower value work, creating more time to focus on strategic matters. However, corporations are more likely to deal with ALSPs via law firms to ensure quality.

There has been slightly more movement in corporations' perceptions of ALSPs. Consistent with the law firm view, corporations are now less concerned about ALSP confidentiality breaches—trust has increased. More than a quarter of corporations agree that outsourcing to ALSPs allows the inhouse team to focus on more strategic tasks. Corporations now have an outsourcing choice at the volume end of the scale—a gap law firms had struggled to fill due to price.

However, even though negative sentiment is declining, 41% of corporations still have concerns about ALSP quality. There is increasing agreement that corporations prefer to have their law firms manage the ALSPs. They rely on the firms to monitor quality—minimizing risk and removing the burden of overseeing work done by ALSPs.

U.S. Corporations: Trends in Attitudes Toward ALSPs



ALSP's views of themselves: Mainstream—no longer alternative

Many ALSPs of all types take issue with being named in this way. Quite rightly, they argue that the industry has moved on – it is no longer 'alternative', in fact, as our data supports, it is much more mainstream. In particular, independent ALSPs refer to themselves as law companies.

Says one ALSP leader: "There really is nothing alternative about ALSPs anymore – even the name is stale."

"Consistent with the law firm view, corporations are now less concerned about ALSP confidentiality breaches – trust has increased."

SECTION 5 – DIRECT v INDIRECT

Consistent with the attitudes towards ALSPs, corporations' default choice remains law-firm led for the four key service lines. Others are shifting to a more direct approach

Corporations have the most control in determining whether work goes directly to an ALSP or goes via a law firm. This survey shows that a majority of other corporations are either going directly to ALSPs or are taking a hybrid approach (both direct and indirect) for all but one service line—document review.

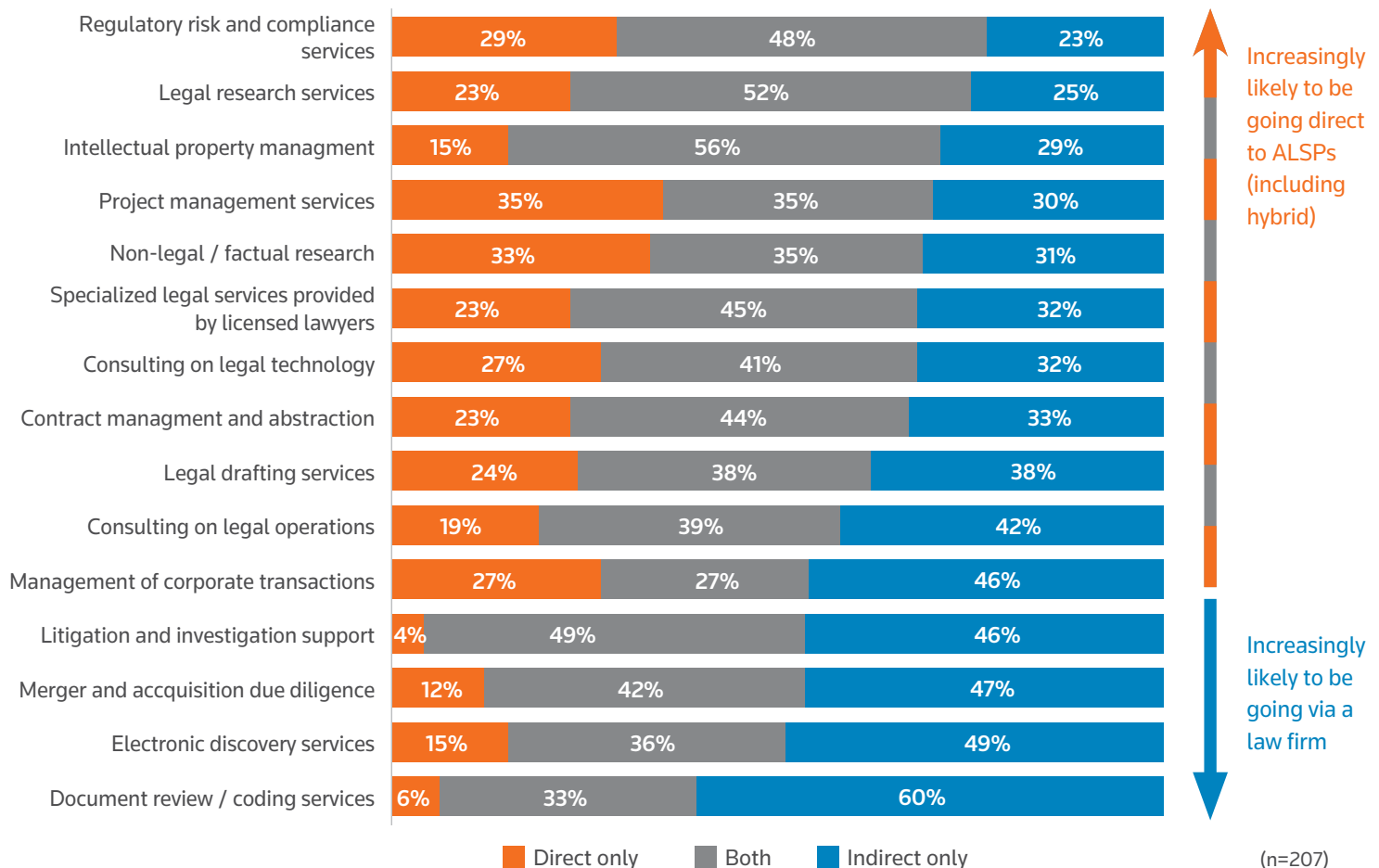
Document review, ediscovery, mergers and acquisitions due diligence, and litigation and investigative support, are service lines where approximately half or more of corporations take an indirect-only approach. These service lines are likely to be component parts of larger matters, where law firms will likely provide the higher value services that go alongside. Asking firms to manage the ALSPs, means that law firms are overseeing the entire matter, taking away the responsibility from the in-house team.

At the other end of the scale, corporations are equally likely to take a sole 'direct to ALSP' approach as they are an indirect approach for project management services or non-legal/factual research, with roughly the same proportion again taking a hybrid approach.

This shows how much room there is for 'direct to ALSP' to grow, assuming providers can overcome some of the reservations corporations have about their quality standards.

We should also note, that between 25% and 30% of corporations did not know whether they went via a law firm or direct. These responses have been excluded from the chart. This may indicate that law firms are white labelling the ALSP services or, perhaps, that the survey participants were unaware of the billing and management protocols.

U.S. Corporations: Preference for Use of ALSPs



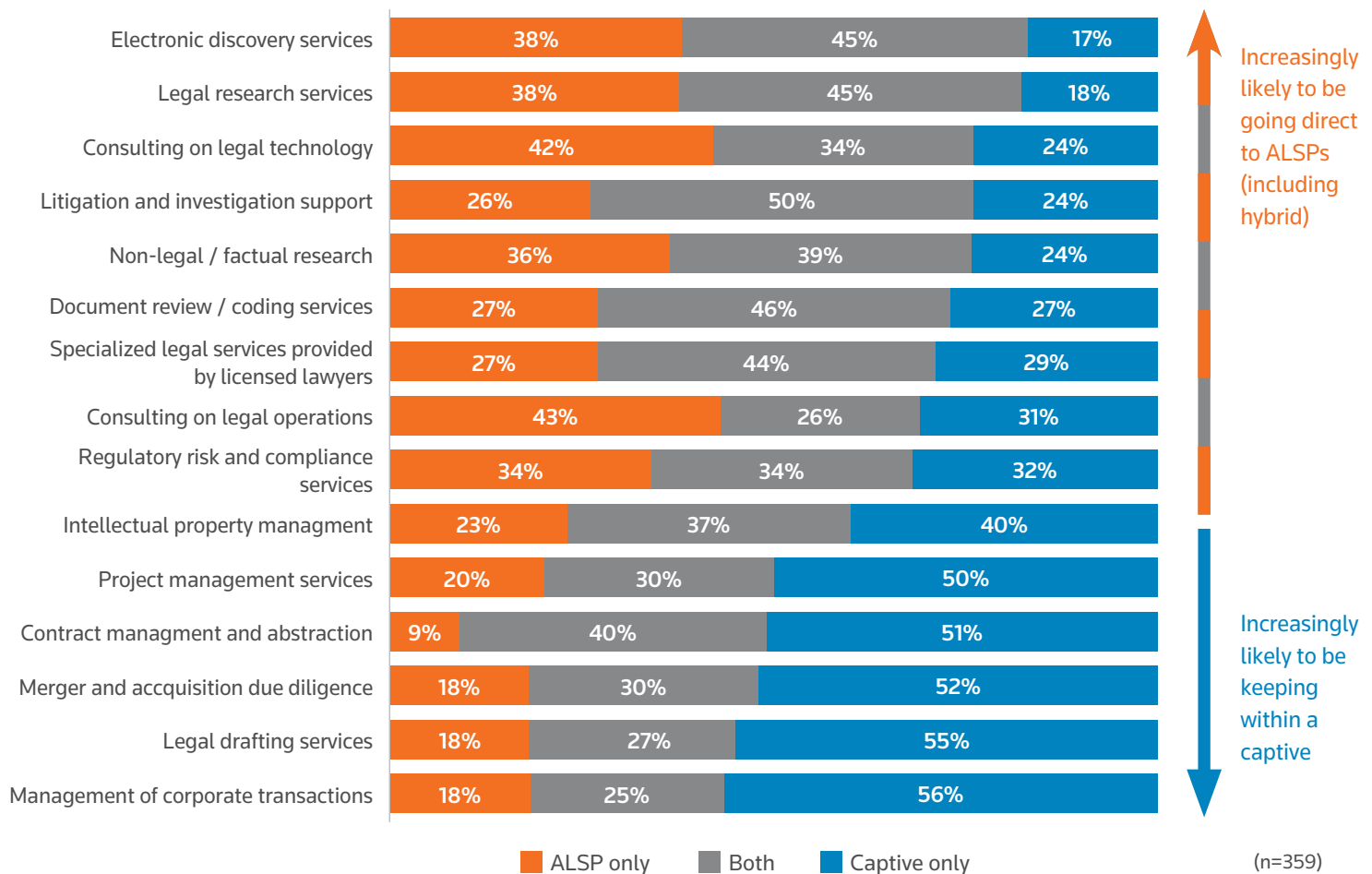
Law firms most likely to keep five service lines solely within a captive

There are five different service lines that law firms are most likely to keep within a captive:

- i) management of corporate transactions;
- ii) legal drafting services;
- iii) mergers and acquisitions due diligence;
- iv) contract management and abstraction; and
- v) project management services.

Law firms are most likely to go direct to ALSPs for consulting services on both legal technology and legal operations—an endorsement of their leading edge expertise in these areas.

U.S. Law Firms: Use of Captives



Increasing collaboration between law firms and ALSPs

Interviews with law firms and ALSPs found a surprising amount of collaboration between the two, and ALSPs report less tension and suspicion in their dealings with law firms.

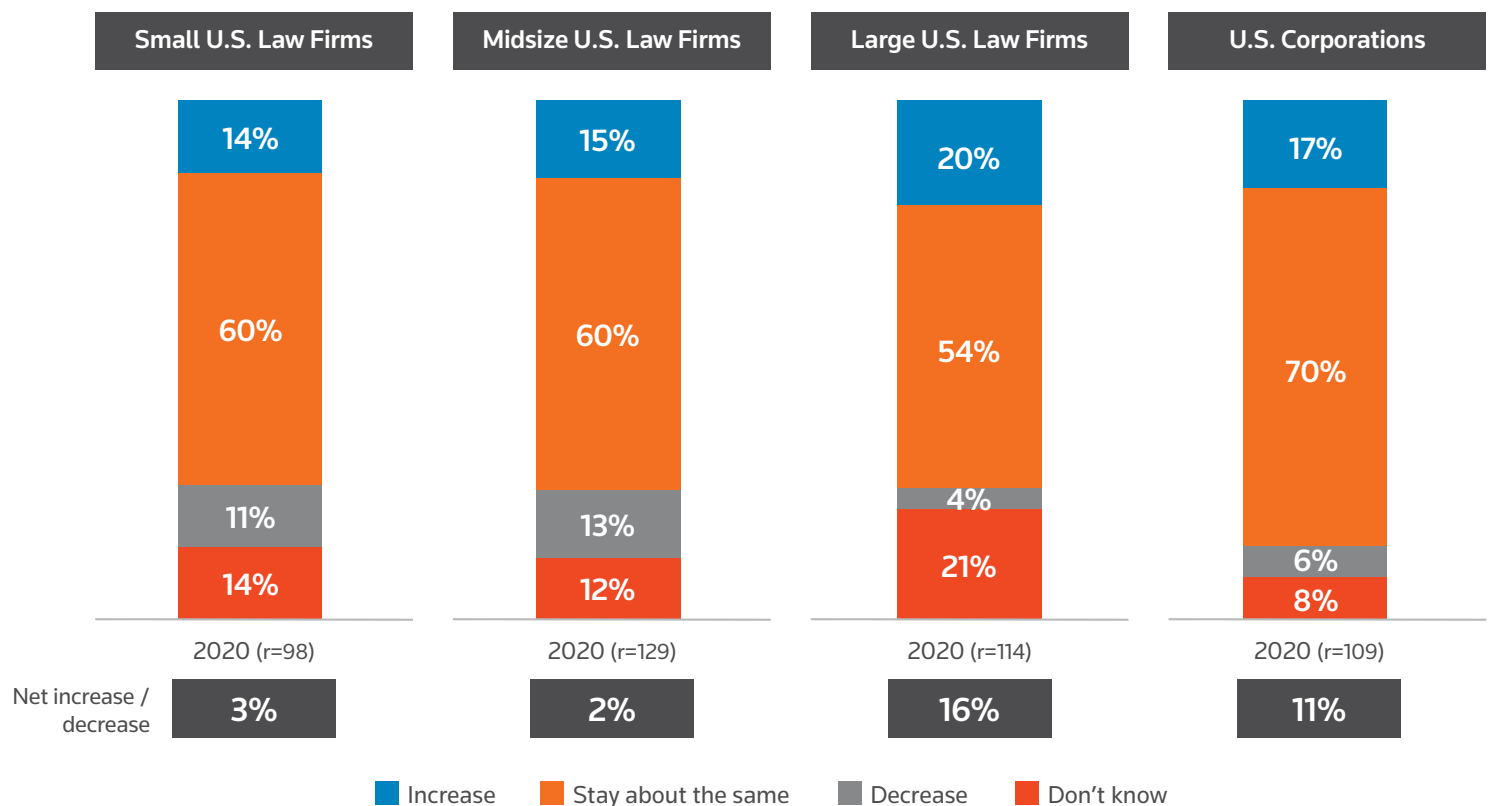
ALSPs talked about law firms' willingness to take them on as consultants, either to help them better leverage technology or to optimize their legal processes. "When we first started out, our instinct was to regard law firms as natural competitors," says a leader at one independent ALSP. "There is no greater validation of our model than seeing some major law firms trying to step up their own similar operations or just a very open and constructive dialog [with ALSPs.]" Often, collaboration is driven by corporate clients, which generally look favorably upon the inclusion of an ALSP in an RFP. Some ALSPs are looking at co-branding technology solutions for law firms, while others will be a flex resource for firms.

SECTION 6 – GROWTH FORECASTS

The majority of firms and corporations are expecting to hold spending in 2021. Large U.S. law firms and corporations are more likely than other groups to be expecting an uplift in ALSP spend.

Two years ago, spending forecasts were bullish, with many more users expecting to increase than decrease spend. This year, forecasts are more conservative. But all groups have a net balance up, with large firms and corporations most likely to be increasing spend. However, as more law firms and corporations get comfortable with the use of ALSPs, the increasing volume of customers, combined with an increased breadth of services and associated higher spend, should result in continued growth. If anything, we're just at the start of a steeper growth trajectory.

U.S. Firms: Trends in Anticipated Spending on ALSPs



- Aggregate of all ALSP services evaluated and therefore a multiple response, proportions are based on the number of responses
- Note: the 2020 survey included two additional ALSP service categories that were not included in 2018

“...as more law firms and corporations get comfortable with the use of ALSPs, the increasing volume of customers, combined with an increased breadth of services and associated higher spend, should result in continued growth.”

Law firms expect to further expand the breadth of services used from ALSPs

For law firms, usage of ALSPs is expected to expand further. Over the next 12 months, the average law firm is expected to procure 1.3 additional service lines from ALSPs and an additional 2.4 service lines over the following four years.

The selection of service lines most likely to see an increase in use varies by time horizon. Services including consulting on legal technology, litigation and investigation support, electronic discovery, document review and non-legal/factual research are all likely to get at least another 10% of law firms as customers within the next 12 months. Longer term, project management services and consulting on legal technology are expected to generate the most net new law firm customers – reinforcing, again, the point that ALSPs have an edge in legal technology.

U.S. Law Firms: Planned Use of ALSPs

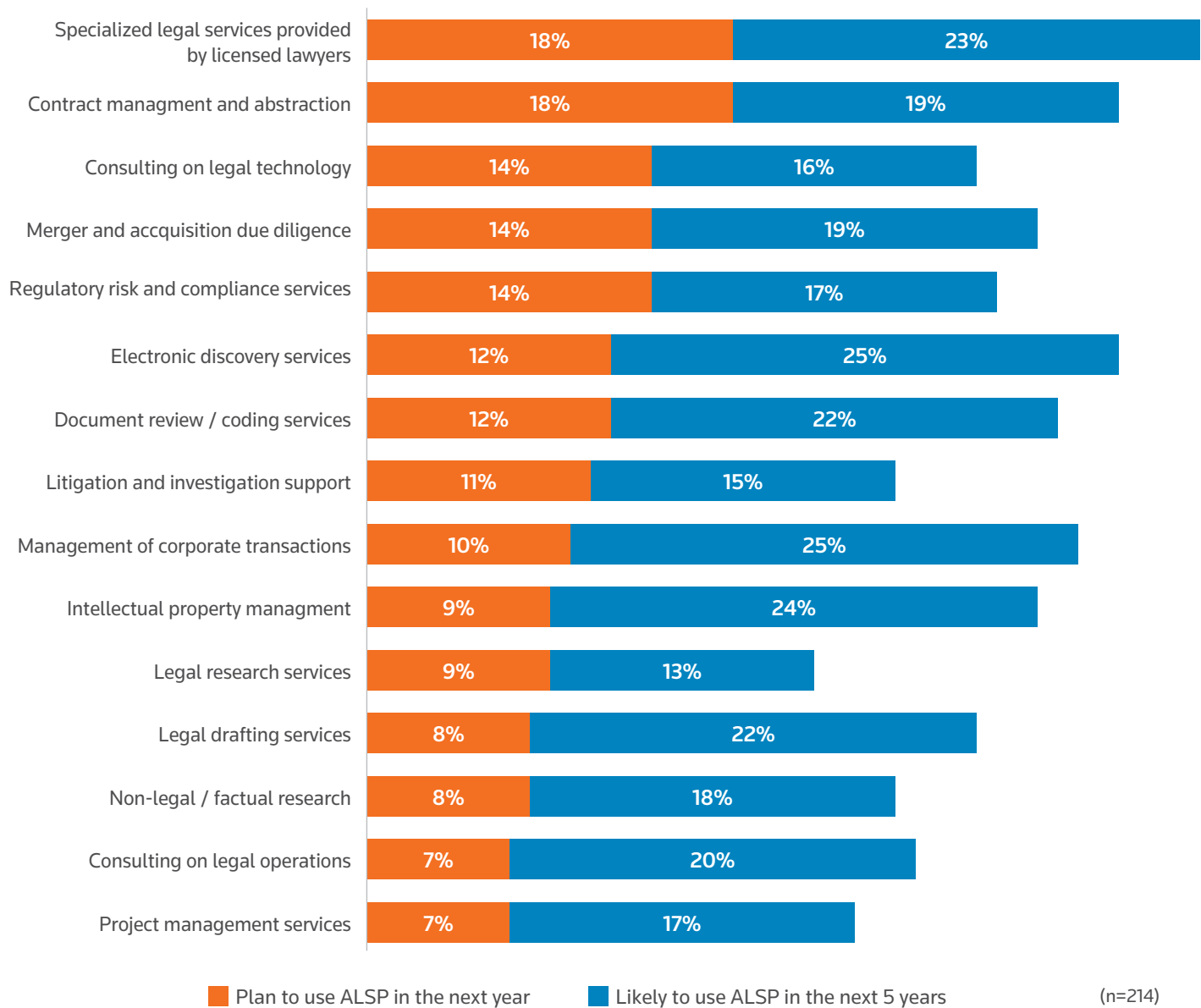


Corporations plan to expand breadth of use of ALSPs faster than law firms

Corporations are anticipating further expanding their use of ALSPs even faster than their law firm counterparts. Over the next 12 months, corporations plan to add an average of 1.7 more service lines to their ALSP providers. In the following four years, they anticipate adding another 3.0 service lines.

Specialized legal services is the most popular new adoption for 2021, followed by contract management and abstraction. In the medium-term, electronic discovery, management of corporate transactions and intellectual property management are likely to move to ALSPs. This suggests that we could see a reversal of the relationship where ALSPs start to manage the law firm tasks, leveraging their project management skills, rather than the other way around.

U.S. Corporations: Planned Use of ALSPs



ALSP strategies: Independents focused on technology and process, Big Four leveraging scale and organizational ability, and law firm captives offering a quality-controlled, one-stop shop, thereby expanding established relationships

ALSPs themselves are generally confident about their continued growth. During in-depth interviews, each category of ALSP – independents, Big Four, and captives – expressed conviction in their own competitive advantages and ability to adapt to a changing market.

Independent ALSPs believe they have a level of technological sophistication that other legal services providers will have difficulty matching, and they intend to keep pressing that advantage. They are looking at more ways to leverage their technological savvy. Many are looking to build knowledge management systems, in order to make domain knowledge more of a differentiator. “We are working on really hard problems using both artificial intelligence and [human] expertise in a way that other organizations aren’t,” says one. Importantly, and unlike law firms, they note that they’re able to bring in outside capital to help develop those capabilities.

Independent ALSPs are also starting to bring in experts in methodologies such as Lean and Six Sigma to make improvements. In general, independent ALSPs are much more data-driven than law firms, and they’re looking at ways to use that data to produce better outcomes and highlight their advantages. Data could enable them to be more responsive than law firms, for instance, which could become a differentiator.

The Big Four point to their scale and their ability to bring together people, process, and technology to best serve a client’s needs. They’re taking their legal managed services offerings and integrating them into their other legal offerings, which they say is equally attractive to clients and to potential hires. Their structure makes it easier for them to support long-term technology investments than it is for law firms. And they say they’ve built the capacity to deploy 100 or even 500 lawyers on short notice if necessary. Says one, “No law firm can do that.”

The Big Four also have incredible global brands and board-level relationships. Acritas has been tracking the brand strength of the ALSPs recognized and favored by in-house law departments across the globe. Aside from the large technology providers, like Thomson Reuters, the Big Four feature prominently, and are top of mind and used by many law departments already—albeit not always for mainstream legal services. It should be noted that a good proportion of the work they handle more resembles that of a traditional law firm more than it does that of an ALSP.

Law firm captives are cautious in the short-term, but optimistic in the long run. While they certainly see the potential offered by alternative service models, they face more hurdles in growing that business – mostly from within the firms themselves. Captives need to show a positive outcome for clients, and a positive return on investment for the firm, on every expenditure.

Some firms do have good technology tools, but knowledge of how to use them tends not to be widespread. Even teams that are relatively proficient in the tools don’t use them frequently enough to become true experts. That being said, if law firms can properly integrate the right technology with suitable ways of working, pulling in the right mix of multi-disciplinary teams, they have the potential to regain their status as one-stop shops for legal advice and services. “We are able to provide more of an end-to-end solution to clients,” says one. “The client doesn’t have to go out to 16 different providers to get all the little bits they need.” One thing captives will have to change is their ability to attract and retain top tech savvy-talent, not treating them as second-class citizens to their legal counterparts and of course altering the way they charge for their services – moving on from the billable hour.

Even apart from their ability to practice law, firms do believe they have other important advantages. They say that having the firm’s name behind an offering reassures clients that they’re getting the best advice. And when working with a law firm, clients know that if a matter becomes unexpectedly complicated, it’s easy to escalate it to a specialist lawyer. Says one leader at a law firm captive: “Law firms should win this battle if they can become hybrid law firms embracing a broad range of traditional legal services and alternative services under one umbrella.”

“...independents, Big Four, and captives expressed conviction in their own competitive advantages and ability to adapt to a changing market.”

The pandemic created short-term work-flow issues. Even ALSPs are not immune to a slowdown in legal work, but the pandemic quickly made the ALSP model more acceptable.

ALSPs agree that it's not ideal for them or their clients to suddenly have to go all-remote, as many did this spring. But they also believe that those who took the opportunity to build a resilient virtual business will be well-positioned not just to get through this crisis, but for the future.

In the short-term, some say the global pandemic may be dampening the use of ALSPs, as business-as-usual work slowed. In an effort to keep people employed, corporate counsel may be more likely to keep work in-house rather than sending it out to an ALSP. Court closures have created some short-term challenges, postponing a variety of legal work. And law firm clients that are facing financial difficulties are, in some cases, simply putting the brakes on sending out legal work.

The longer-term benefit, however, is that the sudden shift to remote work normalizes virtual supervision and a distributed workforce. A general acceptance of remote work has made it easier for both law firms and corporations to countenance sending work off-premises. "Clients have seen that location is no longer an issue," says one ALSP; another refers to the pandemic, as, among other things, "a massive proof of concept for remote working." There's also an openness to new technology that may not have existed before, as lawyers need to adapt to new ways of working across the board.

The pandemic has also highlighted the need to develop cost-efficiencies, which should benefit ALSPs. Whether that pressure for cost-efficiency will remain after the pandemic is uncertain. ALSPs believe the outcome hinges at least somewhat on whether firms return to their pre-pandemic offices or if they opt instead for more remote work and a smaller physical real estate footprint.

How each organization reacts to the pandemic, on a more permanent basis, will dictate how the competitive landscape evolves and how ALSPs will need to seek differentiation and competitive advantage moving forward.

"...the sudden shift to remote work normalizes virtual supervision and a distributed workforce."



CONCLUSION

This report shows that ALSPs have already made sizable inroads into the legal services market, and that their business models are here to stay. An unexpected development, however, is the increasing degree to which these new players are intertwined with the traditional law firm offering. ALSPs have addressed a gap in the market that law firms, in the main, were resistant to fill—cost effective, technology-enabled, smart legal solutions.

ALSPs have proven the model. It is now an accepted and utilized approach by most industry participants. Law firms and corporations alike, have recognized that ALSPs deliver specialized services along with confidentiality, providing capacity and sophisticated service delivery – often at greater value.

There remains skepticism from some—concerns over quality—meaning that corporations still opt to go through law firms for many of their ALSP services. Part of this concern may be real, part of it may be the risk-averse nature of the in-house lawyers, and part of it may be private practice lawyers unfairly keeping historical war stories alive. Whatever the cause, as the attitude statements show, negative perceptions are decreasing and usage figures are growing, both in volume of customers and the breadth of services they use. And as the forecasts show, there may be a reversal in the relationship between law firm and ALSP, where the ALSP takes the lead in managing the broader work area, drawing in law firm expertise as required.

The strategic decision facing all market participants is how they respond to this increasing validation of the ALSP model. For independents, how quickly do they move upstream? Grow internationally? Can they help corporations to manage their legal work? How can they manage to maintain their business model advantages, when law firms are now modernizing too? And increasingly, how do they protect their relationships with law firms, which currently provide them with much of their work? Can they continue to keep ahead, as the incumbents, with deeper pockets, wake up?

For law firms, do they create or grow a captive? Where should they focus and how do they keep up with the entrepreneurial ALSPs? Or do they opt to collaborate with ALSPs and stick to the high value work they know best? Or both? What strategies do they employ when it comes to legal technology? And how will they respond if ALSPs start to manage them on behalf of clients?

And for the Big Four, who have the deepest pockets of all, unmatched geographic reach and breadth of corporate relationships: How do they continue to grow while maintaining their relationships with law firms and keeping regulators at bay? The Big Four face the additional challenge of breaking through long-entrenched relationships between the in-house law department and its law firm providers.

The answers to these questions will depend on how the various players develop their strategies. The market players are intertwined with one another. Corporations, as the end customer, are demanding greater value, more cost certainty and more tech-enabled, smart legal services. Some still like the comfort of dealing through a law firm, but as comfort grows with using ALSPs directly, there is more opportunity for ALSPs to upsell and cross-sell. ALSPs have spurred on the industry as a whole to modernize and this can only be a good thing for customers.

METHODOLOGY

MARKET SIZING

Using a combination of online desk research and interviews with ALSPs, we were able to update the revenue figures for the organizations we tracked in the previous time periods. We added new entrants and made adjustments for merged and demerged entities. Where financial results were not available, we made estimates based on the financial performance of close competitors.

SURVEY AND IN-DEPTH INTERVIEWS

In June and July 2020, Thomson Reuters surveyed 586 decision makers at law firms in the U.S., U.K., Canada, and Australia, and in corporate legal departments in the U.S., U.K., and Canada. The survey repeats many questions from the previous two waves of this research, in 2016 and 2018, in order to benchmark progress of the ALSP market.

Those were followed by in-depth telephone interviews with leaders at 26 ALSPs between August and October.

Thomson Reuters would like to thank all participants in both parts of the research, with particular thanks to the following, who gave their time, sharing detailed insights in the in-depth interviews.

Cogency Legal	Xakia Tech	Norton Rose Fulbright
DRS – Alternative Legal Solutions	Allen & Overy (Advanced Delivery & Solutions)	(Transform)
Elevate	CMS	Womble Bond Dickinson (Advance)
Factor	Clifford Chance	Axiom
Heuristica Discovery Counsel	Eversheds Sutherland (Konexo)	Caravel Law
Integreon	Herbert Smith Freehills (Alternative Legal Services)	Cognia
LegalSifter	Hogan Lovells	F-LEX
Radiant Law	Pinsent Masons (Vario)	Lawyers on Demand
QuisLex		Lumen Legal
		EY Law

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