

Current and Future Outlook of Legal Services Industry

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Introduction

Business services is a very broad, highly fragmented, highly labor intensive and capital adverse industry that provides non-financial business related services to other firms. Due to the broad nature of the industry the definition of included services varies. According to globalEdge [MSU International Business Center - Global Insights] these services include, but are not strictly limited to, marketing, legal, logistics, staffing, leasing, security and consulting. A key driver for demand of business services is the recognition by firms that certain activities, while necessary, are often classified as a weakness vs. strength when they undertake an analysis of their resources and capabilities. Such an analysis is often performed when a firm is preparing to enter a new market. As such the outsourcing of said activities is often the most decisive and successful solution rather than attempting to grow the capabilities in-house [1]. In doing so the firm can focus on their core expertise's while leveraging the expertise of their business service partners as they compete in the global markets.

Industry Concentration

The business services industry is comprised of many firms that offer many different services which make it a highly fragmented industry. The globalEdge database, based on a Forbes 2000 dataset from May 2015, highlights 72 different companies across 22 countries that are competing across the included service categories. When sorting them by USD sales (85.8 B to 0.54 B), profits (6.9 B to -0.25 B), assets (68.8 B to 0.91 B) and market value (90.2 B to 0.3 B) the following top/bottom three rankings are listed below (Table 1).

The highly fragmented and thus low concentration nature of the industry is one of the top global issues for Business Services firms since the many competing firms, in any given services category, are all offering potentially similar services. If these services are not differentiated in some unique manner then this leads to an industry structure that more closely resembles that of perfect competition rather than an oligo/duo/monopoly. In the business services industry can be defined as non-capital intensive which may not be obvious when looking at the assets and Market Value of top ranking firms which includes transportation firms. For the non-capital intensive intense competition can also arise from lower barriers to entry and exit. Regardless all firms engaged in global business services will need effective marketing as a key profit driver in order to convey their points of difference to highlight their value proposition as they craft their brand in pursuit of growing their client base.

Legal Industry Composition and Leaders

Due to the nature of the industry top three industry leaders are considered to provide a deeper overview with regards to the industry composition and the global leaders in Legal Services.

Law is a big service based business, which is the highest revenue generation compared to other business services - more than 50%. Legal services specialize in business, finance, taxation, litigation, corporate affairs, conflicts, patents, copyrights, antitrust, property, labor, arbitration, political, and social matters all require law expertise (advisory or enforcement). The top leaders of this business service are

[The Global 100: By Revenue; BTT's 2015 Legal Market Outlook [2-4]]: (based on revenue, year-on-year % growth for 2016).

Latham and Watkins LLP: Headquartered in Los Angeles with offices in 14 countries, generating revenue of \$2.82 billion. With more than 2,000 attorneys in 30 offices around the world, Latham practices in all the major jurisdictions in the United States, Europe, the Middle East, and Asia and regularly represents companies doing business in Latin America and Africa. In recent years, Baker and McKenzie and DLA Piper have repeatedly done battle for the number-one spot on the annual revenue list, but this time around Latham's annual revenue increase put it solidly in the lead (Baker and McKenzie had revenue of \$2.62 billion and DLA Piper earned \$2.47 billion). Their industry teams comprised of lawyers with a wide range of practice and geographic backgrounds, advising clients across a wide spectrum of transactional litigation, corporate and regulatory areas. Latham and Watkins' internationally recognized practices provide clients with innovative solutions to complex business and legal matters. Latham was ranked as the #1 firm in the Am Law 100 rankings for 2015 and received 31 top ten rankings across a range of corporate and finance categories in The American Lawyer's 2015 ranking. Latham is also recognized as one of the highest-paying law firms in the world with profits per partner in the most recent year exceeding US \$2.9 million [5]. First year associates are paid salaries with merit based bonuses and the total compensation of around \$195,000. Recently they have represented Lucas-film in its sale to Disney. According to 2017 Vault Rankings [6], Latham stands in #7 Vault Law 100, #1 Best Law firms in Southern California and #2 Best Law Firms for Clean Tech and Renewable Energy Law.

Baker and McKenzie, headquartered in Chicago with offices in 47 different countries, generating revenue of \$2.62 billion. It recently surpassed its revenue compared to its nearest competitor DLA Piper. The firm's total revenues were up 8% compared to previous year. In the year 2016, they focused on legal profession in terms of innovation and stronger client relationships around the world and they recruited 65 lateral partners matching their record for any law firm. Baker McKenzie is the most diverse global law firm with revenues spread by regions as follows: Asia Pacific with 26%, EMEA with 37%, Americas with 37% and these revenues increase by more than 10% in FY16 on a constant currency basis. Baker McKenzie is representing Microsoft in Microsoft Corporation vs. Internal Revenue Service. It is currently representing Facebook Inc. in its dispute with the IRS over the value of assets the company transferred to its Irish holding company [7]. Baker McKenzie's Industry Groups are Automotive, Consumer Goods and Retail, Energy, Mining and Infrastructure, Financial Institutions,

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Received May 09, 2017; Accepted May 29, 2017; Published May 30, 2017

Citation: Nadimpalli M (2017) Current and Future Outlook of Legal Services Industry. Int J Econ Manag Sci 6: 430. doi: [10.4172/2162-6359.1000430](https://doi.org/10.4172/2162-6359.1000430)

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| Rank No. | Sales | Profits | Assets | Market Value |
|----------|---------------------|--------------------|--------------------|----------------------|
| 1 | Nobel Group (HK) | CK Hutchison (HK) | Moller-Maersk (DK) | SAP (DE) |
| 2 | Marubeni (JP) | Moller-Maersk (DK) | Marubeni (JP) | UPS (US) |
| 3 | UPS (US) | SAP (DE) | CK Hutchison (HK) | Tata Consulting (IN) |
| 70 | China Merchant (HK) | HD Supply (US) | Workday, Inc. (US) | GS Engineering (KP) |

Table 1: Top 3 and Bottom 3 rankings companies.

Healthcare, Hotels, Resorts, Tourism, Private Equity, Real Estate, Technology, Media and Telecommunications. Baker and McKenzie continues to grow in North America, having added 40 lateral partners to the firm in the last two years across a variety of practices, including M&A, Employment, Litigation, Tax, IP, and Banking and Finance as part of ongoing lateral moves. Baker and McKenzie once again earned the most number of rankings in Chambers Global, with 24% more citations than the second most-ranked firm. 26 partners in North America were recognized. According to 2017 Vault Rankings, Baker McKenzie stands #28 Vault Law 100, #4 Best Law Firms for Tax Law and #9 Best Law Firms in Chicago.

DLA Piper: One of the biggest global law firms headquartered in London and Chicago with revenue \$2.47 billion. The firm's revenue fell 2.9% in the last fiscal year compared to previous year 2015 revenue \$2.54 due to significant currency fluctuations. DLA Piper significantly expanded its international presence last year, launching its first two offices on the African continent in South Africa and Morocco. With approximately 4,000 lawyers in 90+ offices around the globe, DLA Piper is one of the largest law firms-both by headcount and by revenue-in the world. DLA Piper was formed in January 2005 by a merger between three law firms: San Diego based Gray Cary Ware and Freidenrich LLP, Baltimore based Piper Rudnick LLP and United Kingdom based DLA LLP. It is composed of two partnerships, the United Kingdom based DLA Piper International LLP and the United States based DLA Piper US LLP. The two partnerships share a single global board. In 2015, DLA Piper announced the opening of an office in Casablanca in Morocco, Canadian law firm Davis LLP became DLA Piper, and DLA Philips Fox New Zealand became DLA Piper New Zealand. In 2016, DLA Piper (Canada) LLP combined with Dimock Stratton LLP and will operate under the DLA Piper name. The firm ranked third overall in the US, where it also had the greatest increase in score from 2012 to 2016 among firms in the top 20, and second globally, where it was recognized as the biggest upward mover in the global index since it was introduced six years earlier. According to 2017 Vault Rankings, Baker McKenzie stands #41 Vault Law 100, #5 Best Law Firms for Real Estate Law and #5 Best Law Firms in the Pacific Northwest.

Revenue for the above top firms' revenue presented below (Table 2):

Figures below depict the revenue generated by each company versus others (Figure 1).

Irrespective of firms Table 2 provide global revenue in legal industry.

Table 3 below depict the overall metric information.

Future Outlook of Legal Services

Recent studies revealed that the legal market is a dynamic, fast-changing, environment due to a combination of technology and globalization. Cybersecurity and data privacy and media and technology are the two red-hot practices in the legal market. According to the president of BTI Consulting group, corporations are spending \$1 billion per year for legal services in the Cybersecurity and data privacy area, and the forecasted growth is 8-9% per year. In contrast,

| | 2016 | 2015 | 2014 |
|--------------------|--------|--------|--------|
| Baker and McKenzie | \$2.62 | \$2.43 | \$2.54 |
| DLA Piper | \$2.47 | \$2.54 | \$2.48 |
| Latham and Watkins | \$2.82 | \$2.65 | \$2.61 |

Table 2: Revenue for top 3 firms.

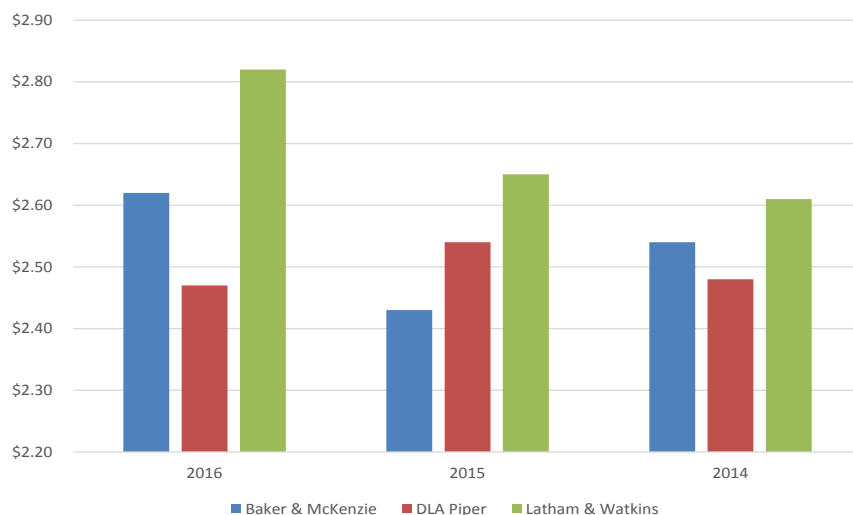
| Metric | Result | Change vs. Last Year |
|-----------------------------------|-----------|----------------------|
| Total Revenue | \$96.6 bn | +3.11% |
| Total lawyers | 118,904 | +6.40% |
| Average revenue per lawyer | \$812,700 | -2.06% |
| Total equity partners | 23,636 | +3.40% |
| Average profit per equity partner | \$1.593 m | +4.90% |

Source: The American Lawyer and Legal Week.

Table 3: The Global 100: At a glance.

legal services that involve media and technology, such as digital right in content and advertising, reached \$600 million per year. The overall changes in the legal services industry will introduce high price-pressure on lawyers who have enjoyed a relatively stable and protected type of business. For example, it is anticipated that changes in this industry will force lawyers to offer a fixed price deals, rather than an hourly-based billing system. Furthermore, law firms will need to implement more sophisticated, customer-focused, services that aim to over-deliver and exceed expectations. Reports and research studies in the legal services area predicted a significant change in the practice of the legal services industry. This covers 10 key legal trends including; outsourcing, globalization, deregulation, virtual law firms, legal search engines and other web-based legal services, commoditization, multichannel communications, growing numbers of lawsuits in every nation, reduced state funding for those on low incomes in court cases, and rapid growth in complexity of legislation and regulations. For example, it was estimated that outsourcing of legal services to evolving markets would worth more than \$4 billion by end of 2015 [8]. Future of Law; FN Media Group, LLC [9], Business Services Sector]. As a result of this outsourcing, tens of thousands of legal jobs have moved offshore between nations. The majority of legal services outsourcing was moved to India due to the low hourly cost (80-90% less) of legal services, as compared to US and Europe. Outsourcing of legal services market is anticipated to grow more rapidly with the introduction of more secure/confidential procedures to the process. Globalization also plays a critical role in defining the future outlook of legal services. Legal firms have globalized in order to provide legal services to multinational customers [10,11]. This forced them to adapt to new roles and regulations as well as modify their legal services in order to keep pace and provide highly specialized services in many different countries. Despite outsourcing and globalization, many legal firms are lagging far behind in regards to utilizing the digital contact process such as social media, video links, and Google+. However, a noticeable increase in the virtual law firms has been observed in the past few years. As a result, many law firms tended to have very small physical offices and focused on recruiting employees that commonly work from home or various other locations, both in a full- and part-time bases. For example, unlike working at traditional firms, introducing the virtual law firm style to the legal services allowed lawyers to work on a freelance basis, which

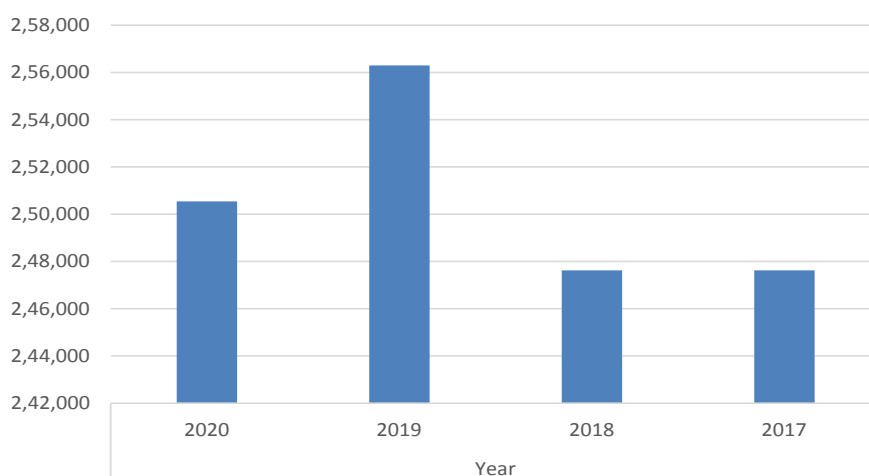
Revenue (\$ in Billion) - Last three Years



Source: The American Lawyer and Legal Week.

Figure 1: Revenue for last 3 years

Projected Revenue



Source: U.S Lawyers Offices Revenue: MNAICS 54111 [13].

Figure 2: Projected revenues for legal services companies.

helped them to earn most of the fees that they generate. “As the concept of virtual law offices becomes increasingly understood and accepted, attorneys will embrace the virtual model in greater numbers due to its cost savings and flexibility”, Stacey L Romberg, Attorney at Law [12,13].

The below forecast (Figure 2) shows the revenue of lawyer’s offices in the United States from 2017 to 2020. By 2020, revenues of lawyer’s offices in the United States are projected to reach approximately 250.54 billion U.S. dollars.

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