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The Current State and Future Prospects for Legal Technology Adoption

An abundance of legal technologies have emerged in recent years, from document management and discovery tools sold to law firms, to regulatory compliance software sold to companies, to legal research tools attempting to make law accessible to individuals. Many of these legal technologies fundamentally reimagine the way law will be practiced in the future. At the same time, the realities of being a "legal tech startup" are difficult. Sales cycles into law firms and to other legal players are long and arduous; financing for the vertical is especially difficult to obtain; and exit opportunities are seen as modest. The following paper reflects interviews with a variety of practitioners in the legal market, from innovation teams, lawyers, and legal technology departments inside law firms, to conversations with legal technology founders and online research. It provides an overview of the landscape of "legal technology startups," key barriers to adoption, as well as areas of future potential.

The Legal Tech Landscape

"Legal technology" comprises both "legacy" providers of technology sold to legal practitioners, in addition to a wave of legal technology startups, which comprise a broad variety of services to individuals, law firms, and in-house legal departments. While different entities define "legal tech" verticals differently, the following non-comprehensive list is reflective of the various flavors of legal technology startups on the market.

Legal innovations serving primarily the individual:

- **Legal marketplaces**, such as Avvo, LawDingo, and Legal.io, attempt to improve individual access to lawyers.
- **Document automation** tools, such as Legal Zoom and Docracy, offer "do-it-yourself" contract help for individuals.
- **Specialized services**, such as Everplans, focused on wills and estate planning, Wevorce, focused on divorce, and Bridge US, focused on immigration services, provide a specific area of expertise and information for individuals who need legal help.

Legal Innovations serving law firms and in-house legal departments

- **Document Management** systems, while dominated by legacy players such as iManage, Worldox, NetDocuments, and OpenText, also include newer services such as Contract Express, widely used to customize contracts.
- **Case Management and E-Discovery,** while also dominated by large players such as Relativity, include some new entrants blending e-discovery tools with intake, litigation, and practice management. Examples include Everlaw, Allegory Law, and AgileLaw.
- **Contract Management** also includes a variety of legacy providers including Determine and Total Contracts, in addition to new services such as Concord,

providing cloud-based contract management, or eBrevia, providing contract analysis and review.

- **IP Management,** dominated by legacy providers such as Lecorpio, includes new entrants such as Traklight to more easily manage company IP, and more specialized companies such as Clearstone IP, specializing in patent analysis.
- **Legal Research** is dominated by Westlaw and LexisNexis, yet tools such as Ravel, Ross and Casetext have emerged, employing data analytics and AI to enhance legal research.
- **Legal Networks** include forums for lawyers to connect with each other, including Lawpolis and Foxwordy.
- **Billing** is also dominated by legacy providers such as Tymetrix, TeamConnect, and Serengeti Law, but new entrants include Viewabill and SimpleLegal.
- **Recruiting & staffing** have seen innovation as well; startups such as Hire an Esquire and Lawyer IQ have attempted to solve staffing issues for both law firms and in-house counsel.
- **Online dispute resolution** is an emerging field and includes services such as ArbiClaims and Modria.
- **Compliance tools,** such as Jurispect, attempt to make it easier to keep track of changing regulations.

Adoption Challenges: Law Firms

Legal technology adoption faces the conundrum that, because it is particularly difficult to sell to legal players and scale quickly, it is difficult to raise venture capital funding. Furthermore, the difficulty in finding venture capital funding makes it challenging to grow a sales force quickly to accelerate adoption. Adoption difficulties are particularly acute for law firms.

There is a rising awareness in the market that "legal tech" is important, that the legal market is going to change, and that law firms which adopt will have a competitive advantage over others. According to the Altman Weil 2015 "Law Firms in Transition" Flash Survey,[1] law firms that have changed their approach to staffing, service delivery, and pricing are consistently likely to see improved gross revenue, revenue per lawyer, and profits per equity partner.

In talking to a variety of legal tech startups, it became evident that the primary challenge was not getting access to technology officers within law firms for demonstrations, but rather getting from the initial pitch to a sale. The major impediment was the structure of the law firm itself; the billable hour mentality, the partnership model, enhanced security concerns, and the lack of infrastructure for rapid testing and development make it difficult to introduce innovations. The "risk averse" lawyer stereotype can come into play as well, creating a bias toward incumbents and legacy providers.

The Billable Hour

[1] http://www.altmanweil.com/dir_docs/resource/1c789ef2-5cff-463a-863a-2248d23882a7_document.pdf

The “billable hour” is entrenched in the law firm psyche, and is the core metric used for profitability. This metric tends to remain the core internal metric used even under alternative fee arrangements. Matter level profitability has been strong resisted, primarily because of the historical ability of lawyers to raise rates on an annual basis.

While focusing on collecting billable hours provides a deterrent to becoming efficient, increased client pressure to cut costs has made it more palatable for law firms to adopt time-saving technologies. A possibly greater impediment to legal technology adoption is that the focus on collecting hours gives lawyers little time think about incorporating new models or learning new tools.

Sean Byrne, an attorney at Morrison Foerster, indicated that there is a misplaced fear of moving away from the billable hour because of the misconception that billing fewer hours requires charging less. Theoretically, a valuable service should command a high price even if it is produced in fewer hours. In fact, charging clients based on value while using technology to reduce both the amount and variability of lawyer time required could lead to much higher implicit hourly rates. However, moving to value-based pricing is frightening since it forces an accounting of the actual value produced.

The Partnership Model

Second, the partnership model itself provides a barrier to adoption. It creates dispersed decision-making authority among the partners. Getting access to the Chief Innovation Officer is a feat; getting the partners to agree to implement a solution firm-wide is more akin to winning a war. Perhaps most importantly, investment in technology represents dollars that would have been distributed to the partners as profits, creating a high bar for adoption.

Older law firm partners may have a greater bias against the use of technology than younger lawyers, indicating that it may be easier to encourage the adoption of new tools as the rising generation of younger lawyers become partners. Visionary partners may be able to push technology through despite the structural challenges presented by the partnership model.

Security concerns and lack of infrastructure for rapid testing and development

The lean startup methodology, characterized by cloud-enabled rapid testing and iteration, is often at odds with selling into law firms. Law firms for the most part do not offer cloud-based infrastructure. Concerns over preserving the security and privacy of client data means that testing requires creating a set of “dummy” data, and getting lawyers to then test the solution using this data. Setting up any kind of prototype environment is expensive and time-consuming. Part of the resistance in moving to cloud-based environments is that controlling physical servers, even as a sublessee, affords different legal protections than using a shared public could space.

Another challenge is integrating new solutions with existing systems from legacy providers, which provide document systems that are not as flexible from a backend technology perspective. Most law firms use Windows, including Microsoft Exchange Server, and iManage; a major challenge is working within the integrations offered by Windows.

Selling into law firms requires offering a value proposition that is compelling enough to overcome these challenges. If the technology offered is only a minor improvement over existing solutions, it may not overcome the difficulty of replacing existing systems. According to one IT officer, these obstacles are accentuated by the lack of co-founders with a background in law firm IT and a sufficient understanding of how these systems actually work.

Adoption Challenges: In-House Legal Departments and Individual Market

The legal department as a cost center

The largest challenge for selling legal tech solutions to in-house legal departments is the fact that within a business, the legal department is a cost center rather than a revenue center. The Return-On-Investment on improving "efficiency" is difficult to prove and justify, as compared to a technology that more tangibly cuts cost or drives revenues. Several in-house counsels pointed out that contract management presents a major challenge for in-house legal departments. The full life cycle of a contract begins with a business negotiation, then transfer to the legal department to generate the contract, engage in legal negotiation, and finally execution. Efforts to make contract management more efficient often meet the needs of the business department, the revenue generators, rather than addressing clause management and other solutions that would primarily benefit the legal department.

It may be easier to sell into technology companies than into large, bureaucratic organizations, where achieving efficiency gains and potentially firing paralegals could lead to broad resistance. At the same time, targeting a highly capable technical company means that there is a risk that the company develops its own tools in-house.

Individual market and lack of trust

Selling legal solutions to individuals is difficult given the challenge for an individual to judge legal advice, and the difficulty of creating trust in a new system. In addition, selling to individuals can often necessitate large marketing budgets and consequently high customer acquisition costs.

Near-Term and Long-Term Potential for new Legal Technologies

In the near-term, selling tools that create efficiencies or a competitive edge, that don't require integration with legacy systems, provide the highest chance of success. Legal research tools are a good example, since they require minimal integration with existing systems, instead enabling lawyers to access a separate site, and yet still provide a big value-add for clients.

In the near-term, it may also be more effective to sell first to in-house legal departments, which face some but fewer structural impediments to adopting legal technology, and to also use these departments as a way to pressure law firms to use new technologies. A key reason for law firm technology adoption is pressure from clients, either to meet client demands, or to show off their innovative moves. According to the Altman-Weil 2015 "Law Firms in Transition" Flash Survey, the number one reason that law firms aren't doing more to change the way services are delivered is that "clients aren't asking for it."[2]

Ultimately, the technologies that can "break through" the structural barriers are those whose value-add is so compelling that they justify transitioning from legacy systems. A number of stakeholders I interviewed identified the following unaddressed needs:

- Integration solutions: A number of stakeholders lamented the lack of a solution that could integrate the variety of disparate tools used by lawyers. Many discussed the desirability of wedding external and internal data, such as the data provided by external research tools with internal experience and staffing data. They also discussed other considerations such as improving user interfaces.
- Internal management tools: In addition to integrating systems, end-to-end contract management remains a major challenge. There is also a lack of tools that enable identifying areas of internal expertise and connections.
- Integration with the judicial system: A major impediment for technological change in law is the predominance of bureaucratic, paper-based systems in the courtroom. Upgrading the way the judicial system handles legal information may be essential to applying predictive analytics and cutting legal costs both in and out of the courtroom.
- Applications of machine learning and AI: Advances in machine learning and artificial intelligence will ultimately make the law much easier to navigate. Stakeholders pointed to a number of concrete problems, such as applying predictive coding to time entries, and using predictive coding for e-discovery to create more "packaged" and customizable products. A number of entities also believed that future advances in machine learning could provide a useful supplement to surface relevant cases and opinions.

Conclusion:

One vision of the future features lawyers as expert users of technology tools, using technology to generate entirely different kinds of products for clients. Attorney Sean Byrne envisions lawyers encoding logic into tools which could employ natural language processing to automatically generate responses to client requests, or encoding contracts in a universal "legal code." He suggested that in the future there could be two types of lawyers, those who create or encode these legal tools, and those who use the tools in the field with clients. Advances in technology could enable fundamental change in the legal system.

Achieving this kind of change could happen in one of two ways: through the will of law firms, or through technological advance itself. If law firms could "disrupt themselves," and restructure themselves so that incentives were aligned to encourage efficiency and technology adoption, they could create a fertile ground for innovation. Such a future is not impossible to envision as firms face increasing pressure from clients to cut costs, and as tech-savvy lawyers ascend to partner ranks. Nevertheless, achieving

[2] http://www.altmanweil.com/dir_docs/resource/1c789ef2-5cff-463a-863a-2248d23882a7_document.pdf

change in this way will be a long process. The inability of non-lawyers to judge legal advice gives lawyers an incentive to over-charge and maintain the status quo.

Given the current structural challenges, it may be more useful to think about disrupting law by researching and developing technologies that are so effective (at saving money, simplifying processes, or enhancing the quality of legal advice), that lawyers who adopt early will have an immediate and powerful advantage. It is worth "thinking big," to take a risk on transformational technologies that could uproot the way law is practiced, rather than attempt to sell minor improvements into a collection of entities which are already biased against change.

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