



Thomson Reuters Institute

Alternative Legal Services Providers 2023

Accelerating growth & expanding service categories

Alternative Legal Services Providers 2023: *Accelerating growth & expanding service categories*

The market for alternative legal services providers (ALSPs) is a highly dynamic sector — and in the past two years it has dramatically accelerated its growth, continuing to find new ways to serve both law firms and corporate law departments.

Indeed, the fourth biennial survey of ALSPs, conducted from June 1 to July 18, 2022, and produced by the Thomson Reuters Institute in partnership with The Center on Ethics and the Legal Profession at Georgetown Law and Oxford University's Saïd Business School, reveals an evolving market in which the boundaries between alternative legal

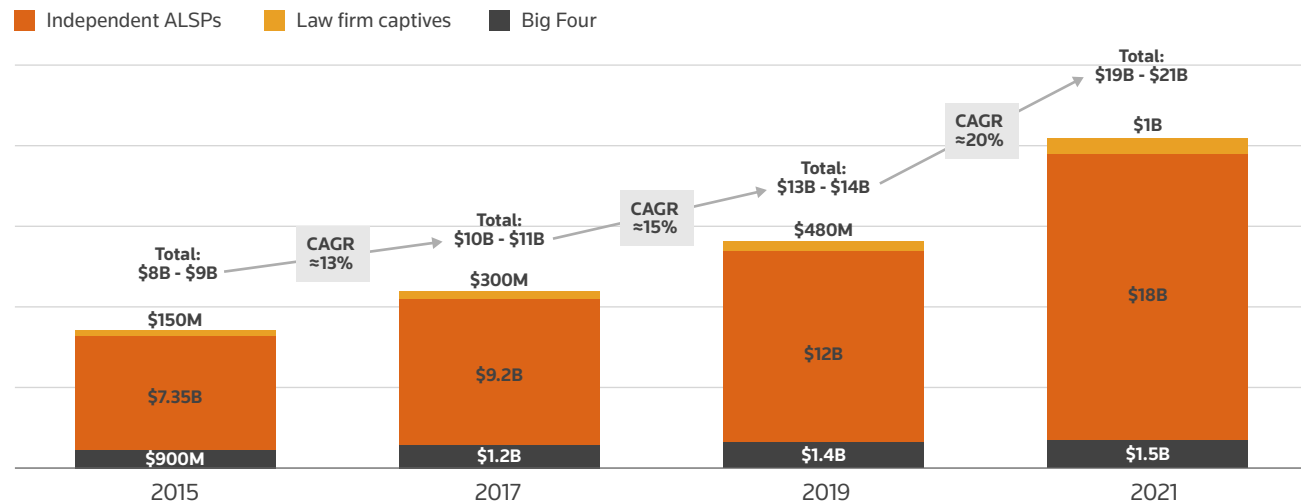
services providers, law firms, corporate law departments, and even technology and software firms are rapidly blurring. In each case, the focus is on providing the right people, technology, process, and structure to match clients' needs — or, as the leader of one ALSP said in an interview: "We're not there to provide you an attorney. We're there to do the work."

With that mindset, legal services providers have been aggressively exploring how legal work might best be done, pulling in experts in project management, technology, and consulting. Recent moves such as the spin-off of EY's audit and consulting unit, along with emerging regulatory changes in the U.S. states of Utah, and Arizona, suggest that this blurring of lines and the accompanying growth is likely to continue.

Since our first report in 2015, the market for ALSP services has grown 145%, with the last two years being the most impressive yet. For this report, as always, we've made efforts to ensure consistent comparisons over time. Geographic coverage is mainly focused on the U.S., with some additions from the U.K., Canada, E.U., and Australia.

In this research, we consider three different types of ALSPs: independent ALSPs, the Big Four, and those ALSPs created by and operating within law firms, which we call *law firm captives*. Overall, the market for ALSPs reached a size of approximately \$20.6 billion by the end of FY 2021. That's up 45% since our last report two years ago, with a compound annual growth rate (CAGR) of 20% for the fiscal years of 2020 and 2021. That's notably higher than the 15% CAGR of the preceding two years (2018 and 2019), and gives clear evidence of the acceleration in adoption of these services.

This report reveals an evolving market in which the boundaries between alternative legal services providers, law firms, corporate law departments, and even technology and software firms are rapidly blurring.

Figure 1: **Estimated ALSP market size: 2015 - 2021**

CAGR: Compound annual growth rate.

Source: Thomson Reuters 2023

Independent ALSPs, the largest sector, now account for an estimated \$18 billion in revenue, or 87.4% of the total market, holding steady from 87% two years ago. Since 2015, these players have expanded by 146%. More importantly, over the last two years they've grown 45% with a CAGR of 20%. This growth is partly thanks to the entrance of new players into the market, as well as the reclassification and inclusion of software companies that now offer a more comprehensive legal service. Interestingly, there has also been some consolidation at the top of the market, as the largest players expanded through acquisitions of smaller independents.

Law firm captives, while the smallest part of the ALSP market, are also the fastest growing of the groups. Law firms create captives in multiple ways: with a tight integration (often via an acquisition or equity stake) with an independent ALSP; through an incubator or accelerator for technology-enabled service providers; or by starting a new company or line of business within the parent firm. Such entities now account for about \$1 billion in revenues, showing 117% growth since our last report and a CAGR of 47%. Since 2015, the captive market has grown by 589%.

The Big Four are also active players in the ALSP market, although they haven't been growing as quickly as the other segments. They've reached \$1.5 billion in revenue from this part of their businesses, a 5% CAGR. Even though their growth hasn't been as fast as some other ALSPs, they still stand to be strong competitors both to independent ALSPs and law firms. Should the U.S. regulatory environment shift regarding ALSPs, the market position of the Big Four could improve dramatically.

Executive summary

This year's survey gives every indication that the growth in the market for ALSPs will continue. According to this year's research:

- The industry is experiencing significant growth, reaching a size of approximately \$20.6 billion.
- Both law firms and corporate law departments are realizing the value of ALSPs, citing their specialized expertise, cost-efficiency, and ability to help manage headcount.
- Large and midsize law firms are increasingly aware of the ability of ALSPs to help them retain their clients, with substantially larger percentages citing this benefit compared to two years ago.
- Consulting on legal technology is a fast-growing and promising use case and, for the largest law firms, the second-most common reason to use an ALSP. More than one-half of large law firms use ALSPs for consulting on legal technology, as do more than one-third (37%) of midsize law firms and 31% of small law firms.
- As in past years, both law firms and corporate law departments anticipate increased use of ALSPs in the future. Among the largest law firms, 26% plan to increase spending on ALSPs, compared to only 3% who foresee decreased use. Twenty-one percent of corporate law departments anticipate increased spending with ALSPs, compared to 8% who expect spending to drop.
- Increasing numbers of law firms say they have established formal partnerships with ALSPs, potentially another contributor to ALSP growth. This is especially common in intellectual property management, document review & coding services, and e-discovery services.
- As competitors, the Big Four are starting to show a more broad-based presence, increasing the likelihood that law firms will find themselves competing with the Big Four in multiple service areas. Law firms do say they're aware of the Big Four winning legal work, but in this report, they're less likely to say they're competing directly against them.

Trends in service categories

Use of ALSPs is strongest in the United States when compared to other geographies. While law firms in the U.S., the U.K., and Canada are all expecting their use of ALSPs to rise, expectations are generally highest in the U.S.

Among law firms, the biggest increases in use were seen among the smallest firms and in those using ALSPs as consultants on legal technology. Corporate law departments are shifting their ALSP use, re-ordering the top five use cases and even showing a drop-off in some of the less-established service categories.

Law firms: Consulting on legal technology emerges as a favored use case

Across law firms of all sizes, the use of ALSPs has remained relatively steady for four of the top five use cases: e-discovery, legal research, litigation & investigation, and document review & coding.

The exception is the use of ALSPs for consulting on legal technology. Some 51% of large firms reported that they used ALSPs in this way, up seven percentage points from two years ago. As the leader at one ALSP described it in an interview:

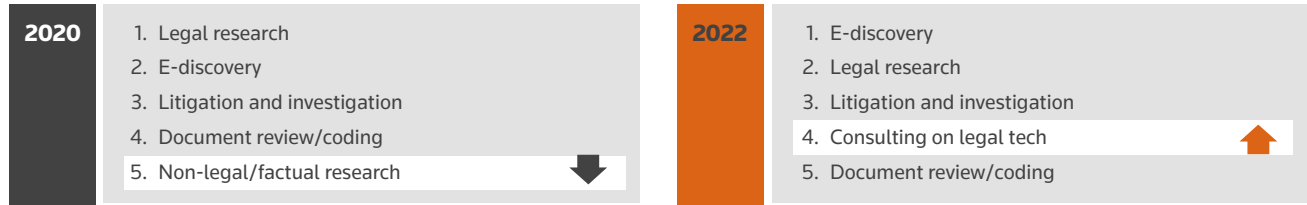
We're probably at literally 10-times the number of conversations from a year ago about how do you mature your legal department? How do you adopt the next tech? How do you do a three-year tech plan? How do you do the organizational change? How do you transform your services? And then, importantly, how do you segment your services as to what to do with third parties internally?

When asked how, specifically, they're using ALSPs as consultants in legal technology, a majority of law firms responded that they are looking to outsource technology support, and that they value the specialized expertise brought by ALSPs. More than half are looking to ALSPs for training in technology.

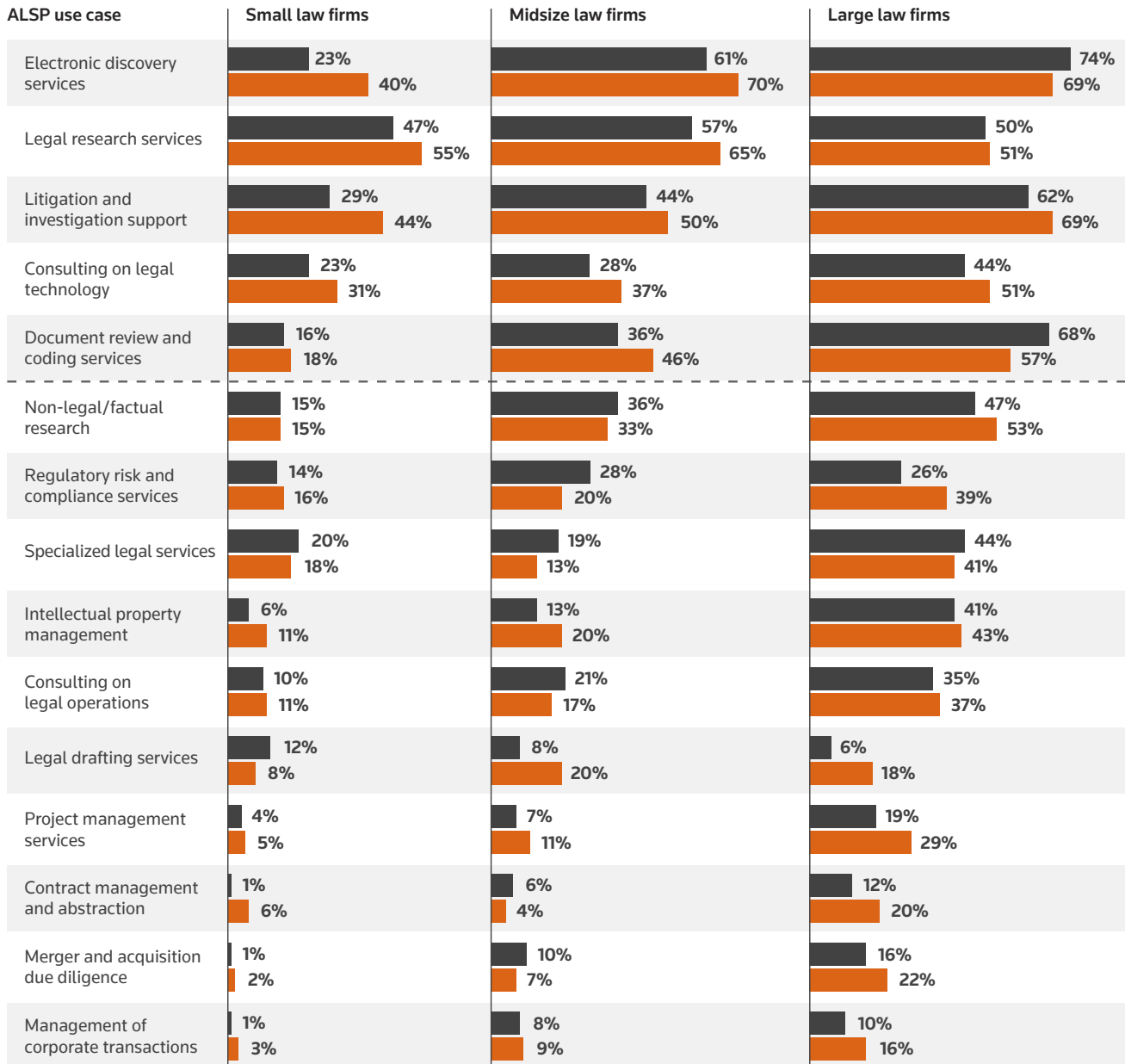
At midsize firms, 37% are using ALSPs as technology consultants, up nine percentage points; at small firms, the number is up eight percentage points. Use of ALSPs for legal technology is most popular in the U.S. and U.K., with 39% and 40% of firms, respectively, reporting this use case. Among law firms in the European Union, the numbers appear to be even higher, but the sample size is small.

Figure 2: U.S. law firms: trends in use of ALSPs

Top ALSP services



■ 2020 ■ 2022



Dotted line: Represents a divider between the top 5 use cases for law firms in 2022 and all other use cases. Small law firms 2020 (n=97), 2022 (n=62); Midsize law firms 2020 (n=72), 2022 (n=46); Large law firms 2020 (n=97), 2022 (n=49).

Source: Thomson Reuters 2023

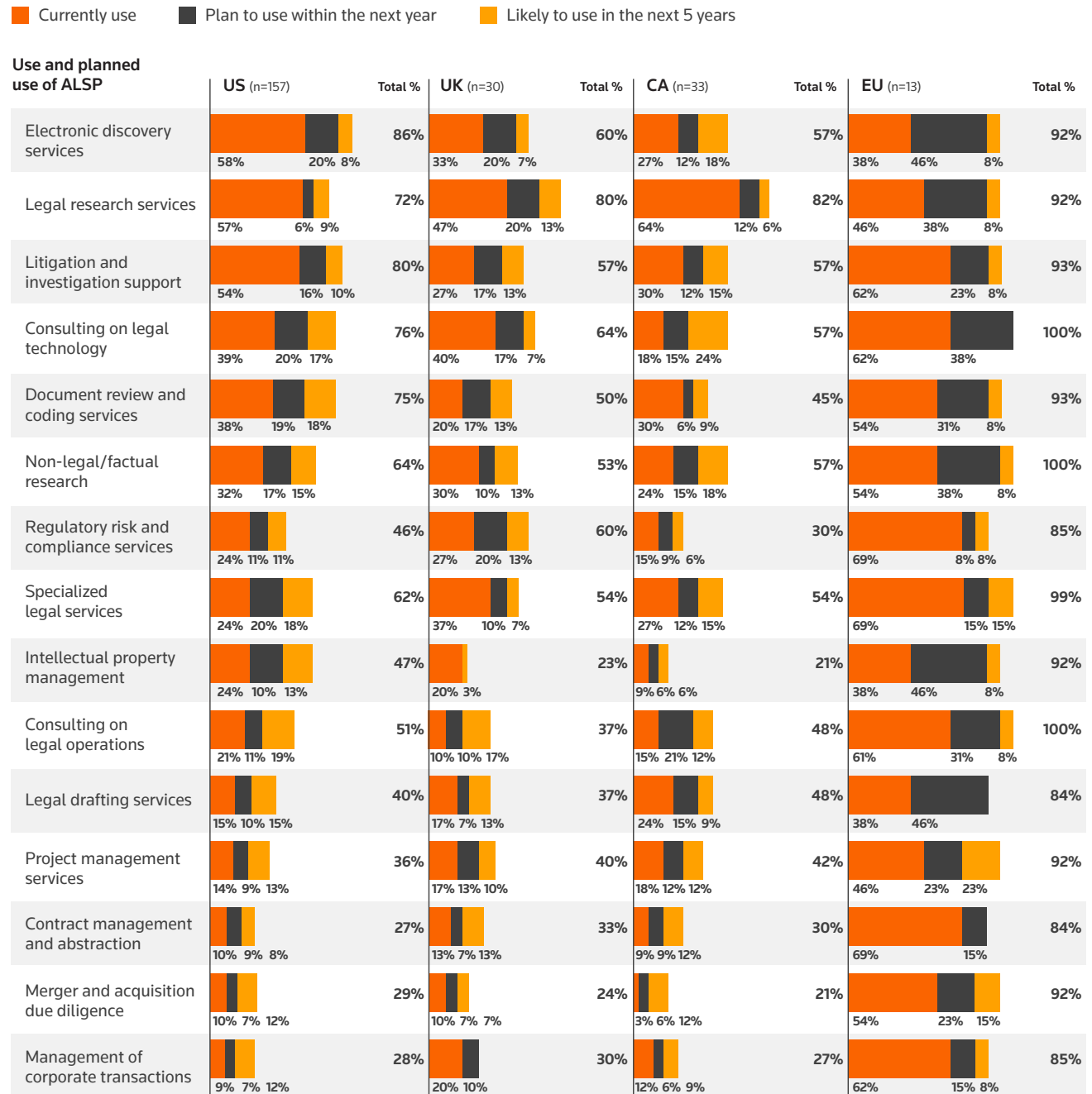
Across use cases, we also see differences by firm size within the U.S. Larger firms actually decreased their use of ALSPs across two of the top five use cases — e-discovery and document review & coding services. These drops are modest but still noticeable, given that at small and midsize law firms, ALSPs made *gains* across every use case.

Midsize law firms increased use by at least six percentage points for each service category, and sometimes significantly more. The most common use case was e-discovery — some 70% of midsize firms said they used ALSPs this way, up from 61% and on par with large firms. Among the top five use cases, document review & coding showed the largest growth for midsize firms. With the exception of legal research services, small firms are still not as likely as their larger-firm colleagues to use ALSPs.

Outside of the top five use cases, the largest law firms showed a notable increase in their willingness to use ALSPs for regulatory risk & compliance services, for a gain of 13 percentage points. Use of ALSPs for legal drafting services also rose substantially for these large law firms. Change was a bit less dramatic, overall, at midsize law firms, although they also increased their use of ALSPs for legal drafting services.

The primary use of ALSPs for legal drafting services was for low- or standard-complexity contracts. In regulatory risk & compliance, ALSPs are often used for routine corporate filings. For both categories, many large firms consider it more profitable to outsource these tasks. Together, these factors suggests that large law firms are increasingly using ALSPs for relatively routine and unchallenging practice matters. Use of ALSPs in this way could free up some of partners' and associates' time to do more high-value legal work or to tend to client relationships.

Figure 3: Law firms: use of ALSPs by country/region – 2022



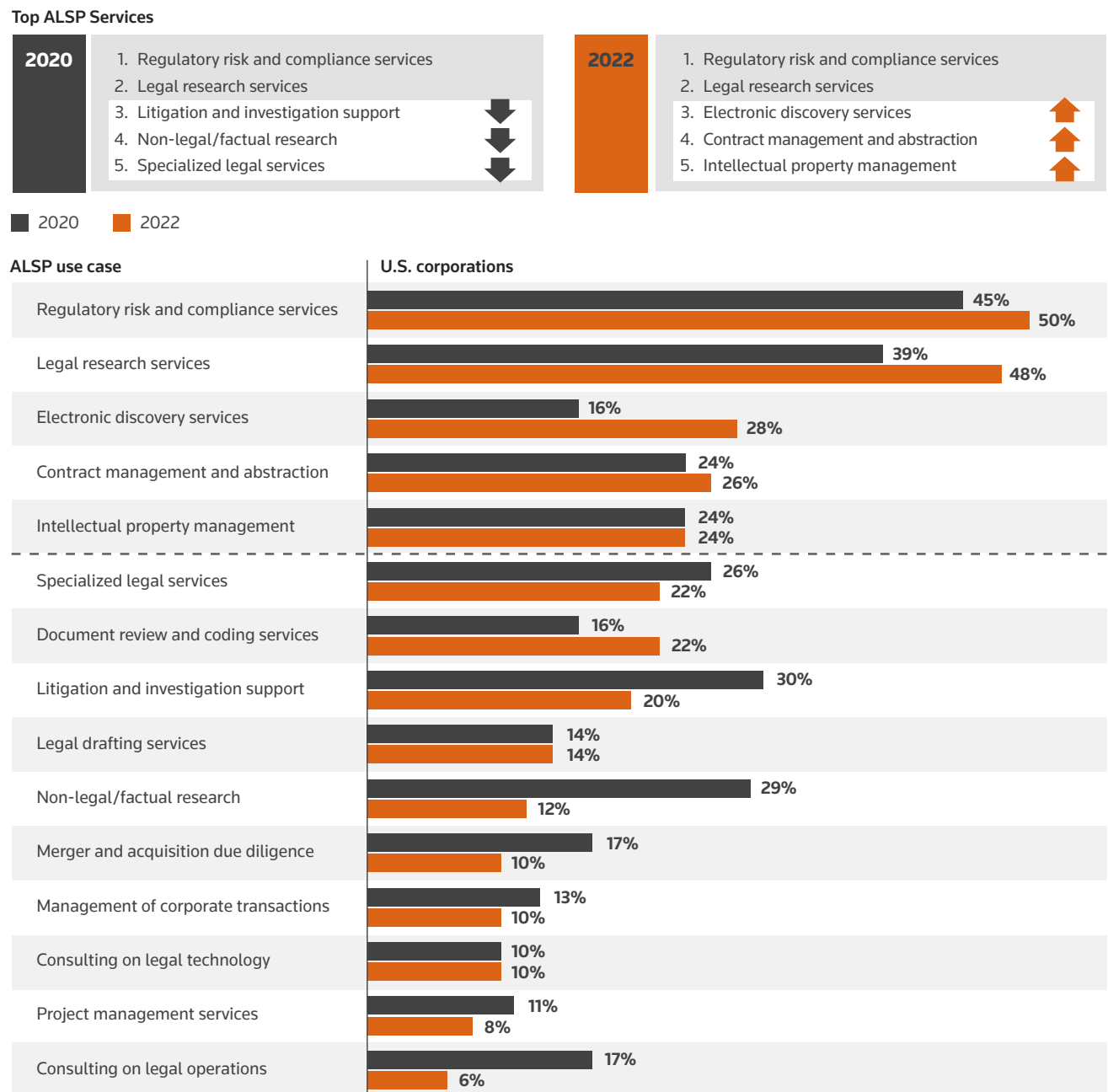
Source: Thomson Reuters 2023

In the U.K. and in Canada, the most common use case for ALSPs is legal research services, with current uptake in Canada being significantly ahead of the U.K. In the U.K., that's followed by consulting on legal technology (40%) and e-discovery services (33%). In Canada, use cases outside of legal research are much less developed, with the second most common services categories being taken up by fewer than one-third of firms.

Corporate law departments: A maturing market

Among corporate law departments, three of the top five use cases have changed over the past two years. While the top five uses cases are growing steadily, there have been some decreases in use in service categories further down the list. A few service categories are widely popular, but corporate law departments in the U.K., Canada, E.U., and Australia often favor significantly different use cases than their U.S. counterparts.

Figure 4 : **U.S. Corporations: trends in use of ALSPs**



Dotted line: Represents a divider between the top 5 use cases in 2022 and all other use cases.
 U.S. corporations 2020 (n=87), 2022 (n=50).

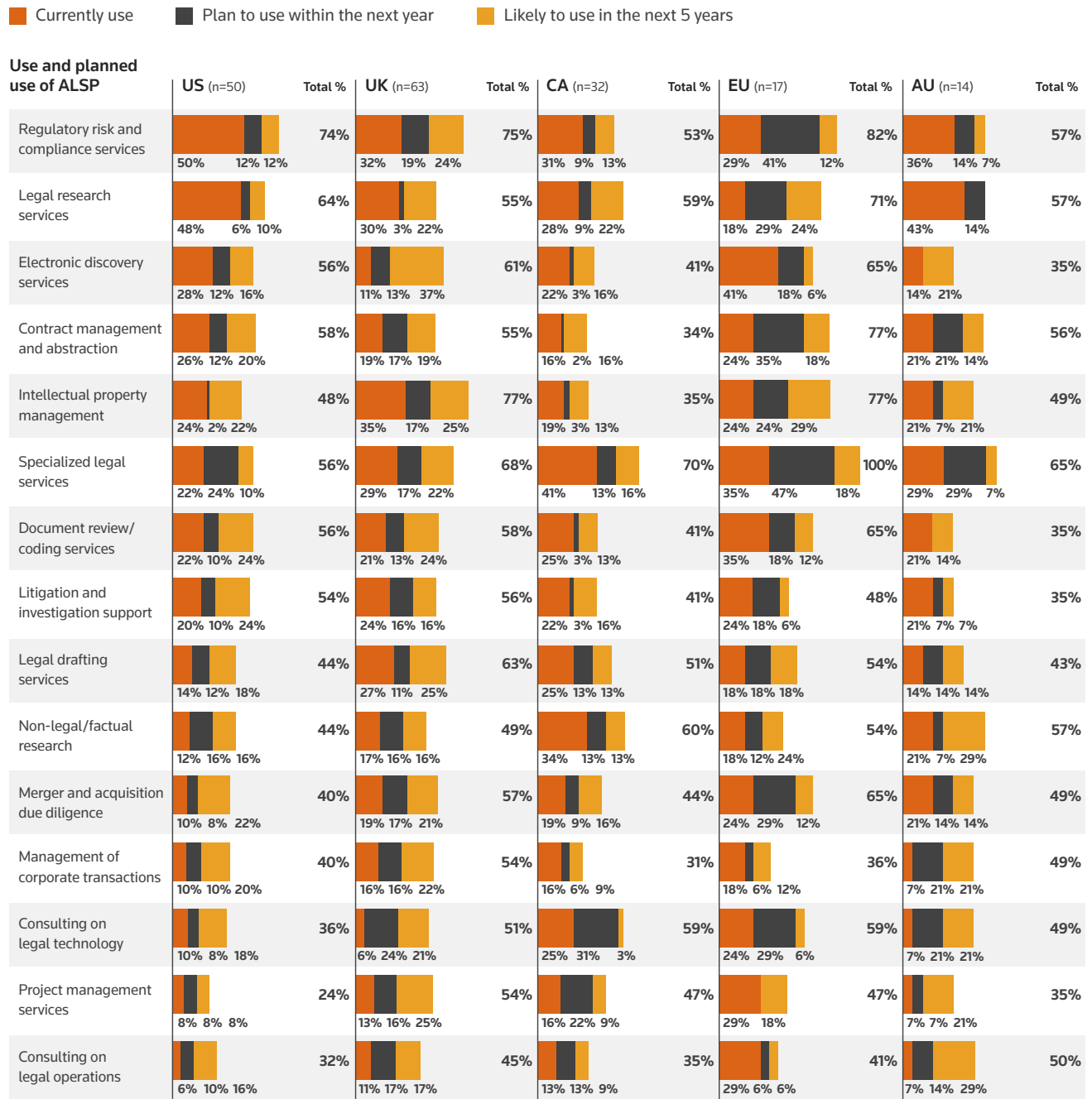
Source: Thomson Reuters 2023

Among U.S. corporations, the top two service categories are regulatory risk & compliance services and legal research services, with both showing growth. These use cases have remained strong over the past two years.

The remainder of the top five use cases are new. They include e-discovery services, which showed the biggest growth. Within e-discovery, we can see many of the issues that corporate law departments — like other parts of large enterprises—contend with as digital transformation becomes more widespread. Of those corporate law departments using ALSPs for e-discovery, the primary functions are e-discovery hosting services and data processing.

The last two of the top five use cases, contract management & abstraction and intellectual property management, didn't grow much at all. Instead, a few formerly common use cases are now a bit less popular, clearing room for new service categories in the top five. Non-legal & factual research, which was performed by ALSPs for 29% of respondents two years ago, is now cited by only 12%. The percentage using ALSPs for litigation & investigation support dropped from 30% to 20%, even though these same use cases saw increases at law firms.

Figure 5: Corporations: use of ALSPs by country/region – 2022



Source: Thomson Reuters 2023

In the U.K., the most popular service category is intellectual property management, used by 35% of corporate law departments, followed by regulatory risk & compliance services (32%) and legal research (30%). In Canada, the top use case is specialized legal services, at 41%. In Australia, legal research is the most popular use case, followed by regulatory risk & compliance and specialized legal services.

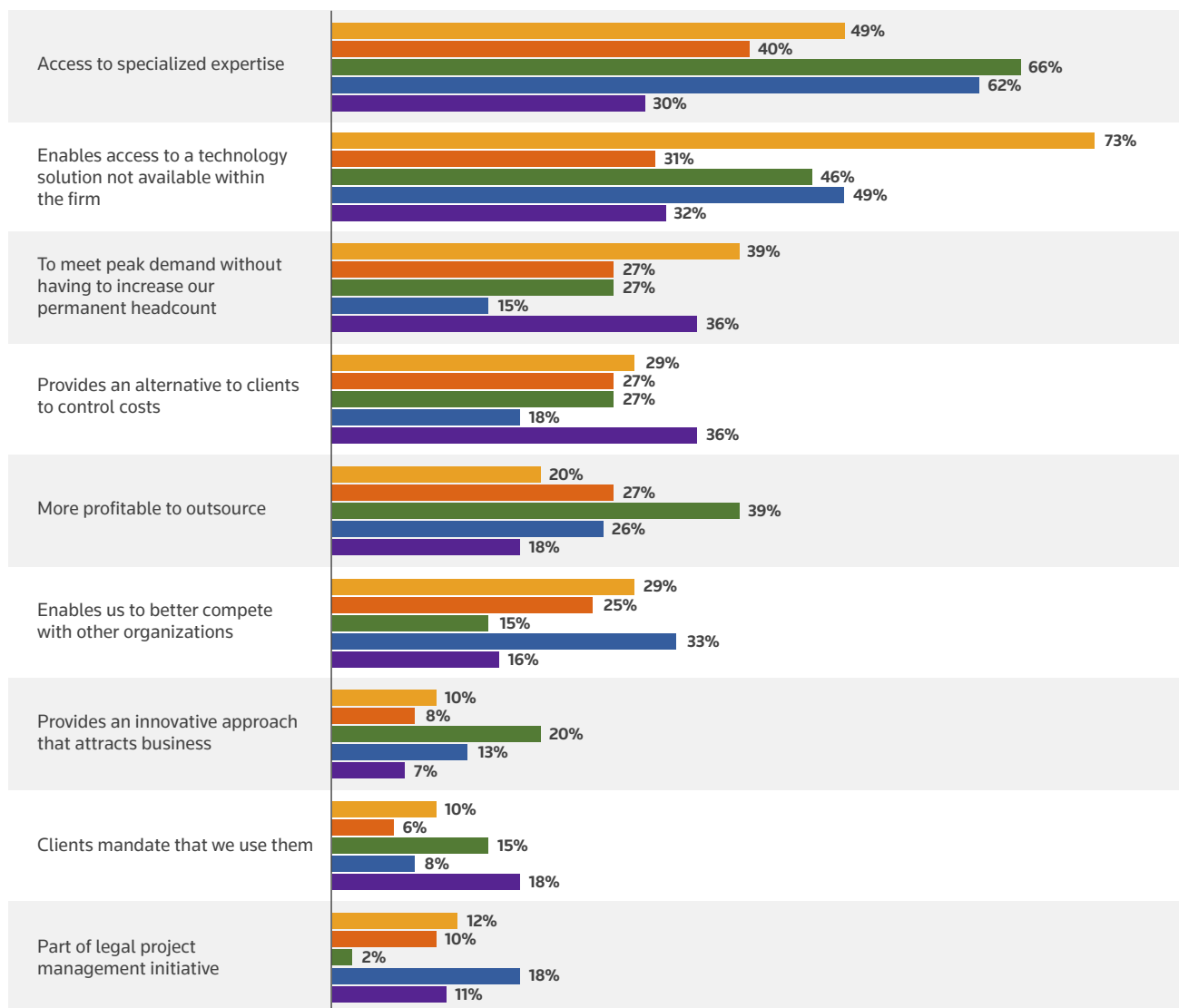
The value of ALSPs: expertise, technology & a better allocation of staff

Across the top five service categories, the reasons that law firms choose to use ALSPs have not changed dramatically from 2020, with one exception: access to technology is becoming more important.

Figure 6 : **Global law firms: reasons for using ALSPs**

Law firms: top 5 use cases for ALSPs

■ e-Discovery (n=41)
 ■ Legal research (n=48)
 ■ Litigation and investigation support (n=41)
 ■ Consulting on legal technology (n=39)
 ■ Document review/coding (n=44)



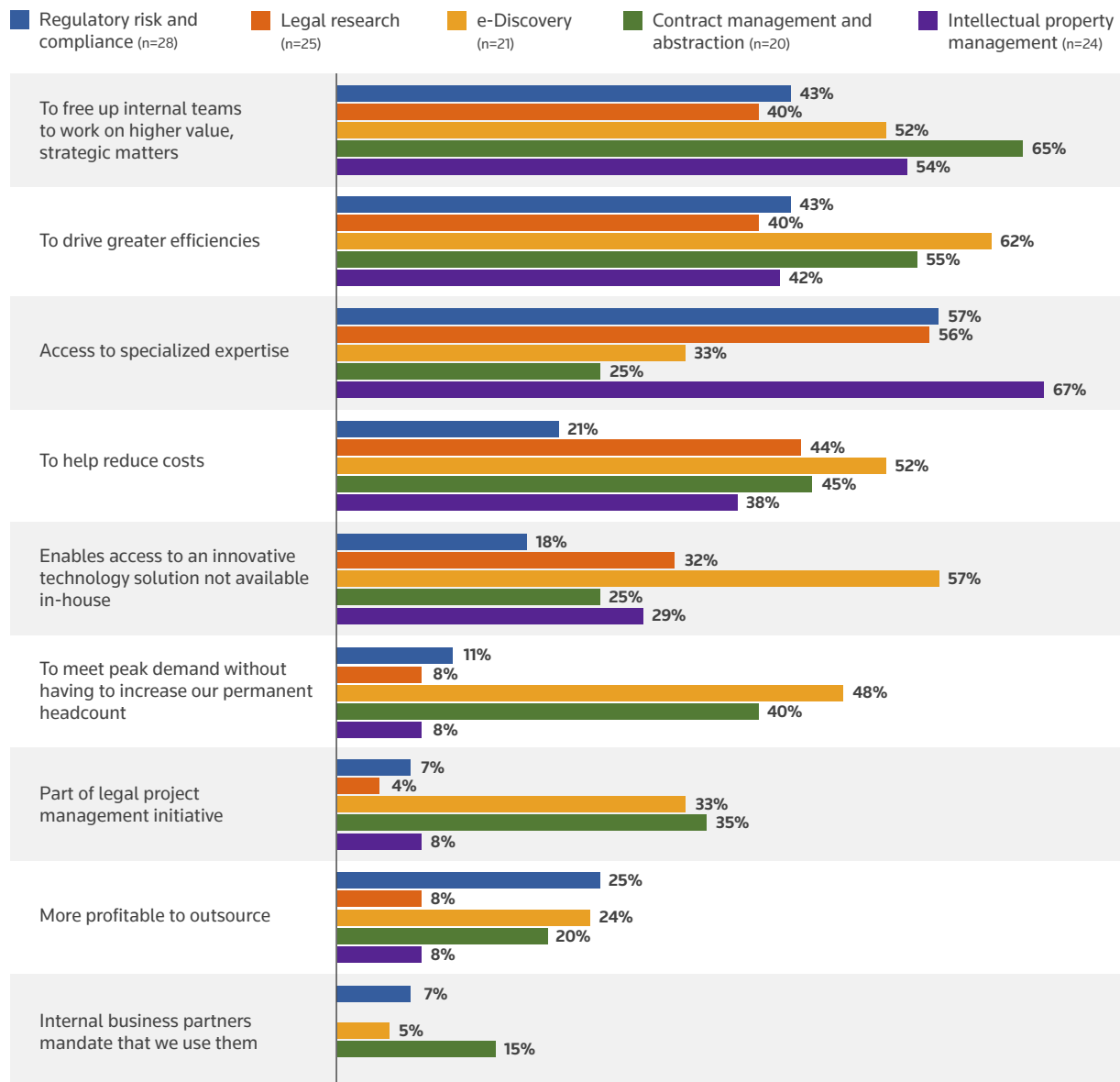
Source: Thomson Reuters 2023

The most common reason for law firms to use ALSPs remains the ability to access specialized expertise. This is particularly important in litigation & investigation support, where 66% of firms cite specialized expertise as a reason to call in ALSPs.

Now, the second-most cited reason given by law firms to use an ALSP is to get access to technology that is not available within the firm. The results from those using ALSPs for e-discovery are most dramatic, with 73% of firms saying that access to technology is important. This dovetails with law firms' increasing willingness to use ALSPs as technology consultants.

ALSPs are also valued for their ability to help firms manage hiring. Indeed, the third-most stated reason for using ALSPs is to help meet peak demand without having to increase permanent headcount.

When compared to law firms, corporate law departments are somewhat less likely to value ALSPs' ability to provide technology not available in-house, but they are very appreciative of ALSPs' abilities to help them reallocate staff. In interviews, ALSPs said corporate law departments may often use their services to postpone the hiring of expensive high-level staff.

Figure 7 : **Global corporations: reasons for using ALSPs****Corporations: top 5 use cases for ALSPs**

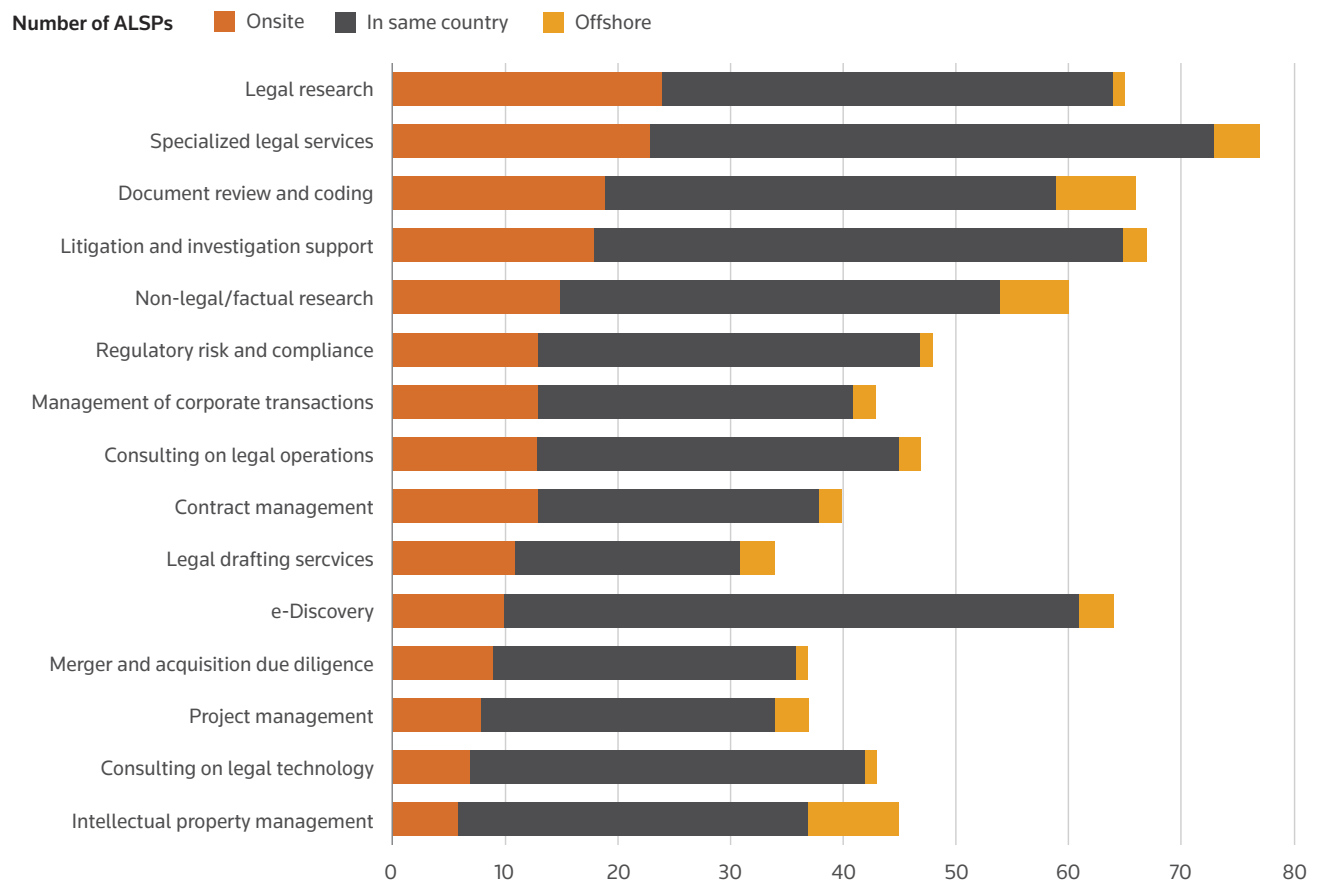
Source: Thomson Reuters 2023

For these customers, ALSPs are all about increasing efficiency. Efficiency itself is the second most-popular response, but efficiency is a thread running through other highly valued aspects of working with ALSPs, such as freeing up internal teams to work on higher-value or more strategic matters, and access to specialized expertise. It's worth noting here that ALSPs also may bring in project managers, analysts, and other non-legal staff that can also help boost efficiency.

Remote work and ALSP relationships

The COVID-19 pandemic dramatically changed attitudes toward remote work — a shift that has benefited ALSPs. During the crisis, ALSPs were well-suited for flexible models of work because many of them already had the enabling technology and cultures in place. In interviews with ALSP leaders, many reported that clients have become more open to remote staff, partly because so many have now worked remotely themselves.

Figure 8: **Global law firms: locations from which ALSP services are delivered**



Source: Thomson Reuters 2023

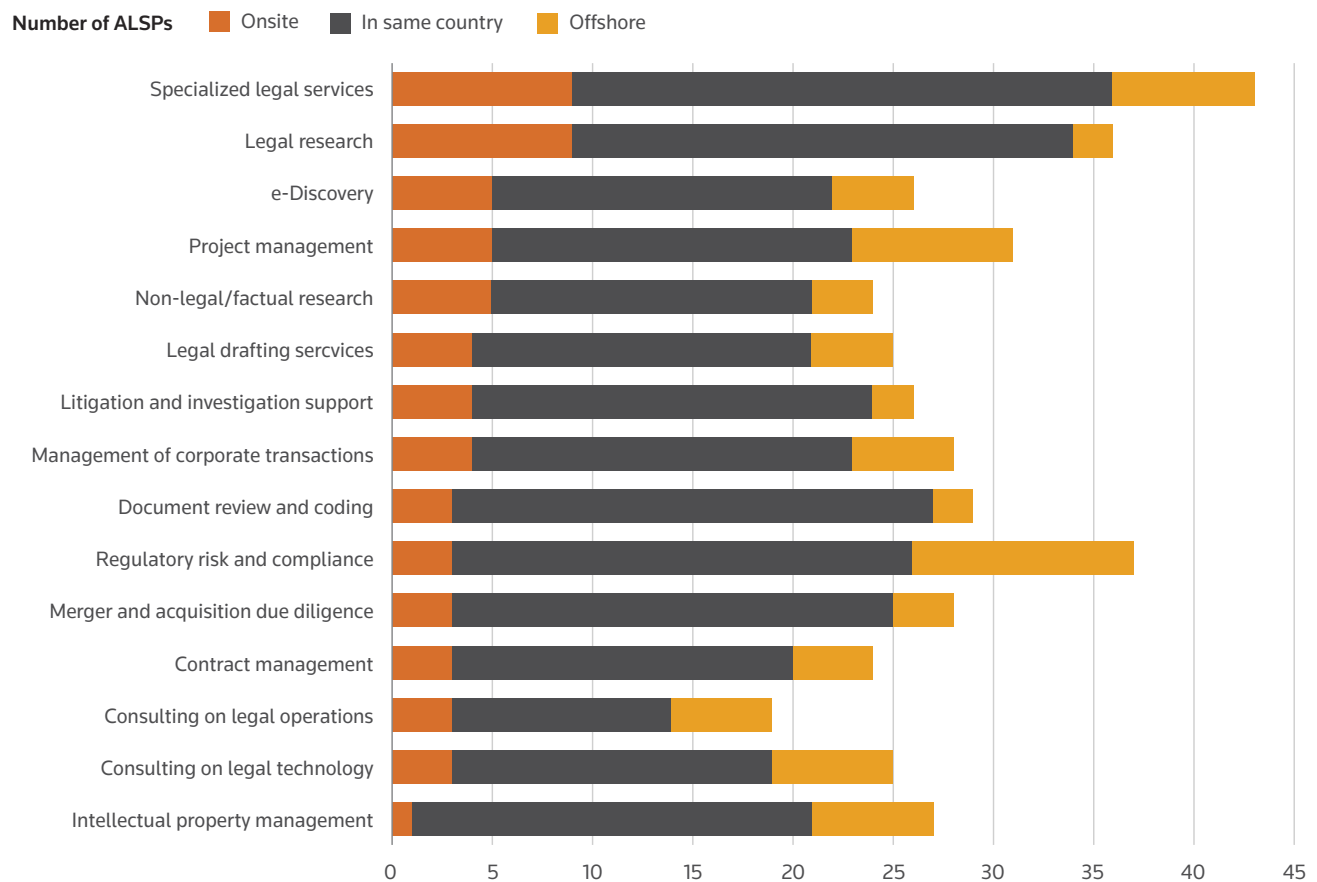
We can see evidence of this openness across every service area in our 2022 survey, as law firms primarily use ALSPs that are located within their home country, although not necessarily in their physical offices. This preference is especially strong in e-discovery and specialized legal services where, proportionally, a greater number of ALSP services are delivered to law firms through remote staff work.

There are no service categories in which the majority of work is done onsite, but there are a few use cases where law firms are more likely to work side-by-side with their ALSP, such as contract management and legal drafting. Conversely, the fewest number of on-site ALSP staff are found in the service categories of intellectual property management, consulting on legal technology, and project management.

A few service categories also stood out for ALSPs' ability to offshore legal tasks. While the numbers are small, it's worth noting that there was a higher concentration of offshore work in the categories of intellectual property management, document review, and non-legal & factual research.

For corporate law departments that use ALSPs, as with their law firm colleagues, remote work on the part of ALSPs seems to be the norm. However, law departments are less likely to be using ALSP staff on-site, and more likely to be offshoring work to professionals in another country.

Figure 9: **Global corporations: locations from which ALSP services are delivered**



Source: Thomson Reuters 2023

Compared to law firms, corporate legal departments are much less likely to have their ALSPs onsite for some of the most common use cases, such as specialized legal services and legal research. For many services, the number of corporate law departments that use ALSPs on-premises is matched or exceeded by the number of ALSPs providing services from outside of their home country. We found that regulatory risk & compliance was the work most likely to be performed in another country, followed by project management and specialized legal services.

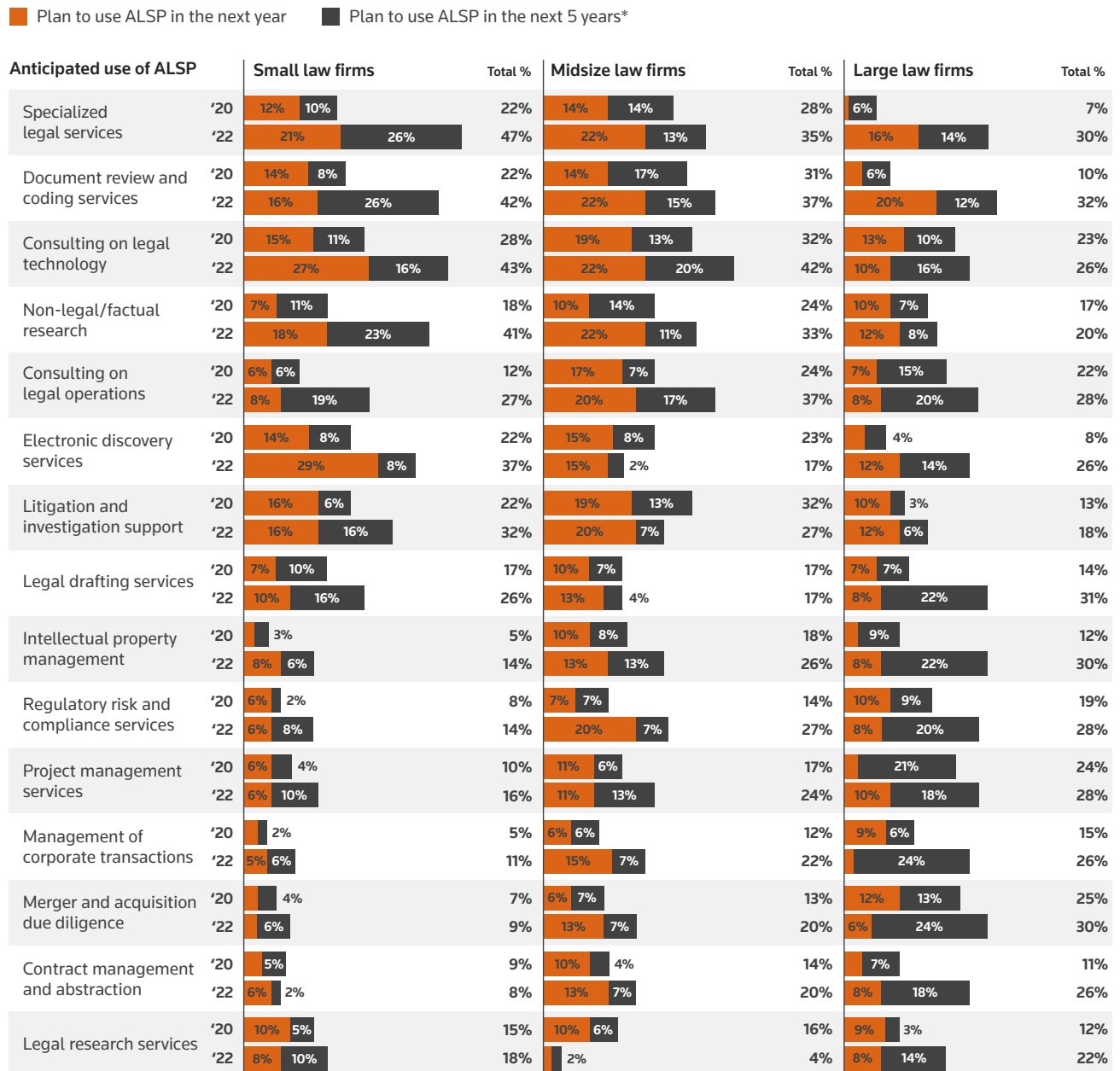
The differences between corporate law departments' and law firms' preferences suggests that corporate law departments are more comfortable with remote work done by ALSPs. This isn't surprising, given that corporate law departments had significantly lower levels of concern regarding quality (46%) compared to law firms (62%).

Growth projections

Law Firms: Predictions for broad-based growth in ALSP use

Many law firms of all sizes anticipate that they will begin using ALSPs within the next five years.

Figure 10: U.S. law firms: trends in anticipated use of ALSPs



Respondents: Law firms that do not currently use ALSPs.

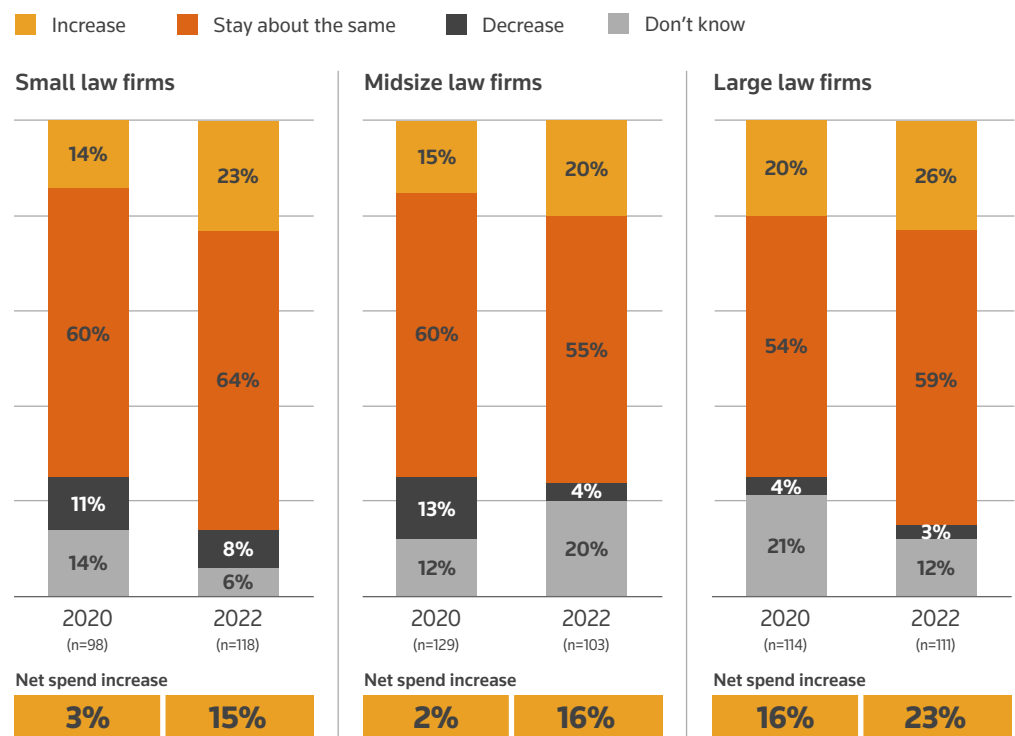
* Likely to use in next 5 years = rated somewhat likely, very likely, or definitely will use ALSP in next 5 years.

Source: Thomson Reuters 2023

Among large U.S. law firms, respondents are most likely to say they will begin using ALSPs for document review & coding services within the next year (20% anticipate this use); and 16% say they will start using ALSPs for specialized legal services. Over five years, the expected uptake is more dramatic: At least 30% of large U.S. firms say they'll be using ALSPs for specialized legal services, document review & coding services, legal drafting services, intellectual property management, and due diligence on mergers & acquisitions (M&A).

At all firm sizes, those who are using ALSPs generally plan to continue doing so, and, in many cases, increase their investments. The difference between the share of firms that say they will be spending more on ALSPs compared to those saying they will spend less – the net anticipated spend – grew. Small and midsize law firms saw the largest jumps

Figure 11: **U.S. law firms: anticipated spending on ALSPs**



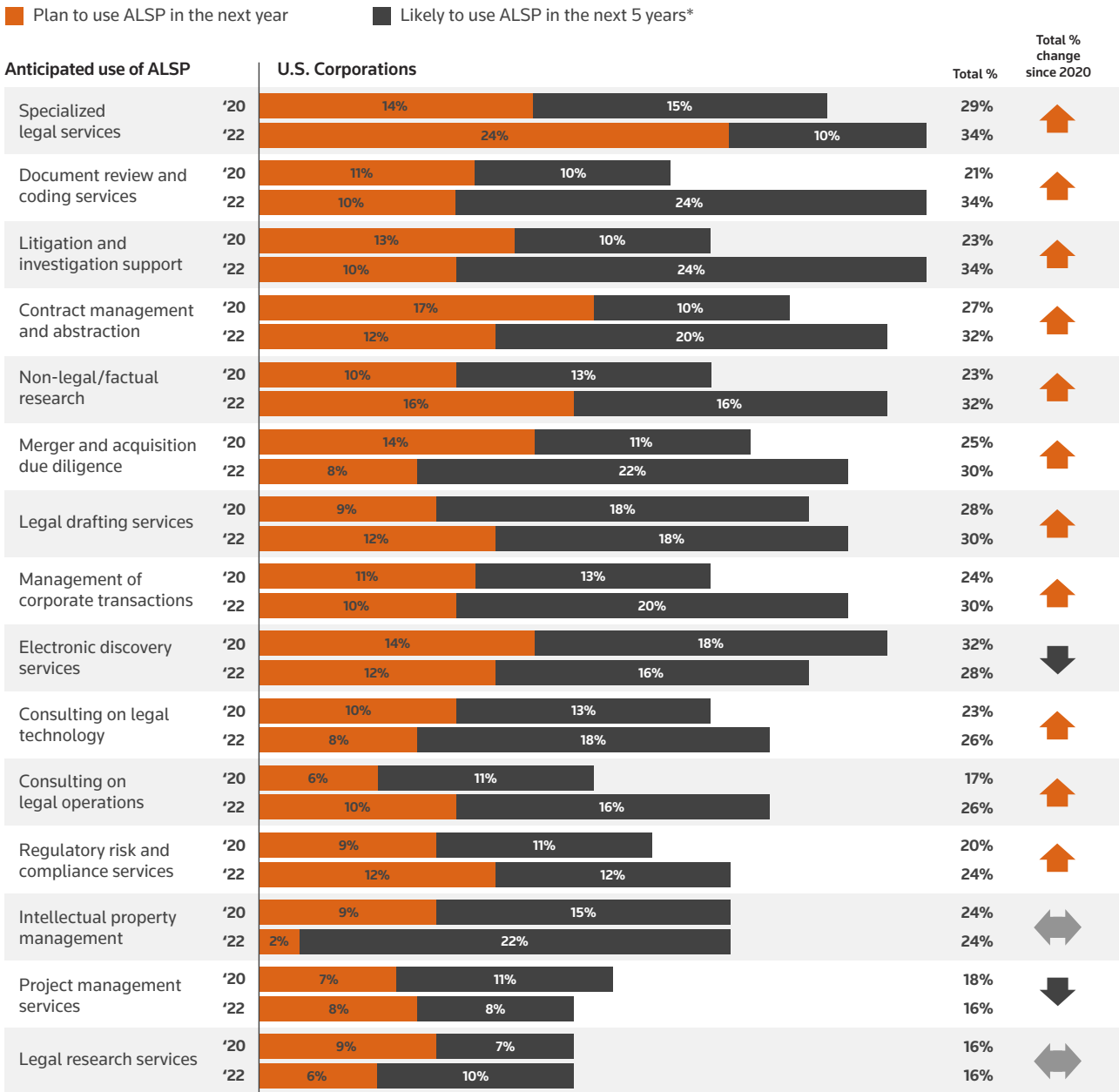
Source: Thomson Reuters 2023

Corporate law departments: Projections for increased use across service categories

Corporate law departments that are not currently using ALSPs also report increased interest in doing so. Anticipated use is up across the board, with the only exceptions being e-discovery and project management services.

Respondents from corporate law departments say that within five years, 34% of those departments that don't already use ALSPs plan to be using them for specialized legal services, document review & coding services, and litigation & investigation support.

Figure 12: U.S. corporations: trends in anticipated use of ALSPs



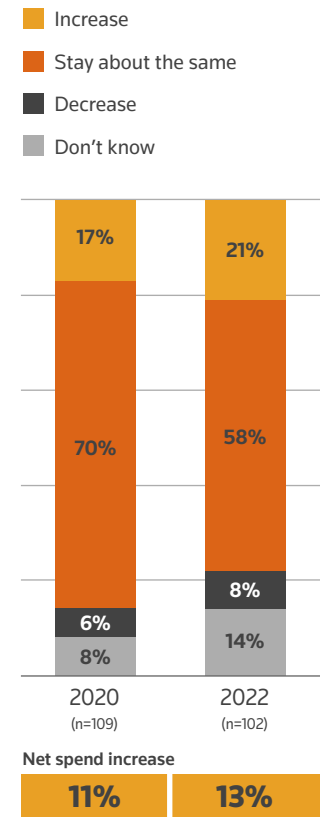
Respondents: Corporations that do not currently use ALSPs.
 *Likely to use in next 5 years = rated somewhat likely, very likely, or definitely will use ALSP in next 5 years.

Source: Thomson Reuters 2023

In some cases, the time frame for adoption of ALSPs by corporate law departments in the U.S. seems to have extended. It's not clear if that is because law departments that planned to adopt ALSPs quickly have already done so, and the additional use cases are either less compelling or more difficult to implement, or if this reflects market caution about moving too quickly. Either way, the percentage of corporate law department respondents planning to adopt ALSP services within one year dropped slightly in many categories.

U.S. corporate law departments that are currently using ALSPs said they expect to be spending more with these partners in the future. Some 21% of these departments say they will increase spending, compared to 8% that say they will decrease it. An increasing share, however, say they don't know what their spending will be, and a smaller percentage expect spending to stay the same. It could be that corporations are reaching an inflection point with their ALSP spending, and nearing important decisions about ALSPs' value and appropriate use.

Figure 13:
**U.S. corporations:
anticipated spending
on ALSPs**



Source: Thomson Reuters 2023

Attitudes about ALSPs

Large law firms are becoming more aware of the advantages offered by ALSPs, although concerns about the quality of work remain. Corporate law departments held steady in their attitudes toward ALSPs, with one notable exception: They seem to be becoming more comfortable engaging directly with ALSPs themselves rather than asking law firms to manage ALSPs on their behalf. Some corporations are now creating discrete ALSP panels or bringing ALSPs into their law firm panels.

Law firms: A focus on quality & growth potential

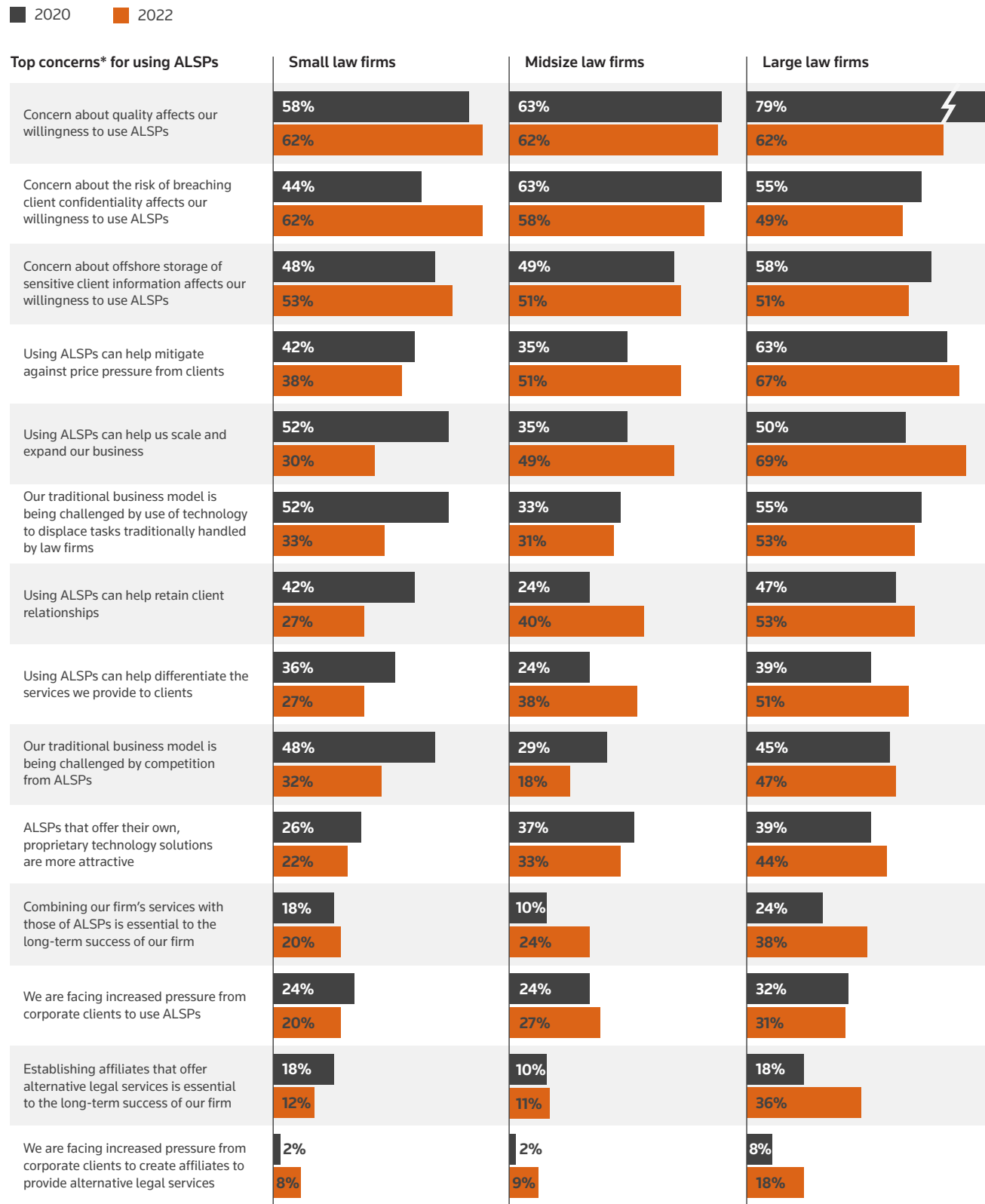
Regardless of firm size, the top concern about using ALSPs continues to be the quality of work. Across all firm sizes, 62% said they agreed with the statement: “Concern about quality affects our willingness to use an ALSP.” ALSPs are aware of this as well. In interviews, they were often proactive in stating that they are confident in the quality of their work and eager to demonstrate their capabilities.

It’s worth noting that although firms in all three size brackets exhibit the same level of concern, the number is down significantly for large law firms, of which 62% say quality was a concern, compared to 79% two years ago. The number is essentially unchanged at midsize firms and up four percentage points at small firms.

Large law firms are becoming more aware of the advantages offered by ALSPs, although concerns about the quality of work remain.

This pattern is consistent throughout this category: In general, large firms’ concerns about ALSPs seem to be diminishing, those of midsize firms have not changed much, and the smallest firms show more caution than they did two years ago. Sixty-two percent of small firms are now concerned about the risk of breaching client confidentiality by using an ALSPs, up substantially from 44%. Concern about offshore storage rose five percentage points, to 53%.

Figure 14: U.S. law firms: trends in attitudes towards ALSPs



*When asked, "On a scale of 1-5, with 5 meaning strongly agree, to what extent do you agree or disagree with the following statements about alternative legal services?", top concerns scored 4 or 5. Small law firms 2020 (n=50), 2022 (n=60); Midsize law firms 2020 (n=51), 2022 (n=45); Large law firms 2020 (n=38), 2022 (n=45).

Source: Thomson Reuters 2023

Retaining client relationships is another area where the trend lines differ by firm size. At large firms, 53% say ALSPs help retain client relationships, up from 47% in the previous survey. At midsize law firms, 40% agree, up from 24% two years ago. At small firms, just 27% believe that ALSPs help retain client relationships, and that number is down from 42% two years ago.

Among large firms, 69% say ALSPs can help scale and expand their business, up from 50% two years ago. Midsize firms are also enthusiastic: 49% agree, compared to 35% two years ago. But small firms have become more dubious: only 30% say ALSPs can help scale and expand their business, down from 52%.

It isn't fully clear why the skepticism among small law firms has grown while coming down in the other law firm segments. However, it may have something to do with smaller firms being earlier on the learning curve than larger firms, and experiencing the same level of skepticism that has previously characterized larger firms.

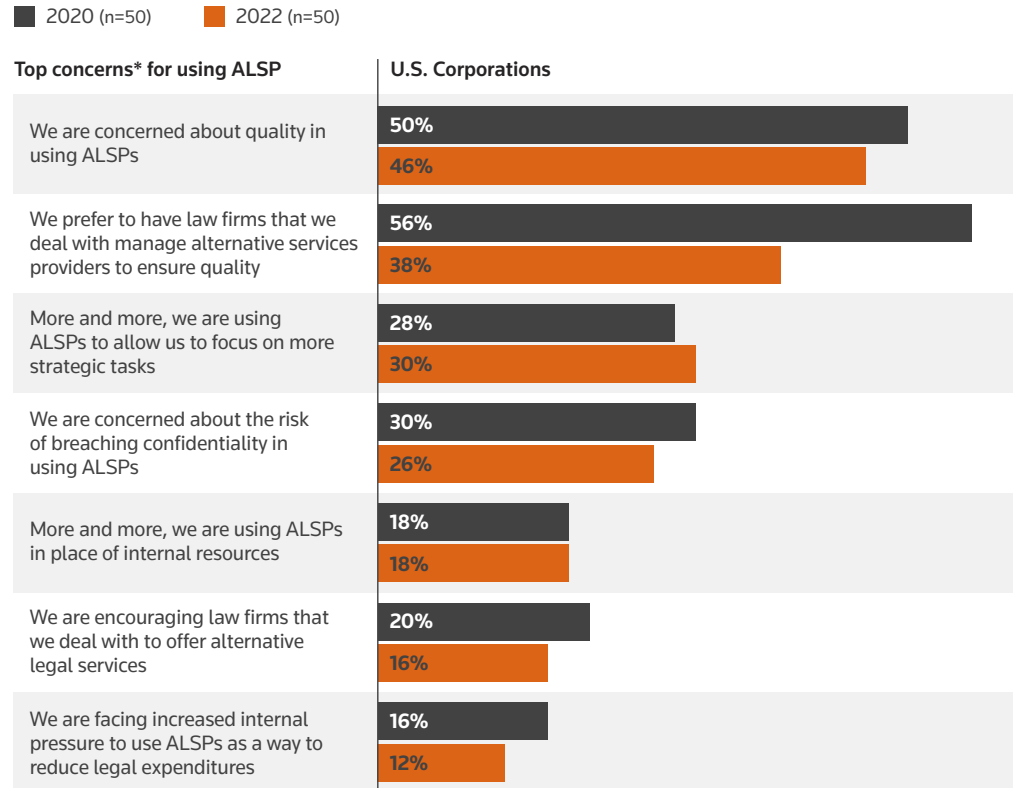
Large and midsize firms also are increasingly seeing ALSPs as a force to help them differentiate the services they offer to clients. More than one-half (51%) of large law firms see ALSPs as a differentiator, as do 38% of midsize firms. Only 27% of small firms see ALSPs in this way.

Mitigating price pressure and retaining client relationships are other areas where the trend lines differ by firm size. Larger firms are in general more positive about the benefits of ALSPs to help relieve price pressure, perhaps because smaller firms are already charging lower rates than larger ones.

Corporate law departments: Engaging with ALSPs directly

The attitudes of corporate law departments toward ALSPs mostly held steady between 2020 and 2022. The biggest change came in the percentage of law departments that prefer to have their outside law firms manage their ALSPs. That number shrank from 56% to 38%.

Figure 15: **U.S. corporations: trends in attitudes towards ALSPs**



*When asked, "On a scale of 1-5, with 5 meaning strongly agree, to what extent do you agree or disagree with the following statements about alternative legal services?", top concerns scored 4 or 5.

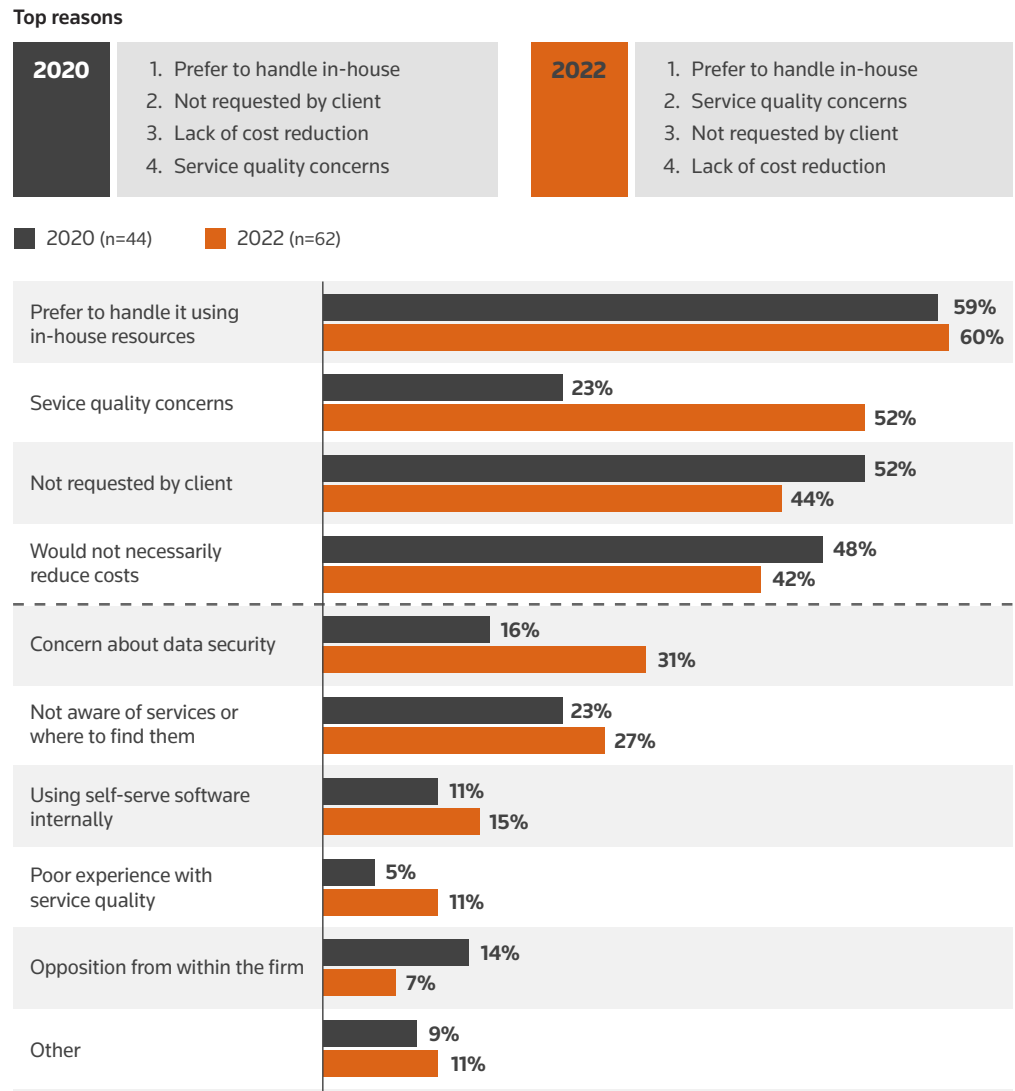
Source: Thomson Reuters 2023

Otherwise, U.S. corporate law departments are slightly less concerned about the quality of ALSP work compared to two years ago. They are also a bit more likely to use ALSPs to allow law departments to focus on more strategic tasks. Only 16% of corporate law departments say that they are encouraging the law firms they work with to offer alternative legal services.

Doubts about ALSPs: A closer look

Among law firms that *do not* use ALSPs, the top reason given — by 60% of firms — is that they'd prefer to keep the work in-house.

Figure 16: **Global law firms: reasons for not using ALSPs**



Dotted line: Represents a divider between the top 4 reasons law firms do not use ALSPs in 2022 and all other reasons.

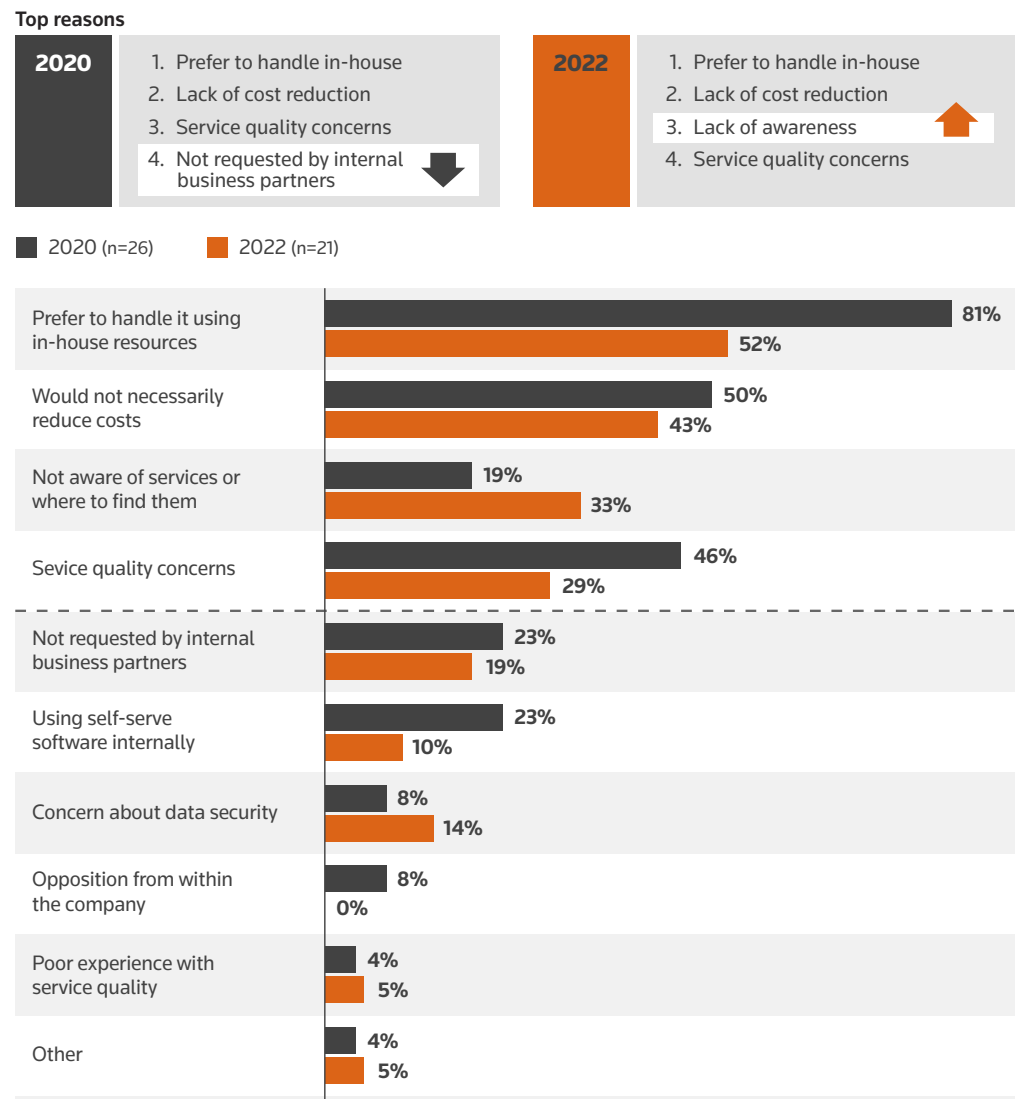
Source: Thomson Reuters 2023

The frequency of two other responses has changed substantially, however. Concerns about service quality are now more than *twice* as likely to be cited, by 52% of law firms compared to just 23% two years ago. Similarly, 11% of firms seem to indicate that they have tried ALSPs but didn't have a positive experience, saying that "poor experience with service quality" is a barrier to using ALSPs, up from 5% two years ago.

Data security is also of increased concern, with 31% of firms citing this issue compared to just 16% two years ago. The other top reasons law firms give for not using ALSPs are that clients are not requesting ALSPs and that ALSPs wouldn't necessarily reduce costs.

The top reasons that corporations refrain from using ALSPs is that they'd prefer to handle the work in-house. The portion of corporations saying this, however, has dropped from 81% two years ago to just 52% this year.

Figure 17: **Global corporations: reasons for not using ALSPs**



Dotted line: Represents a divider between the top 4 reasons corporations do not use ALSPs in 2022 and all other reasons.

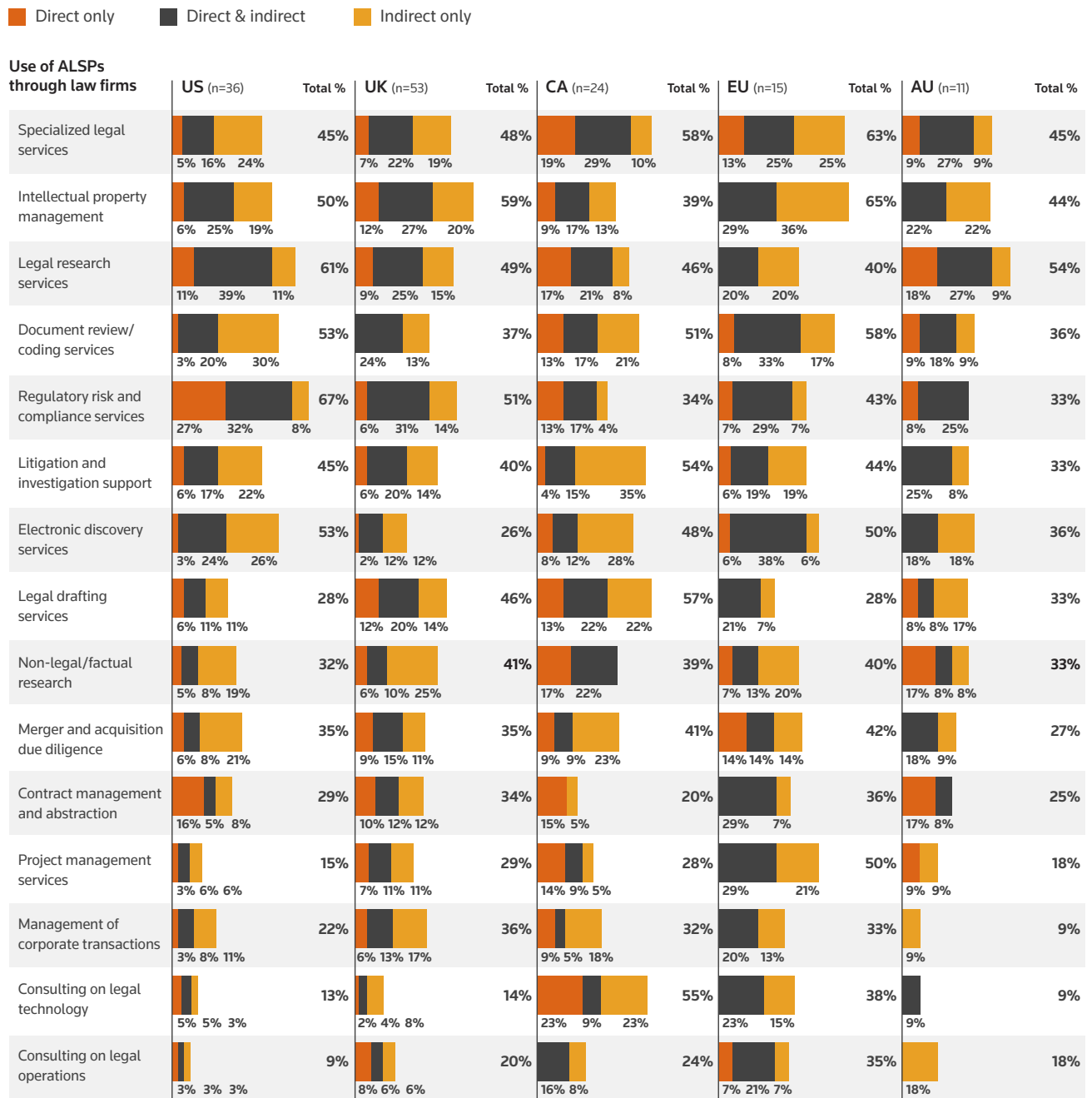
Source: Thomson Reuters 2023

The second-most common reason corporate law departments choose not to use ALSPs was that they believe ALSPs would not necessarily reduce costs. Although service quality concerns have risen sharply among law firms that don't use ALSPs, that's becoming less of an issue for corporate law departments that do use them — only 29% say this is a factor, down from 46% two years ago.

Corporations' strategies to engage with ALSPs: Geographical comparisons

Across markets, corporate law departments are using a mix of strategies to engage ALSPs. Some departments contract with ALSPs directly, but in most markets, there is still at least some reliance on law firms to engage with and manage ALSPs.

Figure 18: Corporations: direct vs. indirect use of ALSPs by country/region – 2022



Source: Thomson Reuters 2023

Indirect use of ALSPs is most prevalent in Canada, where a full 35% of corporate law departments are using law firms to manage ALSPs working in litigation & investigation support. Canadian corporate law departments are most likely to use ALSPs directly when asking them to consult on legal technology (23%) and specialized legal services (19%).

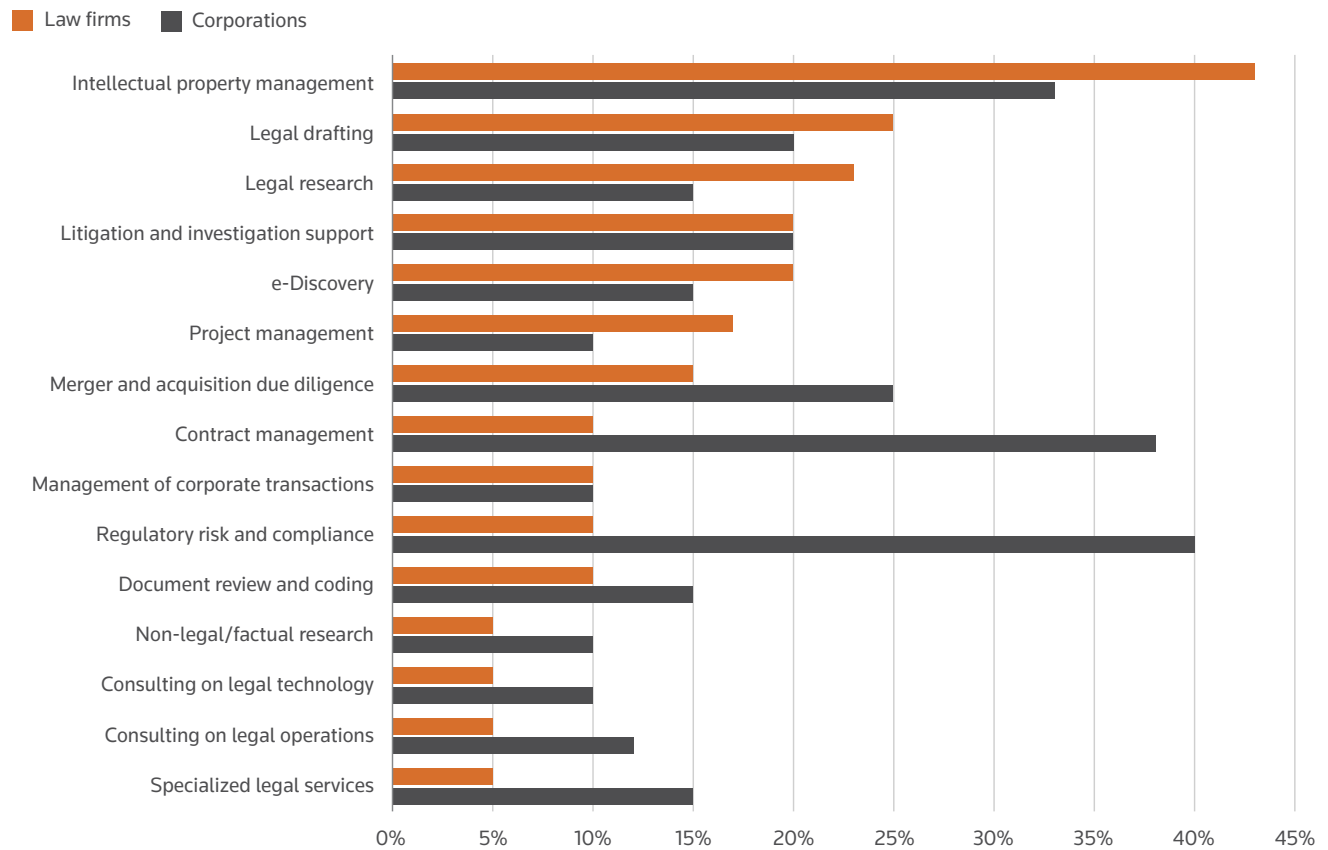
In the U.S., the categories in which corporations are most likely to insist on using law firms as a conduit to their ALSPs are in document review & coding, e-discovery, and specialized legal services. U.S. corporate law departments are most likely to engage with ALSPs directly in regulatory risk & compliance services and contract management & abstraction.

In the most-common use case for ALSPs, regulatory risk & compliance services, only 8% of corporate law departments use a law firm to manage their ALSPs. A similar phenomenon can be seen in legal research, where law departments are quite likely to use ALSPs (61%) but unlikely to do so through law firms (11%). This may be a reflection of in-house competencies, where corporate lawyers are more familiar with research and managing risk, but less adept at handling the intricacies of litigation, work which has traditionally been farmed out.

ALSP market saturation

Just as law firms and corporate law departments have distinct reasons for using ALSPs, there are also some significant divides in how *intensely* each group uses these providers.

Figure 19: **Global law firms and corporations: Median percentage of matters using an ALSP**



Source: Thomson Reuters 2023

While only a modest number of law firms use ALSPs for intellectual property management, for example, those firms that do use ALSPs for this purpose use them for a median of 43% of their matters, indicating a level of usage that goes well beyond experimentation. Legal drafting ranks 11th among law firm use cases, but law firms that use ALSPs for legal drafting are using them for a median of 25% of their matters, indicating that, for specific firms, ALSPs are widely valued in this service category.

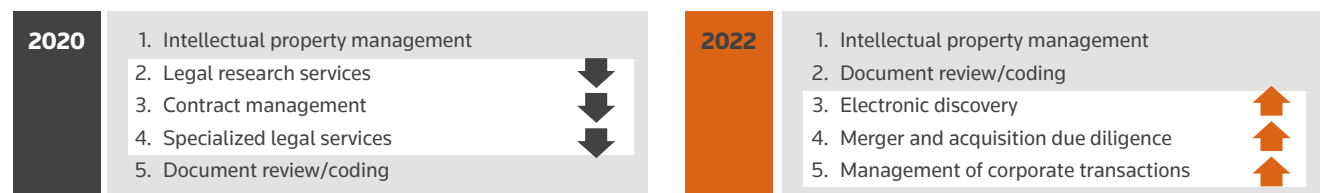
Corporate law departments are using ALSPs for more than 30% of their regulatory risk and compliance, contract management, and intellectual property management matters. In the remainder of the top five use cases — legal research and e-discovery — corporations are using ALSPs for only 15% of their matters.

Law firms: partnering with ALSPs

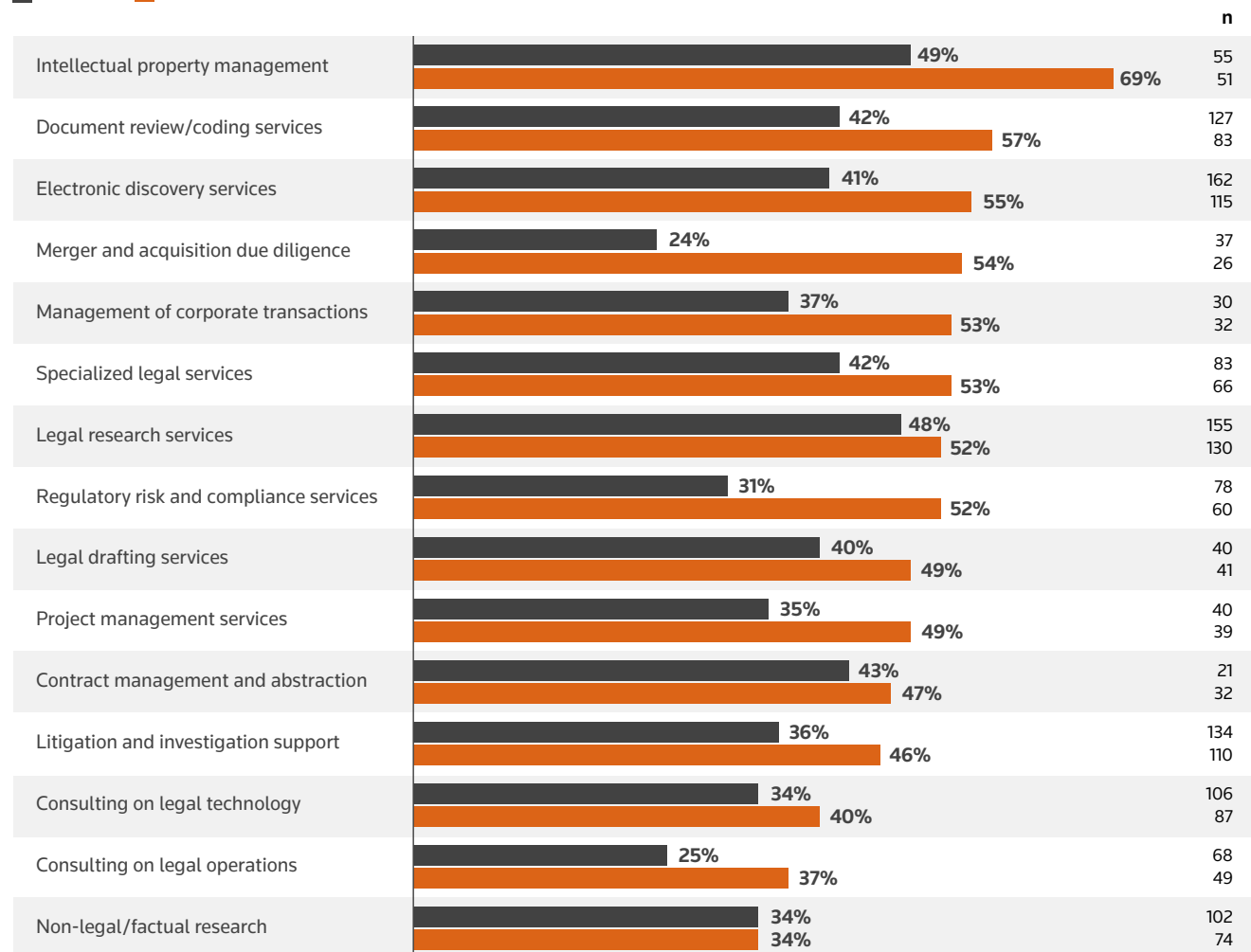
Increasing numbers of law firms say they have established formal partnerships with ALSPs, potentially another contributor to ALSP growth.

Figure 20: **Service categories where global law firms have established ALSP partnerships**

Top formal partnership categories



■ 2020 ■ 2022



Source: Thomson Reuters 2023

Of the top five service categories for which law firms established formal ALSP partnerships in 2020, only two remain in the top five: intellectual property management and document review & coding.

Some 69% of law firms now have partnerships for intellectual property management, up 20 percentage points from two years ago. This use is very tech-driven: 47% of law firms using ALSPs this way say they're doing so to get access to a technology solution they wouldn't otherwise have, and 47% say ALSPs give them access to specialized expertise in this field.

Some 57% of firms have established ALSP partnerships for document review & coding services, also up significantly. Yet on a percentage basis, other service categories are growing more quickly. Partnerships for M&A due diligence have more than doubled. Those for management of corporate transactions, possibly fueled by the recent boom in transactional work, grew to 53%, up from just 37% two years ago.

Law firms build their own ALSPs: growth in captives and affiliates

Law firms are increasingly approaching work in a more dynamic way through their use of captives. Large and midsize law firms in particular are developing captives and affiliates that combine legal technology with service offerings, as well as interdisciplinary offerings.

Figure 21: **U.S. law firms: use of captives – 2022**



Source: Thomson Reuters 2023

By including the use of captives, we see a picture of a market where, at least at the largest firms, use of ALSPs is more the rule than the exception. Usage rates of ALSPs for large law firms are particularly high in e-discovery services (89%), litigation & investigation support (77%), and document review & coding services (75%).

In general, law firms show flexibility in the type of ALSP they choose, yet there are a number of service categories in which firms say that captives are the *only* form of ALSP they will use. In these categories, we see evidence of the captives' claims that being tightly tied to a particular firm gives them an advantage that can't easily be replicated by an independent ALSP.

Midsized firms tend to be a bit more flexible and are less likely to insist on captives as their choice of ALSP. The biggest exceptions are legal drafting services, where 20% of respondents say the only ALSP they will consider is a captive.

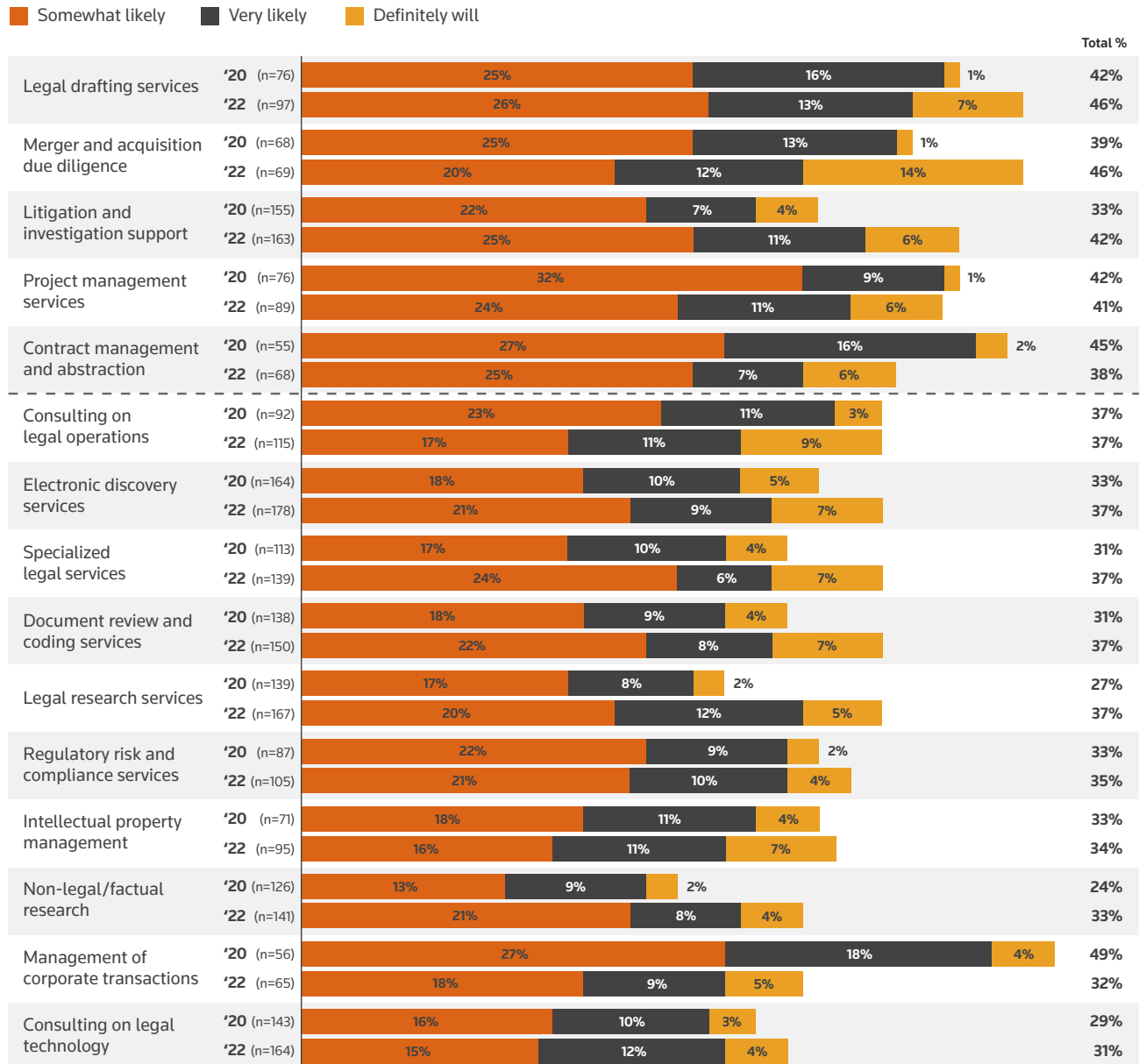
Small law firms are mostly likely to insist on captives as their ALSP of choice in categories where overall uptake of ALSPs is not particularly high. More than one-quarter (27%) of small law firms say they'll only offer a captive as an ALSP in legal drafting services – a category in which only 35% use an ALSP at all.

Among firms that don't currently have affiliates, interest in establishing them is high, and, in most categories, higher than it was two years ago.

Figure 22: **Global law firms: likelihood to establish affiliate by service category**

Top affiliate service categories

2020	<ol style="list-style-type: none"> 1. Management of corporate transactions 2. Contract management and abstraction 3. Project management services 4. Legal drafting services 5. Merger and acquisition due diligence 	↓	2022	<ol style="list-style-type: none"> 1. Legal drafting services 2. Merger and acquisition due diligence 3. Litigation and investigation support 4. Project management services 5. Contract management and abstraction 	↑
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Dotted line: Represents a divider between the top 5 affiliate service categories for law firms in 2022 and all other affiliate service categories.

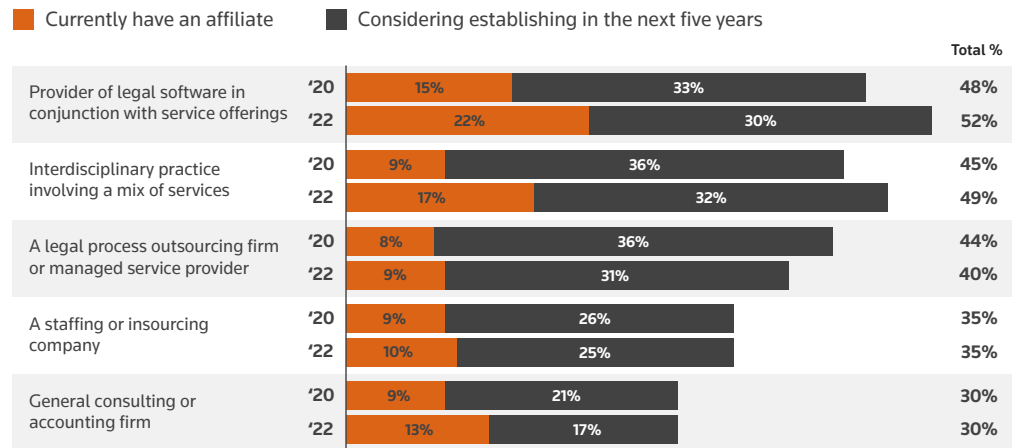
Source: Thomson Reuters 2023

The categories in which law firms say they're most likely to add affiliates are legal drafting services, M&A due diligence, and litigation & investigation support.

Those categories with the largest increases in interest include legal research services (37%, up 10 percentage points) and non-legal & factual research (34%, up 11 percentage points).

Among firms that have already formed an affiliate, the most common structure for that affiliate is as a provider of legal software, combined with service offerings. The next most common structure is as an interdisciplinary provider of services.

Figure 23: **Global law firms: use and planned use of affiliates by structure**



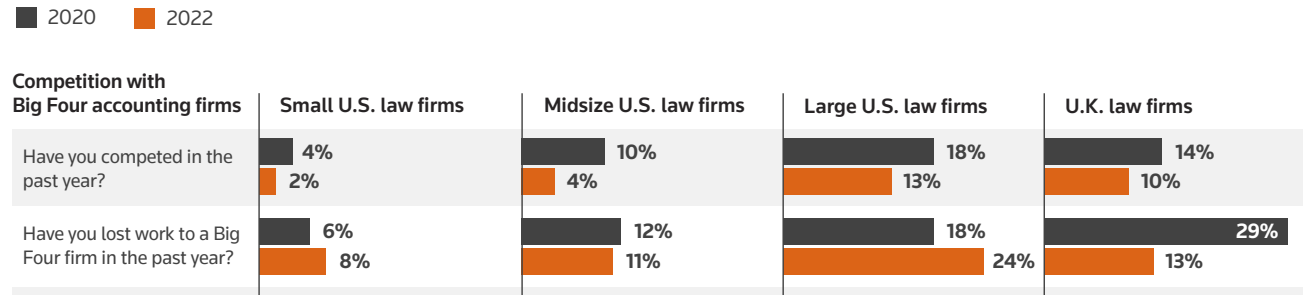
2020 (n=95) 2022 (n=112).

Source: Thomson Reuters 2023

Law firms and competition with the Big Four

As the Big Four accounting & auditing firms continue to hire more legal staff, U.S. law firms are seeing increased competition in legal work from these firms. U.K. firms say they are seeing less competition than they did two years ago, but with EY looking to triple its number of lawyers in the U.K. and Ireland in the next three years, and with PwC looking to double its legal headcount, competition for winning work may soon become more heated there as well.

Figure 24: **U.S. and U.K. law firms: competition for demand with Big Four accounting firms**



Small U.S. law firms 2020 (n=50), 2022 (n=60); Midsized U.S. law firms 2020 (n=52), 2022 (n=45); Large U.S. law firms 2020 (n=39), 2022 (n=46); U.K. law firms 2020 (n=21), 2022 (n=30).

Source: Thomson Reuters 2023

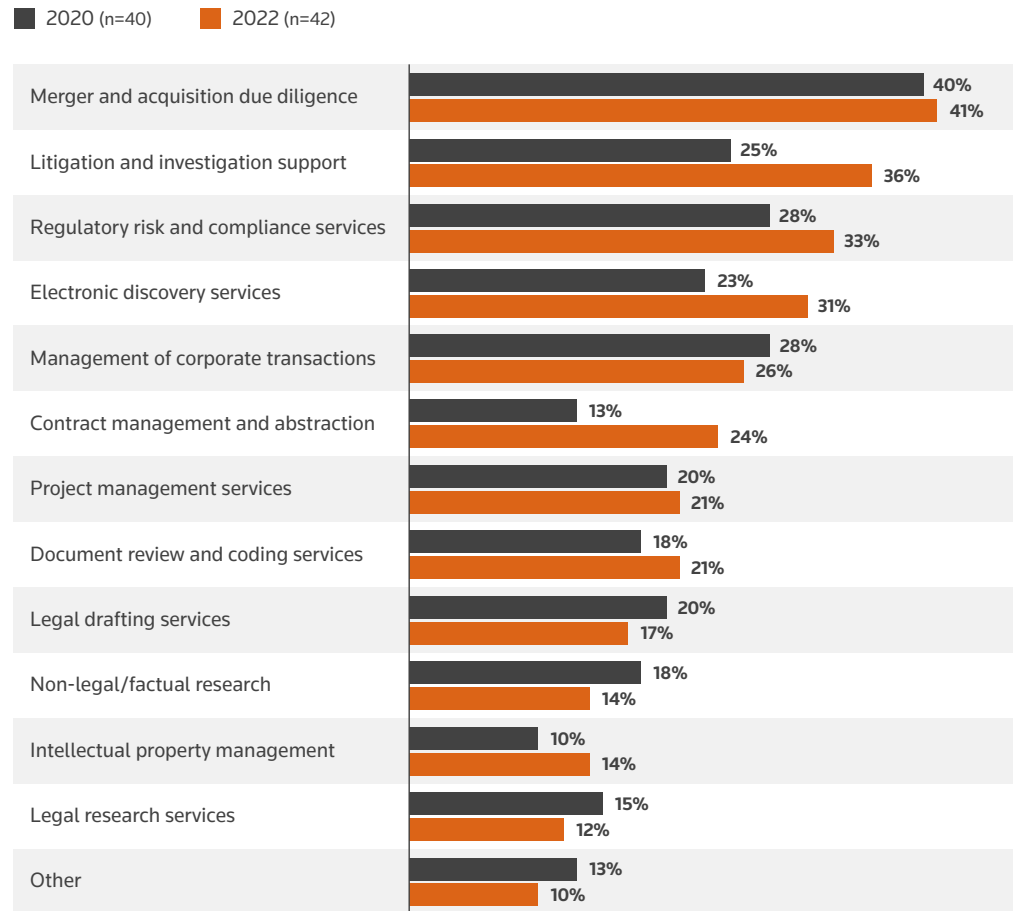
Among the largest U.S. law firms, 24% say a client has used a Big Four firm in place of a law firm in the past year, up from 18% two years ago. However, the portion that say they have competed themselves against a Big Four firm is only 13%. That may mean that the Big Four are winning work that is not even being presented to law firms, and that law firms may be discovering Big Four involvement only after the fact. It could also indicate that firms are aware of their clients using the Big Four for legal work, but that it's not work their own firm would typically do.

Midsized and small U.S. law firms are also seeing legal work go to the Big Four. At midsized firms, 11% say they've had a client use a Big Four firm in place of law firms. And there's been a slight increase among the smallest U.S. law firms, to 8% saying this now, compared to 6% in 2020.

Only in the U.K. is the situation more positive for law firms, where 13% say they've had a client use a Big Four firm in place of law firms in the past year — that's down by more than half from two years ago. And 10% of U.K. firms say they've competed against a Big Four firm in the past year, down from 14% two years ago.

As competitors, the Big Four are starting to show a more broad-based presence, increasing the likelihood that law firms will find themselves competing with them in multiple service areas. The service categories in which the Big Four are most competitive often show a strong link with their other expertise.

Figure 25: **Areas of competition among all law firms who have competed with a Big Four firm**



Source: Thomson Reuters 2023

The Big Four continue to be most competitive in M&A due diligence, at about the same level as two years ago: 41% of law firms that have competed against a Big Four firm noted it was in this service category. In other areas, however, the Big Four have become notably more active. Specifically, litigation & investigation support is now an area of competition for 36% of those that compete with the Big Four, up from 25%. Other areas of competition include regulatory risk & compliance services, e-discovery, and contract management & abstraction.

Conclusion

The ALSP market has shown a dramatic acceleration in growth over the past two years, increasing its CAGR to 20% this year, compared to 15% in the last report. The reasons are varied, of course, and include stronger appreciation for the capabilities of ALSPs, such as their access to specialized expertise, ability to introduce efficiencies and control costs, and the flexibility they allow law firms and corporations in managing their headcount.

There are external drivers as well, including an increased comfort with remote work following the global pandemic, and a difficult-to-manage proliferation of legal software solutions that has law firms in particular looking to ALSPs as consultants on legal technology.

Large law firms held steady in their use of ALSPs, while midsize and small law firms started using ALSPs at a higher frequency. Corporate law departments dramatically expanded their use of ALSPs in regulatory risk & compliance, legal research, and e-discovery. Law firms have also been active in forming in-house captive ALSPs, making this part of the market the fastest growing segment.

This dramatic market growth looks primed to continue, as both law firms and corporate law departments anticipate their increased use of ALSPs — along with related increased spending — over the next five years.

As we move into the new year, the market for alternative legal services providers is seeing a steady blurring of roles, including the absorption of ALSPs into the mainstream of the legal services market and a more agile market that is evolving to better serve the changing needs of its clients.

Methodology

This research report is based on an online survey of contacts in decision-making roles in U.S., U.K., Canada, E.U., and Australia-based law firms and corporate law departments. The survey invitation was distributed by email using lists provided by the Thomson Reuters Institute. The survey was in-field between June 1 and July 18, 2022. All respondents were offered a summary of the results and a gift card as incentives.

In total, 649 respondents (407 law firms and 242 corporations) completed initial survey questions related to the use or non-use of alternative legal services providers. A total of 349 respondents completed at least one section related to an alternative legal service. Given low usage of ALSPs for some categories of services, sample sizes in these sections of the report are limited and numbers provided by sub-segment are for directional purposes only.

For the U.S. data, a large law firm was defined as having 175 or more lawyers. A midsize firm has between 30 and 174 lawyers, and a small firm has 29 or fewer lawyers.

In addition to the survey data, we conducted qualitative interviews with leadership at these ALSPs:

- Dentons (Nextlaw)
- Fieldfisher
- Riverview Legal
- Delegatus
- Elevate Services
- QuisLex
- Womble Bond Dickinson
- Mindcrest
- Pinsent Masons (Vario)
- EY
- Lawyers on Demand
- Axiom
- Eversheds Sutherland (Konexo)
- Cobra Legal Solutions
- Allen & Overy Advanced Delivery & Solutions
- CMS
- Jurisolutions
- Epiq
- Priori Legal

In the absence of publicly available financial information, we've made a number of proprietary calculations to arrive at our market-sizing estimate. Wherever possible, we've kept assumptions consistent year-to-year to provide a guide to the evolution of these different groups of market participants.

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