



2020 State of the Legal Market in Europe

Plenty of Opportunity for Firms Ready to Adapt

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Executive Summary

Plenty of Opportunity for Firms Ready to Adapt

As we entered 2020, law firms across Europe thought they had just one major challenge to overcome: what would the post-Brexit market for their services look like? It soon became very clear that a second challenge was emerging rapidly—COVID-19. The latest research among chief legal officers, and industry's largest organisations, suggests that there are two main client-side pressures to be aware of as firms across Europe look to retain their strength through 2020 and beyond.

First, pressure on fees from clients: of course, clients have always been anxious to control their legal costs, but by the end of 2019—most corporates were telling us they are focusing on increasing efficiency which will inevitably put pressure on budgets. Coupled with the impact of COVID-19, we are likely to see this scrutiny on budgets rise higher up a legal department's agenda.

The second client-side pressure comes from increasing competition independent, domestically focused law firms face from new entrants to the market. In some cases this is from international law firms—especially from firms headquartered in the US—continuing to expand into local markets. However, the biggest increase comes from alternative legal service providers (ALSPs), who threaten to disrupt the market with their new approach to delivering professional services. Their expertise in technology—and digitalisation in particular—adds another element of disruption.

There are still plenty of growth opportunities for those firms ready to adapt and invest. Considering COVID-19, Brexit, GDPR, diversity, cross-border transactions, restructuring, and even climate change—all these issues are creating new demand from businesses for legal services. In addition, our research indicates that law firms that embrace new technology, can offer cross-border expertise, and are willing to improve the consistency of their service stand the best chance of growing their revenues across Europe.

Due to the increased flow of work driven by booming markets or regulatory change, it would be easy for incumbent firms to be complacent. They need to be careful: new competitors are also eager for this business and clients are becoming more demanding. In this report we explore some of the client-driven challenges and opportunities for law firms in Europe—and suggest where they should focus their efforts.



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Background to Results and Market Profile

Acritas conducts telephone interviews with more than 2,000 senior legal decision makers across the globe as part of the annual Sharplegal survey. The Sharplegal survey contains over 50 questions on topics including law firm brand, usage, and market trends.

This report draws on 578 interviews with chief legal officers/General Counsel (GC) conducted across Europe between November 2018 and October 2019—as part of the wider Sharplegal study. This research period took place before the start of COVID-19. However, interviews have continued throughout 2020 and a review of the latest intelligence from corporate legal departments has been undertaken to ensure the insights shared within this report are still reflective of current market conditions.

All organisations interviewed have annual revenues of more than \$1 billion (USD), this includes some of the world's biggest multinational companies as well as successful local businesses. The 578 contributors to this report have an estimated combined legal spend of \$5.5 billion (USD).

Average Internal Team Size

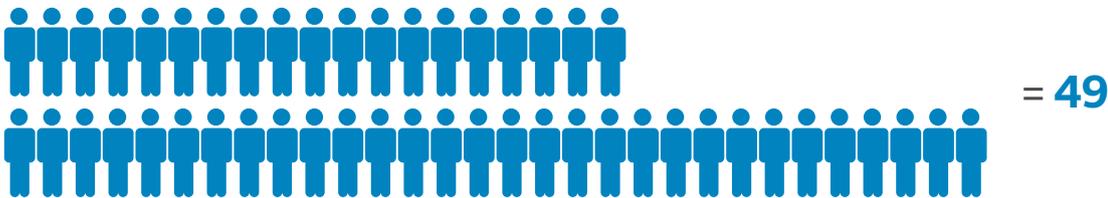
Global average median:



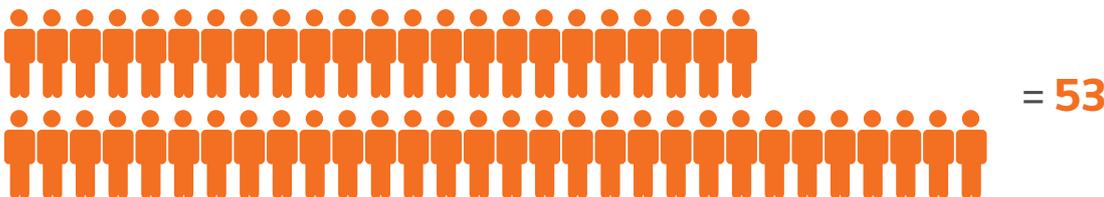
European median:



Global average mean:



European mean:

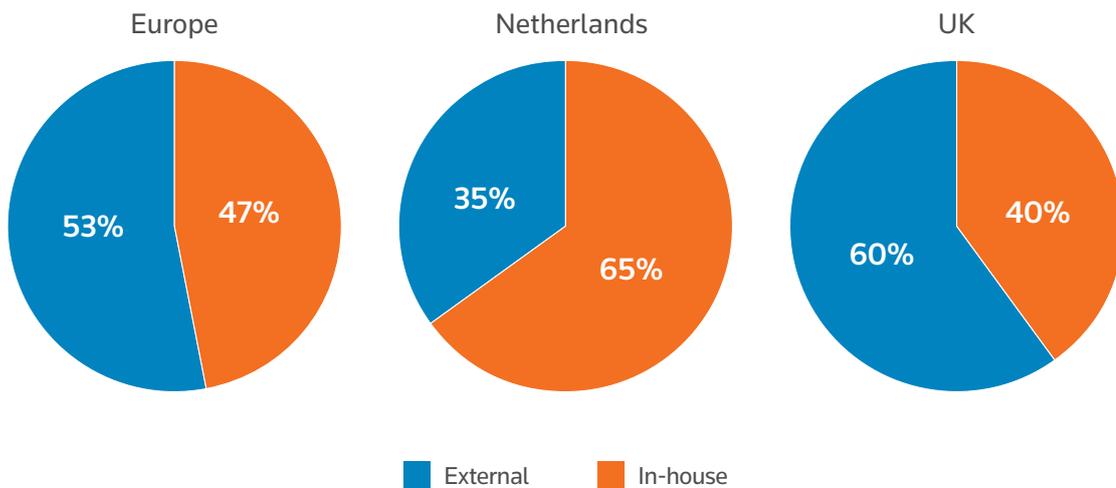


Source: Acritas Sharplegal

Findings vary from country to country, and while there are some high-level commonalities across the region, economic and cultural differences show through in some of the more detailed findings. More than elsewhere in the world, companies in Europe allocate more of their legal budgets internally, but within the region this proportion varies not only between countries but also between companies within each country.

To provide the law firm perspective in Europe are insights from Peer Monitor[®], the legal industry's leading benchmarking programme. Peer Monitor[®] provides analyses based on performance of 31 US-based law firms with office locations across Europe, including Berlin, Brussels, Frankfurt, Geneva, London, Milan, Moscow, Munich, and Paris.

Distribution of Budget in Organisations in 2019



Source: Acritas Sharplegal

When it comes to client service, we find that in some countries—the United Kingdom (UK) in particular—there is a much greater emphasis on business and commercial practicality [‘business savvy’]. While in others, the quality and length of relationships matters more. Although international business is a very significant source of revenues and growth, independent, domestically focused firms still play an important role in what is a very fragmented market.



Client Priorities: Efficiency and Effectiveness

Sharplegal's research among corporate clients shows that, alongside safeguarding their organisations in light of the pandemic, in-house legal teams are mainly focusing on two key strategic priorities this year:



1. Increasing effectiveness by improving commerciality and service levels.



2. Increasing efficiency by increasing automation and reducing costs.

“Meeting the needs of internal clients at the highest possible level, fast and clear advances, and improved regulation—eliminating the barriers that prevent business from moving forward.”

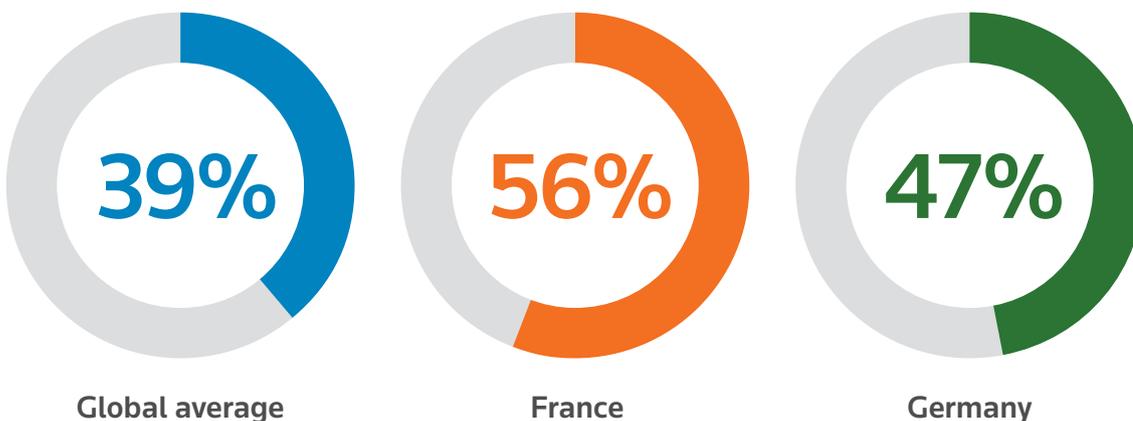
Acritas Sharplegal respondent based in Ukraine

For external advisors this has two implications. First, ensuring their advice considers the broader business context, rather than taking a purely legal focus. Second, understanding the internal pressures legal departments face and their strategic goals as a function. The best ‘relationship lawyers’ will do this as a matter of course—their service has always gone beyond the purely transactional. Though, it’s worth noting that according to our research, European clients favour relationships and service more highly than their counterparts elsewhere. The latter is particularly true in France and Germany.

“The strategic goals: it’s supporting the growth of the company; giving practical legal advice aimed at mitigating risks; and supporting the company’s commercial operations by providing them with practical and understandable contract templates.”

Acritas Sharplegal respondent based in the Netherlands

Proportion of Market Favouring Their Law Firms for Service



Source: Acritas Sharplegal

Respondents defined ‘effectiveness’ as ensuring their advice and processes were fully aligned to their corporate strategy and business goals—contributing to growth, rather than just their primary role of safeguarding against risk.

Though, for many corporate law departments, effectiveness can be an ideal that is under continuous assault by the daily rigours of legal work in a corporate setting. Unexpected events, such as COVID-19, exacerbate this situation, and during these times we see legal departments return to their primary goal of safeguarding the business. In fact, this takes priority over any other strategic plays.

“To become a business partner for the business unit—that’s our strategic thing, agility is our second priority, and third is the technology transformation, digitalisation.”

Acritas Sharplegal respondent based in Turkey

Indeed, for many, these day-to-day pressures mean members of the legal team can’t take a broader, strategic approach—and instead find themselves focusing on the specifics of litigation, transactions, and daily work matters rather than getting involved in the bigger picture.

For the external law firms, this is an opportunity to help. They can take on some of the daily work, but also, as outsiders, help their clients step back from the day-to-day and look at the long term.

In 2020, this can include tactics such as supporting clients with matter triage, proactively updating on potential risks in pre-existing contracts in consideration of the pandemic, or even scheduling scenario planning sessions with the most strategically important clients to help them navigate a path for the future.

“I would say it’s pretty much to change the way we approach our internal clients by being closer to the business, and make them understand that our added value is not just to know how much we cost but to know how we can support them.”

Acritas Sharplegal respondent based in France

Key takeaway:

How well do you really understand your clients’ business and their needs—the strategic and structural issues they face, not just their legal requirements? What sources of information do you provide to your teams to give them this knowledge?

How are Corporate Law Departments Driving Efficiency?

If effectiveness is about *what* in-house lawyers do, efficiency is about *how* they do it. Over half of SharpLegal respondents cited increasing efficiency as a strategic priority with cost control and automation as the major drivers.

The data brings a warning note for law firms: respondents in Europe have reduced their spend on external counsel since 2018, and now spend only half their legal budgets externally. This compares with around 70 percent in the US, and 60 percent in the UK.

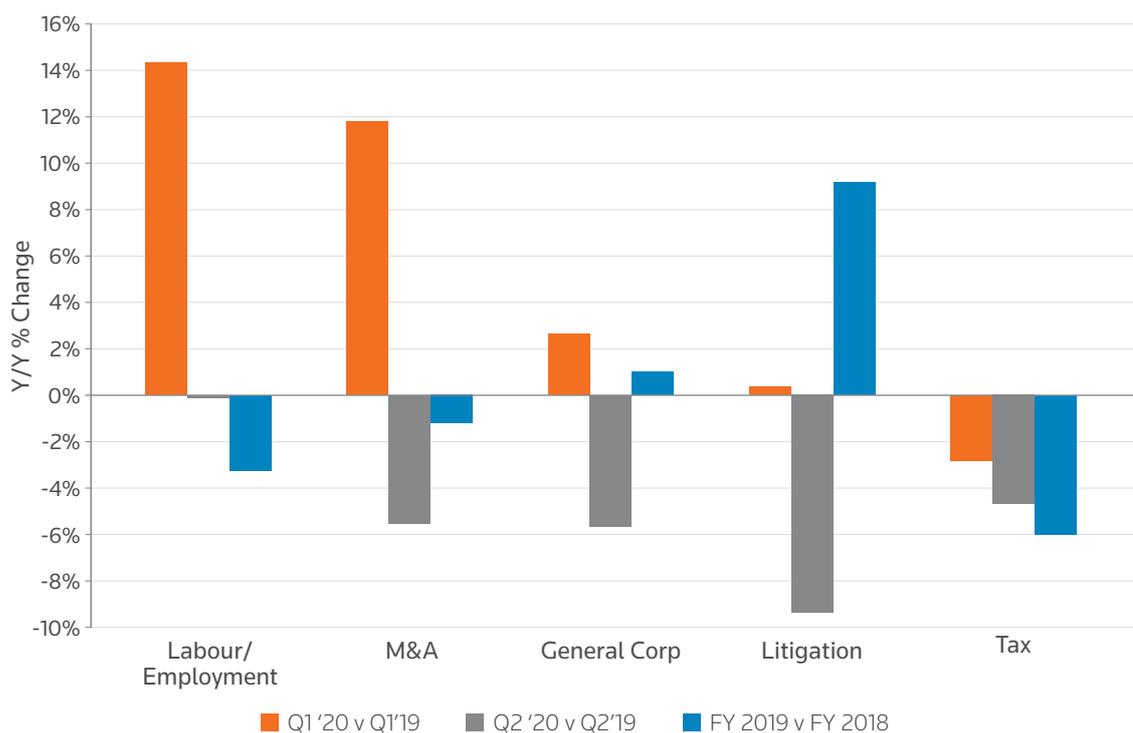
At the end of 2019, the picture appeared to be slightly less gloomy, with 29 percent of organisations expecting to increase spending—but a similar number, 27 percent expect to decrease spending. This suggests that revenue growth for law firms is likely to come from taking market share rather than market growth. In today’s market conditions, this aggressive method of developing business becomes even more pertinent. It is all the more important, therefore, for law firms to be alert to the changes in their clients’ budgets and requirements—to find opportunities for new business and to be aware of potential cuts. Especially in times of uncertainty, clients are likely to turn back to their trusted incumbents rather than enter a foray with a new provider, so proactive communication is key to remaining top of mind for this work.

However, regional figures hide major variations from country to country, and in Germany, for example, the majority of spend is still external, and some practice areas are less likely to see budget cuts.

Fluctuations in budget are also reflected in the amount of work various law firm practice areas are performing. Thomson Reuters Peer Monitor® data from the European offices of 31 US law firms shows fluctuation in areas of practice demand growth between 2019 and the first half of 2020. Litigation, which was the strongest driver of demand growth in 2019, was most affected by COVID-19 and the associated court closures in the region. This led to an inversion of performance, where the average firm grew their demand in the practice by 9 percent in 2019—in turn experienced a contraction of 9.4 percent in the second quarter of 2020. Other practices which followed a similar pattern were labour and employment—along with mergers and acquisitions (M&A)—both of which began the year with positive demand growth before experiencing contraction as a result of COVID-19.

“... revenue growth for law firms is likely to come from taking market share rather than market growth.”

Practice Demand



All timekeepers
Billable time type; non-contingent matters

Source: Thomson Reuters Peer Monitor®

The Impact of Technology

Continued pressure on internal legal departments to deliver more with less means that they are increasing the use of technology and automation in the drive to contain or reduce cost. For European respondents this was the top priority in the drive for efficiency. And of course, throughout the business world, digital transformation is the new watchword as companies aim to benefit from the efficiencies and opportunities offered by data science and artificial intelligence. Through recent months, this focus on technology has expanded again—to how can we better use the tools available to us to drive collaboration and keep in touch. European spend on legal technology is in line with the global average, at five percent of internal budget on average.

“We are focused on technology. Digitalisation and organisation of the legal department.” Acritas Sharplegal respondent based in Spain

Technology represents both an opportunity and a threat to law firms. Those that have innovated by investing in legal tech are best positioned to defend their roles as high-value advisors; they mirror their clients’ efforts to automate more routine work in order to focus resource on value-adding activities. Others may well find that improved internal efficiency enables clients to take work in-house that previously would have gone to external counsel—which lawyers in law firms are starting to recognise this shift. In its recent study of global law firm talent, Stellar Performance, Acritas uncovered that 81 percent of stand-out lawyers who responded to a study focused on the future working practice; anticipate their law firms increasing investment in technology—while seven in 10 anticipate innovation will receive increased investment.

“It seems so obvious that this [technology] will transform the profession of in-house counsel; it’s never too late to start.”

Acritas Sharplegal respondent based in France

“I think we have to introduce simpler models and to automate things—that’s one of the challenges—as well as the digital process of signing processes so that our input can be of added value; getting rid of the more mechanical side of documents.”

Acritas Sharplegal respondent based in Spain

Key takeaway:

How well is your firm keeping up with technology—are you an innovator or in wait-and-see mode? Are you aware of what your clients are doing with digitalisation? Can you work with new law companies to access this technology for your teams and your clients?

We've also found, through our conversations with GCs, that there's increasing pressure for in-house teams to adopt a multidisciplinary approach. For the largest clients this involves setting up teams of legal operations executives to oversee issues such as pricing, project management and technology. Some law firms have also added such specialists—often previously in inward-facing roles—to their client-facing teams, to match their client's structure and bring a specifically business perspective to the relationship.

This multidisciplinary approach is a key strength for the new entrants into the market—the ALSPs.

Spotlight on Germany: Where Tech and Efficiency Rule

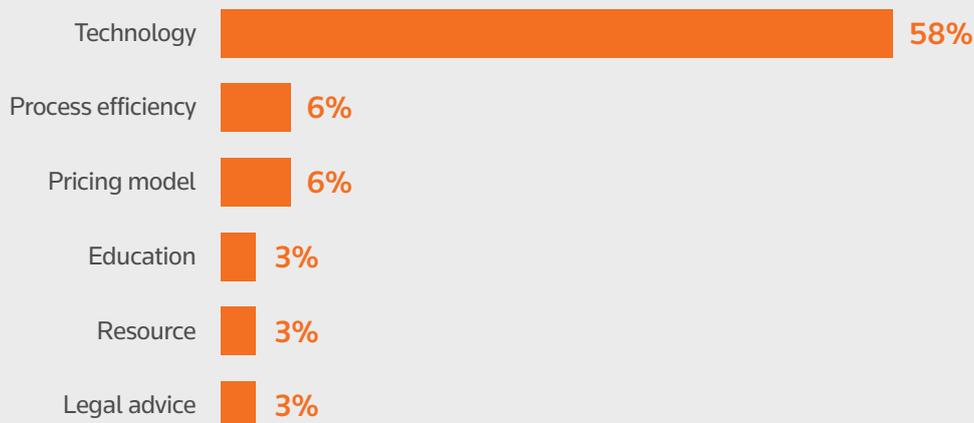
Of the respondents, 65 percent cite increased efficiency as a strategic priority—with technology being the number one focus area in order to achieve this result.

Currently, spend on technology in Germany as a proportion of budgets is in line with the global average. However, providers of all shapes and sizes should expect this to increase in order for departments to realise their goal of increased efficiency.

Unsurprisingly, therefore, technology—in particular, contract management and automation—is also perceived to be the number one innovation provided by external suppliers.

Innovation in Germany

Most common innovative offerings



Source: Acritas Sharplegal

The Rise of ALSPs

European clients now have three types of legal advisor to choose from: the local independent firms, international firms, and ALSPs. Local firms will have the advantage of long-term, close relationships, market familiarity and expertise, but for clients with cross-border work they may not have the networks or the knowledge that a global law firm can bring. Of course, the global firms have also been hiring aggressively in local markets or buying up local firms, giving them access to the relationships and the local knowledge they need.

ALSPs have different competitive advantages. Some bring international or specialist expertise, others technological innovation or new pricing models, and—above all for many clients—an integrated approach to delivering professional services. This is particularly true of the ‘Big Four’—who may also have had an in-country presence for many years and enjoy high brand awareness within the business community.

Continental European clients are spending an average of seven percent of their budgets on ALSPs, slightly above the global average of six percent.

However, this relatively low figure may under-estimate the impact they are having, if data from the United States (US) and UK is anything to go by. A 2019 survey by Thomson Reuters on the ALSP market showed a 12.9 percent compound annual growth rate. The larger ALSPs expect to grow at 24 percent a year. The survey also found that corporate use of ALSPs had expanded significantly from the first survey two years before, with over a third of corporates now using ALSPs for various legal tasks. Law firms themselves, especially in the US, are also increasing their use of ALSPs, outsourcing services such as e-discovery, Legal Research and Litigation and Investigation Support. While this is often driven by cost considerations, in some cases firms recognise there is specialised expertise available in the ALSPs that they do not have themselves. Others, especially the larger firms, are setting up their own subsidiaries to operate as ALSPs in order to provide legal-related services.

In our brand research, the Big Four, let alone smaller ALSP players, still lag the leading law firms by quite a margin. However, with their use of new technology impressing clients—and their ability to deliver integrated professional services—ALSPs are likely to continue to increase their influence.

It may be tempting for European firms to assume that alternative providers will remain niche players in their home markets. Does this mean that the market for legal services will remain very local in Europe? No: innovations adopted or encouraged by global clients usually filter down into the broader business community. In our view, all firms should be ready for the changes in the way clients buy legal services.

Key takeaway:

How ready is your firm to compete with/deliver a multidisciplinary approach to buying professional services?

More demanding clients, low market growth, new competition—these are the headwinds facing European law firms. For the agile and responsive firms, though, these also offer opportunities.

What do legal clients like about ALSPs? Specialist knowledge, technology, and excellent service:

“If you need a public interpretation of any legal issue, the firm provides it. These people write books and textbooks that students learn from.”

Acritas Sharplegal respondent based in Russia

“Those people are extraordinary. Competence, professionalism, responsiveness, reliability.”

Acritas Sharplegal respondent based in France

The Opportunities

International Legal Spend

As you would expect in a region of over 30 countries, home to some of the world's leading multinational corporations, there is a very high demand for cross-border work in Europe. Some 87 percent of legal buyers based in Europe have international legal needs, slightly above the global average. Encouragingly for law firms, this business is less likely to be cut than local work and represents nearly half the total spend on outside counsel of the average multinational company—well above the global average. It's also the area where global brands are strongest. Clearly this is a major opportunity for those firms with an international footprint—but they need to recognise and understand what matters to clients in each of the different markets.

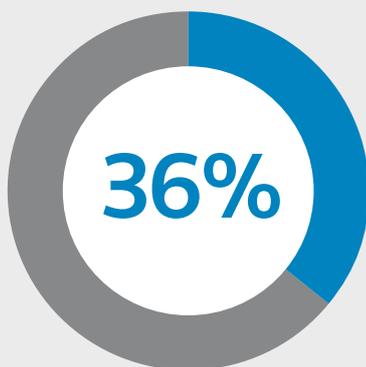
And as discussed already the opportunity is recognised by the firms: US-based firms operating in Europe averaged six percent lawyer growth in 2019, which significantly outpaced the two percent headcount increase at these firms on average in the US during the same time.

Seemingly, international law firms entering this market should focus on a targeted strategy to stand out from the providers already in place. For example, US firms working in Europe seem primarily focused on Corporate work, both General and M&A, which accounts for the highest proportion (49 percent) of worked hours by these firms in the region.

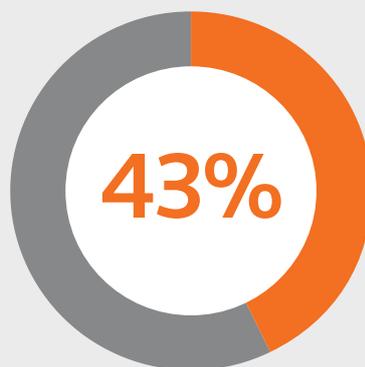
Spotlight on Spain: High Spending International Buyers

Despite a smaller proportion of Spanish buyers having international needs (82 percent compared to a regional average of 87 percent), those that do have needs in a higher number of countries than the average (37 versus a global average of 30) allocate high proportions of their legal budgets outside of their home country—offering an opportunity for law firms who can support both domestically and abroad.

Average International Spend as a Proportion of Total Spend on Outside Counsel



Global average



Spain

Source: Acritas Sharplegal

Improving the Client Experience and Advocacy

An important part of the Acritas research is identifying the skills and behaviours that matter most to clients and drive brand favourability. For the most part, these tend to be consistent around the world, but the 2019 study highlights a few variations in Europe that firms need to know. Clients in Europe tend to value service, relationships and ‘style’ more highly than clients elsewhere and are marginally less sensitive to pricing. Taking a ‘pragmatic or practical approach to legal issues’ and ‘easy access to partners’ (elements of ‘style’) were two areas of particular importance to European clients compared with elsewhere. Both of these have become increasingly important in the last two years.

“Reliability, expertise, ability to simplify complicated questions, and they have lawyers who have different specialisations. We’ve been working with them for a long time, and they understand the complexity of our organisation.” Acritas Sharplegal respondent based in France

“... It’s not necessarily about being cheaper, it’s sometimes just a question of being more predictable about what work will cost.”
Acritas Sharplegal respondent based in the Netherlands

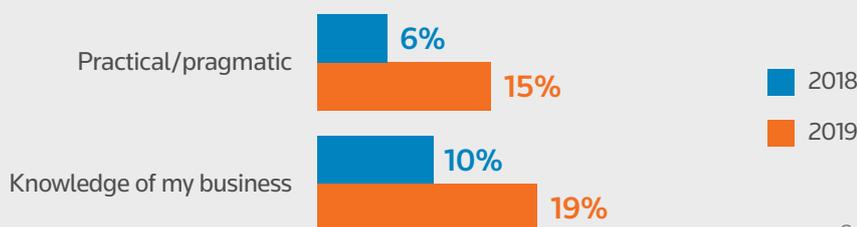
Spotlight on France: Style

What buyers emphasise as driving favourability towards their law firms in France has shifted in the last five years. We see less focus on ‘relationships’, though this is still highly important, and more on ‘style’—how law firms do what they do. The core components of style are:

- practical advice and creative solutions; and,
- delivered proactively and professionally.

Coupled with firms having strong knowledge of clients’ businesses, the need for practical advice has increased significantly in the last 12 months. This aligns strongly with departments in France looking to provide more effective support to their businesses and pushing the self-same expectation on their law firms.

Market Drivers Significantly Increasing



Source: Acritas Sharplegal

Asked about improving their experience with law firms, European corporate legal departments were keener than the average globally on speed, responsiveness, and consistency across offices (which ties in with the international work). They are also keen to see alternative fee arrangements (AFAs)—sticking to hourly rates is not considered innovative. Transparency and predictability around fees were also important. As buyers look to creative ways of working with outside counsel due to COVID-19 and in its immediate aftermath, we can take on board some of the lessons learned from the last global recession. Propensity to use AFAs increased as buyers were looking for the predictability that they needed to manage their budgets which, in the best case, came under increased scrutiny—and in the worst cases were significantly reduced. Flexibility around billing arrangements is therefore, unsurprisingly, something we are hearing buyers place greater focus on as we travel through 2020.

Key takeaway:

How closely do you monitor the client experience you deliver?

When It Goes Wrong:

Price can always be contentious, especially when judged as value for money but often the underlying problem is a question of service—responsiveness, speed and business-focus:

“I think they were very non-business oriented and very low value for the price, and very unreasonable when it came to discussing these issues. ... they were basically providing solutions that were not practicable for any business, and were not able to provide an alternative solution, when it existed.”

Acritas Sharplegal respondent based in France

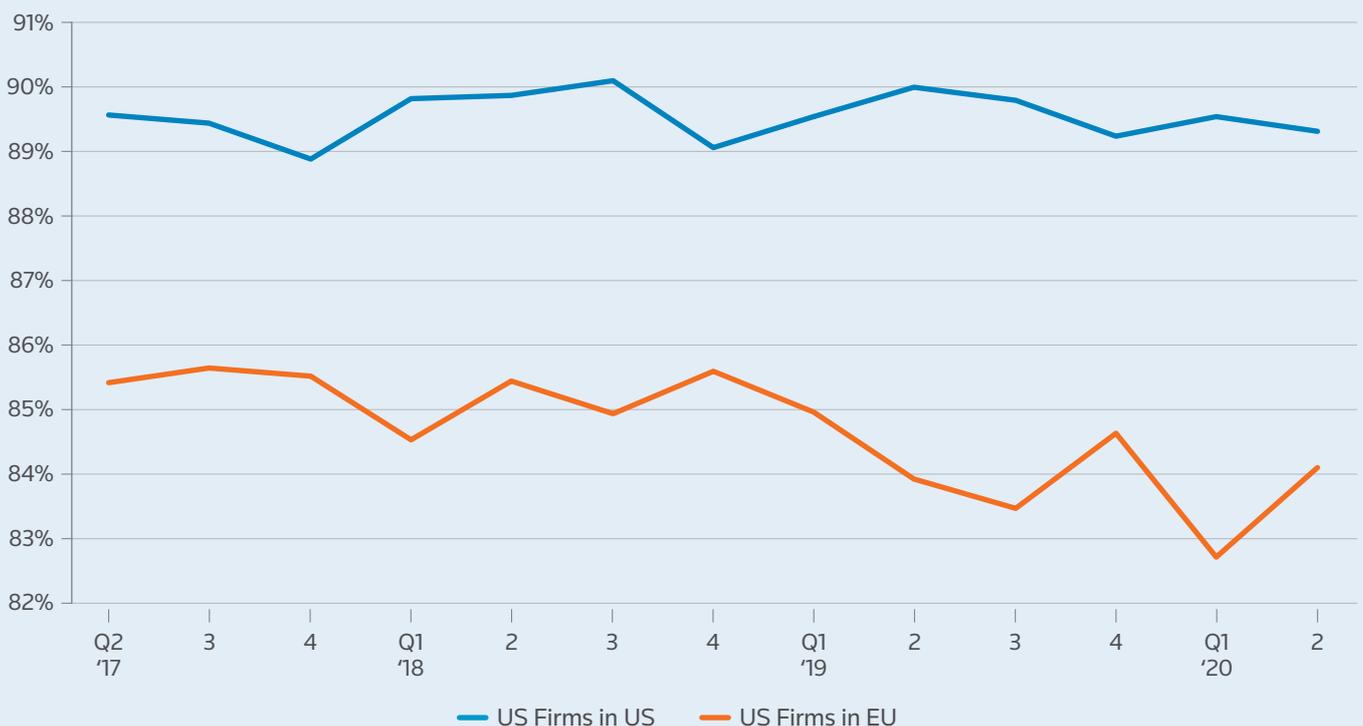
“They charge too much, they could be quicker in their responses, and they are not transparent in their costs.”

“They are very expensive and should offer alternative fee arrangements. They are still on hourly rates, and law firms need to change in this regard.”

“What they can do to improve this score is not send me a bill every time I ask them a small question. I think definitely they could improve in that—that has something to do with client relationship in the end.”

For law firms themselves, this can impact realisation rates as well as the success of rate increases. Overall, US firms in Europe implemented a 3.1 percent hike on their average worked rate in the first quarter of 2020 relative to the first quarter of 2019. This figure increased to 4.3 percent on average in the second quarter in the throes of COVID-19, partially due to increased client demand for advisory services amidst the uncertainty shrouding the global economy. For comparison, US firms raised their average worked rate by 5.3 percent on average over the same time period in the US. While worked rates have been growing throughout the year, challenges associated with these increases rear their heads when looking at realisation figures. On average, collected realisation relative to their worked rate for US firms in the European Union sits at 84.1 percent in the second quarter—5.1 percent lower than the same firms experience in the US. In short, US firms are having a harder time not only raising their rates, but realising those rate increases while operating in many European countries.

Collection Realisation Against Worked



Lawyers
Billable time type; non-contingent matters

Source: Thomson Reuters Peer Monitor®

Conclusion

The European legal market remains very localised and it's difficult to draw too many conclusions that apply to every market. Nonetheless, there are several trends that all firms—local and international—should pay attention to.

The business world is constantly evolving. New risks and regulations—around sustainability, privacy, data, geopolitics, even Brexit—bring new pressures on in-house legal teams. Internally, they face demands to embrace new technology and collaborate more closely with other functions. They also want to be more strategic and add more value to their businesses, all the while safeguarding from risk.

If law firms are to meet the changing needs of their corporate clients—which have changed dramatically as a result of COVID-19—they must adapt their services accordingly: looking at their pricing; how they package legal services; how they use technology; and how they manage their client relationships. Despite the challenges, there are plenty of opportunities in European markets for firms to grow.

Many independent firms, too, with a strong local reputation, will be well-placed to cope with change. Long-established firms, familiar with local conditions and small enough to react fast, can swiftly adapt their services to clients. The change may come slowly, and therein lies the danger for those who do not plan now—it may be too late to react if alternative, multidisciplinary, technology-led legal service becomes the norm.

In terms of specifics in the immediate future, our data suggests European firms should consider the following:

- strengthening their international capabilities—be it closer ties with friendly firms in other markets or mergers/acquisitions;
- enhancing their value proposition through attractive pricing or improving services (often requiring effective adoption of technologies); and,
- alliances and collaboration with other professional advisors to create a more multi-disciplinary proposition.

Our recommendations for how to improve service to clients are even more relevant in today's world of uncertainty and disruption. To improve the service clients receive—and help them to be more effective and efficient—we recommend five actions:

- 1 Arrange scenario planning sessions with your most important clients as they look to what comes next.
- 2 Offer to conduct a portfolio analysis and risk assessment to help prioritise matters and spend and/or bulk work for volume discounts and fixed fees.
- 3 Provide tools, checklists, and training to help internal departments run more effectively and efficiently.
- 4 Offer secondments for the most strategically important clients.
- 5 Work collaboratively on technology solutions.

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