



Thomson Reuters Institute

State of the UK Legal Market 2022

Thriving in the post-Brexit, post-pandemic world

Executive Summary

The ongoing impact of the pandemic and the aftermath of Brexit has weighed heavily on the legal market in the United Kingdom over the past year, especially as the realities of how the move away from the European Union will impact the region became more apparent. UK law firms also are grappling with trade and labour implications and the shifting regulatory and compliance landscapes in the new environment.

In addition to that charged atmosphere, UK law firms are seeing the legal needs of their corporate clients shift and evolve, a process that started even before the pandemic crisis. For example, UK clients now are placing a huge emphasis on a law firm's ability to grasp the strategic business challenges with which those clients are wrestling and are seeking a lawyer's skill in packaging commercial solutions.

Not surprisingly, our research has shown that the main trends and developments in 2021 in the UK legal market were strongly client-centric and client-driven. Issues from

As the crisis ebbs, law firms need to demonstrate skills and efficiency to meet clients' shifting demands.

increased legal spending to what clients want to see from their external firms in terms of expertise, tech-savviness, and efficiency dominated the minds of law firms and their clients. Indeed, many issues that had long stayed on the side-lines were suddenly thrust onto the pitch, including:

Increasing optimism on outside legal spending — The UK legal market is experiencing its highest level of spend optimism in the last five years, and the portion of UK legal buyers that say they're anticipating their overall legal spend will grow in the coming months has itself seen a huge increase in last 12 months, especially in practice areas like Regulatory. Law firms need to target their services to the areas in which clients most need assistance in order to better capture a larger share of this spending.

Focusing on strategic priorities — In-house law departments are primarily concerned with helping their businesses recover from the COVID-19 pandemic, staying on top of the rapidly changing regulatory landscape, and leveraging digitalisation to work more efficiently within the organisation. To this end, UK law firms need to present themselves as able and proactive partners and collaborators that can help law departments further this focus.

Engaging drivers of favourability — UK legal buyers continue to favour those outside law firms that demonstrate commerciality and a deep understanding of clients' businesses, research showed. Not surprisingly, these are also the skills clients want to see in the next generation of lawyers — both in-house and external counsel. This represents a big departure from clients' attitudes during the crisis phase of the pandemic when they turned towards the tried-and-tested historic relationships that they had formed over many years, mostly with key lawyers. Now, those outside law firms that can offer strength and depth to service clients' holistic needs will be the ones most favoured.

The rise of the new law sector — The increasing use of new law service firms or alternative legal service providers (ALSPs) has made great headway over the past year in the UK legal market. However, the lion's share of that growth was the increased use of the Big Four accounting and consulting firms, a trend that has been growing significantly since 2015. The Big Four continues to dominate the alternative legal brand landscape with large gains in client favourability in the past 12 months. Clearly, traditional UK law firms need to be wary of this development and demonstrate their own ability to handle clients' work efficiently and effectively.

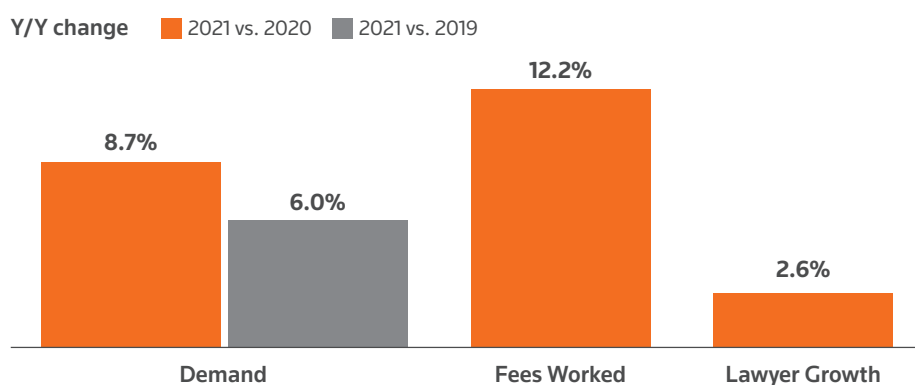
Meeting clients' service expectations — Since even before the pandemic, the service needs of UK legal buyers were becoming more complex and intertwined. Outside law firms are continually pushed by their clients for better efficiency, with any increases in this area correlating closely to increased client satisfaction. Law firms should take note — the data shows that client satisfaction rests on the ability of outside law firms to provide consistency and innovation, which in turn, can provide law firms with opportunities to differentiate themselves in the competitive UK market.

This year's *State of the UK Legal Market* report combines research of more than 265 senior corporate counsel and the financial results of 29 global law firms' operations in the UK, varying between US and UK based firms. This research allows us to explore how these issues unfolded in the market and provide some insight for those UK law firm leaders who are looking to make the right strategic decisions going forward.

Inside the UK operations of global law firms

While the UK operations of law firms based in the United States and elsewhere represents just a slice of the overall UK legal market, diving into the data from these 29 global firms representing more than 13 million work hours in the region in 2021 can provide a healthy glimpse into how the overall UK law firm market is fairing.

Figure 1: **Global Firms in the UK – growth metrics**



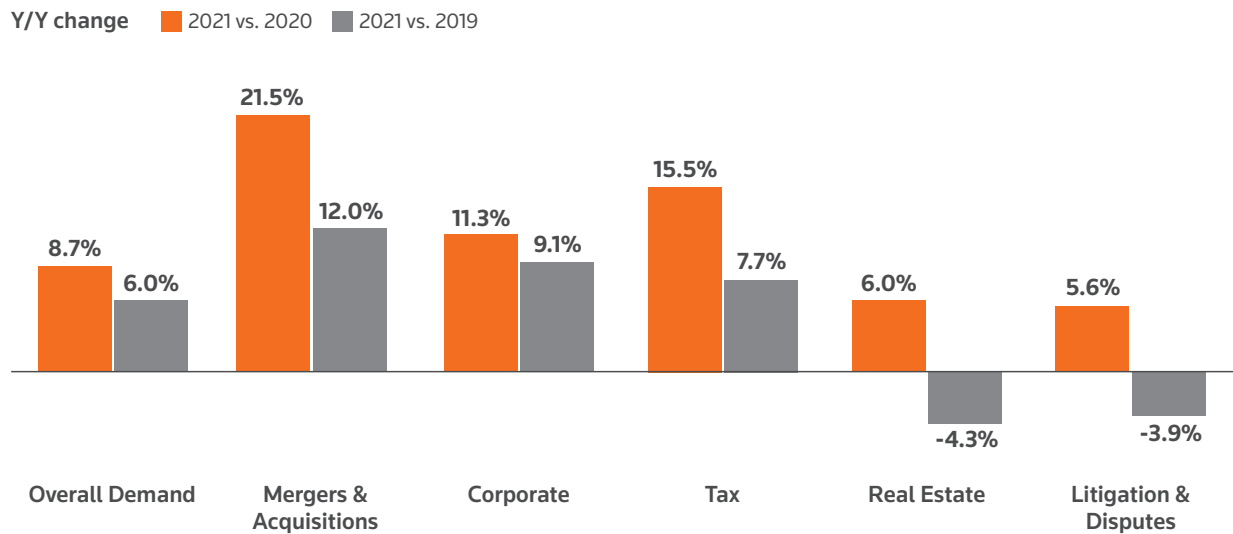
All timekeepers. Billable time type; non-contingent matters.

Source: Thomson Reuters 2022

For example, we see that the level of legal demand, represented as the number of hours worked, at these firms was up significantly, 8.7%, in 2021, compared to 2020. While the low demand benchmarks in the wake of the pandemic in 2020 might explain part of the comparative jump, legal demand still appears very robust, at 6% growth on average, when comparing 2021 to 2019 (the last pre-pandemic year). So, while some of this growth may be a statistical anomaly, a large portion of legal demand growth in the UK is solid — and a good sign for the health of the market going forward.

Other key performance measures showed a similar positive light. The growth in fees worked — which is worked rates, or the negotiated rates as determined by the matter value, multiplied by demand — showed 12.2% growth in 2021 compared to 2020.

Another positive sign for the UK legal market was that the growth in the number of lawyers in 2021 compared to 2020 was up slightly, at 2.6%. This points to some gains in productivity, since demand grew by a higher percentage than the number of lawyers needed to work that increase.

Figure 2: **Global firms in the UK – practice demand**

All timekeepers. Billable time type; non-contingent matters.

Source: Thomson Reuters 2022

Further, this level of demand growth can be seen reflected in which particular practice areas saw the most growth in 2021. Areas such as Mergers & Acquisitions, Corporate, and Tax saw average demand of 7.5% or more *above* pre-pandemic levels last year compared to 2019; yet, when compared to 2020, it shows relatively stronger growth, as expected, and that some practice areas, including Litigation & Disputes, and Real Estate, haven't yet recovered to pre-pandemic levels of demand.

Key aspects of the UK Legal Market

Spend optimism

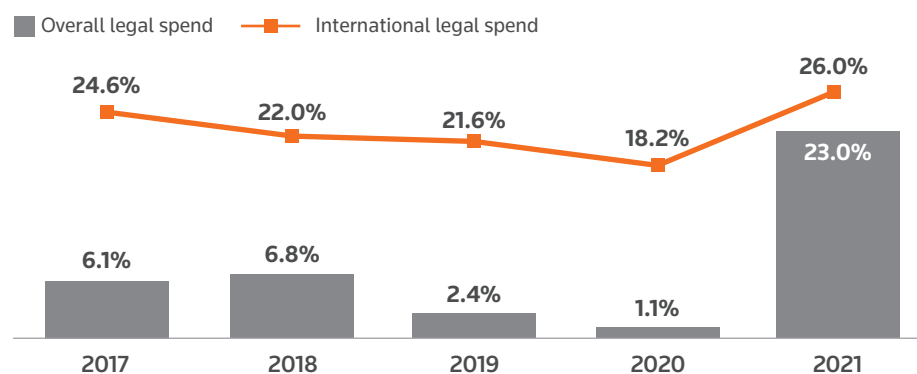
The level of spend optimism in the UK legal market is at its highest level in five years, and the number of UK legal buyers that are anticipating increases to their overall legal spend has grown in the last 12 months alone.

While some of this optimism certainly may be due to what seems to be a slow, but very real, emergence from the depths of the pandemic crisis. The new reality may be contributing to an attitude among UK legal buyers and corporate clients that while the worst may be over, there will remain an acute need for quality legal work as the world's economies continues to right themselves.

Currently, the typical UK buyer spends \$13 million on legal services annually, compared to a global average spend of \$19.9 million — more than one-third less. Of course, this may be partially explained by the fact that the average UK buyer keeps 44% of its legal work in-house, compared to the global average of 38%. This 6-percentage point difference represents a great deal of legal work being handled by corporate law departments rather than by external law firms, strongly underscoring the role in-house departments play in the UK legal market.

Figure 3: **Historic trend in net change in legal spend**

Net change = percent of buyers planning to increase legal spend subtracted by those planning to decrease

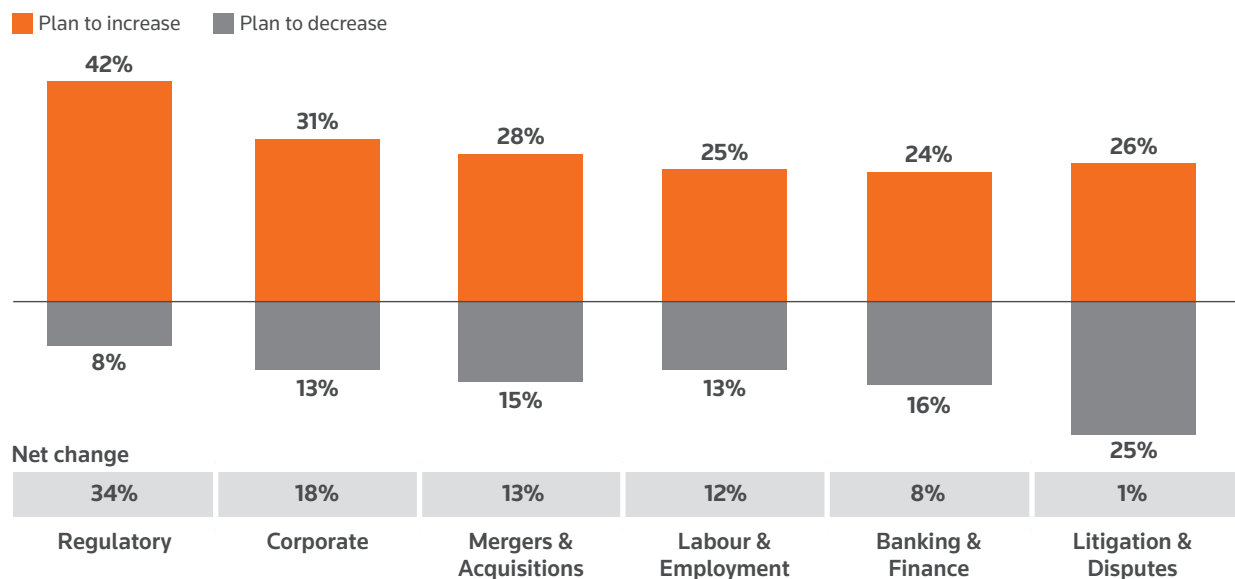


Source: Thomson Reuters 2022

Historically, many more UK legal buyers had reported that they anticipated their *international* spend would grow in the coming months rather than their *overall* legal spend, but this year we are seeing higher expectation that the overall spend as well as international will be increasing. Interestingly, the percentage of legal buyers with international legal needs has decreased somewhat last year to 75%, compared to 78% in 2020. Not a significant shift, but noteworthy, nonetheless.

UK law firms should be receptive to the opportunities in the market both for domestic and international work from their clients that this increased spend optimism represents.

Figure 4: **Spend optimism by work type**



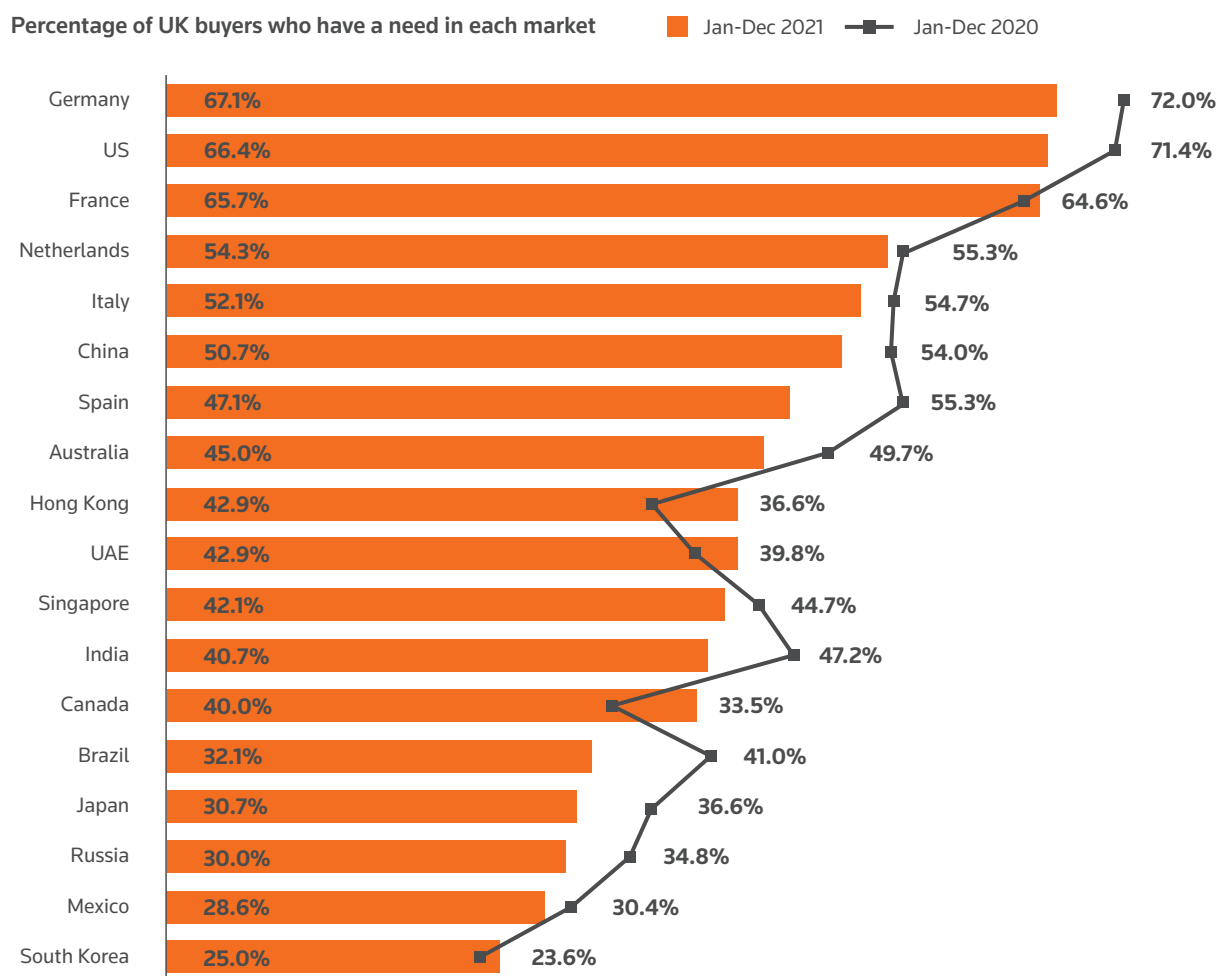
Source: Thomson Reuters 2022

On balance, UK legal buyers see this increased legal spend coming in nearly all work types, with the largest growth area anticipated to be Regulatory with 42% of UK legal buyers surveyed saying they were expecting to increase spend here, compared to just 8% who were anticipating a spending decrease in that area. This means on balance that about 6-times as many UK legal buyers surveyed say they are expecting to increase spending on Regulatory work in the coming months as compared to those expecting to see a decrease.

Conversely, expectations around Litigation spend were mixed, with 26% of legal buyers surveyed saying they expect their spending to increase in the Litigation & Disputes area, and 25% saying they expect it to decrease. Interestingly, last year many more legal buyers on balance said they anticipated an increase in Litigation spending.

Not surprisingly, M&A optimism has swung in the opposite direction. In 2020, more UK clients reported that they anticipated a *decrease* in spend in the M&A area; but in 2021, almost twice as many (28%) expect their M&A spend to increase in the coming months, compared to those (15%) who say they expect it to decrease.

Figure 5: **Key outbound markets for the UK**



Number of responses: Jan-Dec 2020 (172); Jan-Dec 2021 (152)

Source: Thomson Reuters 2022

As far as where UK clients are seeing a need in international markets, the United States and European powerhouses Germany and France remain the major outbound jurisdictions for UK legal buyers with nearly two-thirds (65%) of respondents saying they have active need for legal support within these markets.

Indeed, the average international spend by UK legal buyers as a proportion of their total spend on outside counsel is 39%, just above the global average of 36%.

The most in-demand work types for such outbound work are Regulatory, Corporate, Labour & Employment, and Litigation & Disputes – all of which have seen an increase in need compared to last year's survey. Interestingly, the need for outbound legal work

in most jurisdictions has decreased since 2020, but the number of countries in which UK legal buyers are seeing needs has remained steady at 28 in both 2020 and 2021.

For UK law firms, it becomes clear that because of or regardless of Brexit, UK clients continue to have increasing international legal needs in Europe and across the world. That means UK law firms should maintain and even strengthen their global networks and partnerships to best serve these clients.

On the inbound side, 70% of global multinationals report that they have legal needs in the UK, which is up compared to 68% in last year's survey. More importantly, more than half (52%) of these global multinationals say they expect to spend more in the UK legal market over the next 12 months, compared to 29% that say they plan to spend less.

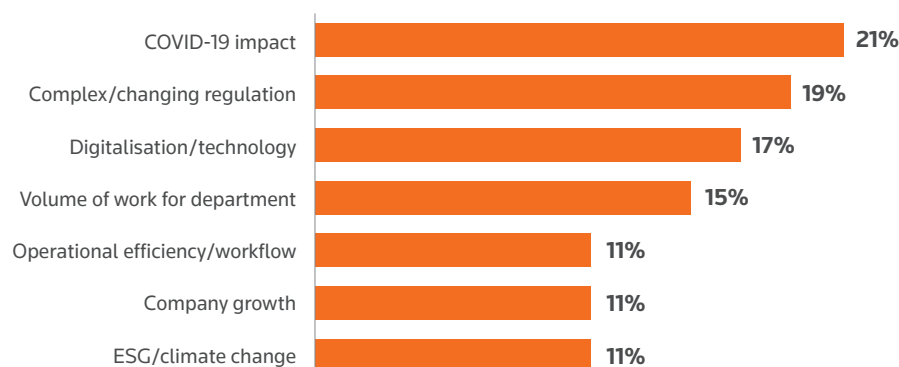
Again, the practice areas of Regulatory, M&A, and Corporate were the areas of most interest to these global multinationals, which illustrates a shift in most-needed work compared to last year's survey, in which Corporate and Labour & Employment were the most sought-after areas.

Strategic priorities

Top strategic priorities reported by UK clients can reveal quite a bit to UK law firms about where they should be placing their own priorities and focus. Indeed, these client priorities can provide a roadmap to law firms as to the challenges that most concern their clients and in what areas of legal service clients may be seeking outside help and collaboration. It is these areas on which law firms should target their offerings and outreach.

When asked about the key strategic objectives and challenges for their law departments over the next 12 months, corporate clients noted several significant challenges they see their departments facing.

Not surprisingly, corporations see their in-house law departments primarily concerned with helping the organisation recover from the pandemic crisis while remaining abreast of the changing regulatory landscape. Departments' ability to leverage digitalisation to work more efficiently is also a top concern. To a large degree, clients have indicated they will be looking for external legal partners to help their departments accomplish these goals.

Figure 6: **Strategic priorities and challenges for UK buyers**

Number of responses: UK (47)

Source: Thomson Reuters 2022

A closer look at the top concerns of UK legal buyers — and the opportunity these concerns offer to UK law firms — shows that while the continuing challenges of recovering from the global pandemic topped the list, with 1 of every 5 legal buyers citing this as a top concern, it was the issues surrounding returning to the office that were top-most in clients' minds. Similarly, while navigating the rapidly changing regulatory landscape registered strongly as a secondary concern, it was the portions of the regulatory environment that were still being heavily influenced by both Brexit and the pandemic that were most worrisome to clients.

Following that, the next three top-cited concerns from UK legal buyers all took up the idea of efficiency — with worries over law departments' ability to digitise and automate work, handle the volume of work they're given, and improve their own processes and workflow all being cited. All of these related concerns seem to underscore the increased pressure on departments to perform more work efficiently but with fewer resources. Again, forward-thinking law firms and tech-focused alternative legal service providers should take note of these concerns specifically.

ESG concerns were cited in the UK more than twice as often as were cited globally.

Finally, top concerns over implementing initiatives around environmental, social, and corporate governance (ESG) issues both within the company and throughout its supply chain bubbled to the surface in this survey. In fact, ESG concerns were cited in the UK more than *twice* as often as were cited globally.

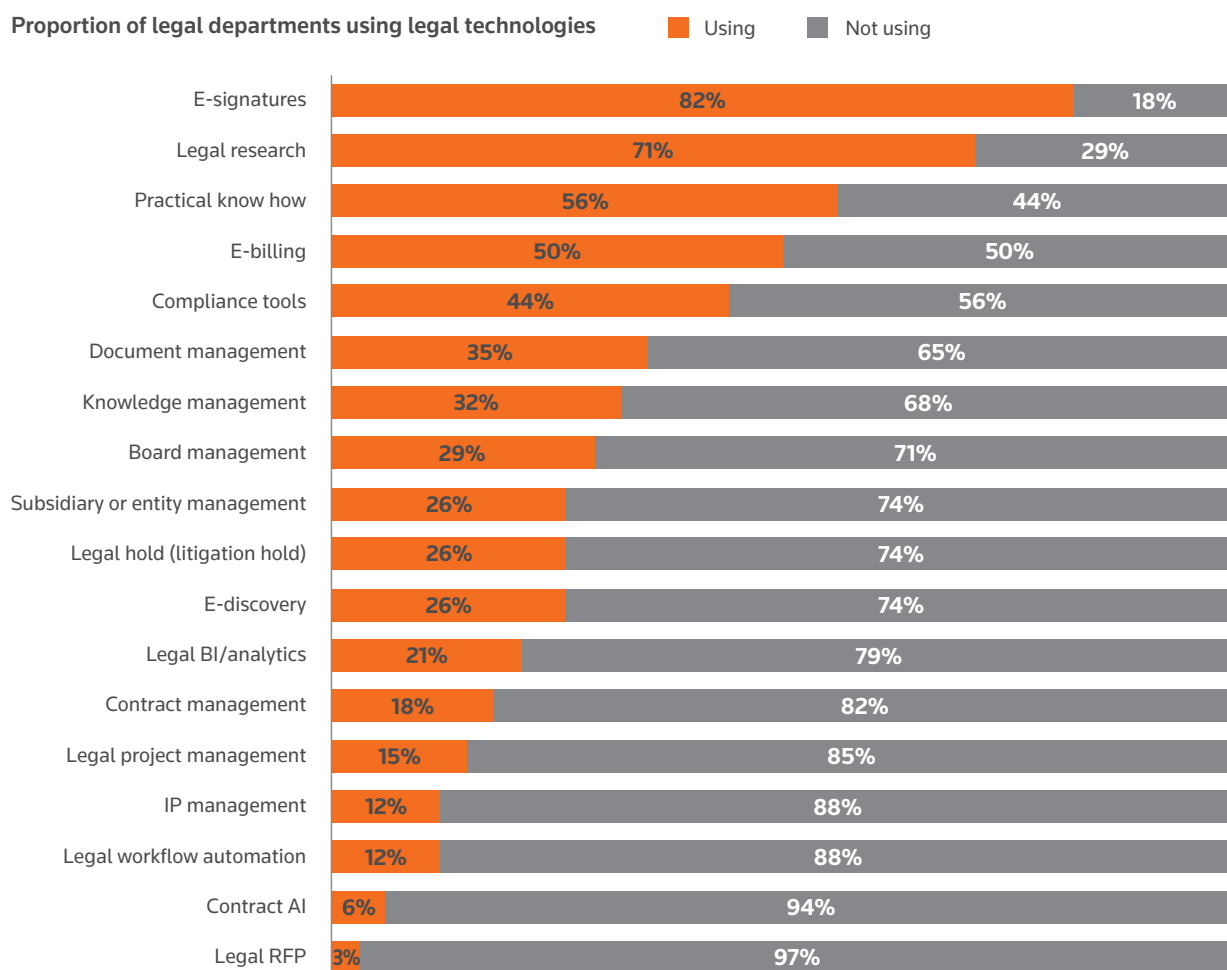
Further, the ability to leverage new legal technologies to improve efficiency or enhance the department's effectiveness also was a top concern cited by UK legal buyers, with almost one-fifth of buyers (17%) noting the challenge of digitalisation and other technological issues.

Again, a look at the level that corporate law departments have reached in tech adoption and its use can give law firms an idea of where they may be of further service, helping these departments gain the technological prowess they may currently lack.

Interestingly and perhaps unfortunately, UK corporate law departments reached an adoption threshold of 50% or more in just four major technology categories — e-signatures, legal research, practical know-how, and e-billing — with e-signatures and practical know-how being used by legal buyers in the UK significantly more often than the global average.

Of course, this means that there is a raft of legal technology tools and solutions that are not being used by a majority of law departments, including such commonly used technologies as document and contract management systems, e-discovery programs, and compliance tools.

Figure 7: **Most used technology solutions by UK legal buyers**



Number of responses: UK (34)

Source: Thomson Reuters 2022

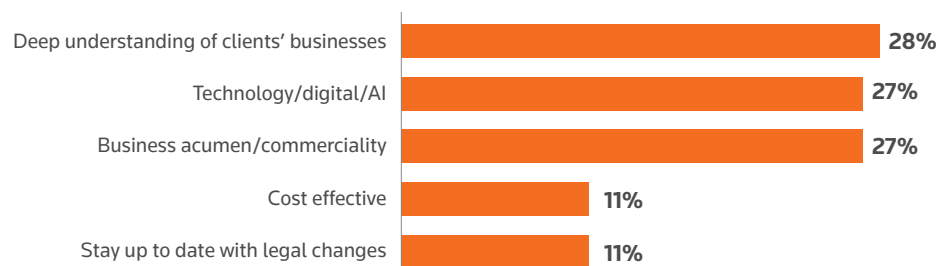
Again, this apparent dichotomy can offer UK law firms an entry with their corporate clients — especially the significant portion of UK legal buyers that said they planned to make addressing their digitalisation and technology issues a priority. By highlighting the most appropriate legal technology solutions to meet client needs and creating a plan to help implement and maximize the benefits of these tools, law firms could demonstrate their value to clients.

Drivers of favourability

UK legal clients continues to favour those law firms that demonstrate commerciality and a deep understanding of clients' businesses. In fact, these are also the skills that they want future lawyers, both in-house and external, to have in abundance. Following the crisis phase of the pandemic where clients turned towards tried-and-tested historic relationships, they now clearly have shifted their desires to favour those law firms and new law providers that can offer strength and depth to better service their clients' holistic needs.

In the survey, UK clients were asked about how the business world and legal industry are changing, and what skills or competencies they think are becoming increasingly important for their outside law firms to demonstrate.

Figure 8: **What skills are high on clients' wish list for their lawyers?**



Number of responses: UK (79)

Source: Thomson Reuters 2022

Not surprisingly, the number one request is that outside lawyers demonstrate a deep understanding of the client's business specifically, with 28% of UK clients citing this as a critical skill for their outside lawyers to have. Also, UK legal buyers are significantly more likely to want their legal advisors to demonstrate commerciality than the global average.

Yet, a similar number also want their legal advisors to be digitally savvy — and while this doesn't mean clients expect their outside counsel to become tech experts, clients do expect that their lawyers would be able to recognize which technology solution to implement in order to solve a particular challenge that the client is facing.

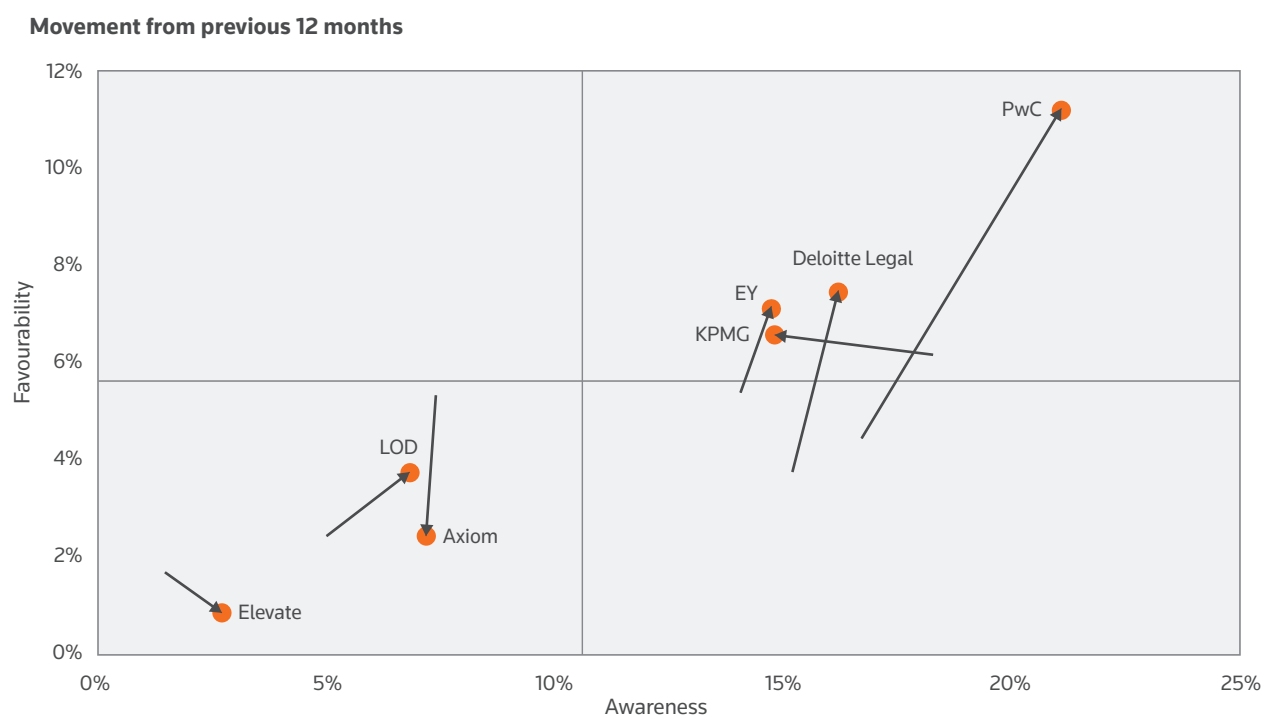
UK legal buyers also mentioned cost effectiveness and staying up-to-date with legal changes more often than the global average as well.

Again, UK law firms would be wise to take note of this wish list of skills and attributes most desired by clients and ensure that they are moving their lawyers to acquiring or honing these traits.

Rise of new law

While the use of *new law* service firms or ALSPs has grown over the past year in the UK legal market, much of that growth came from one source: the increased use of Big Four accounting and consulting firms. Indeed, UK legal clients are increasingly going to the Big Four for certain legal-related services, a trend that has been growing significantly since 2015.

Figure 9: **Big Four is dominant in alternative legal brand landscape**



Number of responses: Jan-Dec 2021 (265); Jan-Dec 2020 (269)

Where the arrows begin represents where this organisation's attributes were during 2020, while end of arrows marks 2021's results.

Horizontal and vertical axis lines represent half of the leading organisations value in awareness and favourability and define our four quadrants shown above.

Source: Thomson Reuters 2022

The Big Four continues to dominate the alternative legal brand landscape with large gains in client favourability in the past 12 months; yet it is still unclear how deep the in-roads are. Currently, these firms are mainly used for tax and audit matters.

Among the Big Four in the UK, giants PwC and Deloitte saw large gains in their favourability in the last 12 months; and since 2015, there also has been a significant increase in usage among non-legal firms outside of the Big Four, like contract attorney firms such as Axiom and LOD. Not surprisingly, there also has been a significant corresponding decrease in UK legal buyers saying they were not using *any* alternative legal service providers, signalling that the ALSP sector continues to move into the mainstream.

Of course, this ongoing trend begs a new question: To what extent has the cultural shift around remote and flexible legal work led to in-house departments and GCs becoming more comfortable with alternative types of service? And to what extent was the use of ALSPs made *more* necessary during the pandemic, given higher levels of absence due to illness or caring responsibilities during the crisis?

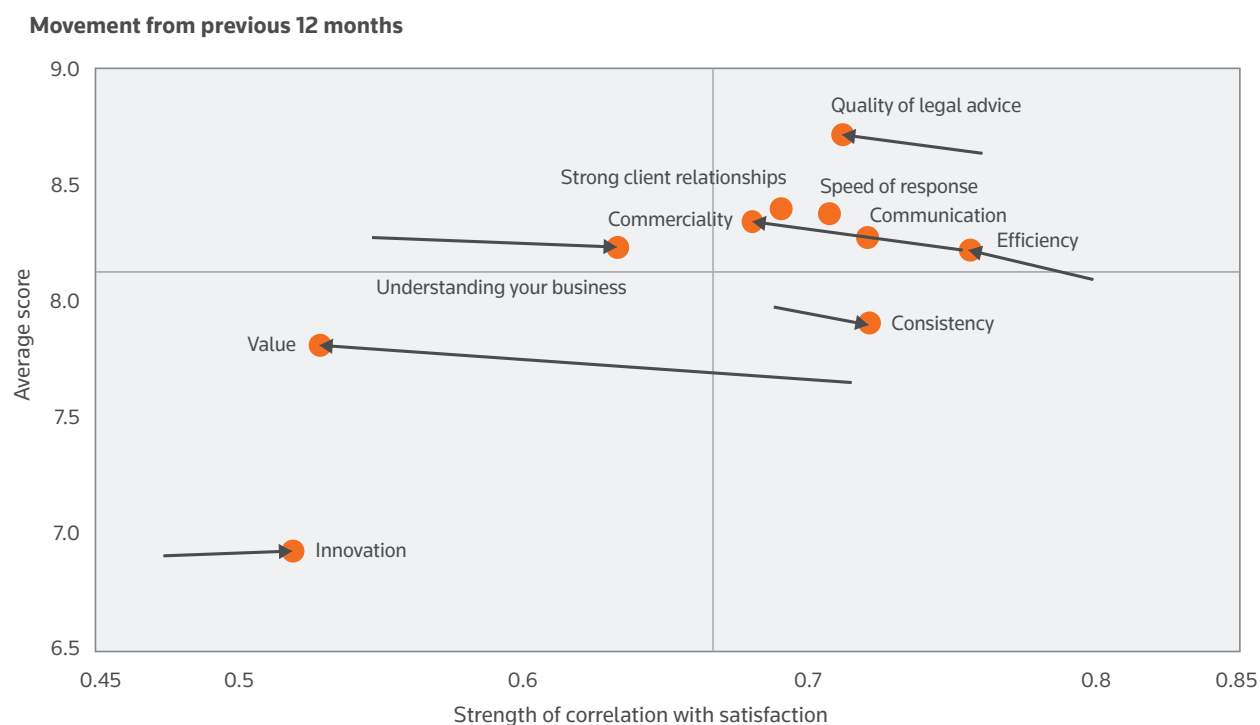
These questions should give outside law firms reason to pause, as the traditional law firm sector may have to proactively protect its turf from further encroachment by alternative providers.

Service expectations

Law firms in the UK, like others around the world, are experiencing a shift in how their corporate clients quantify high-quality legal service delivery and, more importantly, what attributes they want to see in their external law firms and top outside lawyers.

The average legal services buyer in the UK has differed only slightly from the average global buyer of legal services in terms of size and reach. For example, the average UK buyer has 64 in-house lawyers, slightly less than the global average of 66 lawyers, and has legal needs in an average 28 countries, again slightly less than the global average of 29 countries.

Yet, how these buyers envision the relationship between themselves and their outside counsel in regard to legal service is becoming more complex. While efficiency correlates most strongly to client satisfaction, according to our data, consistency and innovation also provide opportunities for law firms to differentiate themselves from their competition.

Figure 10: **Correlation with client satisfaction**

Number of responses: Jan-Dec 2021 (265); Jan-Dec 2020 (269)

Where the arrows begin represents where these attributes were during 2020, while end of arrows marks 2021's results.

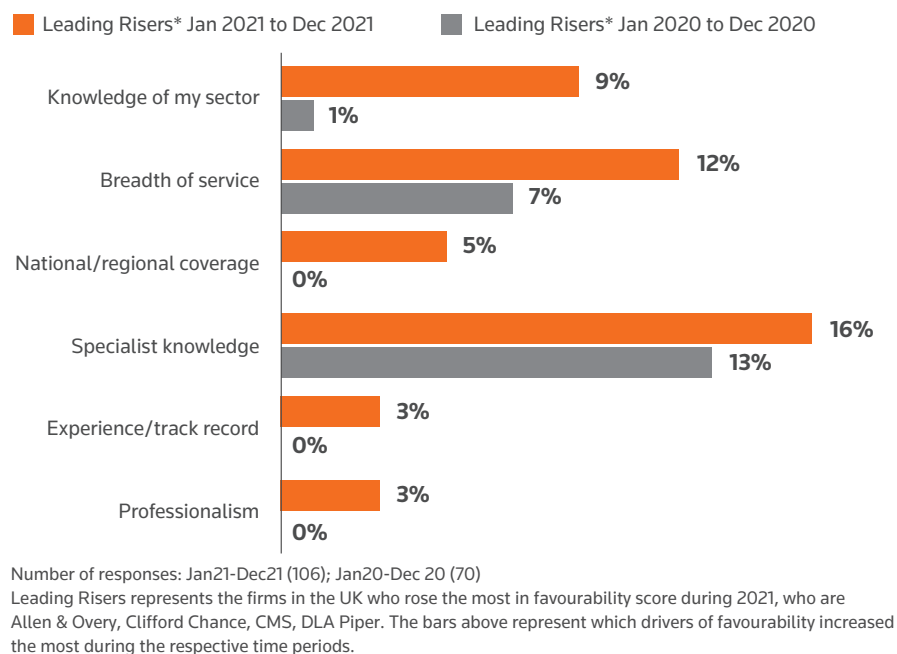
Horizontal and vertical axis lines represent the average satisfaction score overall and average strength of correlation and define our four quadrants shown above.

Source: Thomson Reuters 2022

When clients rate one of their external law firms a 9 or 10 out of 10 for efficiency in connection with the legal work done, both client satisfaction and clients' likelihood to recommend the firm to others are almost 20% higher.

Further, consistency and innovation — areas where most law firms struggled in the past — have become more strongly correlated with client satisfaction over the past 12 months. And getting these areas *right* can provide an opportunity for law firms to stand out from the crowd in the minds of clients. In addition to consistency and innovation, a firm's ability to understand the client's business is increasingly becoming more correlated with client satisfaction. Yet, all three of these attributes are generally scored much lower than other key service attributes, so there is room for improvement. And if UK law firms can get these right, it offers them perhaps one of the strongest opportunities to differentiate themselves within the UK legal industry, especially as we go forward into a post-pandemic environment.

Figure 11: **What made law firms stand out to clients 2021 vs 2020?**



Source: Thomson Reuters 2022

As our research shows, the key service attributes that have grown in importance over the past year in clients' minds include having a specialist knowledge and a wide breadth of service, rather than traditional attributes like a historic relationship.

On Relationships: *"It's a personal relationship: I've known the head of UK construction for many years. He's very good at what he does, he's a good team player, he runs a very good team, and gets embedded in our team. It's important to us that we work alongside people not be told what to do, we're a professional client, and we like that integration."*

— **Feedback on DLA Piper**

Indeed, what once was seen as a differentiator in the past may no longer be seen as enough because clients' desires have changed. For example, the idea of understanding your client's business is simply expected; and without it, client satisfaction levels are shown to drop sharply. However, delivering commercial-ready advice is one of the most effective ways outside law firms can still differentiate themselves and earn a larger share of clients' legal spend, the data shows.

On Commerciality: *"The work they do is always a very good quality, it's always very timely, and the people there are very good, very practical, and very commercial in the advice they give. They will give recommendations; they won't just tell you what the law is and leave you to your own decision. Very user-friendly."* — **Feedback on Squire Patton Boggs**

Going forward, we can expect that client satisfaction (and ensuing legal spend) will continue to correlate more strongly with these forward-facing attributes, and that clients around the world will prioritise this kind of expertise and reward those outside law firms that can provide it.

Summary

As this year's *State of the UK Legal Market* report illustrates, the worst of the pandemic may be behind us, but its impact and the legal market's on-going recovery is still top-of-mind for clients and their outside law firms of all sizes.

As our research in this year's report showed, the main trends and developments in 2021 reflected this reality and manifested itself most significantly in changes to how law firms and their clients view their key relationships with each other. Most importantly, UK-based clients pivoted away from traditional markers of their law firm relationships, like historic reputation or affinity for a single lawyer, and instead embraced a fleet of favoured attributes and abilities that clients increasingly want to see in their outside law firms. Not surprisingly, these attributes will allow those forward-thinking law firms that embody them to better serve their clients' holistic — not just transactional — legal needs.

This focus means that UK law firms should be ready to address clients' needs around more strategic initiatives, such as the changing regulatory landscape and leveraging digitalisation to improve efficiency.

Law firms also need to be ready to meet clients' heightened service expectations, as concepts like consistency and innovation are now the main differentiators by which legal buyers judge their outside law firms' performance. Indeed, firms also need to engage the main drivers of favourability in a client's mind and need to realize that commerciality and a deep understanding of clients' businesses are the skills most in demand from clients now.

All of these changes in how clients view their outside legal counsel come amid a backdrop of growing optimism around clients' legal spending, indicating that clients are willing to pay for quality legal services. Yet, as competition increases from the Big Four and other alternative legal service providers, it will be those forward-looking UK law firm leaders that will take the necessary initiative to cement their firms into the minds of legal buyers in the UK and around the world.

Background on the research

Findings from this report were derived from analysis of proprietary research conducted by the Thomson Reuters Institute, taken primarily by research conducted by Thomson Reuters Sharplegal between January and December 2021 on UK-based buyers of legal services.

Sharplegal conducts research with senior in-house counsel across the globe and identifies client-nominated star lawyers within law firms. This study incorporates responses gathered from more than 2,000 telephone interviews.

To add further depth to this report, other data sources were analysed, including Thomson Reuters Financial Insights (formerly known as Peer Monitor), a subscription service whereby law firms contribute data regarding their business performance. The data is anonymised and aggregated to form peer comparison groups, allowing participating firms to engage in competitive intelligence and benchmarking exercises.

For the purposes of this report, survey respondents included those in Chief Legal Roles, Assistance GCs, Chief Counsel for practice areas, and Legal Operations.

Respondents were surveyed from a wide variety of industries throughout the UK, with 25% of respondents coming from Financial Institutions, and 15% coming from Technology/Media/Telecom companies. More than half of respondents (53%) were based in London, with others coming from the rest of England (42%) and Scotland (5%) and Northern Ireland.

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