



Legal Tech Industry Landscape

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Overview & Objective

This document's purpose is to provide a market landscape and segmentation overview of the legal technology industry and act as a resource for future deeper dives and due diligence sessions on companies in the legal tech space. It explores the market size, industry trends, different ways to slice and dice the legal tech market, and case studies on different sub-segments in the industry. It also contains a working database of legal technology companies, both legacy and new entrants. This document and the database are a work in progress and are by no means fully comprehensive. Please note that inclusion of companies in this document does not indicate an endorsement by Laconia.

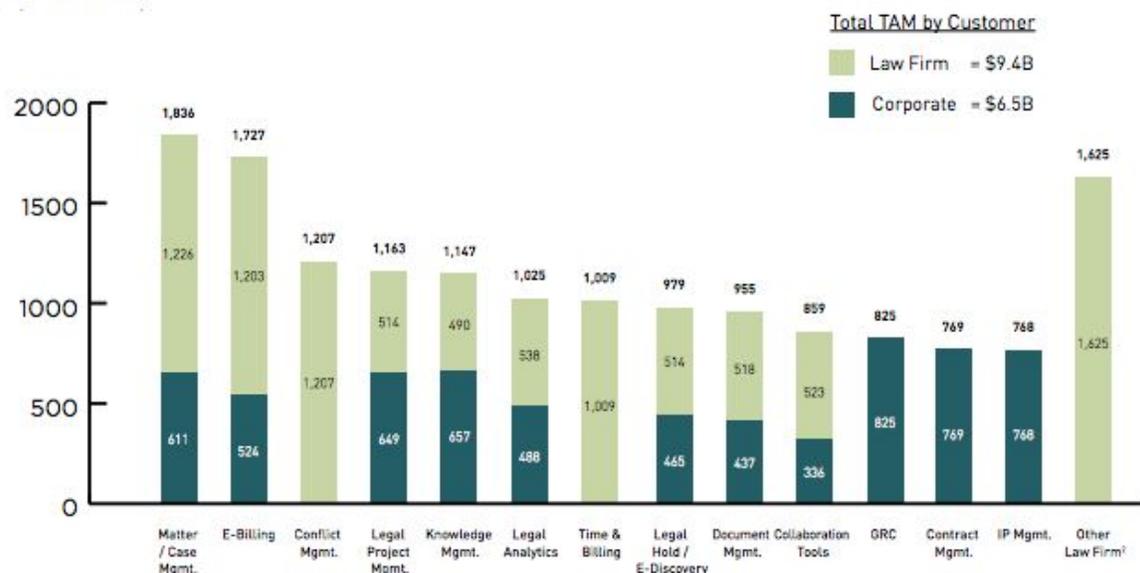
Market Size

Today, U.S. in-house corporate legal departments spend almost \$1.5b annually on legal software, with a total addressable market potential of \$6.5b. The total addressable market for law firms is estimated to be \$9.4b, meaning that combined with the corporate counsel figure, there is \$15.9b to be claimed on legal tech.¹

Based on its survey, Miratech, a legacy company in the enterprise legal management software space, estimates that the total potential spend, or total addressable market (TAM), for corporate counsel is \$6.5b. While currently e-Billing and matter management comprise the largest spend on corporate legal software (\$202m and \$195m respectively in 2015), contract management looks set to overtake that spend over the next five years, with a growth rate of 17% to \$346m between 2015 and 2019. Governance and compliance software is forecast to grow by 16% to \$270m in that period.

¹[MitraTech White Paper](#).

Full Target Addressable Market (TAM)¹ by Product Type \$ (millions)



Note: ¹Assumes all potential accounts are penetrated (100%) and product spend is the higher end of the range;

²Includes calendaring/docketing (\$574m), legal financial management (\$556m), and legal process automation (\$23m)

2015 Mitrtech third-party commissioned report

Law Firm Economics

Revenue Considerations

1. Billable hours

- Firms agree with their client to a rate per lawyer hour and then bill at the end or during a project based on that rate and the actual number of hours worked
- On average, law firms collect ~80% of what they quote (i.e. their “standard rates”)

2. Alternative fee arrangements

- Alternative fee arrangements are any other means of charging besides billable hours including fixed fees, subscription fees, and success fees
- The frequency of alternative fee arrangements has been increasing over the past few years especially in certain services easily productized (M&A, immigration, etc.)

3. Capacity

- Associates at big law firms are effectively hired approximately one year before beginning work, after their summer associateship after their second year in law school
- Law firms often use “contract lawyers” (temporary attorneys hired on ad-hoc basis) to flex capacity

- c. Forecastable (seasonal) and unforecastable (cyclical) fluctuations in demand for services reduce law firms' ability to staff accordingly, therefore lowering utilization rates

Other Considerations

1. Costs

- a. Compensation and benefits (for both support staff and attorneys) typically make up the largest cost for law firms

2. Leverage (attorneys per partner)

- a. Leverage has trended down over time; fundamentally, this is the result of incremental automation and outsourcing performing tasks that used to require junior attorneys and paralegals

Industry Trends

1. General Counsel looking to increase outside counsel spend in 2018

- a. For the first time since 2007, more in-house legal departments plan increases rather than decreases in outside counsel spending next year, according to the 2017 Chief Legal Officer Survey from Altman Weil Inc²
 - i. Survey respondents included 280 U.S. law department leaders from companies of all sizes
- b. The report said 40% of respondents plan to increase their outside counsel spend in 2018, while only 33% anticipate a decrease
- c. The gap between internal and outside counsel spend has been narrowing over 2014-2017
- d. 45% of law departments increased total spend in 2017; 36% decreased spend, and 19% stayed the same. In larger law departments—with over 50 lawyers—only 22% increased their total spend in 2017 while 50% made cuts
 - i. The top cost control technique last year was price reductions from outside counsel
 - ii. The most frequently used efficiency tactic was a greater use of technology tools, cited by 58% of all respondents and by 81% of the larger departments

2. Margin compression (for law firms)

- a. As a result of flat demand, declining productivity, and continuing downward pressure on realization rates (the difference between what you record as time and what percentage of that time is paid by the client), law firm profit margins on average across the market were essentially flat during 2017

² [Corporate Counsel](#).

- b. Since 2007, with the exception of a spike in 2011, the trend for profit margins has been slightly downward over the entire decade
- c. Both Alternative Fee Arrangements and pre-negotiated discounts are increasing as a percent of revenue

3. Slowing growth in number of attorneys

- a. According to the American Bar Association, between 2015-2016 around 25,000 new lawyers have joined the profession, compared to 28,000 between 2014-2015
- b. Law degrees awarded decreased from 2015 to 2016; the class of 2015 had almost 40,000 graduates, whereas the class of 2016 had just over 37,000

Breakdown of market size and annual spend on legal technology by product segment and corresponding market penetration.

Corporate Legal Software	2015	2019	CAGR	Total Addressable Market (with 100% penetration)	2015 Penetration
<i>e-Billing</i>	\$202m	\$235m	4%	\$524m	39%
<i>Matter management</i>	\$195m	\$279m	9%	\$611m	32%
<i>Contracts management</i>	\$187m	\$346m	17%	\$769m	24%
<i>Governance & compliance</i>	\$147m	\$270m	16%	\$825m	18%
<i>IP management</i>	\$140m	\$194m	8%	\$768m	18%
<i>Legal hold</i>	\$129m	\$158m	5%	\$465m	28%
<i>Document management</i>	\$127m	\$183m	10%	\$437m	29%
<i>Legal project management</i>	\$102m	\$198m	18%	\$649m	16%
<i>Knowledge management</i>	\$99m	\$259m	27%	\$657m	15%
<i>Legal analytics</i>	\$73m	\$145m	19%	\$488m	15%
<i>Collaboration tools</i>	\$61m	\$92m	11%	\$366m	18%

2015 Mitrstech third-party commissioned report

The percentage of legal departments investing in each software segment increases by size of department, with the exception of contract management software, which stays the same regardless of size of the department.

Total usage (third-party + homegrown) of software solution

Product	Large departments (40+ attorneys)	Mid-sized departments (10-39 attorneys)	Small departments (1-9 attorneys)
<i>Number of departments</i>	963	5,778	3,020
<i>e-billing software</i>	80%	48%	25%
<i>Matter management software</i>	79%	46%	20%
<i>Contracts management software</i>	42%	52%	43%
<i>Governance & compliance software</i>	48%	30%	27%
<i>IP management software</i>	42%	17%	16%
<i>Legal hold software</i>	65%	43%	16%
<i>Document management software</i>	74%	48%	52%
<i>Legal project management software</i>	51%	24%	11%
<i>Knowledge management software</i>	35%	22%	0%
<i>Legal analytics</i>	36%	22%	5%
<i>Collaboration tools</i>	58%	24%	34%

Market Segmentation

A full working list of legal tech companies can be found [here](#). Below is a closer look at the different market segments.

Legal innovations serving primarily the individual (B2C):

- **Legal Marketplaces:** platforms that attempt to improve individual access to lawyers
 - Major player
 - [Avvo](#)
 - Founded in 2006, raised \$130 mil to date. Leader in online legal services marketplace
 - Provides lawyer referrals and access to a database of legal information consisting primarily of previously answered questions
 - Major considerations: defensibility, customer acquisition metrics (CAC, LTV), go-to-market strategy, capital requirements
- **Document Automation Tools:** platforms that offer “do-it-yourself” contract help for individuals
 - Major player
 - [LegalZoom](#)
 - Founded 2001, revenue \$200 million
 - Helps its customers create an array of legal documents without having to necessarily hire a lawyer

- Available documents include wills and living trusts, business formation documents, copyright registrations and trademark applications. The company also offers attorney referrals and registered agent services.
- Major considerations: UI/UX, product offering/roadmap, market size potential

Legal innovations serving law firms and/or in-house legal departments (B2B):

- **Document Management Systems (DMS)**
 - Legacy players:
 - [iManage](#)
 - Known for being powerful and robust, though it's also known for requiring significant server resources, and requires an IT expert to implement and administer, more so than most other DMS on the market
 - The iManage company has also been sold multiple times in the last decade. Can be run on your own in-house server or in a private cloud.
 - [Worldox](#)
 - Most popular in the era of on-premise servers and local IT guys. Today it remains a solid, mature application (albeit a bit dated-looking.) Worldox can be run on your own in-house server or in a private cloud.
 - [NetDocuments](#)
 - Among the first web-based/cloud-based legal DMS
 - It has a solid install base and is well-regarded in the industry. Made for a number of industries including legal, financial services and healthcare.
 - [OpenText](#)
 - Startups:
 - [Contract Express](#)
 - Document and contract automation software
 - Generates standard legal documents from automated templates, reducing or eliminating the delays, costs, bottlenecks, and risks inherent with manual drafting. With automated contract drafting, lawyers are freed to work on higher value negotiations, non-standard matters, and realizable matters.
 - Major considerations: product differentiation, UI/UX, customization, defensibility

- **E-Discovery:** technology that facilitates the identification, collection, preservation, processing, review, analysis and production of electronically stored information for use as evidence in a civil or criminal case
 - Legacy players:
 - [Relativity](#)
 - Benefits include: Collaborate from Anywhere Efficiently collaborate with other parties in a single solution, accessible from anywhere with an internet connection.
 - Tackle the Technical Easily manage technical processes like collection and processing to begin review quickly
 - Be More Productive Use features like clustering, email threading, and near-duplicate detection to power through large datasets.
 - New entrants:
 - [Everlaw](#), [Allegory Law](#) and [AgileLaw](#)
 - Blending e-discovery tools with intake, litigation, and practice management
 - Major considerations: scope (beyond just civil realm), breadth of data preserved and identified, improved attorney efficiency rates, integration with cloud-based, centralized document management systems, pre-review data reduction, time to decision, forecast accuracy

- **Practice & Case Management:** provides attorneys with a convenient method of effectively managing client and case information, including contacts, calendaring, documents, and other specifics by facilitating automation in law practices. It can be used to share information with other attorneys in the firm and will help prevent having to enter duplicate data in conjunction with billing programs and data processors.
 - Legacy players:
 - [AbacusLaw](#), [Amicus Attorney](#), [CosmoLex](#)
 - New entrants:
 - [Clio](#)
 - Completely web-based and specifically designed for solo practitioners and small law firms
 - Important client data is securely accessible anywhere—from PC, Mac, and even iPhone
 - [PracticePanther](#)
 - Mobile friendly software
 - Prides itself on how easy it is to use
 - Features include contact and matters management, document management, intake forms, billing, time and expense tracker, credit card processing, integration with calendar and emails, integration with Quickbooks and Zapier

- Major considerations: customization, multi platform capabilities, UI/UX, extent to which it streamlines internal communication and avoids miscommunication, integration with other existing platforms
- **Billing** (Within practice/case management however several companies have specialised)
 - Legacy providers:
 - [Tymetrix](#)
 - A product by Wolters Kluwer
 - [TeamConnect](#)
 - A product by [Miratech](#)
 - Biggest player in enterprise legal management software
 - As of 2015, focused on matter management, spend management, e-Billing
 - [Serengeti Law](#)
 - Now known as Thomson Reuters Legal Tracker
 - New entrants:
 - [Viewabill](#) and [SimpleLegal](#)
 - Major considerations: Ability to capture all billable activity and expenses, UI/UX, manages collection issues, credit card capability, ease of integration with accounting systems
- **Contract Management:** technology that supports the management of contracts from vendors, partners, customers, or employees. At its most basic, contract management software can be defined as an electronic version of a filing cabinet. It supports the entire customer and contract lifecycle which covers any process that contributes, creates or utilizes contract data. Effective Contract Management requires an understanding of every step in the contract process, including any step that contributes, creates, or utilizes contract data. It supports the key stages of contracting (request, generate, negotiate, approval, execute, search/report, comply, amend/review)
 - Legacy companies:
 - [Determine](#)
 - Responsive cloud-based centralized contract repository for easy access in discovering contracts, importing contracts and managing expiry and renewals
 - Key features include: Contract Master Data & MetaData Management, Contract Import & Export, Amendment Management, Renewal Management
 - Startups:
 - [Concord](#)
 - Providing cloud-based contract management
 - [eBrevia](#)

- Providing contract analysis and review
 - [Apogee Legal](#)
 - Contract analysis using AI
 - Also offers custom contract AI solutions designed to assist procurement, regulatory, and legal professionals to assess risk and compliance issues in their current and “under negotiation” contracts for a wide range of enterprise use cases
 - [Seal](#)
 - Leader in contract discovery and analytics
 - Founded in 2010, raised \$13mil to date
 - [Ironclad](#)
 - [Cosynd](#)
 - Collaborative cloud-based tools for easier drafting & negotiating of agreements
 - Major considerations: contract creation workflow, ability to create hierarchical approval workflows, integration with other “source of truth” systems such as vendor masters, AP systems, intake form that can integrate with single sign on environments such as company intranets, matter management systems, e-signature integrations, extent of reporting e.g. contracting cycle time, variance of end contract from starting template, ability to represent complex counterparty relationships, ability to fluidly define metadata by contract type
- **IP Management:** assists in the tracking of trademarks, copyrights, patents, and other intellectual property. Law firms and corporations utilize these tools to manage databases of trademarks, automate forms and correspondence for new and ongoing intellectual property ownership, and track possible violations of legal rights for subsequent prosecution. For law firms who manage designers, artists, inventors, and companies with patented products or services, IP management software helps centralize up-to-date client information, license agreements, and opposition filings in a single repository. Often integrates with case management tech to streamline the lifecycle of intellectual property procurement and litigation.
 - Legacy providers:
 - [Lecorpio](#)
 - Helps legal departments replace outdated systems and manual processes with controlled workflows in a paperless environment
 - Adaptable intellectual property management software that brings together all the processes involved with intellectual property and makes every step more efficient
 - Helps chief legal officers and IP counsel find the data they need to support better business decisions
 - New entrants:

- Leveraging artificial intelligence and expert in the loop curation to bring the most comprehensive regulatory content to professionals and businesses

Legal innovation that cross both B2C and B2B:

- **Specialized services:** provide a specific area of expertise and information for individuals and companies who need legal help
 - [Everplans](#), focused on wills and estate planning
 - [Wevorce](#), [Separate.us](#) - focused on divorce
 - [Bridge US](#), focused on immigration services
 - [FairClaims](#) online dispute resolution
- **Litigation Finance Software:** Companies that provide software for legal funders.
 - Major players:
 - [Mighty](#)
 - Founded 2014, raised over \$119 mil to date
 - Powers legal and medical funding companies with industry specialized software and capital
 - MightyOS, is an all-in-one core system designed to manage the entire legal and medical funding process
 - New entrants:
 - [Lex Shares](#)
 - Founded 2014
 - An online marketplace for investing in litigation, connecting plaintiffs in commercial legal disputes with investors to fund their cases

Legal Tech Market Map

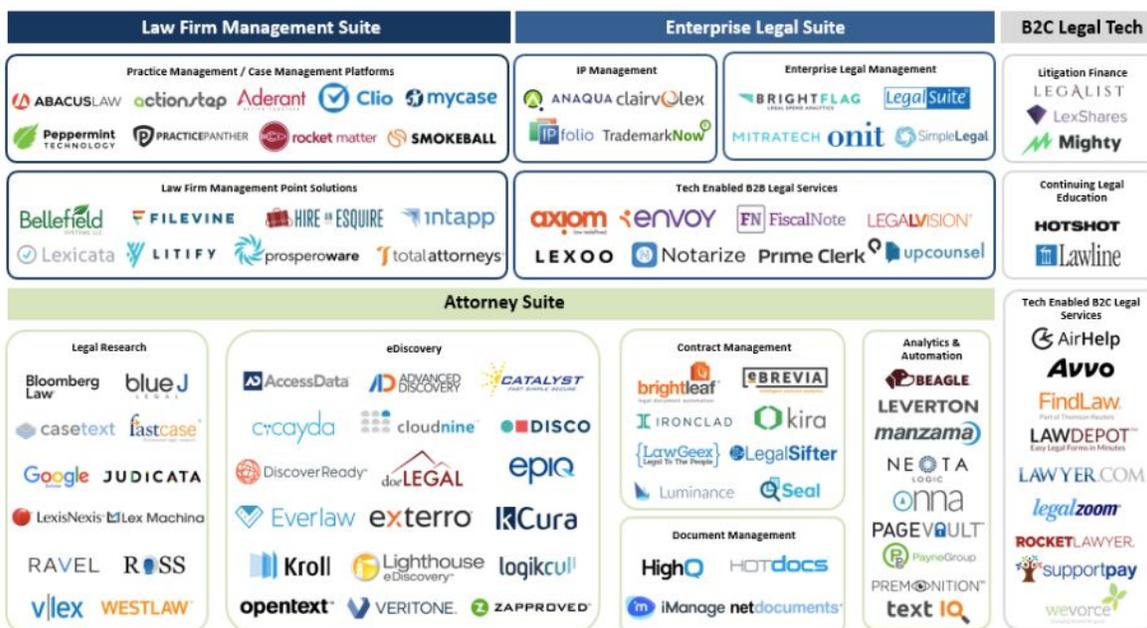
Key Terms:

Law Firm Management Suite – Technology to enable law firms to manage their practice

Enterprise Legal Suite – Corporate technology to manage legal departments and cases

Attorney Suite – Technology enabling attorneys' legal work

B2C Legal Tech – Technology delivered to the legal consumer market



Source: [Catalyst Investors](#)

Adoption Challenges: Law Firms

Adoption difficulties are particularly acute for law firms. There is a rising awareness in the market that “legal tech” is important, that the legal market is going to change, and that law firms which adopt will have a competitive advantage over others.

According to the Altman Weil 2015 “Law Firms in Transition” Flash Survey, law firms that have changed their approach to staffing, service delivery, and pricing are consistently likely to see improved gross revenue, revenue per lawyer, and profits per equity partner. The primary challenge for most legal tech startups was not getting access to technology officers within law firms for demonstrations, but rather getting from the initial pitch to a sale.

1. The billable hour

- This metric tends to remain the core internal metric used even under alternative fee arrangements. Matter level profitability has been strong resisted, primarily because of the historical ability of lawyers to raise rates on an annual basis.
- While focusing on collecting billable hours provides a deterrent to becoming efficient, increased client pressure to cut costs has made it more palatable for law firms to adopt time-saving technologies. A possibly greater impediment to legal

technology adoption is that the focus on collecting hours gives lawyers little time think about incorporating new models or learning new tools

2. The partnership model

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

3. Security concerns and lack of infrastructure for rapid testing and development

- a. Law firms for the most part do not offer cloud-based infrastructure. Concerns over preserving the security and privacy of client data means that testing requires creating a set of “dummy” data, and getting lawyers to then test the solution using this data. Setting up any kind of prototype environment is expensive and time-consuming.
- b. Part of the resistance in moving to cloud-based environments is that controlling physical servers, even as a sublessee, affords different legal protections than using a shared public cloud space.
- c. Integrating new solutions with existing systems from legacy providers, which provide document systems that are not as flexible from a backend technology perspective. Most law firms use Windows, including Microsoft Exchange Server, and iManage; a major challenge is working within the integrations offered by Windows.

Adoption Challenges: In-House Legal Departments and Individual Market

1. The legal department as a cost center

- a. The Return-On-Investment on improving “efficiency” is difficult to prove and justify, as compared to a technology that more tangibly cuts cost or drives revenues.

2. Individual market and lack of trust

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

Case Study: The Rise of E-Discovery Technology

Civil case filings in the U.S. district courts grew 5% between 2015 and 2016, increasing by 12,815 cases to 291,851. The good news is that the quantity of criminal filings decreased by 3% to 77,357, the lowest total since 1998. The bad news is that examining and producing evidence to pursue or defend these suits (or to develop a settlement proposal) have become an almost inhumanly complicated and time-consuming business — nor is it inexpensive.

Legal teams today are faced with a growing evidentiary nightmare as the number of emails, text messages, spreadsheets, PowerPoint presentations, PDF files and other digitized business documents rises dramatically every day. And as the lines between business networks and social networks narrow, the variety and complexity of data also are expanding and now include audio, video and other forms of information such as sensor data from Internet connected devices.

But despite this avalanche of information, courts have been slow to change rules or timelines for cases. Even as the volume of structured and unstructured data continues to grow, court cases must proceed, and attorneys who fail to meet their court-ordered deadlines risk large fines in addition to assuming the increasing costs associated with the e-discovery process.

Getting to the necessary evidence, finding the key documents and eliminating the irrelevant ones are costly, as well as time-consuming, tasks. The majority of Fortune 1000 corporations now spend an estimated \$5 million to \$10 million annually on e-discovery, with several companies reporting expenses as high as \$30 million in 2014. A full 70% of these costs were tied directly to the physical review of documents, according to a 2012 RAND study. That boils down to about \$1.8 million per case or approximately \$18,000 a gigabyte.

These expenditures will only go higher. That's because by 2020, the data created and copied annually will reach 44 zettabytes (44 trillion gigabytes), according to research organization IDC. And it is on this sea of data that legal teams must set sail to discover the key themes and critical documents for each matter — from investigations to a wide variety of litigation events. Today, technology, and particularly the use of data analytics, is what separates the winners from the losers in the costly game of beat the clock to meet court imposed discovery deadlines.

Conclusion

There are several exciting opportunities emerging in the legal technology industry, and it is clear that the legal services industry is ripe for technological disruption to create efficiencies in an industry that is still fraught with manual workflow processes. Nevertheless, as previously discussed, there are significant barriers that have resulted in a lack of technology adoption by law firms and corporate law departments, resulting in a small number of venture capital-backed legal tech firms achieving significant scale, and to date zero pure legal tech companies going public.

Companies that can prove necessity and utilize innovative technologies to provide advanced analytics and greater automation are likely to succeed in this space.

Next Steps

Please comment or reach out to info@laconiacapitalgroup.com with any insights, feedback, or missing companies.

Sources Used

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- [Mitrtech](#)
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- [Contract management explained](#)
- [Market map and size](#)
- [American Bar, legal stats](#)
- [General Counsel Looking to Increase Outside Counsel Spend in 2018](#)
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- [Legal Industry Trends](#)
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