



Thomson Reuters Institute

2023 State of the U.K. Legal Market

Delivering value beyond legal knowledge

Executive Summary

United Kingdom-based buyers of legal services started 2022 on an optimistic note, forecasting increased spending in most areas, but this optimism waned in the second half of last year as geo-political and economic uncertainty took its toll.

For U.K. law firms this potential reduction in legal spend comes at a time of increased competition: nearly half of all legal clients added law firms to their roster of advisers

45% of UK buyers have adjusted their law firm rosters in the past 12 months

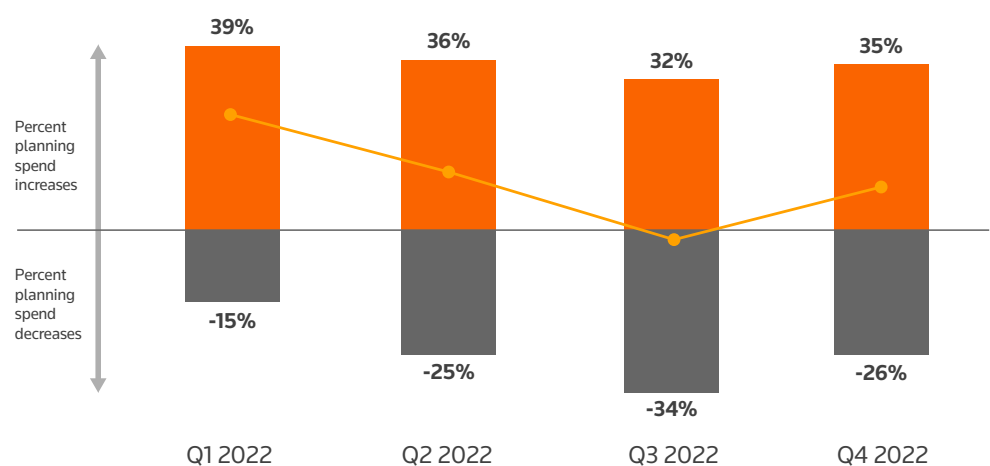
during the year, according to data from Thomson Reuters' annual study of clients' senior legal buyers. The data further indicates that it's becoming harder for many law firms to differentiate themselves, with a good deal of legal work being commoditised into standard packages in which price is the main differentiator.

At the same time, there has been a new impetus of competition arising from aggressive investments being made in the U.K. by law firms in the United States that want to grow their share of the market in the U.K. and Europe.

Figure 1: **Buyer sentiment: where is the legal market headed?**

Total legal spend anticipation: quarter-by-quarter view (£25m+ companies)

Plan to increase Plan to decrease Net spend anticipation



Number of responses: Q1'22 (85); Q2'22 (69); Q3'22 (44); Q4'22 (57)

Source: Thomson Reuters 2023

The research also shows that some U.K. clients are looking to keep more work in-house, as part of a drive for efficiency and cost savings. And whilst there will still be plenty of work for external legal advisers, it's crucial that law firms understand clearly what it is that clients

want and expect and adapt their services accordingly. This doesn't simply mean making sure they have the necessary expertise in all relevant areas — that's a given for most firms.

In the U.K., more than in many other regions of the world, clients are focusing on the quality of the whole relationship with their advisers. In a major shift over the past 10 years, the historical reputation of a law firm is no longer enough to keep it top-of-mind in the market. The message is clear: firms need to re-consider how they present and deliver value to clients. The key lies in understanding and meeting client needs — both in the context of the general counsels' (GCs') departmental responsibilities but also in the company's broader strategic goals. In short, law firms need to demonstrate that they can act not just as a legal adviser but also as a business partner.

Many firms will say they do this already — and of course some do. However, the evidence suggests a narrower and more limited perception from the client side.

In this report we will look at what the research tells us about client needs and expectations, and what — from the clients' perspective — drives a successful relationship with a law firm. We will also make some suggestions on how law firms might respond, provide takeaways for in-house counsel based on best practice from their peers, and identify where the strongest opportunities for growth and practice expansion for law firms may be based on anticipated increases in overall legal spend.

“More direct partner engagement with me, just to talk more widely about our business plans and ambitions, and then to use that as a platform to explore things they could do to help me achieve them.”

Market Insights is an ongoing study involving more than 25,000 in-depth interviews with General Counsel over the last 12 years. The 2022 U.K. survey represents 255 interviews conducted throughout the year with companies of £25 million or more in annual revenue, with nearly two-thirds or respondents from companies with more than £800 million in revenue. In addition to the interviews, this report includes the financial results of 28 global law firms' operations in the U.K., varying between U.S. and U.K. based firms. For a full breakdown of the sample and the methodology see page 29.

Market context

Clients' plans to increase their legal spending, tracked over three years, peaked in the third quarter of 2021, with more than half of responding companies in the U.K. predicting increased spending and only 15% looking to reduce spending.

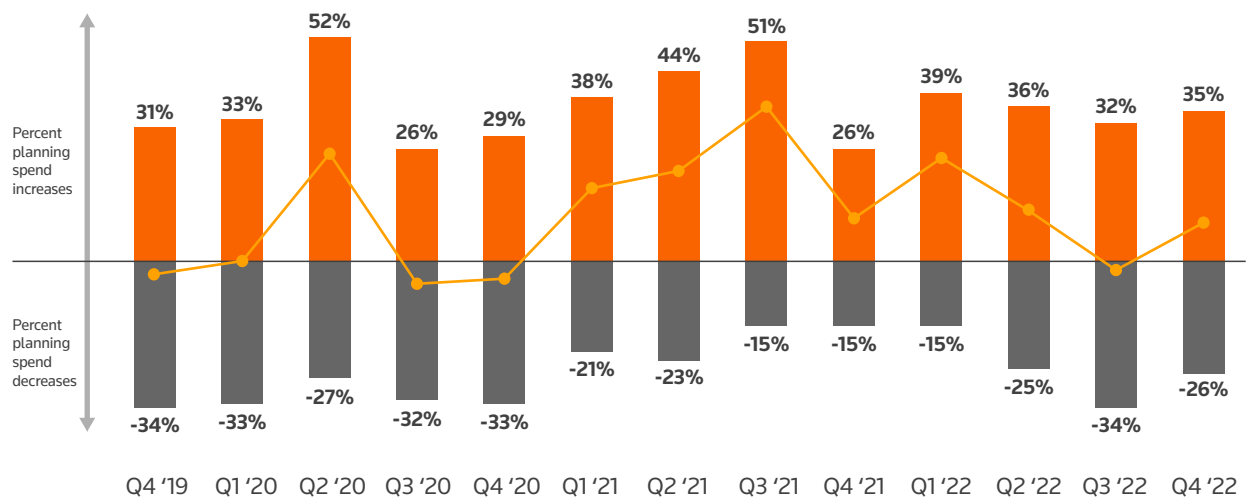
Since then, there's been a steady fall – from peak Net Spend Anticipation (NSA)¹ of 36 to just 12 now. In Q3 2022, it even fell into negative territory at with an NSA of -2, no doubt influenced by the political turmoil in the U.K. and elsewhere across the globe. Although the number of clients who say they are planning to increase their spending rose slightly in Q4, roughly one-quarter of respondents said they were still expecting to reduce their spend with outside counsel.

It's worth noting that this picture of reduced optimism stands in contrast to most other parts of the world, in which our global research reflects a much more optimistic view of legal demand.

Figure 2: **Buyer sentiment: where is the legal market headed?**

Total legal spend anticipation: quarter-by-quarter view (£25m+ companies)

Plan to increase Plan to decrease Net spend anticipation



Number of responses: Q4'19 (67); Q1'20 (64); Q2'20 (44); Q3'20 (69); Q4'20 (96); Q1'21 (77); Q2'21 (66); Q3'21 (83); Q4'21 (39); Q1'22 (85); Q2'22 (69); Q3'22 (44); Q4'22 (57)

Source: Thomson Reuters 2023

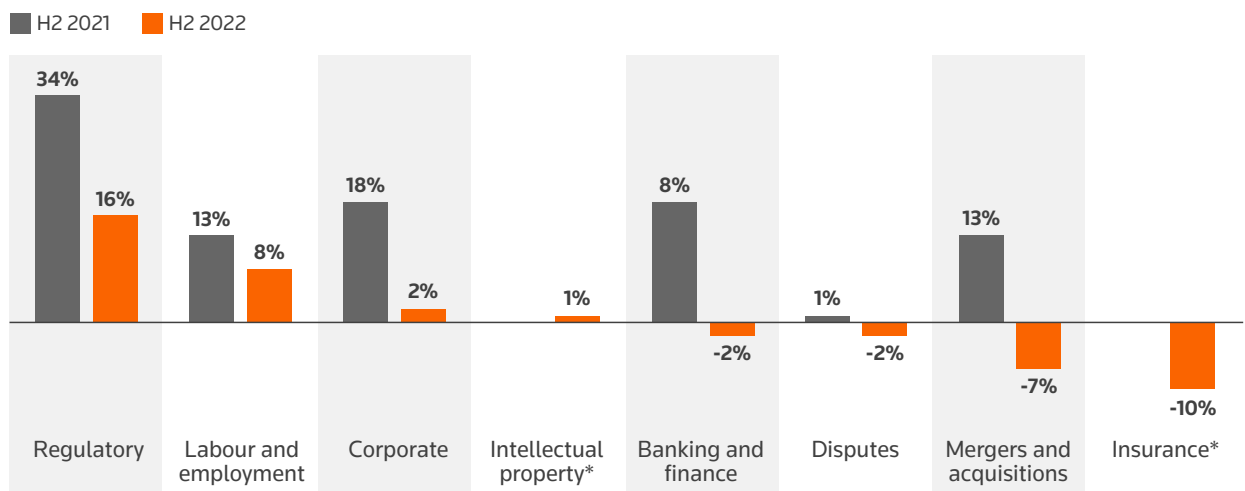
¹ Net Spend Anticipation (NSA) is calculated by subtracting the percentage of respondents expecting their overall legal spend to decrease from the percentage who expect their overall legal spend to increase.

Whilst markets have stabilised after the political turmoil of 2022, growth still remains sluggish, and inflation continues to impact business. Shortages of both staff and skills, industrial unrest, and rising energy costs provide a backdrop to economic and political uncertainty that is impacting business decision-making. Despite stabilising the economy in the short term, the U.K. Government is frequently criticised by industry bodies for its lack of medium- and long-term strategic planning, which in turn affects the confidence of business itself to commit to the U.K. and invest with confidence.

Furthermore, the practical ramifications for business stemming from Brexit continue to cause frictions in international trade. Meanwhile, on a global level, the war in Ukraine and tensions in Asia threaten to disrupt supply chains and worry investors. In such a climate, it's little wonder that GCs and their teams are focusing on risk management, regulatory compliance, and cost efficiency rather than bold corporate activity.

Figure 3: **Stay close to clients as needs change**

Net legal spend anticipation by work type H2 2021 vs H2 2022.
 Percentage of buyers anticipating increase minus those anticipating decrease.








Number of responses: H2 2021 (120); H2 2022 (100). *Not asked in 2021.

Source: Thomson Reuters 2023

As in prior years, regulatory work — whether Brexit-related or sustainability driven — looks to be the main driver of budget increases. Moving into second place among practice areas is labour & employment, reflecting perhaps those staff shortages and the fight for talent, as well as changes in working practices as staff continue to demand the opportunity to work from home.

Figure 4: **Looking to the future allows for strategic thinking**

Current Priorities		Risks on the Horizon	
Be commercial/ support business	27%		Increasing regulatory complexity 30%
Cost control	24%		Economic instability 22%
Compliance/regulatory	22%		Data privacy 17%
Improve efficiency	22%		ESG 17%
Deliver quality/results	15%		Cyber security 11%

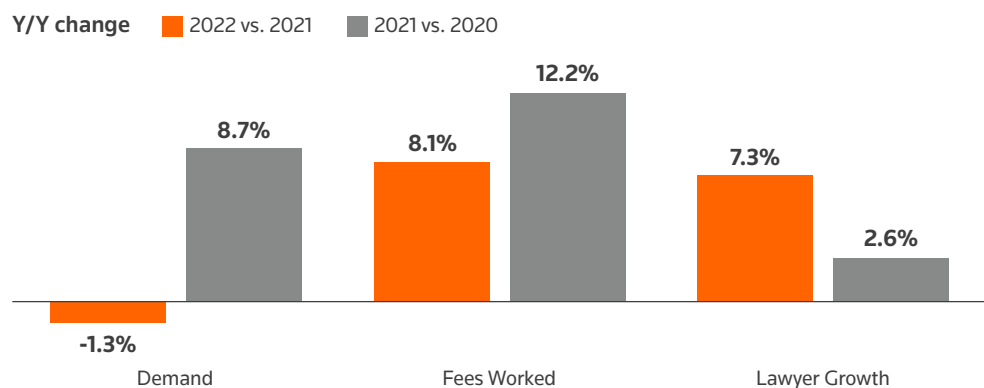
Number of responses: Current priorities (41); Anticipated risks (46)

Source: Thomson Reuters 2023

Looking further ahead, when we asked respondents about anticipated risks in the longer term, regulatory complexity continues to dominate, closely followed by economic instability, with no immediate solution identified to the U.K.’s growth and productivity challenges.

We can also see the effects of this economic environment on global law firms’ financial results in 2022. For example, despite having increased headcount significantly in 2022 (up 7.3%), law firms saw demand for legal services fall by 1.3%. And whilst the fees charged rose, they did so at a far slower rate than the previous year. All transactional practices in 2022 saw fewer billable hours than 2021, and in keeping with the GC move away from corporate activity, demand for corporate M&A work fell most sharply.

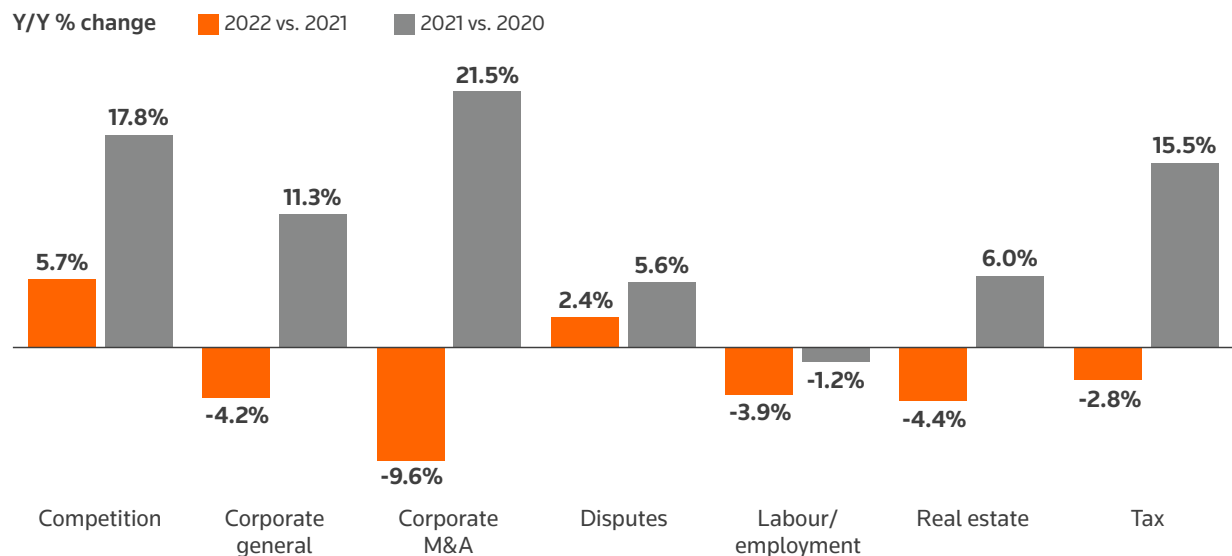
Figure 5: **Global firms in the U.K. – Key performance measures**



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

Source: Thomson Reuters 2023

Figure 6: Global firms in the U.K. – practice demand



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

Source: Thomson Reuters 2023

For GCs and their teams, this challenging environment means they have a crucial role to play in ensuring compliance with increasingly complex regulations and managing the risk exposure for their companies. This of course has been the core responsibility of in-house legal teams for many years, but as we explore in the next section on their immediate priorities, clients – and their legal advisers – will need to balance conservative demands of risk management with the entrepreneurial necessity of hunting for growth and profit.

“I would say compliance risk and conduct risk; it’s the opener of us being able to do business safely. So, with compliance and conduct risk also comes that ability to contract confidently both with suppliers and customers, but whilst also balancing the risks that may be there.”

Beyond demand challenges, there is also increasing competition within the supply side of the legal marketplace. Three points stand out:

- Law firms can no longer assume they have a fixed place on a client’s roster – almost half (45%) of U.K. clients changed to which law firms they allocate work in the past 12 months. This mirrors a global phenomenon, with 50% of legal buyers globally adjusting their list of firms with whom they work.
- Reputation has dropped dramatically in importance for keeping a firm top-of-mind with buyers. The well-known cliché, “No one ever got fired for buying IBM” may be increasingly irrelevant in today’s evolving market where firms of many types – including alternative legal services providers (ALSPs) – offer a range of options to legal buyers.
- Clients are increasingly aware of their alternatives. In 2020, two-thirds of corporate buyers of legal services were aware of ALSPs; now, three-quarters are. The Big Four auditing and advisory firms continue to dominate the ALSP portion of the market, and, of course, they enjoy strong relationships with multiple decision-makers in client organisations.

Client priorities

The corporate law department

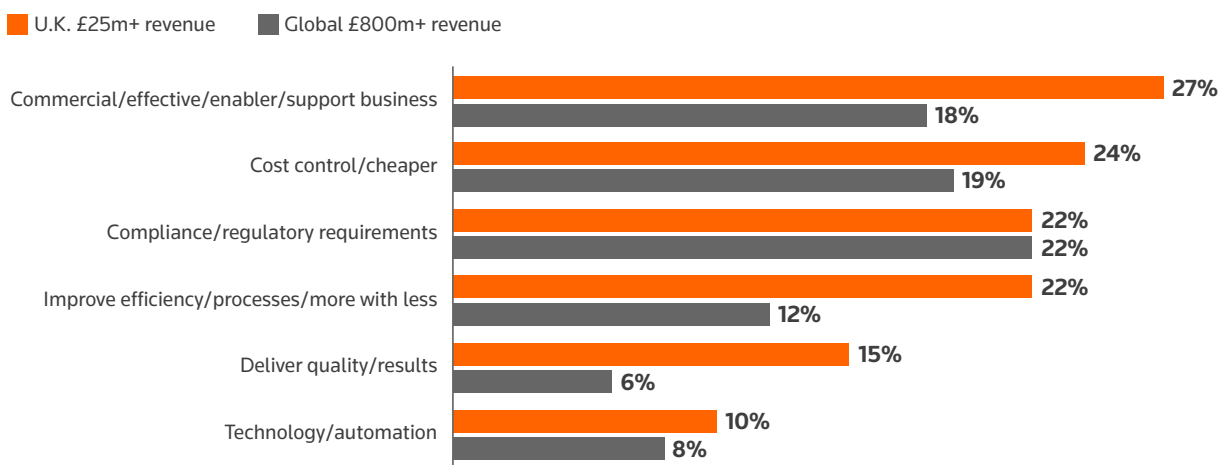
Within every in-house team there will be different legal issues to handle, and law firms will need to know where those priorities lie. Rather than viewing clients as a source of various legal transactions in the form of discrete matters, however, law firms ought to consider their clients' needs in the broader context of clients' company strategy. As the data shows, in-house teams' top priority is to support the business by delivering high-quality commercial advice efficiently and cost effectively. This is an area where U.K. clients differ from the global average. Globally, compliance and regulatory matters are the lead priority, but in the U.K., the focus is instead much more on being a commercial partner to the business. The stresses of the pandemic taught many legal buyers that law firms are able to pivot and adapt quickly, and that their experienced partners can condense lengthy legal opinions to a much more focused and valuable summary of salient points.

Now with much of the pandemic crisis behind us, legal buyers have become intolerant of poorly focused and wordy advice.

"[...] One other thing is exposure to the other parts of the business, so they have a better understanding of how the legal functions of the business can assist them."

Figure 7: **In-house teams are focused on supporting their business and controlling costs**

Top current strategic priorities for your organisation's legal function/department in U.K. vs global average



Number of responses: U.K. £25m+ rev (41); Global average £800m+ rev (339)

Source: Thomson Reuters 2023

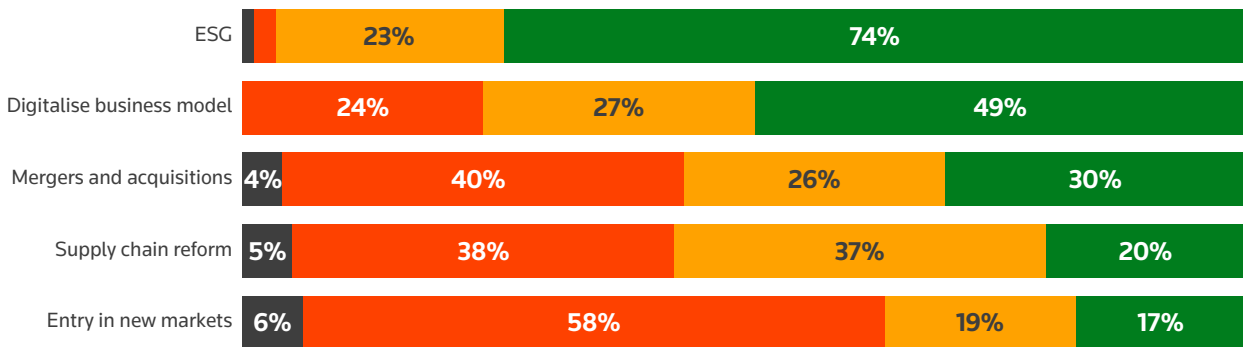
The business

For in-house law departments, supporting the clients' business usually means providing the legal support for revenue growth and strategic corporate activities as well as running an efficient and cost-effective department. In addition to these, we asked respondents about some of the emerging themes that are under discussion within boardrooms today. At a corporate level, there were two such themes that topped the list going into 2023 – ESG and digitalisation.

Figure 8: **Three-quarters of organisations focused on ESG in 2022, half on digitalisation**

Could you state if the following are going to be high, medium or low priority for your organisation in 2022?

■ Don't know ■ Low ■ Medium ■ High



Number of responses: (84)

Source: Thomson Reuters 2023

Nearly three-quarters of respondents cited environmental, social, and governance (ESG) topics as their highest priority, whilst only 2% of respondents rated these as a low priority. ESG covers a very wide range of activities. Governance, of course, has long been a core responsibility for most law departments; and environmental regulatory work is increasing in scope and complexity. Social, in which some companies incorporate their diversity, equity & inclusion (DEI) activities, may not have been a major preoccupation for in-house legal teams in the past but is likely to play a role in labour & employment matters, among other issues.

All these initiatives provide opportunities for law firms to assist their in-house clients in meeting the corporate goals of their businesses. The challenge for firms is to work out whether ESG is simply the context for strategic advice, or the opportunity for new revenue streams as yet unexplored.

The second priority for respondents' organisations, cited by 49%, was the digitalisation of the business model. Although this often focuses on financial or production processes, there's a clear opportunity for the increased use of technology in legal matters, with the goal of driving down costs and improving efficiency. We explore this further opportunity later in the report.

So, what are clients looking for?

Clients change their law firms for two key reasons: relationships and expertise. Understanding this and being able to speak effectively to these factors will be key for law firms looking to differentiate themselves in the eyes of clients, especially as the competition heats up due to tightening demand.

The fact that nearly half of U.K. legal buyers have adjusted their law firm roster in the last year presents law firms with both a risk and an opportunity. They cannot always be sure of their place on an existing client's roster, but they also have the chance to find new clients that may be looking to make a change.

The first challenge is to mitigate the potential risk. The stronger the relationship and the broader the range of services being provided to clients, the greater the chance a law firm has of staying on the roster and winning a greater share of the client's work. Historically, our research has indicated a close working relationship is based on sound advice and, crucially, a deep knowledge of the client's business.

To take advantage of the opportunities present in today's market, law firms need to ensure that their clients keep the firm top of mind. Lawyers need to spend time building and broadening the relationship, developing a deeper understanding of the business, and then sharing their findings with colleagues across the firm's practice areas.

The relationship paradigm is becoming more challenging for many law firms. Gone are the days of the generalist who could easily add value in multiple

areas of legal expertise. Our research shows buyers are becoming much more focused on specialist expertise as a driver of favourability (up by nearly two-thirds compared to 2021). This specialism counts — more than the breadth of service.

“[They]... will bring in outside expertise to assist them to ensure they get the best results for us.”

Indeed, U.K. clients want more than narrow legal expertise — they also want it delivered in a way that is commercially appropriate and cost efficient. If we look deeper at the drivers

of law firm favourability in the U.K. compared to the rest of the world, we can see that the sub-themes under *business savvy* are significantly more important in the U.K. This shows that whilst legal expertise is the top driver, it is not sufficient on its own. It's the other aspects of the relationship that will enable true differentiation.

“Sometimes, and this is true of all law firms, it's a disconnection from the commercial realities of the company.”

Figure 9: **Knowledge of client's business, sector and commerciality key in U.K.**



Number of responses: Global average (6571) U.K. (732)

Source: Thomson Reuters 2023

“They have a strong industry vertical focus, they've been able to bring people with different legal specialisms, all with industry-relevant expertise and background. They've been very imaginative in creating resourcing solutions that fit budget, scope, need for assistance, and in a way which is compliant with our processes.”

If legal expertise is dependent on specialist knowledge of the law, the *commerciality* of legal advice is dependent on business knowledge. It is this that enables law firms to give advice that is commercially valuable and practical.

When it comes to business knowledge, there are two elements that are most important: *i*) sector knowledge, which is expected of any lawyer practising within a particular industrial, commercial, or financial sector; and *ii*) perhaps more importantly for the relationship, in-depth knowledge of the client's own business. For law firms, this means not only knowing the legal issues facing the client but also understanding the commercial drivers, market position, growth prospects, customer base, and supply chain involved. Too many law firms still see industry sectors as a marketing vehicle rather than a means of truly understanding the dynamics of the client's market.

Understanding the business also means familiarity with the internal dynamics of the organisation, such as where the legal team fits in, how it works with other departments, and what resources the team has. Armed with this deep knowledge of the client's business they will be better placed to deliver commercial, practical advice and to do so in a cost-effective way.

“So, whilst we've also helped them get that knowledge, they have proactively continued to enhance that knowledge. I have regular catch ups with our lead partner, and that's not necessarily because we've got only active engagements on but just because it's good for them to keep abreast really of what we're doing as a business.”

As an extension of the *specialist knowledge* theme, nearly twice as many respondents in the U.K. mentioned *global coverage* as a driver of favourability compared with 2021 as more clients seek to do business in different parts of the world. As we have commented before, clients want that global capability paired with local expertise and delivery capacity on the ground. This is reflected in the more optimistic outlook for international legal spend noted in the report.

Service, of course, lies at the heart of any long-term business relationship. Various clients define this in different ways, and there are subtle nuances to be aware of, often from one transaction to another. Speed and efficiency might be the priority at one point; whilst taking time to understand and discuss a thorny problem might be required at another. *Responsiveness* — appropriately addressing clients' needs at any given time has increased significantly this year.

The importance of responsiveness also reflects a shift in working patterns. Three years ago, for example, the report highlighted the challenge of attracting and retaining talent within law firms. Whilst this may be less of an issue in 2023, one of the after-effects of the pandemic is the continued pattern of hybrid working — combining office time with working from home — which is seen as fundamental to retaining good staff. It has become the norm in both law firms and in-house teams, with 93% of in-house teams and 95% of law firms in the U.K. adopting some form of hybrid working.

This is significantly greater than the global averages for hybrid work (71% and 70%, respectively), and has implications for how U.K. law firms manage their teams, service levels, and client relationships. Agreeing upon service

“They have a lack of pace, a lack of commerciality, they are rigid, old fashioned and they don't add value.”

standards and communication preferences at the outset of any client relationship will help set expectations — and exceeding those expectations will strengthen the relationship.

How satisfied are clients with their law firm relationships?

Overall, clients appear quite satisfied with their outside law firms. About half (50%) are delighted (awarding a score of 9 or 10 out of 10), and only 5% indicate the relationship could be improved significantly (scoring 6 or lower), a result that is unchanged from last year. However, diving deeper, the number of respondents mentioning certain areas for improvement has increased significantly, with areas highlighted such as responsiveness (*i.e.*, speed and communication), and knowledge of the business.

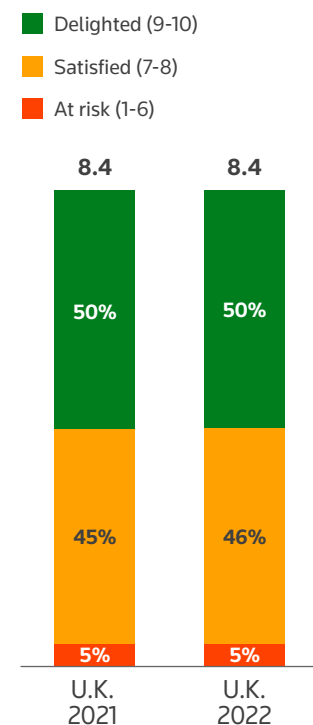
“There's a very long-standing relationship, and the people that we work with know what we're after, so the advice that doesn't take a long time to get to us.”

With the exception of *innovation*, *value for money* gets the lowest satisfaction score of any of the drivers; yet, as the red arrow in Figure 11 indicates, *value* is growing in importance. This is not to suggest that all a firm needs to do is cut its fees, despite the perennial call to reduce hourly rates. Far from it — clients might be willing to pay more as long as they see and understand the value they are getting. Interestingly, *value for money* is less closely correlated with overall satisfaction than the relationship drivers discussed earlier — communication, responsiveness, efficiency, and commerciality.

Innovation, which was ranked with even lower satisfaction, also is not as strong a driver as those core attributes. However, *innovation* does still correlate with overall satisfaction and share of wallet. And, as innovation is an area in which few law firms consistently deliver, it represents an opportunity for firms to differentiate themselves.

Figure 10:
Firms not moving the needle on satisfaction with U.K. buyers

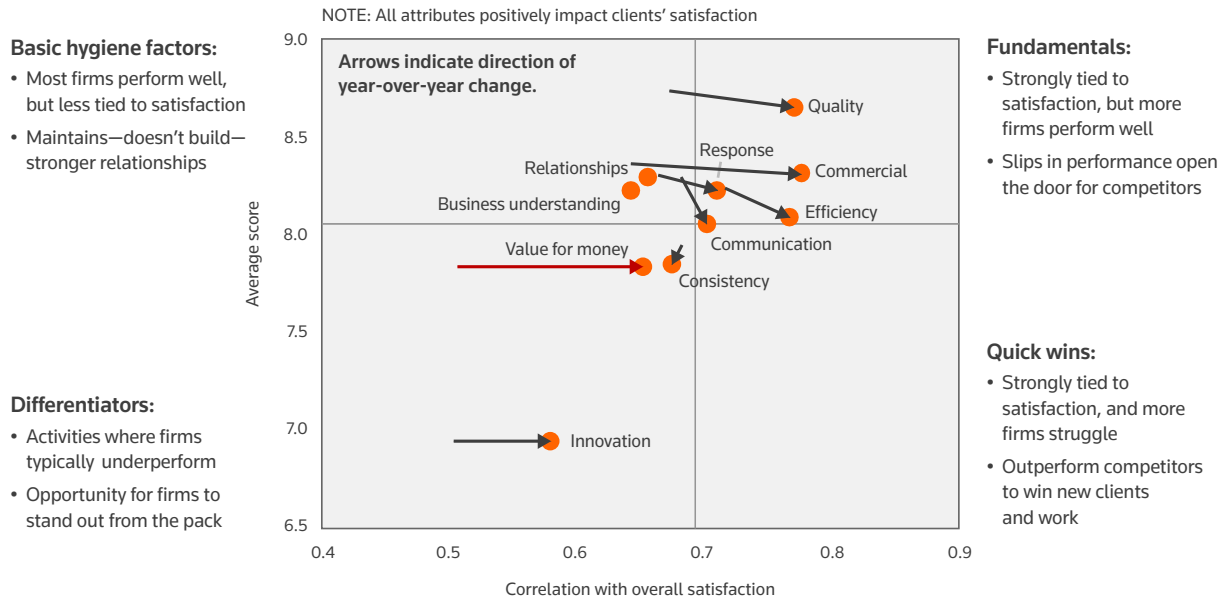
Average satisfaction levels



Number of responses: 2021 (210); 2022 (218)

Source: Thomson Reuters 2023

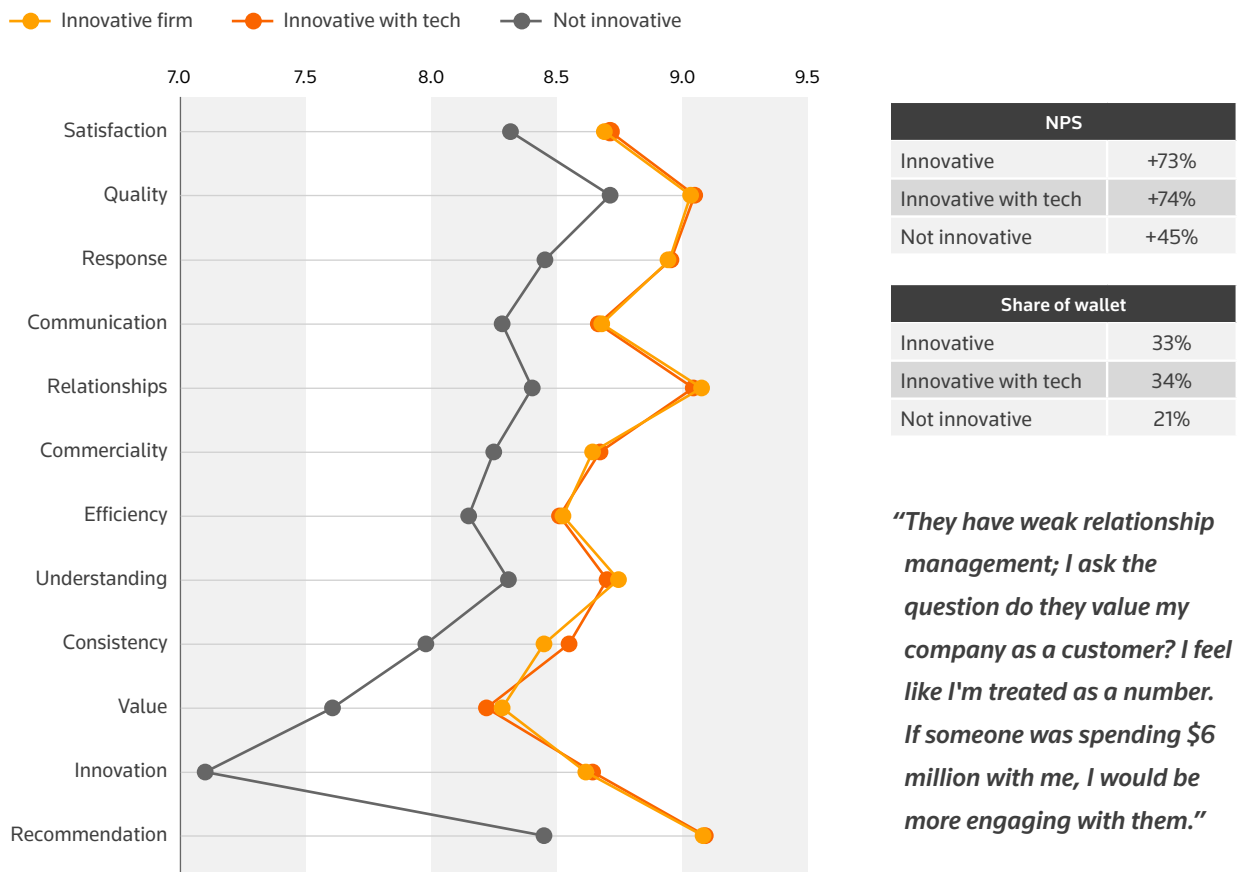
Figure 11: **What drives client satisfaction?**



Number of responses (218)

Source: Thomson Reuters 2023

Figure 12: **Innovation (with or without technology) improves the client experience — and the firm's bottom line**



*Analysis of global data, not just U.K.

Source: Thomson Reuters 2023

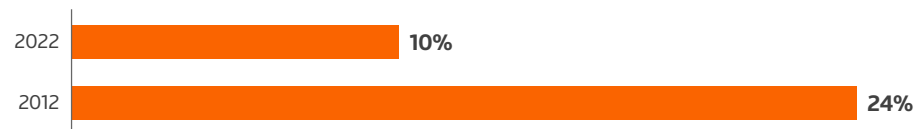
“They have weak relationship management; I ask the question do they value my company as a customer? I feel like I'm treated as a number. If someone was spending \$6 million with me, I would be more engaging with them.”

Staying top of mind

Figure 13: **Reputation less prominent driver of awareness for legal service buyers**

What made that law firm come to mind? | U.K. £25m+ rev.

Reputation



Number of responses: U.K. 2022 (84); U.K. 2012 (190)

Source: Thomson Reuters 2023

With clients willing to adjust their law firm roster every year, we asked them what keeps a firm top of mind and therefore either in a position to join the roster or stay on it, thereby securing more of the client's work.

In one of the more surprising shifts in the data, the importance of a firm's reputation as a driver of client awareness has dropped significantly compared with 10 years ago. In 2012, one-quarter of legal buyers said *reputation* was a key factor in keeping a firm top of mind; in 2022, this figure fell to just 10%. It's hard to identify why this might be the case, although some potential causes include increased competition, increased brand activity by so-called Silver Circle firms, the ease of electronic distribution of thought leadership and other communications material, and more.

Whatever the cause, however, reputation is no longer the differentiator it once was — *personal contact* is now the primary driver.

Boardroom credibility: Where reputation still matters

Reputation does still matter of course, and it's absolutely essential when it comes to law firms having credibility in the corporate boardroom. The factors that make a firm credible differ from those that drive overall favourability, however.

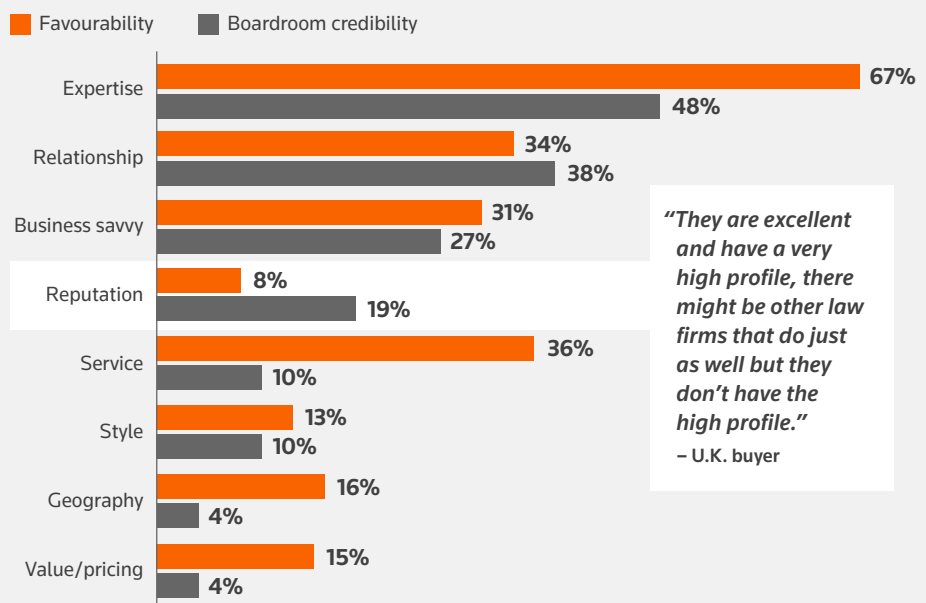
Firms trying to capture clients' strategic work — where the risks and rewards are highest — need to create a sense of credibility in the boardroom. Board directors may be content to leave the minutiae of legal technicalities, service standards, and pricing to the legal team, but they will want to know that their legal advisors have the expertise and reputation to see the company through critical deals.

“That’s really important within the board room because clearly what they want to see is a good grasp of our business from our external advisors, but also that ability for them to be able to advise quickly on any new or emerging issues that may come out of what we’re doing.”

“I’m not sure about what they do differently but they have a reputation in the market. Probably similar to The Magic Circle firms, they’re reputable like The Big Four accountancy firms. They have a reputation that board members will have heard of them or probably worked with them before.”

Figure 14: **Reputation key difference to generating boardroom credibility**

Differences in drivers of favourability and boardroom credibility in U.K.



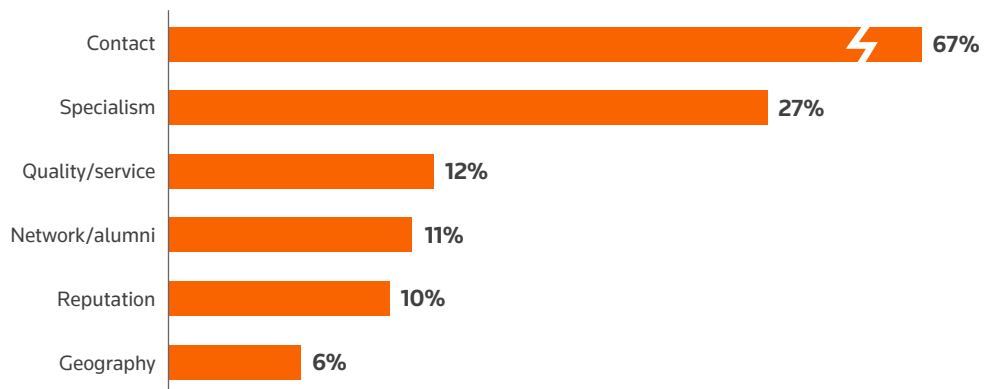
Number of responses: Favourability drivers U.K. (732); Boardroom credibility drivers U.K. (48)

Source: Thomson Reuters 2023

The personal touch – Creating trust

Figure 15: **Recent contact is the most useful driver to stay top-of-mind with buyers**

What made that law firm come to mind? | U.K. £25m+ rev.



Number of responses: U.K. 2022 (84); U.K. 2012 (190)

Source: Thomson Reuters 2023

Two-thirds of our respondents said that recent contact with their outside law firms, regardless of the presence of an ongoing legal matter, was the critical driver for those firms looking to stay top-of-mind – the first crucial step to getting new business from clients.

Whilst most lawyers spend time on business development of one kind or another, the pressure of billable hours targets can make this difficult. And this is exacerbated by hybrid working patterns in which contact is often remote. Even so, clients value contact that is outside a particular matter that allows them to get to know their external lawyers better – and *vice versa*, in which outside lawyers can get to know the client company.

Such conversations are vital to building a relationship that is not purely transactional. And for lawyers seeking to be seen as a client’s trusted partner, it is worth remembering that they are competing not just with other lawyers for such relationships, but also with accountants, bankers, and consultants who will be much less likely to be running such conversations on a billable-hour basis.

“Very astute commercially, really business-focused, pragmatic, and not looking to bill for every minute – you can actually have a conversation with him without him running the clock.”

For individual lawyers, this can take them out of the silo of legal specialisation into a wider world of business strategy and move them toward becoming a trusted business partner. As such, they can take the role of lead adviser among other professionals, ensuring the team is well positioned for high-value, strategic work. It’s in areas like this where investment in

issues-driven thought leadership really counts, and where emerging issues, such as ESG, become fertile avenues for firms to invest.

Whilst much legal work can be commoditised, trust is not a commodity that can be easily replicated across different firms. In short, trusted partner status creates a competitive advantage for both an individual and a firm.

“It’s the clarity of advice and the willingness to give a view and not just hedged in legal speak.”

“The level of strategic counselling in the advice — they don’t just tell you what you can read in a book.”

“It’s reputation and gravitas, and the ability to sieve out the legal crap and actually act as a strategic advisor at board level; very few people can do that, most law firms fail.”

Whilst stand-out lawyers pursue earning trust as a goal in all their client relationships, the challenge is to earn that trust on a broader, firm-wide level. Law firm leaders need to make sure that all areas — whether practice sectors or operational tasks, such as billing — are behaving in a consistent way, and that partners trust each other enough to refer business without concern. In the words of one PLC Chairman: “When a crisis hits, you need to know how the firm will behave, not just the individual.”

“They have partnered with me in such a way that I have utmost confidence, trust, and faith in their ability to exceed delivery of advice to me. They are amazing.”

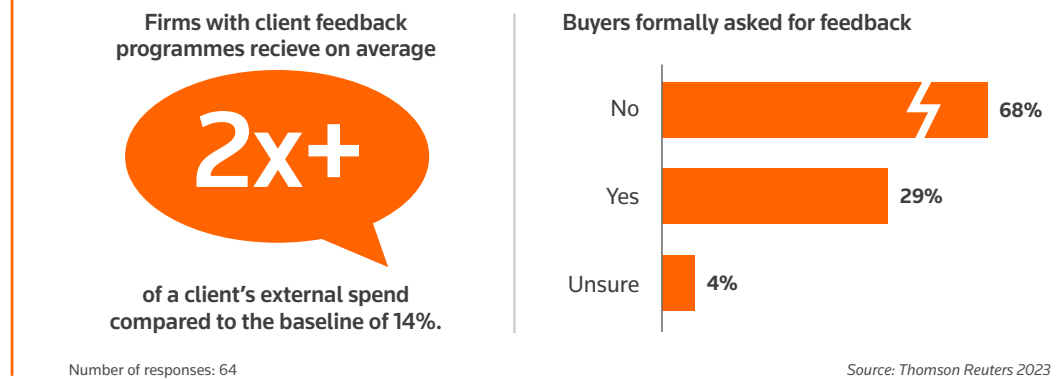
“When we do require some legal help externally, they’re quite quick to be able to source the right people to do that, and for us that’s really important within the board room because clearly what they want to see is a good grasp of our business from our external advisors, but also that ability for them to be able to advise quickly on any new or emerging issues.”

“That whole picture gives them that credibility that they can do that, and they can do that reliably, and they have done previously, and my hope is that they continue to do that as well.”

Nurturing the relationship

One tried and tested way to strengthen such client relationships is to seek, and act upon, feedback. Firms that have formal client feedback programmes on average received more than one-third (34%) of their clients’ external spend, compared to the baseline of 14%. Despite this startling statistic, it remains the case that a minority of clients in the U.K. report that their law firms have sought that feedback, which surely represents a massive opportunity for firms to grab a larger share of client spend from rivals that are neglecting this approach.

Figure 16: **About two-thirds of buyers who were formally asked for feedback saw no change in service as a result**



Whilst many law firms do run feedback programmes, it's surprising how few client respondents were aware of this. Indeed, fewer than one-third said they had been asked for feedback by their external law firms; and more surprisingly, fewer than half of these respondents said they had noticed any change in service as a result of the feedback given. Of course, law firms may say they ask for feedback and then act upon it, but there's clearly a mismatch of perception. And unfortunately for those firms, asking for feedback and then not acting upon it is surely more dangerous to the relationship than not asking in the first place.

Soliciting client feedback — outside of regular matter review meetings or quarterly budget reviews — can be obtained in various ways, but the best programmes take a structured, consistent approach to questions, addressing all aspects of the relationship, and are conducted independently, such as by a partner not involved in the relationship or specific matters, or an agency outside the firm. Firms must also have a process in place for acting upon the feedback and communicating this to the client.

Client feedback programmes are not always easy to run, even if they are handled centrally by a business development team. Partners can be protective of their client relationships or even wary of what clients might say, and clients might make demands that the firm simply can't deliver. These hurdles need to be carefully managed internally and externally.

For the most part, our experience is that clients *welcome* the opportunity to offer feedback and review the relationship. It is, in fact, rare for clients to be wholly negative and very often the act of engaging in the conversation leads to new business — quite the opposite of unearthing unspoken problems that might otherwise have led the client to restrict spending or simply walk away.

“What we've found is that following our feedback we tend to get advice given in a much more succinct way that doesn't require translation from a lawyer into English, and that has made a big difference in terms of what we can then pass on to the business, and what we have also seen is a shift in their perception of what's really important to us.”

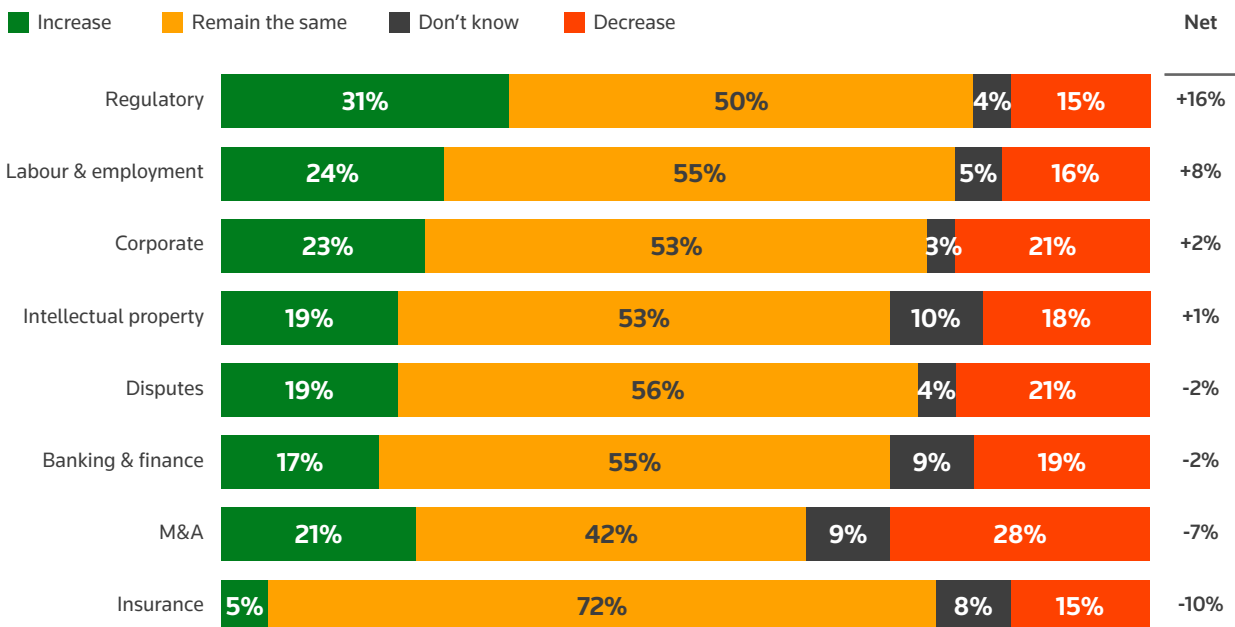
The opportunities

For the law firm with all of these factors in place — the right expertise, a deep understanding of the client’s business, and a trusted relationship — where do the opportunities for growth in 2023 lie? First, let’s re-visit those practice areas where clients expect to increase spend.

Practice areas

Figure 17: Outlook differs by work type

Legal spend anticipation H2 2022 by work type



Number of responses: 100.

Source: Thomson Reuters 2023

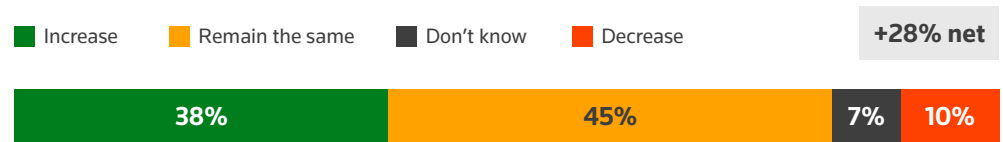
The previous chart on net spend anticipation (NSA) (on figure 2, p. 4 of this report) shows how clients’ needs and expectations changed during the year. In the second half of 2021, for example, most practice areas had seen an expectation of increased spend, on balance. Just 12 months later, this fell sharply especially in regard to M&A work and indeed some areas shown a negative NSA (see figure 3 on p. 5).

Staying close to clients is imperative when things can change so quickly. A strong relationship should ensure that such changes in client needs won’t come as a surprise, and firms will be able to field experts in the relevant areas quickly and even potentially pick up new business.

Cross-border work

One area where there are likely to be significant opportunities — and NSA is double the average for the U.K. — is in cross-border business. Over three-quarters of U.K. legal buyers surveyed noted that they have international legal requirements, and most expect to increase or at least hold steady on their spend. And compared to the global average, U.K. legal buyers tend to allocate more of their budget to cross-border work — 39% compared to 30%. U.K. buyers also tend to require support in a larger number of countries — 34 compared to the global average of 26.

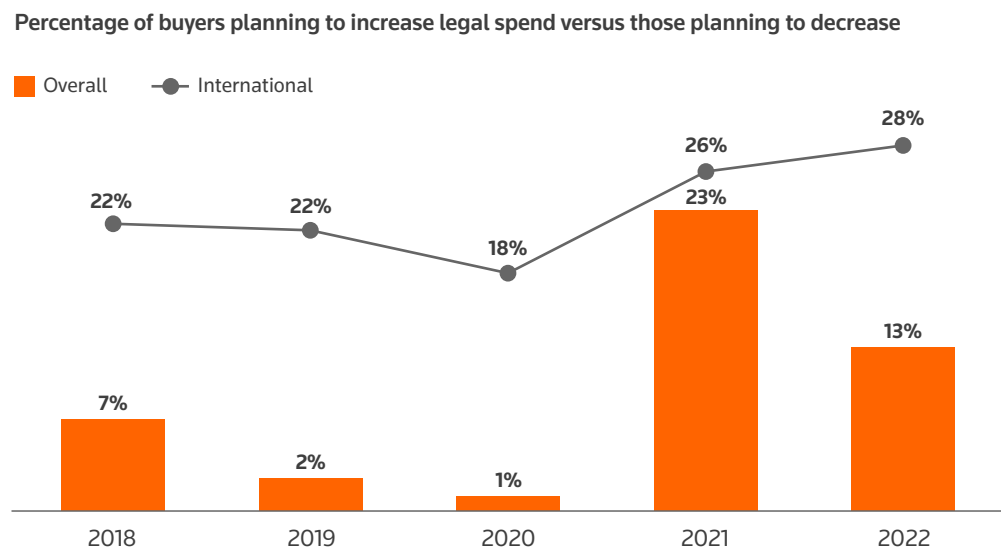
Figure 18: **Expected change in international spend over the next 12 months**



Number of responses [spend forecast]: 193

Source: Thomson Reuters 2023

Figure 19: **Proportion of U.K. buyers anticipating spend to increase in the next 12 months (net)**



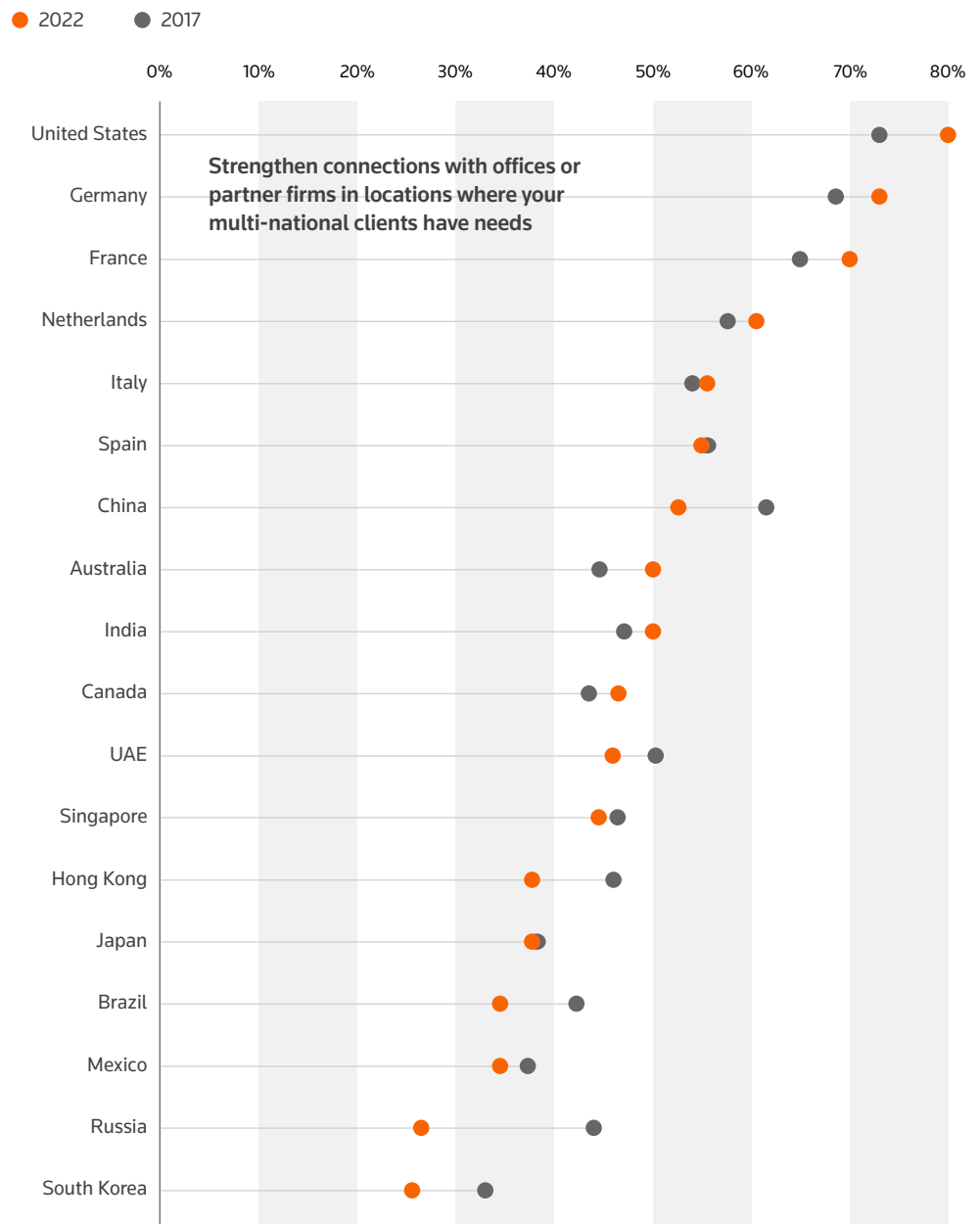
Source: Thomson Reuters 2023

Over time, international legal spending has held up better than domestic spend and is currently at its highest level since 2018. This partly reflects a post-pandemic recovery but may also be symptomatic of the U.K.'s weaker economy. In fact, the U.K.'s economy is the only major economy forecasted to shrink in 2023, according to the International Monetary Fund's *World Economic Outlook Update* for January 2023.²

² *Inflation Peaking amid Low Growth*, World Economic Outlook Update, International Monetary Fund (January 2023); available at <https://www.imf.org/en/Publications/WEO/Issues/2023/01/31/world-economic-outlook-update-january-2023>.

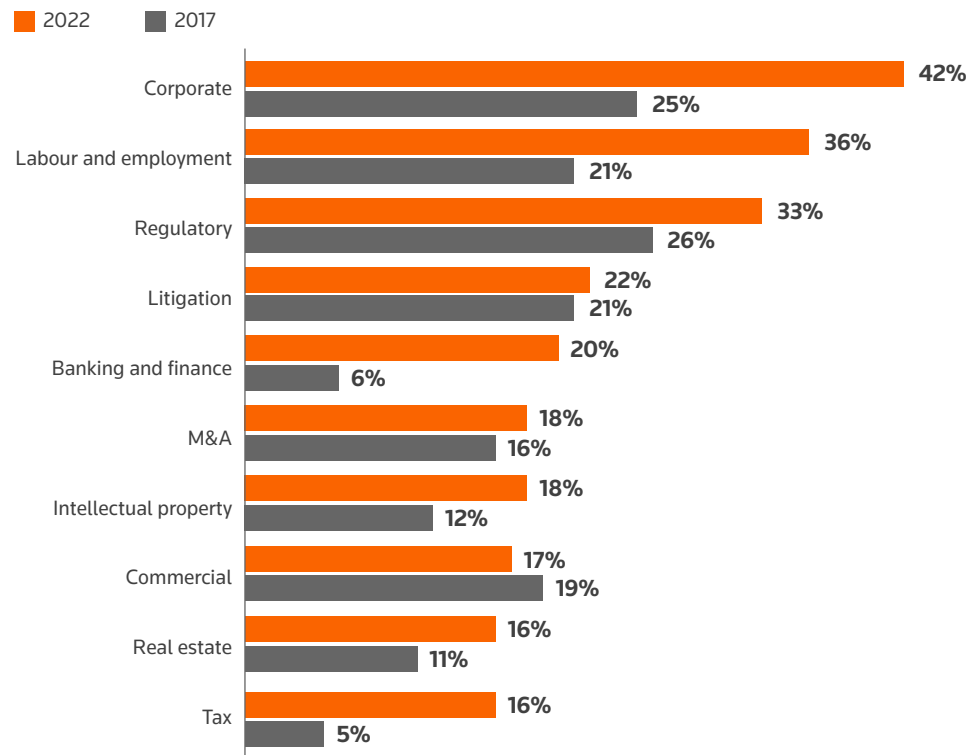
In terms of markets, there's little change in the leader board over the years for most of the U.K.'s major trading partners, with the U.S. and Western Europe providing most of the need for legal services and already seeing a steady increase. Meanwhile, demand has dropped slightly in Asia, and of course, in Russia.

Figure 20: **In five years, legal needs of U.K. buyers into U.S. and Western European countries have increased, whilst needs in Asia and LatAm have mostly dropped**



Source: Thomson Reuters 2023

Almost all work matter types have seen increased legal needs over the past five years, with only M&A, disputes, and general commercial work seeing little or no increase.

Figure 21: **Leading work types from U.K.****Most needed cross-border work types**

Number of responses: Work types 2017/2022 (219/205)

Source: Thomson Reuters 2023

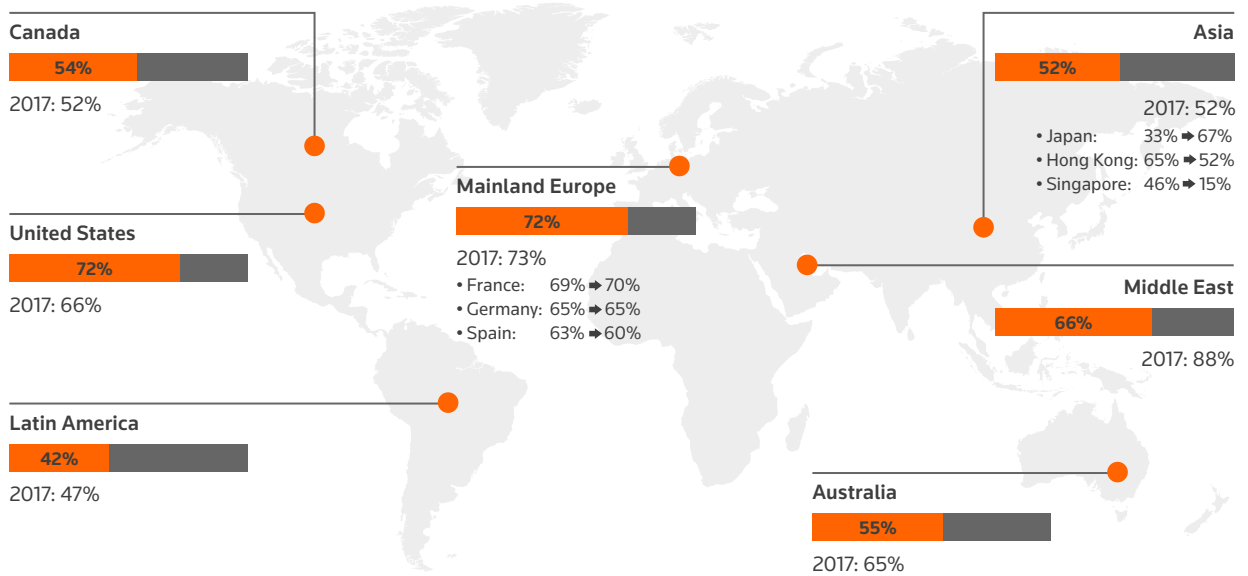
The question for U.K.-based law firms then is how can they best service this demand? Collaboration across offices or with partner firms in an alliance is crucial. Clients will want to know that the firm's overseas legal teams will deliver the same level of service and expertise that they would get in the U.K. This is not an easy task when local partners may prefer to focus on their own domestic business.

The other side of cross-border business is inbound work coming into the U.K. Whilst not quite as buoyant as outbound work, it remains a significant source of potential business that few law firms can afford to ignore. Nearly three-quarters of buyers in the U.S. and Continental Europe want legal support in the U.K.; and two-thirds of buyers in the Middle East and just over half in Asia Pacific are also in the market for legal advisers in the U.K. And although legal needs from some of these regions have dipped over the last five years, the U.S. remains on a strong upward trend.

U.K. firms with offices or network partners in these regions need to make sure that their colleagues know, and are confident in, what they are able to offer to clients so that they can make referrals and introductions in full confidence. For those firms that don't have such network partners, joining an alliance to cross-refer business would be a good first step towards taking advantage of this potential market.

Figure 22: **Incoming legal needs from many regions dropping, but increasing from U.S.**

Proportion of buyers in each region with legal needs into U.K.



Number of responses: Canada (145); U.S. (555); LatAm (37); Europe (230); France (56); Germany (57); Spain (23); Middle East (32); Australia (53); Asia (157); Hong Kong (21); Japan (51); Singapore (21)

Source: Thomson Reuters 2023

“I think with a global business like ours, having consistency and having coverage for a variety of different legal disciplines around the world is very important.”

Technology

The question of what drives client satisfaction is directly linked to how their outside law firms manage the issue of technology. Every year, clients suggest that law firms should be more effective in their use of technology, seeing tech innovation as a way that firms can better control costs and improve efficiency. Indeed, those figures are stark — just one-fifth of clients said they were delighted with the tech offering from their law firms. And whilst half declared themselves satisfied, one-quarter of clients said they were dissatisfied, seeing little or no effective use of technology by their external law firms. Further, more than three-quarters of respondents said they were not aware of any firm with whom they work actually adding value by using technology.

“My experience with law firms generally is that they are slow on improving their technology particularly with contract software. I think they could share documents in a better way rather than emailing them around.”

There may be several reasons for somewhat dismal client perception. Whilst many law firms have invested in technology, our research shows that firm partners often aren't aware of what's available or how to make use of it to benefit clients. Worse still, whilst charging by the hour remains the main economic driver, many partners will see adopting technology as undermining their own billable hours targets.

For firms with more sophisticated pricing approaches, it may seem in their best interests to keep quiet about their use of tech, and instead employ it to increase or preserve profitability. Ultimately however, anything that demonstrates improvements in efficiency and cost control will increase that firm's competitive advantage and add to client satisfaction and loyalty.

On the other side of the equation, making better use of technology has been a growing in-house priority either as part of the drive for greater efficiency or as part of a broader digitisation programme.

“It is just one of those things where older members of the team are not as tech savvy as the younger members. So, there needs to be more tech training for the older staff.”

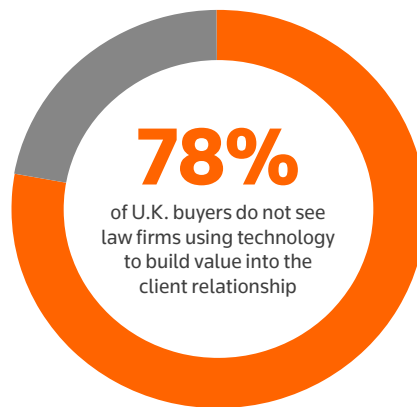
“They should make it clearer to the client how they're using technology to reduce the client's costs.”

“More use of web portals to share information. In my ideal law firm, you should be able to go onto a database to find the information you need rather than having to phone them up or email them all the time.”

Technology developments, especially in the more advanced world of artificial intelligence (AI), will throw up all kinds of potentially lucrative legal issues for law firm tech and IP practice partners. However, as digitalisation and AI become part of business as usual for many companies, all lawyers have to familiarise themselves with these topics rather than simply leaving it to sector experts or even their own IT department. These lawyers need to recognise, too, that other competing professionals – especially those from the Big Four firms and legal technology companies – will step into the client relationship if they see a vacuum. In fact, some ALSPs are already offering ideas around how next generation technologies, such as the much-talked-about ChatGPT, could complete tasks like drafting standard legal documents.

Figure 23: **Opportunity to stand out by leveraging tech to build value**

Are there any law firms that have leveraged technology effectively to build value from your interactions?



Number of responses: 64

Source: Thomson Reuters 2023

It's important to recognise that technological innovation doesn't need to be ground-breaking or especially disruptive: much of the technology used by law firms enables relatively simple improvements to processes and communication, which help in-house teams in two of their top priorities – efficiency and cost control. Saving time and money by utilising, for example, electronic reporting, online document management, or case management tools will allow GCs and their lawyers to spend more time on strategic issues rather than on day-to-day administration.

“They have a TPA (third party administration) that they connect with. It's good for reporting, expected KPI (key performance indicators) returns and turnaround times.”

“They've been ahead of the game in the IT and technology sphere for a long time, and they've kept that lead by using webinars on YouTube channels and all that sort of stuff.”

“The online tools they have created are user-friendly and are relevant to our business because they help us solve business electronic digital solution challenges.”

“Innovative case management tools that allows us to effectively track what is happening with our matters, instead of having to email for an update.”

Conclusion

Despite the weaknesses in the U.K.'s domestic economy and the uncertain geo-political environment, the country remains a strong market for legal services, building on its long-standing reputation internationally for both inbound and outbound legal advice. The U.K. continues to attract investment from U.S. law firms and new ALSP firms that continue to exacerbate the war for talent by offering more pay or greater working flexibility.

At the same time, within — and perhaps because of — this strong legal market, things are changing. Clients are looking for more than transactional expertise as their needs become more varied and changeable at short notice, and they are more willing to look beyond their usual roster of outside firms for the relevant expertise and service. There's a greater emphasis on commerciality than has perhaps been the case in the past, and law firms can no longer rely on their reputation alone to win them a place at the client's table. Instead, firms and their lawyers will need to work hard on their client relationships to retain their position. And this comes at a time when many partners are struggling to find a new relationship management groove that accommodates the new hybrid working norm.

Alongside this, U.K. lawyers and their firms will have to explore new ways of working, helping clients with processes and exploiting technology to keep pace with client expectations. Inevitably, clients continue to push for increased value — each year, billable hour models look harder to justify for legal buyers and law firms alike.

If this sounds all too familiar from previous reports, there's a reason. To make a broad generalisation, the legal world is not swift to change, and the pressure of day-to-day business keeps both law firm partners and GCs busy enough that it becomes too easy to set aside the change agenda. However, the pandemic may have made apparent and accelerated this need for change. Clients and firms found that they could move quickly when needs necessitate. Clients have a new appetite to shake things up, explore new options, and demand better service and value. Any law firms that underestimate this change in wind direction may find themselves left behind.

“They are a real trusted partner of ours. They are very cost-effective, they don't over structure, they don't overcharge, they do the job that you asked for without too many bells and whistles. They do the job you need, and I think sometimes law firms actually have a hard time doing that. We find them very commercially sensitive and quite reasonable.”

Key takeaways for law firm leadership

- Don't get complacent about your law firm's brand standing and reputation. Energise your partners to be brand builders and alert to changes in your clients' rosters.
- Organise relationship management to increase the level and consistency of client contact — and include a wider bench of experts, including technologists, in these relationships.
- Embed sophisticated client feedback to give your client teams a competitive edge.
- Use key account management to become business partners, not just advisors.
- Use thought leadership to equip partners to have strategic and commercial conversations at the client board level.
- Ramp up partners' sector knowledge so they really understand the dynamics of their clients' market.
- Work on tech adoption and make it clear to clients how your firm's tech approach is adding value for them.
- Look for new ways of working that integrate more closely with clients.
- Explore where this can possibly open up different approaches to price structuring.
- Help clients with legal processes and with their agenda for digitalisation.
- Revisit and refresh the firm's strategy to ensure you capitalise on the changing world around before your competitors do.

Appendix: Detailed sample and methodology

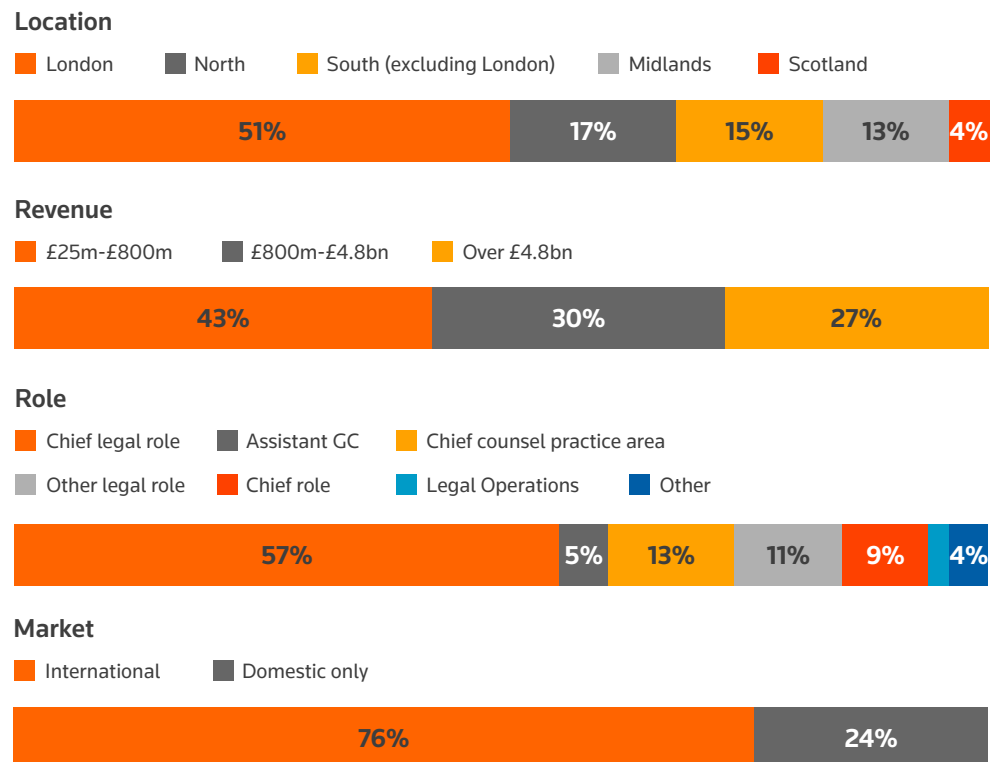
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Our data analysis ensures law firms better understand how the legal market is changing — from their clients' perspective. Firms use this data to make informed decisions about growth strategies, client relationship development, strategic investments, and performance management.

Every year, Thomson Reuters Market Insights interviews more than 2,100 senior legal decision-makers around the world across 22 industries and eight geographic regions.

To add further depth to this report, other data sources were analysed, including Thomson Reuters Financial Insights, a subscription service in which law firms contribute data regarding their business performance. The data is anonymised and aggregated to form peer group comparisons, allowing participating firms to engage in competitive intelligence and benchmarking exercises.

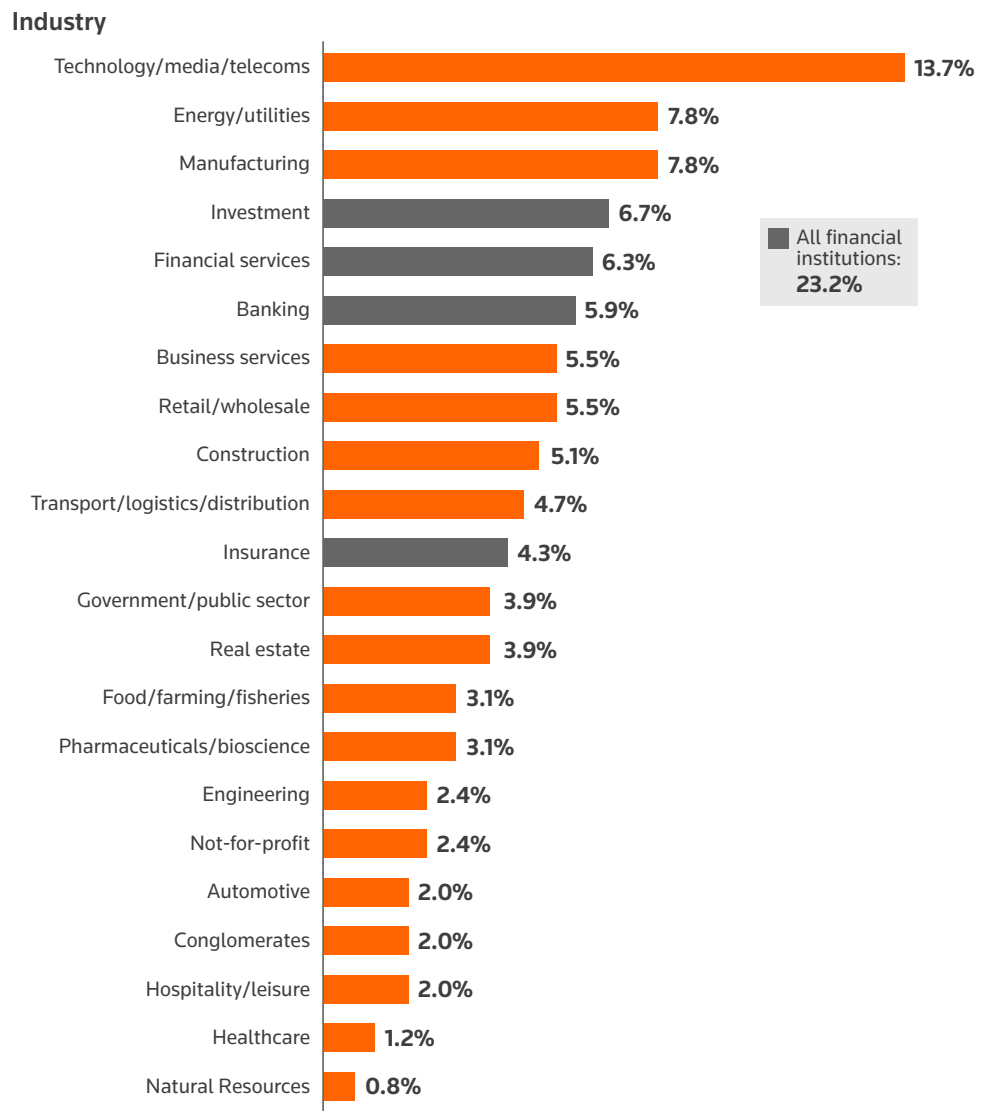
Figure 24: **Research demographics: U.K. respondents 2022**



Number of responses: 255

Source: Thomson Reuters 2023

Figure 25: **Research demographics: U.K. respondents 2022**



Number of responses: 255

Source: Thomson Reuters 2023

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