



# 2018 Australia: State of the Legal Market

The Melbourne Law School and Thomson Reuters Peer Monitor® are pleased to present this report setting out the dominant trends impacting the legal market in 2018 and the key issues to influence the market in 2019 and beyond.



Melbourne Law School



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## FOREWORD



**Professor Pip Nicholson**

**Dean  
Melbourne Law School**

On behalf of Melbourne Law School, I have great pleasure in bringing you the 2018 edition of the State of the Legal Market. It provides challenging empirical data and insightful reflections upon which firms, start-ups and law schools can reflect.

While the past few years have demonstrated slowing growth in the Australian legal market, the legal services sector experienced one of its best periods ever in the year to 30 June 2018 with 7.8% growth. This aggregated growth figure hides variations across cities, firm attributes and firm size, nonetheless the overall health of the legal services market is more positive than anticipated, with contributing factors identified in this report.

The report identifies that competition between firms has continued to produce mobility in firm partners and practice consolidation. In addition, law firms have been harnessing technology to innovate across their services and, interestingly, firms are adapting the skills required of their leaders with an increasing focus on innovation credentials and experience in allied professional services.

Law schools, in turn, are updating their curricula with courses focusing on technology and innovation, joining traditional offerings across design, start-up law and new technology law. The report makes plain that law schools need to educate agile lawyers who understand and can judge technology's relevance to particular modes of practice.

As we have come to expect, this is an excellent report.



**Jackie Rhodes**

**Managing Director  
Thomson Reuters Legal**

On behalf of Thomson Reuters, I am proud to introduce the 2018 edition of the State of the Legal Market Report.

The legal profession is facing unparalleled levels of technological, regulatory and economic change. In response, legal professionals are increasingly expected to evolve from traditional organisational structures and commercial models into tech-empowered businesses equipped to prosper in an evolving market landscape. Other factors such as heightened competition, record law firm mergers and consolidations and the impact of geo-political forces have influenced strategic decisions across all segments of the market.

The 2018 State of the Legal Market Report reveals that firms have been able to translate an increase in demand for legal services into some of the most positive results in five years. This also demonstrates that despite the inherent conservatism of the profession, law firms continue to embrace technology and are successfully implementing new operating and business models.

I trust that this report will provide you with the data and insights you need to inform your strategy and power effective decision making.

I thoroughly commend and thank the authors for their work in preparing this report.

## DEFINITIONS

This report is based on the financial data provided by 16 firms (Australian offices only) and analysis undertaken by Thomson Reuters Peer Monitor. These firms are categorised as follows:

**Big 8 Firms:** The largest eight firms by lawyer count of Australian offices in the analysis, averaging 660 lawyers.

**Large Firms:** The remaining eight firms by lawyer count of Australian offices in the analysis, averaging 228 lawyers.

- Figures are representative of the average firm performance in the Peer Monitor program
- Time periods reflect financial year July to June and the corresponding quarters
- Billable time type: Non-contingent matters
- Key Performance Indicators: Defines the rate of change from the stated period to same period 12-months earlier; includes values from all timekeepers (i.e., firm-employed qualified fee earners [lawyers], unqualified timekeepers [paralegals, legal secretaries, etc.], and contractors)
  - Demand: Total hours worked
  - Worked Rates: Reflects hourly rate after negotiated discounts from the Standard/Rack Rate
  - Fees Worked: Worked Rates multiplied by Demand
  - Utilisation: Hours worked by all fee earners divided by qualified fee earner FTE (lawyers only)
- Utilisation: Hours worked by qualified fee earners (lawyers) divided by qualified fee earners (lawyers)
- Rates & Realisation Progression: Results reflect only qualified fee earners (lawyers)
- Expenses: Results reflect a rolling 12 months to annualise heavy expense quarters (i.e., Q4 2018 contains data from July 2017 thru June 2018)
  - *Direct expenses* refer to those expenses related to fee earners (primarily the compensation and benefits costs of lawyers and other timekeepers)
  - *Indirect expenses* refer to all other expenses of the firm (including occupancy costs, administrative staff compensation and benefits, technology costs, recruiting expenses, business development costs, and the like)
- Leverage:
  - FTEs: Total Non-Partner QFEs to total Partner QFEs
  - Demand: Total hours worked by Non-Partner QFEs to total hours worked by Partner QFEs
- Profitability
  - Profits per Partner (G/L) – G/L Revenue minus all direct and indirect expenses divided by Partner FTEs
  - Profits per Equity Partner (G/L) – G/L Revenue minus all direct and indirect expenses divided by Equity Partner FTEs
  - Profit as % of Revenue (G/L) – G/L Revenue minus all expenses (Direct and Indirect) divided by G/L Revenue

## INTRODUCTION

After five years of flat or declining growth, the Australian corporate legal market experienced one of its best periods ever in the year to 30 June 2018. A number of factors contributed to this growth in demand, revenue and profits, including:

- The Hayne Royal Commission into the banking and financial services sector
- Strong corporate deal flow
- Numerous class action defence cases
- Regulatory changes
- Major infrastructure projects
- Strong direct foreign investment

For many firms, these demand drivers far outweighed the constraining forces of hyper-competition, clients demanding more for less and increasing input costs. The key question is whether these boom conditions will persist or whether the road bumps, so prevalent in recent years, will return? While the Royal Commission into banking and financial services is a unique spike, we believe the other factors driving growth will remain and continue to support the positive buoyancy of the Australian market for at least the next two to three years.

Interestingly, the Australian market has performed better than other major legal markets across the globe. Thomson Reuters Peer Monitor data reflects 0.2% contraction in the legal market in the USA, while the Australian market achieved a staggering 7.8% growth.

While there are many elements of the Australian legal market worth exploring, this report analyses and delves into five key areas:

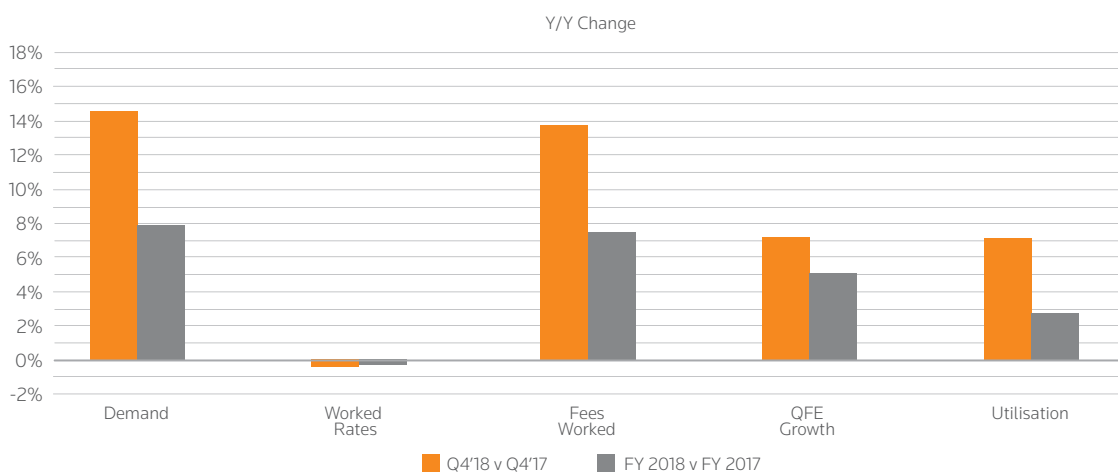
- Client demand and firm financial metrics
- Market turbulence
- Rapid growth of Australia's legal technology sector
- The reinvention of Australia's law schools
- The future

## DEMAND SURGE

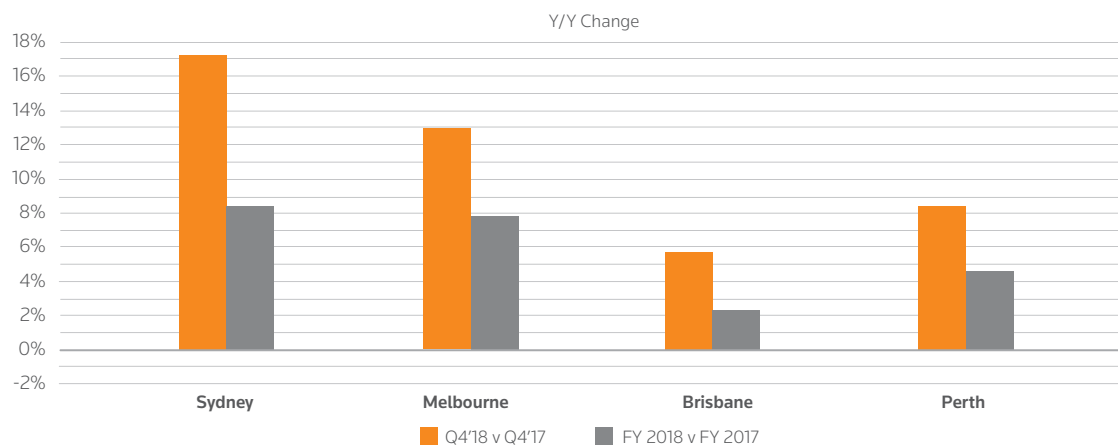
Financial year 2018 ended with a bang. Demand and revenue figures increased at rates not thought possible just 12 months ago. Over the past three financial years, demand growth has gradually continued its ascent to the astronomic levels of FY18. On average, firms increased their demand by about 7.8% in FY18. The most substantial demand increases were isolated to the larger geographic markets, Sydney and Melbourne, however significant gains were enjoyed in Brisbane and Perth as well. Similarly, while firms in the Big 8 were happy to have benefited from the surge in demand to the tune of 11.3% demand growth year-on-year (YoY), firms in the large segment were not completely left out, displaying demand growth of 4.2% for the year as a whole.

As was to be expected with such a significant increase in average overall demand, growth was not hard to find at the practice level. In fact, of the 7 major practice areas, all 7 demonstrated positive demand growth in 2018 (depicted on Chart 3 on the subsequent page). The largest growth in a particular practice area (19.1% growth YoY) just so happened to be in Dispute Resolution, which accounts for a significant 1/5th of total hours worked. Of the 7 major practice areas, 6 had YoY growth of 5% or greater.

**Chart 1: Key Performance Indicators: All Firms**

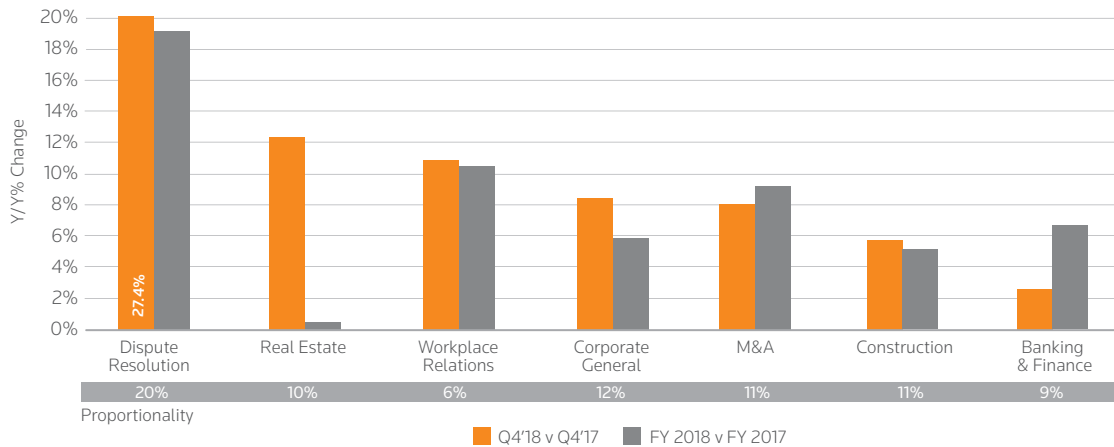


**Chart 2: Demand Growth: All Firms**



Source: Thomson Reuters Peer Monitor  
All fee earners/billable time type/AU offices

Chart 3: Key Practice Demand: All Firms



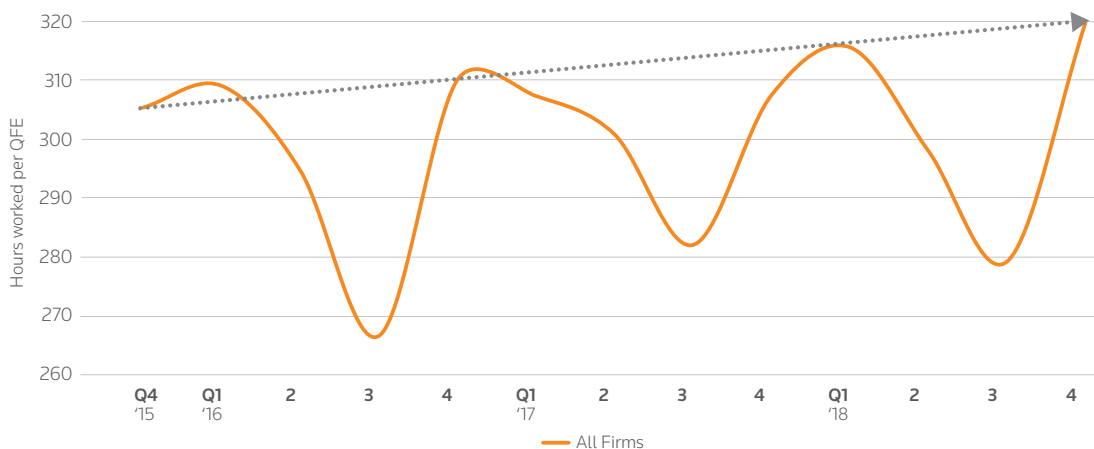
Source: Thomson Reuters Peer Monitor  
All fee earners/billable time type/AU offices

Revenue growth almost exactly mirrored the growth in worked hours. This was a result of stagnation in average worked rate growth where on average worked rates in the year were essentially flat. Revenue in the market grew on the average by 7.4% over the course of the financial year.

Firms were forced to drastically increase capacity in order to respond to and satisfy the significant demand increases felt across the market. On average, headcount increased in FY18 by 5.0% relative to the previous year. Despite the staffing increases, the average qualified fee earner was much more heavily leaned on in FY18. Utilisation increased by 2.6%.

When looking closer at utilisation and narrowing the focus to only hours worked by QFEs, the utilisation increases are more dramatic. This denotes that while support staff roles are still crucial to law firm operations, in order to satisfy the seemingly ever increasing levels of demand QFEs now must be more efficient than ever. YoY utilisation per QFE increased by 4.0%, put another way the average QFE worked 13 more hours in Q4'18 than in Q4'17. The increase in utilisation is further compounded when instead comparing to Q4'15, with the average QFE working 15 more hours in the most recent year.

Chart 4: Utilisation: All Firms



AU offices only; billable time type; qualified fee earners  
(hours worked per qualified fee earner)

As one would expect, the increase in headcount over the course of the financial year is easily seen in the expense categories of both segments. Direct expenses, which have been increasing steadily for some time in the Big 8, also increased in the Large segment in FY18. In the Big 8, direct expenses increased dramatically by 9.6%, while in the Large segment a more moderate growth of 4.2% occurred.

Overhead expenses, similar to direct expenses, grew over the course of the financial year by similar or greater percentages than seen in recent history. In the Big 8, overhead expenses increased by 6.2% by the end of June, while a nearly identical increase to the previous financial year of 3.4% occurred in the Large segment. Some of the larger average growth categories in both segments included technology and marketing & business development expenses.

Chart 5: Expenses

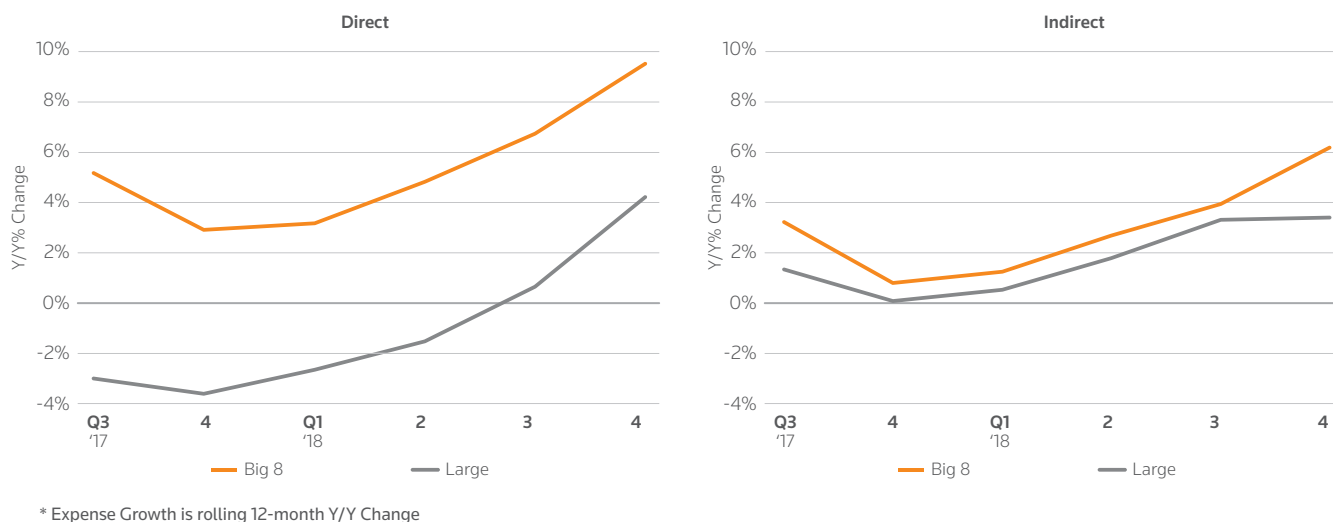
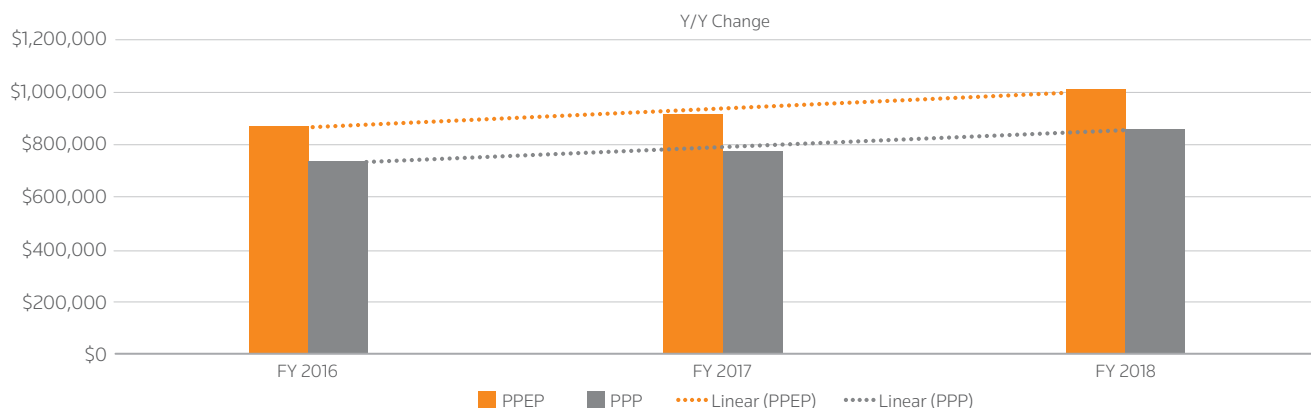


Chart 6: Profit Per Partner/Equity Partner: All Firms



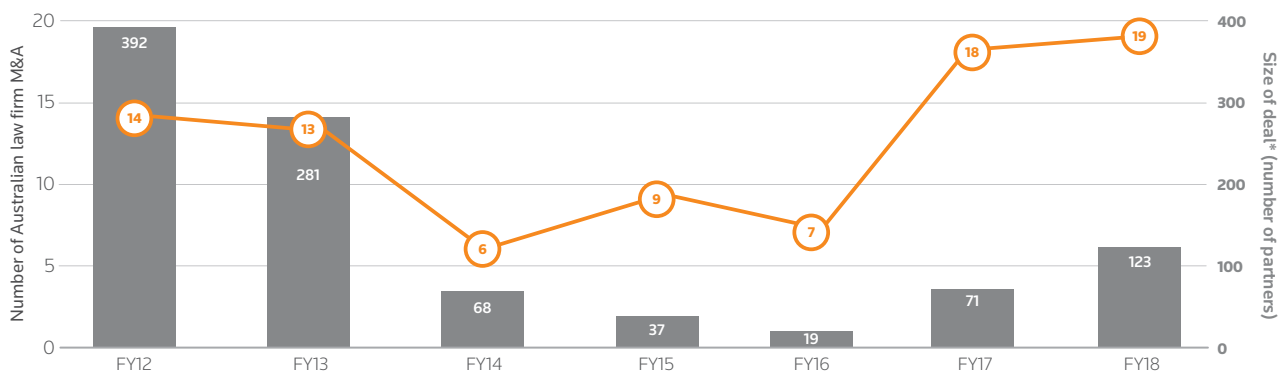
Source: Thomson Reuters Peer Monitor  
G/ L Fee Revenue Only, Rolling 12 Month Average, AU offices only

With the revenue and the top line growing at an unprecedented pace, coupled with aggressive hiring and expense growth over the same period, the question that remains is simple: Are firms effectively funnelling the gains in revenue to the partners' pockets? The answer to that question is a resounding yes. Profit per equity partner increased on average by 7.6% percent from the year prior. When looking at profit per partner, again the growth was on average 7.6% relative to the previous year, illustrating overall consistency in profitability gains throughout the market.

## MARKET TURBULENCE

### MARKET CONSOLIDATION

FY18 was characterized by the continued consolidation and expansion of Large commercial law firms. During the period, law firm tie-ups peaked significantly at 19 deals, involving 123 partners. We saw well established 100-year-old firms like Henry Davis York, DibbsBarker and TressCox merging with larger firms. Some of the factors underpinning these structural changes include increased competition for clients, continued growth of in-house legal teams, higher fixed costs, the expansion of NewLaw alternatives, growth of LegalTech and the continued focus of the Big Four in the legal space. Firms that strategically accounted for these pressures in the preceding 3-5 years remained ahead of the curve, while others have had to quickly pivot their strategic direction, in some cases successfully, and in others less so. The graph below demonstrates the number of law firm mergers since FY12, peaking in FY18.



\* Measured by number of partners (or equivalent) in the acquired firms (where this data is available).  
Note that 2 recorded M&A deals from FY12 to FY18 did not have number of partners reported.

Analysis by Eric Chin

Some of the more notable deals in the market during FY18 included:

- Norton Rose Fulbright and Henry Davis York – effective 1 December 2017
- HWL Ebsworth and TressCox – effective 5 February 2018
- Dentons and DibbsBarker
- McCabes and Curwoods – effective 1 July 2018

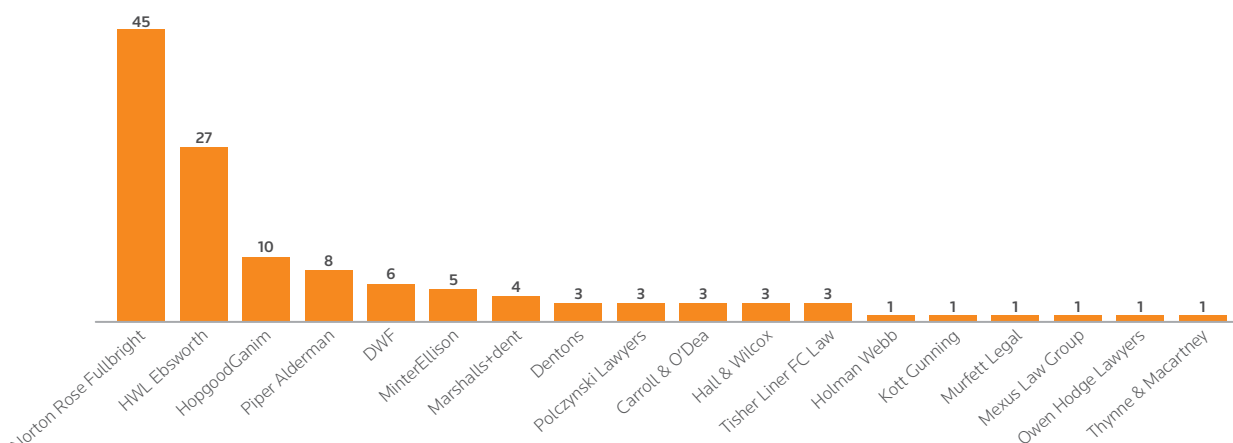
Further beneficiary firms of these deals included, amongst others, Corrs Chambers Westgarth, Gadens, McCullough Robertson, Hall & Wilcox, Kennedys, Lander & Rogers and Meridian Lawyers. Each of these firms welcomed one or more partners and teams flowing from these shake-ups.

Aside from M&A activity, two of the bigger Large firms that have continued to expand considerably are HWL Ebsworth and Mills Oakley. Our observation is that the strategy of these two firms appears to be largely about aggressively acquiring partners with portable practices and offering them incomes commensurate with their total financial contribution, both direct and referred. They both have strong operational disciplines and relatively low overheads. HWL Ebsworth appears to pride itself on pitching aggressive partner charge-out rates when pitching for client work, typically much lower than many of the Big 8 firms or Large counterparts, and fixing these rates over time.

The table below, with data sourced from the AFR Annual Partner survey, shows the incremental increase in partner numbers within the Large segment from FY13 to FY18.

Firm	July 13	July 18	Change
HWL Ebsworth	154	245	+91
Mills Oakley	44	101	+57
Hall & Wilcox	35	77	+42
Thomson Geer	63	97	+34
Colin Biggers & Paisley	43	67	+24
Moray & Agnew	43	95	+52

Number of partners gained by firms through M&A in FY18



Analysis by Eric Chin

## STATE-BASED CONSOLIDATION

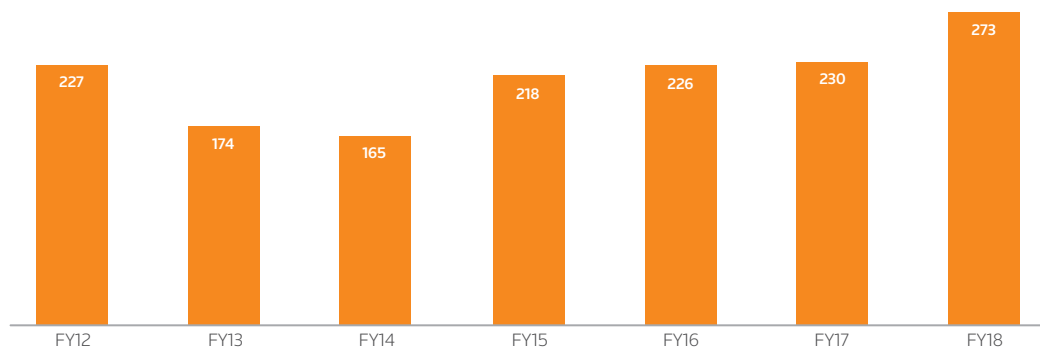
While a fair amount of consolidation occurred at the national level, a significant number of law firm mergers were also struck at the state-based and regional level. New South Wales saw eight law firm mergers recorded, followed by Victoria with four and Western Australia with three. Some of the mergers enabled firms to strengthen their presence in other states, for example, HopgoodGanim's Perth merger with Hunt & Humphry, and Hall & Wilcox's merger with Harris Wheeler in Newcastle.

In terms of capability or practice area focus, our observation is that law firm consolidation was dominant in full service corporate and commercial firms, followed by firms with a strong focus on property and real estate expertise, SME & private clients and banking & finance practices.

## LATERAL PARTNER MOVEMENTS

In addition to partner moves arising from M&A activity, a staggering 273 partners switched firms, in FY18. This is the highest rate of partner churn in recent years, accounting for an increase of 19% from FY17.

Number of partners switching firms (by fiscal year)



Fiscal years	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Partner movement	227	174	165	218	226	230	273
Large firms	61.3%	61.5%	68.5%	64.2%	65.0%	58.7%	50.2%
International firms	15.0%	20.7%	15.8%	11.0%	16.4%	11.3%	25.3%
Big 8 firms <sup>1</sup>	22.9%	17.8%	12.7%	15.1%	12.4%	11.7%	16.5%
NewLaw firms	0.0%	0.0%	2.4%	6.4%	2.7%	10.9%	5.1%
Big 4 firms <sup>2</sup>	0.4%	0.0%	0.6%	2.8%	3.1%	4.8%	1.1%
In-house departments	0.4%	0.0%	0.0%	0.5%	0.4%	2.6%	1.1%
LegalTech	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.7%

Notes:

1. Allens, Ashurst, Clayton Utz, Corrs Chambers Westgarth, Herbert Smith Freehills, King & Wood Mallesons, MinterEllison and Norton Rose Fulbright

2. EY Law, Deloitte Legal, KPMG Law and PwC Legal

Analysis by Eric Chin

The significant partner churn is likely to have been driven and shaped by increasing globalisation, the growth of NewLaw firms and LegalTech companies, as well as the continued focus of the Big Four accounting firms on the legal space.

In FY18, 17 firms acquired 33 partners through 22 team acquisitions as firms dislodged practices in a 'plug-and-play' strategy to grow in focused areas.

At the state level, being the biggest geographic market in Australia, it is unsurprising that Sydney was the hot spot in the war for talent, with 139 partners being poached. Melbourne followed with 55 lateral partner hires and 44 recorded in Brisbane.

Looking at the movement of partners at the practice area level also reveals where firms are focusing their growth efforts. It appears that the biggest demand and beneficiaries in FY18 were partners with commercial property & real estate expertise, and partners with banking & finance experience. Firms targeted talented partners with experience in these practice areas in order to capitalise on strong property deal flow in the \$6.9 trillion property market that peaked in late 2017, as well as the increased work arising from the Banking Royal Commission.

### CHANGES AT THE LEADERSHIP LEVEL

In addition to high levels of partner movement, FY18 also saw an unusual number of changes in law firm leadership and senior C-Suite positions. Many of the appointments have an innovation focus which aligns with the increasing focus within the profession. Interestingly, an additional theme arising from some of the appointments is a connection to and background in the Big Four accounting firms. Whether this is in fact a trend or not, this does tend to indicate a focus on broadening the senior leadership expertise by incorporating expertise from adjacent professional services industries and gaining the strategic benefit of lessons learned in different professions.

*“Being a law firm leader today, is not for the faint of heart or for the sensitive!”*

– Patrick J. McKenna and David J. Parnell, *The State of Law Firm Leadership Report*

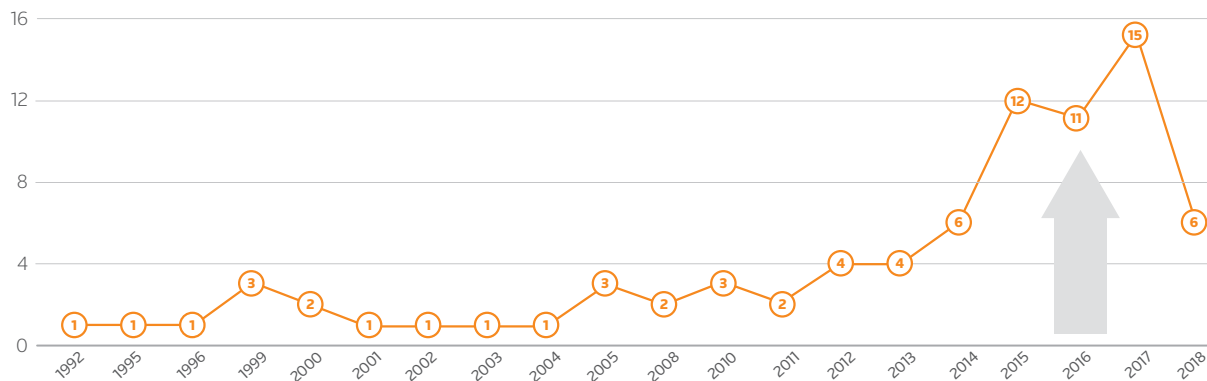
## AUSTRALIA'S LEGAL TECHNOLOGY SECTOR

As one of the most competitively mature markets in the Asia-Pacific region, the Australian legal technology (LegalTech) market has been leading the way with incubation of LegalTech start-ups and the adoption of LegalTech. The LegalTech ecosystem in Australia has been driven by a strong grassroots movement that saw the launch of Legal Hackers chapters in Brisbane, Perth and Sydney in 2017, Legal Geek events in 2017 and the launch of the Australian Legal Technology Association (ALTA) in November 2017.



Analysis by Eric Chin

Number of LegalTech firms founded (or entered the Australian market) by year in Australia



Analysis by Eric Chin

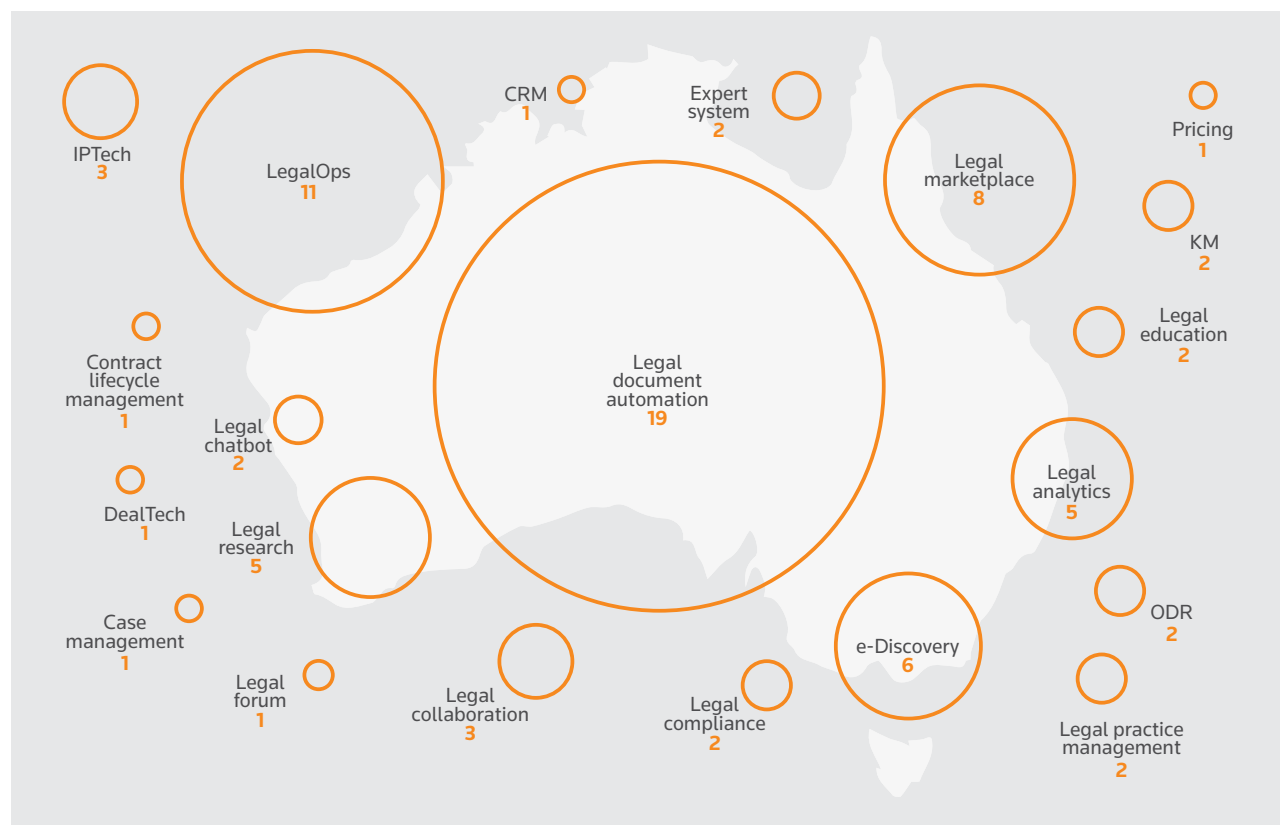
LegalTech in Australia can trace its origins back to 1992 when LEAP, a legal practice management software provider, was founded. The market expanded rapidly between 2015 and 2017 with 38 new firms founded. As firms grapple with challenges of innovating and adopting LegalTech solutions, education institutions like the Centre for Legal Innovation from the College of Law took centre stage to help law firm leaders navigate a highly fluid market.

General Counsel (GCs) are also supporting the emergence and growth of LegalTech. GCs, and their in-house teams, are increasingly operating within the boundaries of decreasing external legal spend budgets, coupled with increasing workload. To counter these pressures, they see the benefit of leveraging technology to deliver quality and timely legal advice and services in-house. The Association of Corporate Counsel Australia is launching the Legal Tech Corner to provide GCs with simple and streamlined information on the ever-expanding LegalTech market. In addition, the Corporate Legal Operations Consortium has established a local presence in Australia for operations and technology professionals that work in legal departments to congregate and share best practice in legal operations functions.

While some industry observers and commentators have been quick to predict the end of law firms as LegalTech firms take centre stage, firms are responding with vigour. We are increasingly seeing examples of firms leveraging LegalTech solutions to innovate the ways in which they serve their clients. Some examples include firms commercialising their e-Discovery services, investing in and taking equity stakes in up and coming LegalTech firms, establishing innovation hubs and incubators and developing practice-focused solutions and apps. It is exciting to see the growth in innovation initiatives and offerings from law firms, using technology to respond to client and market demands.

The mapping of LegalTech firms by their primary solutions (see below) reveals that some do not fall squarely into one category as they solve multiple problems. Interestingly, there are some in the NewLaw category like Elevate Services, Exigent Group, Lexvoco and Law Squared who have ventured into the LegalTech market, further demonstrating the fluid nature of the market.

#### Mapping the LegalTech market in Australia



Note: The spheres represent the relative LegalTech population by categories  
Analysis by Eric Chin

## THE REINVENTION OF AUSTRALIA'S LAW SCHOOLS

The changes in the practice of law and delivery of legal services more broadly, as driven by technology, are consequently driving significant change at a grassroots level in Australia's law schools. We are seeing changes in the traditional curricula offered, with the addition of technology-focused and innovation-empowering courses. Practical activities, including ideation forums and hackathons, are becoming mainstream as opposed to previously being novel in concept. We are also seeing an increase in collaborations and initiatives between universities and larger law firms, to support the education of innovation with practical application in the legal profession. These changes, to align education with changes in the profession, seek to ensure a more seamless transition for law school graduates into the world of legal practice.

Some examples of the new technology-focused courses being offered include:

- **Queensland University's** new **Law, Technology and Innovation** course includes electives covering data analysis, design thinking and regulation of AI, robotics and the internet.
- **University of Melbourne** has recently launched two new electives: **New Technology Law** and **Start-up Law**. The latter subject explores how technology innovation is affecting legal practice, disruption to service delivery models and the regulation of new technologies including smart contracts. The MLS also offers **LawApps** as a design subject with a focus on the not-for-profit sector.
- **University of New South Wales'** new elective course, in partnership with Gilbert + Tobin and Neota Logic, **Designing Technology Solutions for Access to Justice**, covers how legal information systems work, how to build them, and understanding their limitations and impacts.
- **University of Technology Sydney's (UTS)** faculty of Law new specialist major, **Legal Futures and Technology Major**, equips students, as future legal practitioners, with knowledge on developments in technology, innovation and practice, together with an elective covering 'Disruptive Technologies and the Law'.
- **UTS** also offers the **Law Tech Challenge for Social Justice**, a collaboration with Allens and Neota Logic, which uses Neota Logic's software to develop AI web applications to promote access to justice and make tailored legal information more accessible.
- **University of Western Sydney's Cyber Law and Justice** course provides students with knowledge and skills to identify and describe cybercrime and evaluate the strategies to address it.
- **University of Western Australia's** intensive course, **Legal APptitude**, in collaboration with Corrs Chambers Westgarth, teaches students to develop AI applications to improve efficiencies for not-for-profits and provide other services for disadvantaged people.
- **Bond University's** elective course, **The Digital Lawyer**, explores how technology, machine learning, data analytics and natural language processing can be deployed in legal practice.

Some of the legal technology-focused hackathons being hosted and supported by universities include **Disrupting Law WA** (hosted by University of WA in conjunction with The Legal Forecast, The Piddington Society and The Blackstone Society), **Disrupting Law QLD** (hosted by Queensland University with The Legal Forecast and student entrepreneurship society, QUT Starters, with mentors from 13 law firms) and **Hackcess to Justice Queensland** (University of Queensland TC Beirne School of Law together, in partnership with The Legal Forecast and the Department of Justice and Attorney-General).

## THE FUTURE

The future might look quite different depending on where and how firms compete.

### BIG 8

While the Banking Royal Commission has been a unique boost, we believe that demand for legal services from the Big 8 law firms will continue to be strong. The growth will not only be in litigation, but in corporate, cross-border transactions, banking, projects and real estate. Many of the firms in this group have made clear strategic choices in regard to international tie-ups and are benefiting from cost reduction and de-equitisation in the recent past. Many of the Big 8 firms are heavily investing in and strengthening their legal technology and innovation capabilities and are preparing themselves reasonably well for different disruption scenarios.

The major strategic challenges for firms in this group include maintaining a healthy and sustainable operating model; holding onto top talent and filling vacancies; renegotiating pricing to reflect supply constraints and to capture value; and dealing with the threat from the Big Four.

With respect to the latter threat, the Big Four have signalled that they are not intending to be full-service top-tier law firms in Australia, but rather offer a suite of legal services that complement their business advisory offerings. Having said that, the years ahead will likely see the Big Four leverage their corporate client CFO and Board relationships in order to capture a greater share of quasi-legal, risk and compliance work and offer game-changing legal managed services.

### THE LARGE SEGMENT

We believe the gap between firms at the upper and lower ends of the Large segment will continue to widen. The days where a firm could operate successfully as a collection of individual practices, are dwindling. These firms will find it increasingly difficult because the solo specialist practices within those firms will find it harder to compete with NewLaw offerings, freelance or flexible lawyers, platform firms and other Large firms that work much more collaboratively.

The threat of losing key rainmaker partners to firms like HWL Ebsworth and Mills Oakley will continue to have a profound impact on many full-service Large firms, particularly those with between 20-50 partners. These firms typically have high fixed costs and are particularly vulnerable to a sudden drop in revenue that might occur as a result of the loss of a highly profitable rainmaker and his/her practice. The removal of these revenue 'cushions' exposes the remaining under-performing practices, and there are few quick-fixes left for these firms to consider. The recent exit of DibbsBarker from the market is a sobering example of this scenario.

The high net worth client market presents a significant growth opportunity for some Large firms. There are two key factors underpinning this growth:

- The transition of wealth from baby boomers to the next generations
- The doubling of residential property values raising the stakes in most family law and elder law matters

### BOUTIQUES AND STRATEGIC FOCUS FIRMS

There will continue to be a place in the market for specialist firms focused on a specific work-type or niche client segment. The disciplines and client focus of these firms make them strong competitors. The success of focus firms will vary depending on their area of focus. For example, the success of property specialists will mirror the cyclical nature of the construction and real estate sectors.

The importance of strategy and strategic choice of segments of the market in which these firms choose to play is crucial in a hypercompetitive market. The challenge for firms, once those choices are made and plans have been developed, is to vigilantly implement their business plans and execute the agreed strategy. As Chinese philosopher Lao Tzu observed, a "journey of a thousand miles begins with a single step".

## NEWLAW AND DISRUPTIVE ALTERNATIVES

Recent data from the Association of Corporate Counsel (Australian and NZ) indicates that 9% of their members' external work is sourced from NewLaw providers, as compared to 7% of spend in 2012. While the increase is only incremental, we believe NewLaw solutions will continue to shape buyer behaviour. NewLaw firms are evolving as much as traditional law firms, with some extending beyond their labour arbitrage origins into consulting for legal departments; in effect, elevating the relationship from solving staffing issues to solving strategic and operational issues.

NewLaw providers focused on the private client and SME markets will continue to boom. There is a latent demand for legal services that is being tapped into by these new providers offering lower cost and more accessible offerings.

We predict that there will be a shake-up in the NewLaw space as those with access to capital are likely to outperform.

Of the world's major law companies, Elevate and Integreon have small physical presence in Australia. We anticipate seeing an increase in the capacity in these operations, as well as the likes of Axiom and UnitedLex entering the market in the near future.

There has also been a notable increase in the number of contract lawyer or freelance lawyer offerings, with three notable new entrants in the past 12 months. These include Pinsent Masons' Vario, Jackson McDonald's JacMac+ and Allens' Adapt.

## LEGALTECH

The LegalTech segment will continue to impact the legal services market – for both corporate in-house teams and law firms. While this segment is still in its relative infancy, the market realities of lawyer adoption will shape the providers' future. The future for this segment of the market will be dominated by LegalTech firms that provide integrated solutions, data analytics and leverage artificial intelligence (including predictive coding and advancements in machine learning). LawPath's recent \$1.8 million capital injection from US-based LegalZoom demonstrates the increasing interest from investors in the Australian LegalTech market. Interestingly, LegalZoom was also a recent beneficiary of a US\$500 million investment from a private equity fund.

## CONCLUSION

Taking a step back, a helicopter view of the current Australian legal market reveals an interesting set of contradictions:

- Some firms are achieving record profits, while others are exiting the market.
- While market price levels appear to be flat, many segments are growing rapidly and experiencing supply constraints.
- Segments of the market are consolidating, while others are attracting new entrants and fragmenting.
- Some practitioners are struggling to grapple with the heightened disruption from technology, others are embracing technology to improve efficiency and sustain and improve their business models.
- The Big Four accounting firms are major referrers and business partners of established law firms, yet they also pose a strategic threat.
- While many law graduates are finding it challenging to secure jobs, there is a significant shortage of talent at the four to seven-year PQE level.
- While the legal market is globalising and scaling-up, well-run small local firms still seem to be thriving.

All of these factors point to uncertain, challenging and exciting times ahead. There are significant opportunities for those that have a clear and compelling strategy, and real threats for those who complacently assume the future will continue on an unchanged, historic trajectory. An interesting question is where does your firm sit on the spectrum?



### Melbourne Law School

**Melbourne Law School (MLS)** is one of the professional graduate schools of the University of Melbourne. Located in Carlton, Victoria, MLS is Australia's oldest law school to begin teaching operations and offers J.D., LL.M., M.Phil., Ph.D., and LL.D. degrees. MLS is the only Australian member of the Law School Admission Council. In 2018 Melbourne Law School is ranked the number one law school in Australia by both THE and QS World University Rankings, and seventh and eighth best law school in the world respectively. For more information, go to [law.unimelb.edu.au/](http://law.unimelb.edu.au/).



**Barolsky Advisors** is a leading management consulting firm with a deep understanding of the culture and complexities of professional service organisations, in particular, law, accounting, engineering and business advisory firms. The firm specialises in strategy formulation and implementation. The founder, Joel Barolsky, is a Senior Fellow of the Melbourne Law School and formerly a Principal of Beaton Research + Consulting. For more information, go to [barolskyadvisors.com/](http://barolskyadvisors.com/).

## CHIN & CO

**Eric Chin** is a strategy consultant that works with law firms, listed law firms, LegalTech firms, NewLaw firms and corporate legal departments on strategy, M&A, market analysis, innovation and Asia. His experience spans across the Asia-Pacific region with work completed for law firms and Big Four accounting firms. For more information go to [linkedin.com/in/ericjychin/](https://linkedin.com/in/ericjychin/).

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