

# SCG LEGAL AI STRATEGY EXCHANGE 2025 Session 3

Profitability Through Innovation

May 5, 2025

# Session 3

## AGENDA

Lega Demo

Financial Benefits of Innovation

Types of Innovation

Changing Nature of Innovation Teams

Business Model Change

Products and Pricing in Legal

Profitability Measures

Q&A

**“To catalyze breakthrough growth, leaders must set bold aspirations, make tough choices, and mobilize resources at scale”**

**- McKinsey**

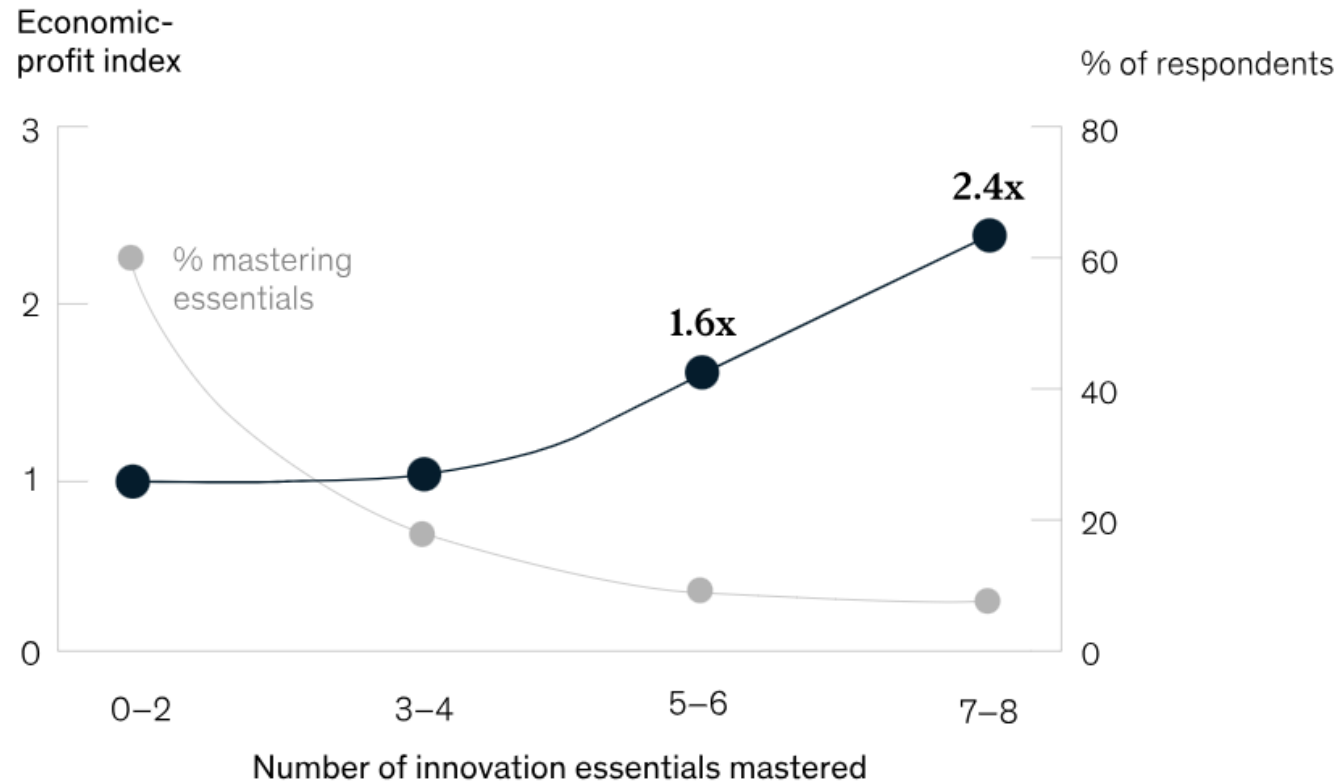
# Why Innovate?

**There is a strong positive correlation between innovation performance and financial performance.**

- Ongoing McKinsey Research

## Mastering five or more innovation essentials appears to be correlated with strong financial results.

Index of economic profit generated by mastery of innovation essentials



McKinsey  
& Company

# Innovation Essentials

## Testing for innovation

Do you really innovate?	
Aspire	Do you regard innovation-led growth as critical, and do you have cascaded targets that reflect this?
Choose	Do you invest in a coherent, time- and risk-balanced portfolio of initiatives with sufficient resources to win?
Discover	Do you have differentiated business, market, and technology insights that translate into winning value propositions?
Evolve	Do you create new business models that provide defensible and scalable profit sources?
Accelerate	Do you beat the competition by developing and launching innovations quickly and effectively?
Scale	Do you launch innovations at the right scale in the relevant markets and segments?
Extend	Do you win by creating and capitalizing on external networks?
Mobilize	Are your people motivated, rewarded, and organized to innovate repeatedly?

Source: McKinsey analysis

# Types of Innovation



# Innovation Types

## Horizon 1: Incremental

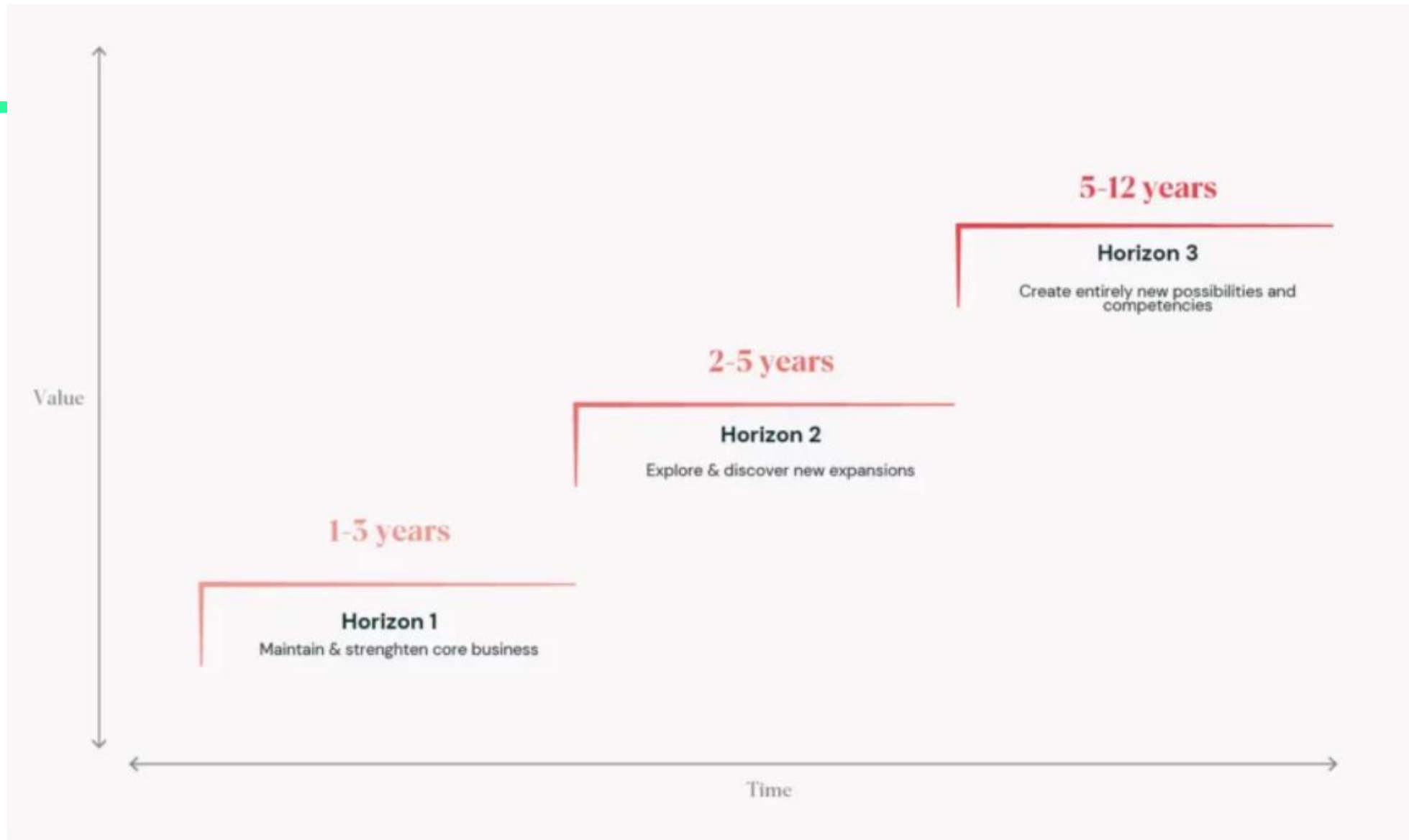
- Projects 1-3 yrs out
- Aimed at improving core business
- No major change
- Retention of status quo while enhancing existing offerings

## Horizon 2: Adjacent

- 2-5 yrs out
- Aimed at exploring expansions to current offerings
- Usually these will sit in adjacent markets or introduce offerings adjacent to current offerings

## Horizon 3: Disruptive

- 5-12 yrs out
- Aimed at exploring entirely new offerings
- Generating new revenue drivers that at first glance seem unrelated or even competitive with current offering



# Horizon 2 as the Bridge

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MAP OUT CURRENT  
STATE



PICTURE FUTURE STATE



WHAT DO YOU NEED TO  
DO TO GET THERE?

# Changing Nature of Innovation Teams

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# Law Firm Technology Pre-ChatGPT



Largely supporting role



Operational, tactical



Administrative tasks



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graph LR; A((Some efficiency gains)) --> B((In RARE instances: competitive advantage))
```

Some  
efficiency  
gains

In RARE  
instances:  
competitive  
advantage

# Law Firm Technology Post-ChatGPT

- Highly strategic
- WILD Productivity gains



# Estimated Productivity Gains

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Early:

- Summarizing – 75% (or higher)
- Reviewing / Analyzing – 66%
- Drafting – 50%
- Comparing documents to reference materials – 40%

Subsequent (Ashurst results mid-2024):

- 77% agreed GenAI helped them get to a first draft quicker.
- Time savings of 80% to draft UK corporate filings requiring review and extraction of information from company articles of association, 59% to draft industry/sector-specific research reports that require reviewing and extracting key information from public company filings (Form 10-Ks), and 45% on creating first draft legal briefings.



- Strong competitive advantage

- Increasingly:



risk of competitive  
downfall from failing to  
keep up



# Innovation Teams

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## Cost Centers

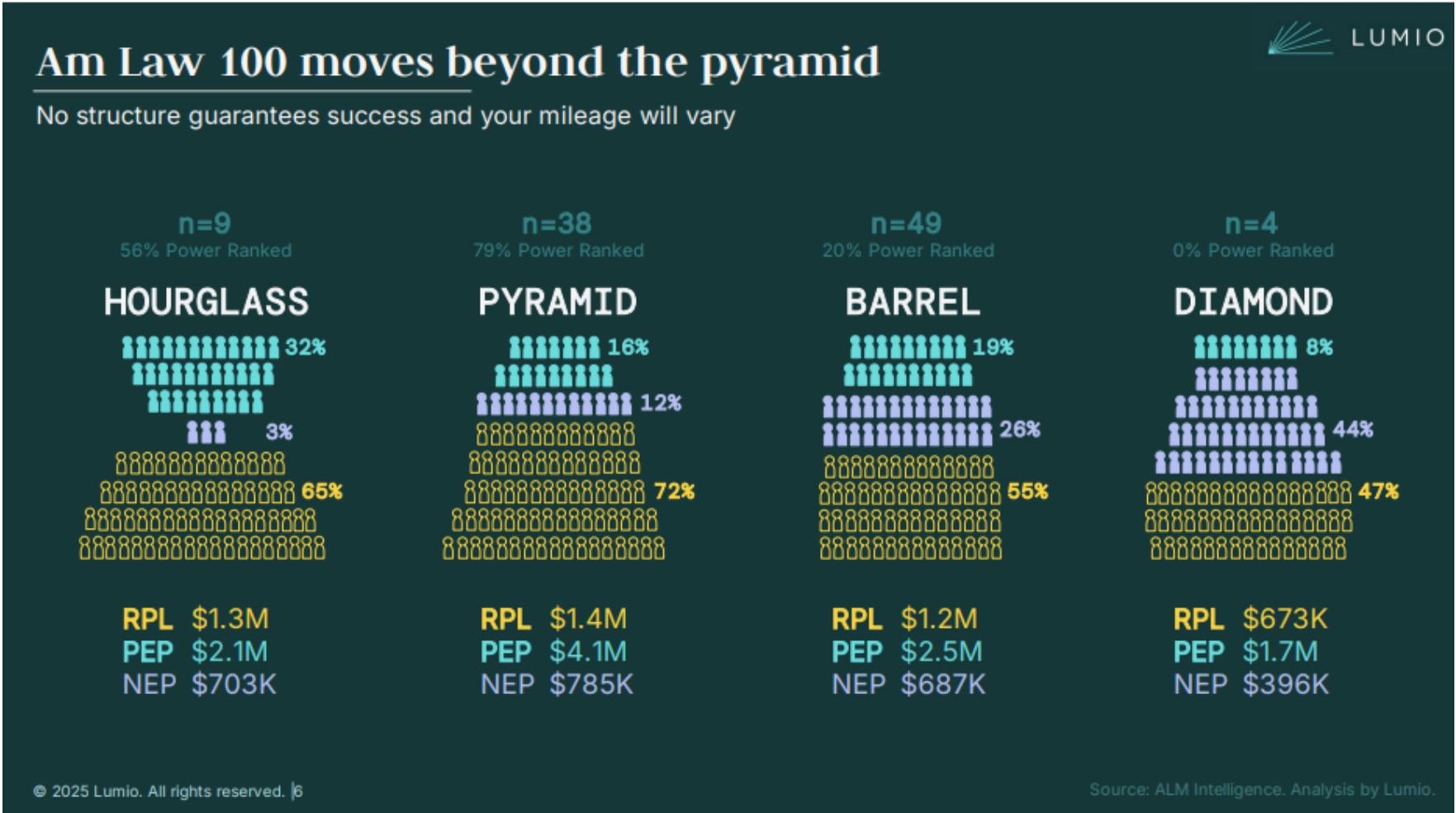
- Bottom line value hard to define
- Headcount costs
- Non-revenue generating
- Tech budget
- Rarely client-facing
- Seen as “nice-to-have”

## Profit Centers

- Direct revenue generation
- Client-facing
- Headcount covered by charge-out rates
- Tech costs accommodated in fixed fee arrangements
- Business development angle
- Seen as essential to firm

# Business Model Change

# BigLaw Moves Beyond the Traditional Pyramid





# Law Firm – Client Delivery

## A&O Shearman and Harvey to roll out agentic AI agents targeting complex legal workflows

### READ TIME

🕒 3 mins

### PUBLISHED DATE

📅 Apr 6 2025

A&O Shearman and Harvey are launching a series of agentic, multi-step reasoning AI agents for complex legal tasks.

The agents integrate A&O Shearman's legal expertise and will be rolled out internally as well as being sold to clients and other law firms.

The initial agents focus on antitrust filing analysis, cybersecurity, fund formation, and loan review—high-value areas requiring deep legal expertise

## How Clients Are Outsourcing Legal AI R&D To Law Firms

DENTONS



*By Paul Jarvis and Rowena Rix, Dentons.*

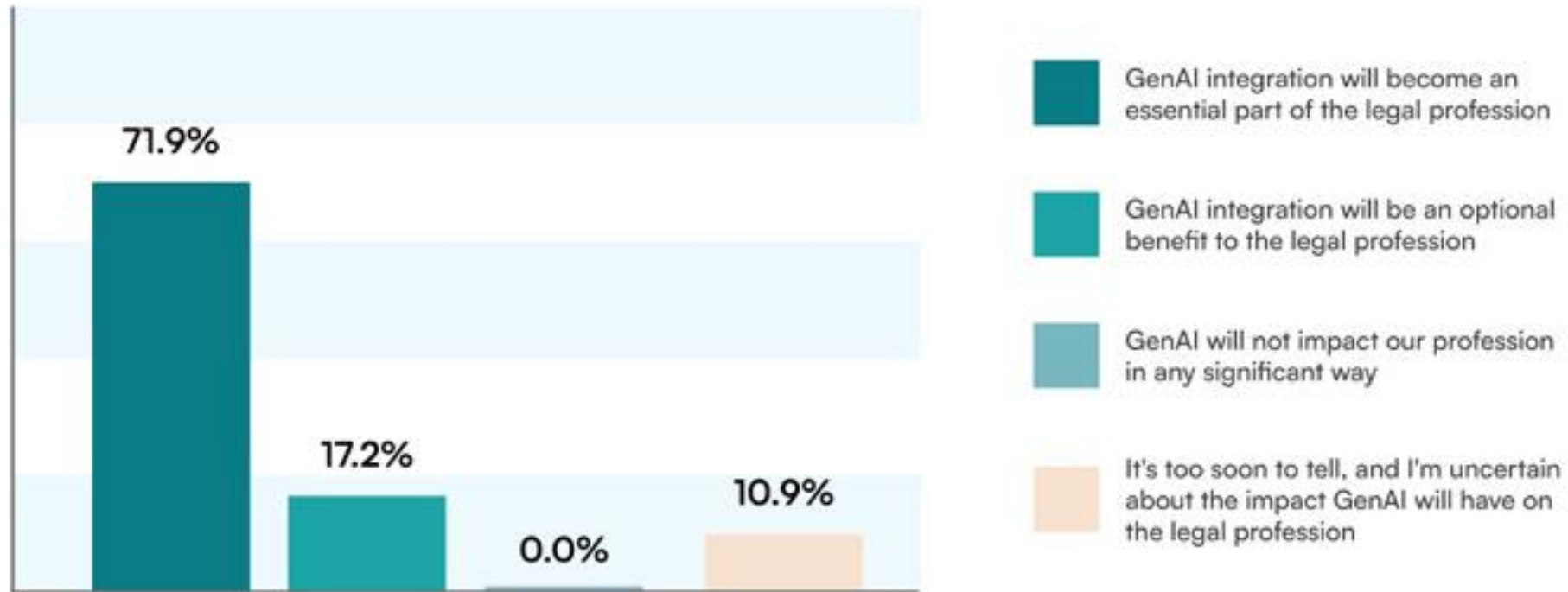
Artificial intelligence (AI) promises to revolutionise the legal industry, with an extensive assortment of AI products and services already on the legal market – and even more in development.

For law firm clients, the choice of AI-based legal tech has been exciting, but for some it has also presented an overwhelming new set of decisions that need to be made.

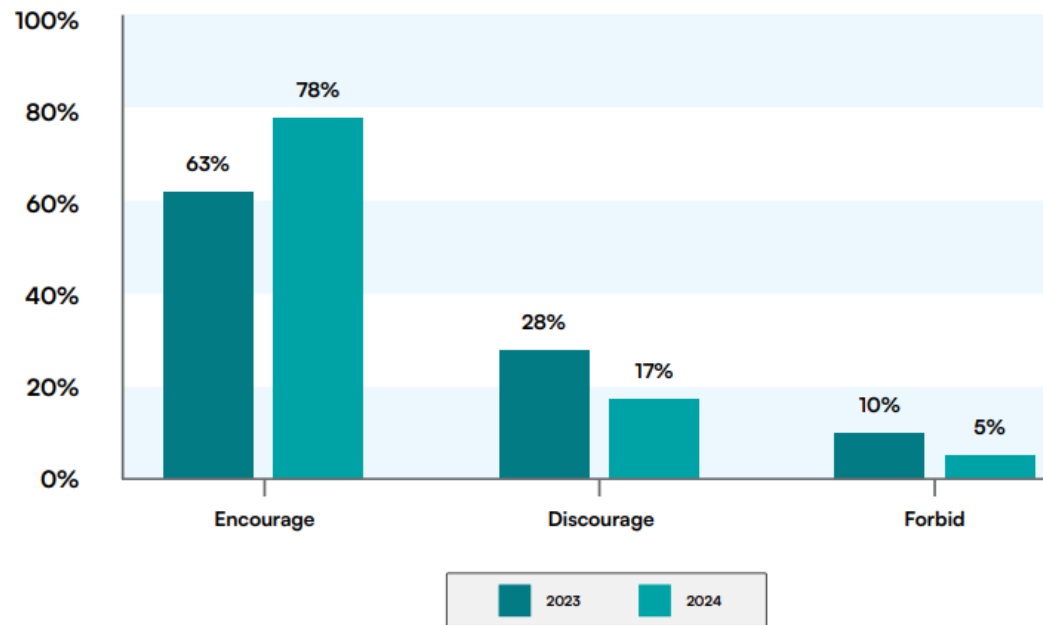
Even among the many clients who are enthusiastic about the benefits AI offers, a large proportion of these organisations lack the bandwidth and expertise to meaningfully research and test new products, and others simply do not have the risk appetite.

# The Client Perspective (the Blickstein Report)

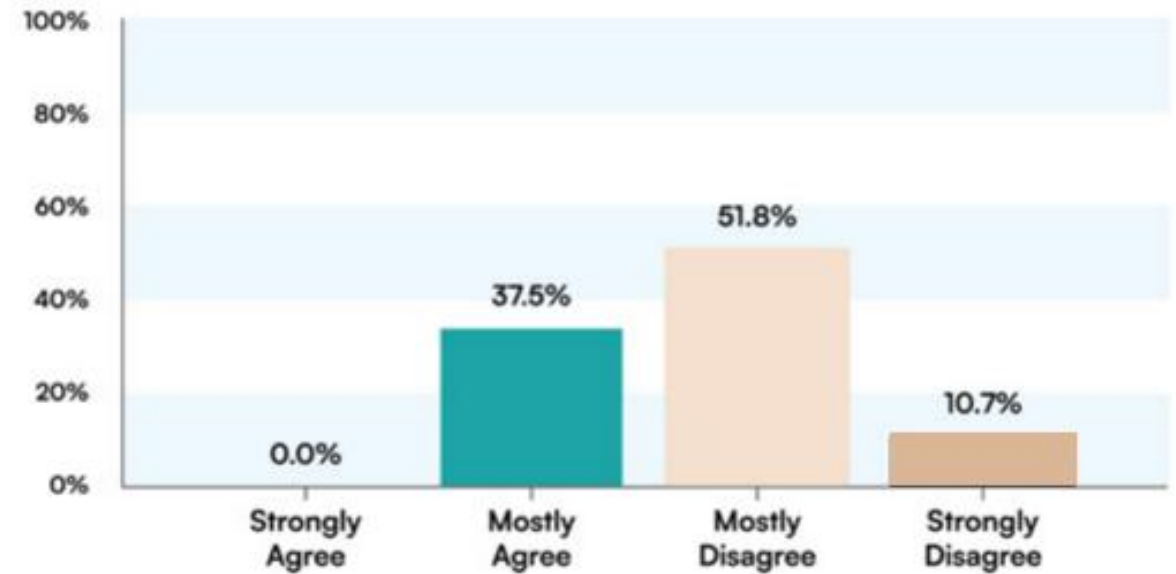
## What are your views on GenAI within the legal profession?



We \_\_\_\_\_ our law firms to use GenAI.

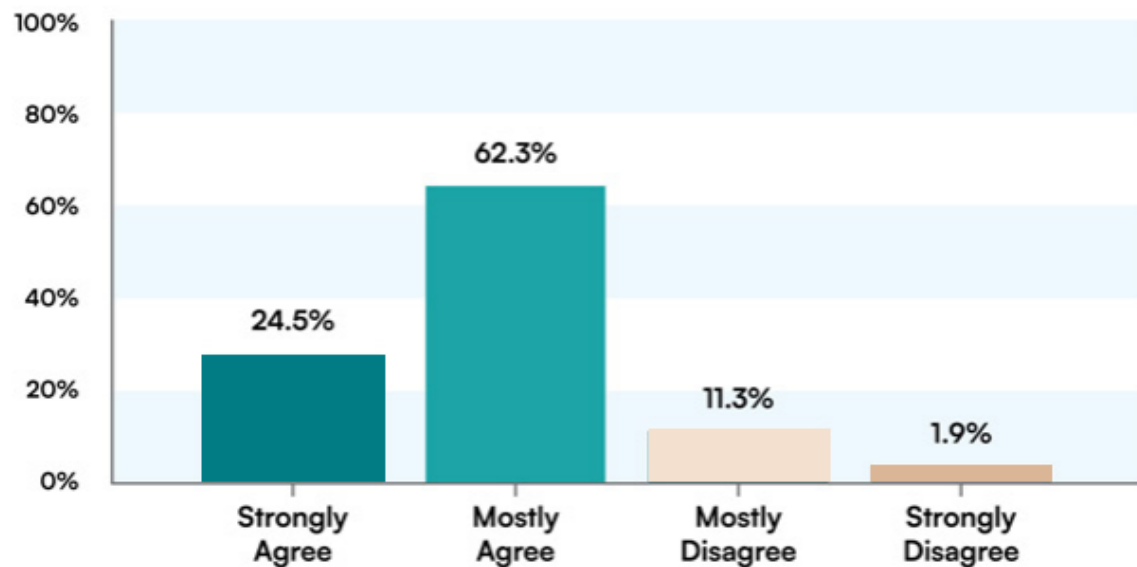


Our law firms are innovative.



# Impact

Do you expect GenAI to enable you to bring more work in-house?



Impact on Fees / Rates  
Reworking of legal value  
Power shift towards clients



# Products and Pricing in Legal

# Productization

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## Traditional Legal Work

- Performed on demand
- Related to specific client problem (bespoke)
- Scope can change over time
- Not designed for re-use
- Little upfront cost
- Resource heavy - always requires lawyer time

## Legal Products

- Designed to solve broad, generalized problem
- Little customization for individual customers “take it or leave it”
- Set scope
- Initial cost outlay
- Lawyer time required only at inception
- Build it once, sell a thousand times

# To charge or not to charge? – for Products

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- Giving things away for free can kill the value of your product (Forbes)
- Almost impossible to later charge fees for it
- Difficult to recoup initial outlay unless you charge for it
  - Resources
  - Time
  - Tech costs
- Infers firm's only view of product value is low
- Significant \$\$\$ potential

## **Arguments against charging:**

- Value-add to consumer
- Business development angle
- “It's not what we do”

# Charging for Technology / Resource Costs

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- Client resistance to paying for technology is directly correlated to pedestrian nature of that technology
  - Research tools = expected, therefore not chargeable
  - Document management tools and other foundational solutions – not chargeable
  - Innovative solutions that cost more to use and introduce substantial efficiencies – chargeable
- Clients rarely object to paying for skillsets that add value to legal work, or for consultants
  - Data is considered “gold”
  - Most clients looking to firms for support of broader operational projects
    - Lacking resources and expertise themselves
    - Happy to pay for this support
      - If firm provides this support and does not charge, it undervalues the resources involved

# To Charge or Not to Charge – for Leverage

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## Pros

- Recover AI spend
- Open discussions with clients about cost of AI

## Cons

- Client push-back
- Client dissatisfaction

# Cost of AI Investment

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- 43% of Am Law 200 firms report having a dedicated budget for generative AI tools in 2024 (but still a small percentage of overall spend)
- Many large U.S. firms are treating generative AI as a strategic priority and creating new budget lines for it.
- Surveys indicate that most firms with an AI budget are spending <1% of firm revenue on AI in 2024
- In practice, big firms are increasing total tech budgets year-over-year (tech spend grew ~7.6% YoY in 2024, far outpacing inflation), to accommodate AI investments, rather than cannibalizing critical existing IT needs

# Where does budget come from?

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- About 4 in 10 business leaders have laid off employees as a result of deploying AI
- 41% of employers intend to downsize their workforce as AI automates certain tasks

*“My clients won’t pay for 2<sup>nd</sup> yr associate work anymore”*

# Key is...





# Profitability

# Law Firm Profitability: Metrics that Matter

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- Utilization v Realization
- Outstanding WIP
- Outstanding bills
- Leverage Ratio
- Client and Talent Acquisition Cost
- Rates
- Pricing models – including discounts

# Rise of Fixed Fee Arrangements

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- By 2023, average law firm revenue resulting from fixed fees is **20%**
- Some firms reporting increase to over 30% by end of 2023
- AFAs but also EFAs
  - What is most effective for the client`
  - Fixed fee management – bonus for firm if fixed fee matter is handled effectively / efficiently
- Similar to innovation: if a client is not asking, that doesn't mean it's not of interest to them
- In absence of AFAs, discussions based on value have nevertheless become essential

# Impact of Generative AI

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Early stats on productivity gains in legal workflows:

- Summarization – 75%
  - Reviewing / extraction / querying – 5-60%
  - Drafting – 20-30%
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- 80% of corporate legal work is likely to be re-tooled, re-evaluated
- ⇒ Shift in pricing power towards clients
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- Cost of generative AI solutions is high
  - Recouping such costs in the interest of EFAs, beneficial fee arrangements, will become critical (and then less critical)

# Trend Alert

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# Q&A

# Thank You

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