



The Strategic Review and Outlook for the Legal Services Industry

2004

prepared by

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Your Definitive Guide to Powerful Insights Into Fortune 1000 Clients

The Strategic Review and Outlook for the Legal Services Industry 2004 is your most powerful guide to client-based insight. Discover and leverage the key drivers behind client relationships, client spending, and the future direction of the legal profession. You get exclusive, driving insights and facts that are proven to anticipate the changes in key client behaviors and improve your results.

This is the only source of systematic strategic analysis of law firm client needs, priorities, spending, client satisfaction and management strategies. *The Strategic Review and Outlook for the Legal Services Industry 2004* gives you a bird's-eye perspective on the entire legal services industry — analyzing what the market wants, how it will change, how law firms really perform in the market, and a host of other strategic insights.

The Only Industry Analysis Based on Client Data

The Strategic Review and Outlook for the Legal Services Industry 2004 is the only analysis of the legal services industry that is based on in-depth client research on how Fortune 1000 companies and corporate counsel buy legal services and manage their outside law firms. Drawing on more than 14 years of meticulous research on how Fortune 1000 companies acquire professional services, BTI's analysis and outlook draws on the most extensive continuing research effort in any professional services market. This gives you direct insight into how your clients are thinking, which factors are changing now, and more importantly, how they are going to change in the future.

Direct Client Insight — More than 180 Interviews with Corporate Counsel

Our research on the needs of the legal services' market and outside law firm management is based on more than 180 unique, individual interviews with corporate counsel, including general counsel, associate counsel and assistant general counsel at Fortune 1000 companies. We've spoken with more than a quarter of the Fortune 100.

Our research includes 14 key industry sectors, including financial services, retail, high-tech (hardware, software and services), insurance, telecommunications, energy, chemical, pharmaceuticals and large professional services firms. We conducted these interviews using multiple techniques, including open-ended, unstructured methods so that the market defines their needs and priorities according to their own understanding and perceptions. Our interview team has an average of more than 10 years of experience. We conducted our interviews between July 1 and September 15, 2003.

Objective Sample — Individual Telephone Interviews and Avoiding the Self-Selected Sample

BTI identified the target companies and individuals, and designed and developed the survey instrument. Each interview was conducted individually via telephone. We used a variety of



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sources, including our own research, to identify the individuals in the survey. BTI did not conduct any mass mailings, solicitations or group invitations. All the interviews were conducted using this objective approach.

*The Most Robust Insight from Sophisticated Technique:
Forming a Weighted Decision Matrix, Tested with Clients*

BTI uses a combination of techniques to bring the most robust insight to you. We use a combination of quantitative and qualitative analysis. Get the benefit of client thinking from our carefully designed techniques and longitudinal approach. We capture unprompted responses as well as prompted data, providing the most direct, reliable insight into client thinking.

You can use the data to develop a weighted decision matrix that helps the user distinguish decisive factors from other, less important factors. Tactically, we look for two or three categories that are decisive (i.e., 51%) to discover the driving insights. This approach enables you to devote your resources to the factors that can impact the outcome of vital decisions.

All the Data You Need to Design and Implement a Strategic and Tactical Plan to Increase Revenue, Gain Market Share and Boost Client Retention

The *Strategic Review and Outlook* provides virtually all the data you need to develop and implement strategic and tactical plans to increase revenue, build market share and boost profits per partner at your law firm. This data includes:

Key Client Findings, Conclusions and Insights

Client Spending on Outside Counsel (*it's on the rise — again!*)

- Spending with individual law firms
- Key trends in spending
- Outside counsel spending as a percent of total spending
- Drivers behind spending on outside counsel

Client 2004 Budget Plans for Each Practice Area, including

- Litigation
- Securities & Finance
- Regulatory
- Intellectual Property
- Labor and Employment
- Corporate
- Mergers & Acquisitions
- Environmental



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Client Law Firm Utilization and Management Strategies

- Number of law firms used

- Role of each law firm

- Why clients have added new law firms to their roster

- Where law firm convergence is headed and why

 - Clients plan 38% cut on their law firm roster by 2006*

- Recommendations to make law firm convergence work for you

How Clients Award Their Legal Work

- Why just 2 law firms get 52.2% of the spending

 - How to position yourself to be one of the two

- Another 5 firms get 30% of client spending

- In an abrupt change, clients are bidding less work

Client Satisfaction With Their Law Firms

- Client satisfaction goes down

 - Why it went down

- 7 out of 10 clients don't recommend their primary law firm

 - Don't let it happen to you

 - Why clients recommend law firms

 - What clients want from your law firm

 - How to displace the competition*

How Clients Pick Law Firms

- Clients' law firm selection processes change as clients bid less work

- Clients' informal network drives new hires

- What prevents you from getting hired

- 8 factors that stop your client's hiring process cold

Client Service Needs and Priorities

- Today's top service priorities

- How client needs will change in 3 years

- Implications for law firms and spending

- Target the high-value, high-priority work

Clients' Unmet Needs — Services Clients Want But Can't Find

- How clients' unmet needs differentiate your firm

- Six major areas where clients need help and can't find it

- Learn how to tap

 - Clients' need to do substantially more with less

 - Tap information technology as a tool

 - Clients' unmet need for proactive advice



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Clients' Defining, Mission Critical Activities for 2004

This is where the rubber meets the road

22% of clients are using legal strategies to define business objectives

28% of clients are mapping into business unit objectives

26% are managing uncertainty

Learn how to differentiate your firm and help your clients succeed

Specific recommendations to help translate your clients' mission critical activities into premium rates

Use client mission critical activities to boost client retention

Strategic and Competitive Analysis of Law Firms:

Market Share Performance versus Financial Performance

You can learn which law firms have strategies that work and which law firms are giving up billings to competitors — by name. See the law firms that are gaining market share at competitor expense, which law firms deliver superior profitability and which firms deliver both.

Learn how the acquisition-minded law firms are performing versus the organic growth firms in both market share gains and financial performance. See which law firms are paying for future profits and how much they're investing.

Gain insight into why some of the market giants are seeing market position erode. The competitive landscape is undifferentiated from the client's perspective and is challenging for future growth. See what this means to your firm, and to your competitors.

Enjoy and benefit from the only fact-based, independent analysis of law firm strategies available. Separate fact from fiction, learn from the firms that really perform well.

Understand the Impact of Low Client Satisfaction

Client satisfaction drops amidst a sea of change. Only 30.3% of companies are satisfied with their outside counsel, down from 36.5% last year. See how clients are upping the ante and making the move to replace their primary law firms. (Hint, clients have added 2 more law firms to their current roster and cut back on bidding.)

Take Advantage of Law Firm Convergence

Learn what clients are doing to boost client satisfaction and strengthen law firm relationships, and how their actions fuel their plans to reduce the number of law firms they work with by another 37.5%. Convergence is the savvy law firm's friend. Law firms on the right side of the convergence equation win big. See how convergence will unfold along with proven strategies that will make it work for you.

Pinpoint Clients' Needs and Priorities, and How They Will Change

Delineate specific market needs and client priorities — as defined by your clients.

Litigation tops the list of most important services that clients will buy from their outside



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counsel during the next three years. M&A holds steady, while client-focused advice and regulatory guidance see a jump in priority. Find out which other new services will emerge and why. Make the market trends work for you.

Recommendations to Take Advantage of Clients' Unmet Needs

As a key element of *The Strategic Review and Outlook for the Legal Services Industry 2004*, we include exclusive information on clients' unmet needs — services they want from their law firms but can't find. Find out why some of clients' most pressing unmet needs are management and business-related. Get insight into key positioning and analysis to more effectively enter into the lucrative area of clients' unmet needs. See why and how you can use unmet needs to develop new clients and improve relationships with existing clients.

Discover Proven Tactics to Get in Front of the Client — and Avoid Making the Mistake that Prevents You from Getting Hired

BTI's exclusive research shows clients rely on their informal networks to learn about new law firms to hire. Learn how to tap into this new trend. Discover the 8 activities that prevent you from getting hired — and how to overcome them.

Tap into Clients' Mission Critical Activities for Plum Assignments and Premium Rates

Identify the mission critical activities that drive client decisions over the next 18 months. Learn what practice areas and forward-looking strategies are core to your clients' business and how to leverage this insight into value-added work and premium rates.

Target Growing Spending on Outside Counsel

Uncover areas of growing spending at Fortune 1000 clients. Target pockets of growth and align yourself with expanding budgets and shifting dollars. Clients pull \$2.3 million each from the market for competitive bids — learn where these dollars are headed and how to secure your share.

Clients Up the Ante: 2 New Law Firms added to a Soon Declining Roster

Clients add 2 new law firms to their roster in an effort to find what they want. Sharp reductions in the number of law firms clients use are on the horizon — declines of 37.5% by 2006. See how you can help your clients cut the number of law firms they use and leave yourself as the primary provider getting more than *twice* the billings.

Unequivocal Recommendations, Innovative Yet Proven Strategies, and Tactics Proven to Increase Margin, Revenue and Market Share

Your *Strategic Review and Outlook for the Legal Services Industry 2004* is chock-full of recommended actions, strategies, and tactics. You also get our unequivocal viewpoint on current strategies and how clients' changing behaviors, needs and priorities will impact you. BTI is the leader in anticipating the most compelling changes and trends in the industry. Use these proven recommendations to your immediate, tangible advantage.



How to Use This Report (Please read this, it's worth it.)

We cover a broad range of issues and analyses in *The Strategic Review and Outlook for the Legal Services Industry 2004*. To help you get maximum value from the information, we offer the following counsel in getting the most out of your report:

Client Satisfaction

This section pinpoints why clients are generally unhappy or happy with their law firms. Use this data to assess where you might stand with your clients, and try to be brutally honest with your own perspective and viewpoints. See what drives good service and use this to calibrate your client service team's understanding.

A number of competitors are using new drivers of client satisfaction to their advantage and stand out to clients as high-value and client-focused firms. These law firms are stealing market share at their competitors' expense and are actively aware of the advantage they bring to new and existing clients.

Competitor Analysis

Our goal is to present a picture of the strategies in use at law firms today. Some work, some don't. We also analyze industry structure. Use it to assess the different strategies law firms use. See who is losing market share and who is winning. This will help you understand and plan for competitor behavior and help give you a perspective on elements to consider when developing your own strategy. A large number of clients and subscribers catalogue the different strategies in our analysis to look for themes and patterns.

Client Spending

This section outlines what clients spend on legal affairs within their organization and what they spend with their outside counsel on an annual basis. Use this information to assess whether you are gaining a big enough share of your clients' spending and the potential revenue you can gain with each client. Find out what is driving client spending in the future and where clients expect their budgets to increase next year. This will help you assess whether your targets and strategies for growing your key services are in sync with what your clients plan to spend.

Clients' Unmet Needs

These are services clients want, but can't find. They define the new priorities and concerns that go beyond the day-to-day issues. When clients say "go above and beyond," they want you to focus on issues beyond basic legal skills and services — and they are usually referring to unmet needs. Our experience shows that unmet needs are the extras that build true relationships around the more traditional and commodity-like services. They are excellent new business development and displacement tools because they offer the dual advantage of providing high value and proving you can exceed clients' expectations.



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The best-run professional services firms live on meeting clients' unmet needs as a source of key competitive advantage. This strategy is rapidly becoming a source of strategic advantage in the legal services business.

Client Service Priorities and How They Will Change

This documents clients' concerns and goals and is effective in looking at differences in planning for your service offerings to each client. It also illustrates how these priorities will change based on your clients' own forecasts. This helps you plan future offerings and stay ahead of your clients' needs and expectations.

Client Relationships and Client Service

Clients spell out how they want to improve their law firm relationships. Tap into the power of client guided improvements and use it as a road map to develop activities within your firm to boost client relationships. Use it to help target your training, marketing message, and client-attorney communications, and to increase your hit rate.

Full, Unlimited Telephone Support

Each and every *Strategic Review and Outlook* comes with unlimited telephone support. We encourage a dialogue with all our clients, and are dedicated to helping them get maximum benefit from this report. Please call Michael Rynowecer, President at (617) 439-0333 or send an email to mrynowecer@bticonsulting.com. You will find us responsive, helpful and to the point.

The opinions expressed in *The Strategic Review and Outlook for the Legal Services Industry 2004* are based on The BTI Consulting Group's analysis of objective data, combined with our extensive experience. Any perceived criticism is offered in the spirit of constructive input and is not intended to offend any firm. Our analysis is designed to identify strengths, weaknesses, opportunities and threats for all BTI clients and subscribers.



About BTI

The BTI Consulting Group, Inc. — Who We Are

The BTI Consulting Group (BTI) is a Boston-based market research and management consulting firm with over 20 years of experience. The BTI Consulting Group offers the most compelling research, analysis, and insights to our clients with one goal — *compelling, superior results and outcomes for our clients.*

BTI boasts the largest independent knowledge base of client needs, satisfaction and loyalty in the world for service firms. BTI's insight is based on more than 5,000 interviews with key buyers of professional services at the world's largest and best-run companies. BTI prides itself on a direct, no-nonsense delivery of critical, high-impact insights that help our clients improve their performance.

BTI has worked with our clients from their earliest initial efforts through virtually every stage of their client and practice development process. We understand how our clients can and will use the insights, data and analysis we provide, and we help our clients anticipate issues and accelerate the process. We can provide discrete components or entire client-focused protocols. Our breadth of experience and research deliver both short-term and long-term tangible, lasting value.



About BTI

Additional Insights from BTI Publications

Investment Banks and Their Law Firms:

Client Service Performance and Market Dynamics

The first of its kind, BTI's *Investment Banks and Their Law Firms: Client Service Performance and Market Dynamics* provides a valuable perspective into the unique spending habits, buying patterns, needs and expectations of the worlds' most demanding legal services' clients: investment banks. Based on in-depth, individual interviews with over 60 corporate counsel and business leaders at 21 of the largest global investment banks, *Investment Banks and Their Law Firms* details client needs and expectations, delineates core and growing practice areas and pinpoints which law firms serve as primary providers. Find out how to tap into this \$2.4 billion market — and which law firms stand out for superior client service performance, by name.

What Clients Pay Law Firms: BTI's Billing Rate Reference for the Legal Services Industry

What Clients Pay Law Firms: BTI's Billing Rate Reference for the Legal Services Industry 2003 is an unparalleled tool to compare your rates to the rates that clients actually pay. This unrivaled report is based on more than 2,600 individual data points directly from clients representing more than \$27 billion in legal spending. Never-before published data reveals how to Benchmark your hourly rates against the rates Fortune 1000 clients pay their law firms by: Practice, Industry, Geography and Staff Level. Use this analysis to see how to price yourself in pitches, negotiate with the facts, test your rates across major practice areas, plan for new practices and avoid pricing yourself out of a client.

The Survey of Client Service Performance for Law Firms: The BTI Client Service A-Team

The landmark BTI report *The BTI Survey of Client Service Performance for Law Firms: The Client Service A-Team* gives you an unprecedented view of how law firms are performing, and which law firms stand out from the pack in the client's mind for providing superior client service. Based on interviews with almost 200 corporate counsel at the Fortune 1000, this compelling research tells you — by name — which law firms have differentiated themselves from the competition through excellence in client service. Learn how your clients view good performance and, through their unprompted and open assessment, which firms are the best.

The 2004 A-Team is coming soon! Order your advance copy today at (617) 439-0333.

The BTI Client Service All-Star Team for Law Firms 2004 — Coming Soon

A report on law firms and individuals who have been nominated by their clients because they provide superior service. In this exclusive BTI Client Service All-Star report, based on hundreds of interviews with Fortune 1000 corporate counsel, clients identify the individual lawyers that provide the best client service — by name.



About BTI

Key Services to Help Our Clients

BTI offers the following key services for law firms:

Strategic Market Research

- Client Satisfaction Surveys
- Practice Awareness and Measurement
- Client Needs Assessment
- Rate and Fee Studies
- Partner and Associate Surveys
- New Market Assessments
- Best Practice and Benchmarking Studies
- Competitive Analysis
- Due Diligence Support
- Strategic Research

Consulting

- Key Client Strategies
- Client-Focused Business Practices
- Strategic Business Planning
- Advanced Business Development Training

Private Briefings

BTI also offers private briefings both in person and via the web. Chock full of client-based insights, experience and facts, we draw from our research, experience and other resources to provide provocative, constructive insights to help you boost client satisfaction and loyalty and your performance. We can tailor our briefing to include specific feedback on your firm.



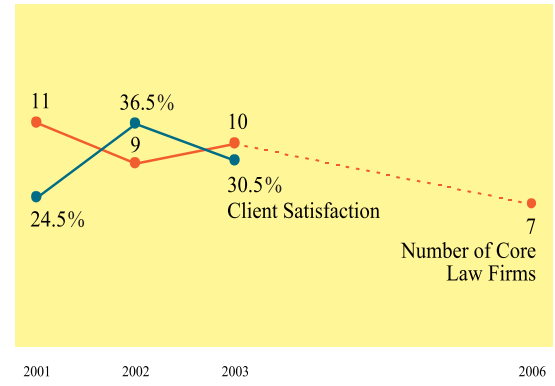
Just Released! Brand new research! Completely Updated!

The Strategic Review and Outlook for the Legal Services Industry 2004

Exclusive Insights into Fortune 1000 Clients: How Clients Buy Legal Services

Spending, Budgets, Law Firm Utilization and Management

BTI's third annual *Strategic Review and Outlook for the Legal Services Industry 2004* gives you independent, fact-based insight into the legal market and your clients. We interviewed more than 180 corporate counsel at Fortune 1000 companies to pinpoint spending, needs, law firm expectations and more.



Client Satisfaction Down: Number of Law Firms Up

Clients added 2 law firms to their line-up. One core, one not. Clients are shaking up their law firm rosters as client satisfaction goes down. Clients are spending more on outside counsel and expect more from them. Clients still plan to cut the total roster in 3 years by 41% – but the players may change.

Only 30% of clients recommend their primary law firm, down from 35% from last year. See what's changed and why. 9.6% more clients are hiring new law firms this year than last.

The 8 Factors that Prevent You From Getting Hired

Clients see 8 reasons to drop a law firm from the hiring process cold. Most have little to do with legal skills. Pinpoint these silent deal killers and learn to eliminate every obstacle.

Client Budgets Target 3 Practices for Serious Growth

Litigation, Securities & Finance, and Corporate will get double digit increases or more. Target the growth practices.

SPECIAL ANALYSIS

Market Share Gains versus Profitability: No-Holds-Barred Analysis of the Top 30 law firms – by name.

See exactly which strategies work, which ones don't. How growth impacts on profits and why.

Spending on Outside Counsel Surges as Clients See Staff Reductions

Clients are boosting outside counsel spending at twice the rate of their overall legal budgets. Clients' staffs are down 30% and demands are up. 52.2% of outside counsel spending goes to 2 primary law firms. \$13.9 million – per client – goes to outside

counsel. Are you getting your share?

6 Proven Ways to Get in the Door From the Client Perspective

91.1% of clients see 6 proven reasons to hire a new law firm to replace a current law firm. See how you can position yourself for new business and protect yourself from law firms poaching your clients.

DISCOVER POWERFUL INSIGHTS INTO YOUR CLIENT RELATIONSHIPS

- ◆ 10% more clients hired a new law firm this year
- ◆ How clients decide to hire a law firm
- ◆ 8 Factors that prevent you from getting hired
- ◆ What makes clients happy, and what doesn't
- ◆ Services clients want but can't find
- ◆ Pinpoint increased budgets
- ◆ Needs that command rate premiums

69.6% of clients have hired a new law firm in the last 12 months, up 10%, while spending surges.

– *Where do you stand?*





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**Discover the Most Compelling Facts and Insights Into Fortune 1000 Clients:
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- ◆ Clients boost outside counsel spending \$2 million per client
- ◆ 15% more clients are hiring new law firms
- ◆ 41% of clients have growing litigation budgets
- ◆ 38% of clients boost spending on regulatory practices
- ◆ Clients shaking up their roster of law firms
- ◆ Client use of informal networking to hire new law firms surges
- ◆ 2 law firms capture 52.5% of outside counsel spending
- ◆ Deep cuts in the amount of work put out to bid
- ◆ 5 legal strategies clients plan to use to boost their own business
- ◆ Client satisfaction declines in the face of increased spending
- ◆ 8 reasons that prevent law firms from getting hired

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Loyalty

Strategy



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