



The Strategic Review and Outlook for the Legal Services Industry

2005

prepared by

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Building Powerful Client Relationships with Large and Fortune 1000 Clients

The Strategic Review and Outlook for the Legal Services Industry 2005 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 2005* 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 2005 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 15 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 August 31, 2004.



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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 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 you 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.



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All the Data You Need to Design and Implement a Strategic and Tactical Plan to Increase Profits per Partner, 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:

Client Spending for 2005

- Overall spending on legal affairs dips
- Spending on outside counsel climbs
- Outside counsel captures bigger piece of smaller pie

Client Law Firm Utilization and Management

- Convergence continues – clients get better at using fewer law firms
- 76.3% of clients rely on a primary law firm
 - 30% more clients than in 2001
- 2 law firms capture 54.0% of client spending on outside counsel – learn how and why
- Selected law firms gain client wallet share

Client Goals, Needs and Priorities – and How They Will Change

- Client legal staff drops almost 40% in past 3 years
- Corporate counsel boost emphasis on risk reduction as top goal
 - Cost reduction overshadowed by more pressing client priorities
- 58.3% of clients have 2 unmet needs:
 - Streamlining
 - More client-focused law firms
- Practice areas take a backseat to overall outside counsel advice
 - Broad-based knowledge and experienced judgment begin to outweigh practice area expertise
- 5 Foes keep clients up at night
 - Litigation
 - Compliance
 - Risk Exposure
 - Regulatory Uncertainty
 - Sarbanes-Oxley



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New!! BTI Client Hot Spots: Client Opportunity and Budgets

- Near-term growth opportunity
 - By practice area and industry
- Regulatory, corporate and securities boast BTI Client Hot Spots
- 37.7 cents of every legal dollar goes to litigation
- Regulatory prime for largest budget boost in 2005
- Securities and finance and litigation budgets continue to climb

New!! Strategic Law Firm Services

- 73.8% of clients see advantage in their law firm offering business services
 - Clients pinpoint 5 specific advantages
- Clients assess the value and priority of 6 strategic law firm services

1. Compliance Audits
2. Corporate Governance Diagnostic
3. Risk Assessment
4. Training
5. IP Planning
6. Stock Option Review

Client Satisfaction

- Client satisfaction climbs over 40%
 - Clients changing the way they hire law firms
- 43.5% of clients recommend their law firm
 - Exceptional client focus the number one driver for recommendations
- 52.2% of clients fired their primary law firm in the past two years
 - Lack of client focus is the number one driver for termination
- Nearly 50% of clients name a specific firm that they will NEVER consider hiring



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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.

BTI Uncovers a Potential Structural Shift in Client Spending

BTI finds that corporate counsel are not only directing more dollars to law firms, but that overall client spending dynamics are changing. Law firms capture a greater proportion of client legal budgets than ever before – and 36.5% more than just 3 years ago. These additional dollars bring increased responsibilities and enormous opportunity. BTI explores what is driving clients to change and how you can tap into these drivers to expand your client relationships.

The Power of Primary: How the Primary Law Firm Gains Influence

Fully 76.3% of corporate counsel at large and Fortune 1000 companies rely on 1–2 primary law firms. The primary law firm is in a powerful position. Clients have aggressively increased their spending with primary law firms as well as their demands on them. See what it takes to be a primary law firm, how to assess your share of client wallet and what you can do to leverage your secondary relationships into this coveted position.

What's Driving Your Clients to Buy Legal Services:

Pinpoint Client Goals, Needs and Priorities

- Risk reduction enlarges its lead over cost reduction as clients' top goal.
- Demand for client-focused law firms increases.
- Corporate legal staff has declined by nearly 40% since 2001.



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Combined, these 3 trends in client needs and priorities create a prime opportunity for law firms. Clients need more resources and are turning to law firms to get them. At the same time, their focus on cost savings has waned. Learn how to use insight into client needs and priorities to your immediate advantage, increase billings and boost profits per partner.

New!! BTI Client Hot Spots: Target Clients' Immediate Needs by Practice and Industry

Discover which practice areas and which industries will blossom in 2005. Clients plan to increase budgets in a select group of practice areas, including Regulatory, Litigation and Securities. Find out which industries and practice areas are the best targets – and which are not. Hone your law firm strategy to take advantage of rising dollars and premium rates.

New!! Strategic Services That Clients Want From Their Law Firms, Now

Top-of-the-line, strategic law firm services garner premium rates. Of these 6 strategic services, clients see 3 as standing out as services they want from their law firms. Now. Learn which ones they are and target the benefits that clients see to enjoy premium rates.

1. Compliance Audits
2. Corporate Governance Diagnostic
3. Risk Assessment Analysis
4. Training
5. IP Planning
6. Stock Option Review

73.8% of clients see specific advantage to at least one of these services. See how these strategic services stack up, which ones clients want most and how you can tap business services for premium rates and higher client satisfaction.

Clients Fire Primary Law Firms, Client Satisfaction Climbs

Clients are happier – and quicker to drop law firms when they're not.

- 56.5% of clients do not recommend their primary law firm
- 52.2% of clients fired their primary law firm in the past 2 years
 - *and...client satisfaction climbed in 2004*

BTI finds that clients are sending a message to their law firms – shape up or ship out. The key to keeping clients happy – or losing business – lies in client focus. Find out what other factors contribute to a happy client and what it takes for you to be successful at boosting your existing client relationships.

And yes, also discover how to keep your law firm off the chopping block.



Introduction

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 2005* 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.



Introduction

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 2005*. 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.



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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.

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 Goals, Needs and 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.

BTI Client Hot Spots: Immediate Client Needs by Practice and Industry

BTI's exclusive analysis of client spending, budgets, needs and priorities delivers powerful results. Drawing on client insights and expectations, BTI hones in on clients' most pressing concerns and prominent issues. BTI Client Hot Spot Watch directs you to the practices and industries where client spending is on the rise and where your law firm can tap into clients' immediate needs.

New, Strategic Services Clients Want from Their Law Firms

Clients are looking to their law firms to provide strategic services outside of the realm of traditional law firm expertise. BTI highlights 6 law firm services and reveals 3 that clients want to buy – now. Use this brand new analysis to develop new, client-focused services that deliver additional revenue, boost client satisfaction and generate more work.

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.



Introduction

The opinions expressed in *The Strategic Review and Outlook for the Legal Services Industry 2005* 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.



Just released! Brand new, completely updated research for 2005!

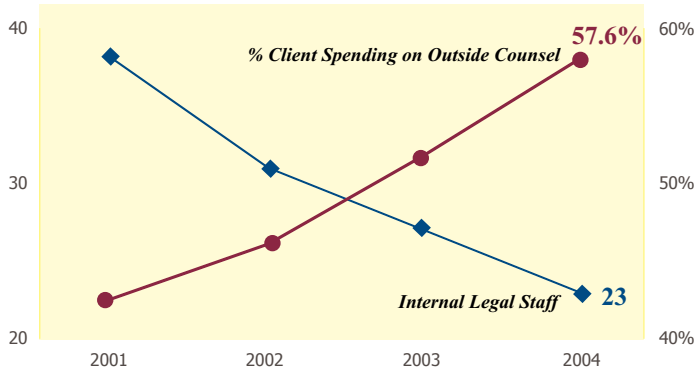
THE STRATEGIC REVIEW AND OUTLOOK FOR THE LEGAL SERVICES INDUSTRY 2005



Exclusive Market Insights: Client Spending, Needs and Law Firm Utilization

From Fortune 1000 Companies and Law Firms' Largest Clients

BTI's fourth annual *Strategic Review and Outlook for the Legal Services Industry* delivers brand new analysis and fact-based insight into the legal market's most powerful – and valuable – clients. Based on interviews with over 180 corporate counsel at Fortune 1000 and large organizations, this research delineates client spending, budgets, needs, priorities, expectations and more.



57.6% of Client Dollars go to Outside Counsel, Up From 42.2%
Are you getting your share?
Client Legal Staff Down 40%

Client spending on outside counsel continues to climb. Overall legal spending dips to its lowest point in 2 years. Learn how a potential structural shift in legal spending is putting law firms in the hot seat. 4 Practices benefit the most. Target your firm to the practices and hot buttons that drive spending and premium rates.

The Power of Primary

Fully 76.3% of corporate counsel at large and Fortune 1000 companies rely on 1-2 primary law firms. These selected law firms enjoy twice the client wallet share of everyone else. See what it really takes to be the primary law firm.

Client Satisfaction Surges: Smaller Firms Garner Favor

Client satisfaction surged to 43.5% of clients that recommend their primary law firm. The gains go to small and mid-sized firms. See what they are doing right.

Client Satisfaction Rebounds, but Quicker to Fire

Clients are happier – and quicker to drop law firms when they're not. 52.2% of clients fired a major law firm. Client satisfaction climbs to 43.5%. Learn what it takes to boost your client relationships – and 6 reasons why clients put their law firm on the chopping block.

New!! 6 Services Clients Want From Their Law Firm... Now!

73.8% of clients see advantage in buying 6 key law firm offerings. Learn how you can tap this robust need.

Law Firm Profitability and Market Share: A Special Analysis

Market share gains versus profitability: A no-holds-barred analysis of the Top 30 law firms — by name. See what strategies work, and which ones don't.

NEW!! BTI CLIENT HOT SPOTS

Target Clients' Most Immediate Needs — by Practice and Industry

- ◆ 8 of 14 industries expect Regulatory to soar
- ◆ Corporate matters ramp up in Financial Services
- ◆ Securities takes the hot spot in big spending industries such as Banking and High Tech
- ◆ Litigation still strong in Pharmaceuticals

Tap into clients' critical needs in 9 practices and 14 industries — *Get the business while it's hot!!*



Just released! Brand new, completely updated research for 2005!

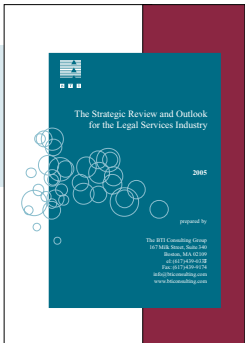
THE STRATEGIC REVIEW AND OUTLOOK FOR THE LEGAL SERVICES INDUSTRY 2005

BTI's high-impact analysis of client needs, spending and priorities gives you exclusive insights into client relationships and market opportunities. BTI interviewed more than 180 corporate counsel at Fortune 1000 and large organizations. *BTI's Strategic Review and Outlook for the Legal Services Industry 2005* pinpoints client goals and priorities and shows you how to use client research to your immediate advantage.

- ♦ Client legal staff drops almost 40% in past 3 years
- ♦ Convergence continues – clients get better at using fewer law firms
- ♦ Regulatory prime for largest budget boost in 2005
 - Securities slotted for bold increase
 - Litigation to gain
- ♦ Client satisfaction climbs, but clients quicker to fire
- ♦ 52.2% of clients fired their primary law firm in the past two years
- ♦ 5 Key Issues keep clients up at night – use them to target your message and help clients sleep soundly
- ♦ Nearly 50% of clients name a specific firm that they would *NEVER* consider hiring
 - Learn the 6 reasons why

**New!! BTI Client Hot Spots
Immediate Client Needs**

- 9 practice areas
- 14 industries



YES! I want to take advantage of increases in client spending and position my law firm for strategic growth. Rush me BTI's exclusive *Strategic Review and Outlook for the Legal Services Industry 2005* for \$1,800 plus shipping.

Please bill me: Purchase Order No. _____

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