

THE INNOVATION GAP PERSISTS

Survey methodology

Our second innovation survey is based on responses from 107 in-house counsel and other senior business executives nationwide, representing a diverse mix of industries, company sizes, and locations.

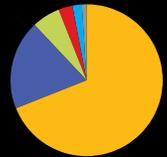
Survey respondents by:

Industry

▪ Technology	21%
▪ Manufacturing	15%
▪ Finance/Insurance	11%
▪ Healthcare	8%
▪ Media	4%
▪ Energy	3%
▪ Life Sciences	3%
▪ Communications	2%
▪ Transportation	2%
▪ Wholesale	2%
▪ Construction	2%
▪ Real Estate	2%
▪ Retail	2%
▪ Education	1%
▪ Entertainment/Recreation	1%
▪ Other	21%

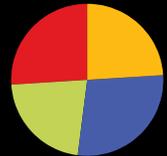
Title

- General Counsel/Chief Legal Counsel
- Assistant/Associate/Deputy GC
- Assistant/Associate Legal Counsel
- Vice President
- Director of Litigation
- Chief Compliance Officer



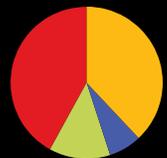
Tenure as legal service buyer

- 20+ years
- 11-19 years
- 6-10 years
- 5 years or less



Company revenue

- \$500M or more
- \$250M-\$499M
- \$100M-\$249M
- Less than \$100M



Region

- Northeast
- South
- West
- Midwest



I've been very unimpressed by the level of technological and project management skills demonstrated by our outside counsel. I would definitely consider looking for another firm that could demonstrate competency in those areas."

— Assistant General Counsel, Business Services

REDEFINING INNOVATION

Dear Clients and Friends,

The world has never been in greater need of innovation than it is today. Whether it's finding vaccines for a global pandemic, reinventing businesses to survive an economic downturn, or protecting vulnerable populations and environments, society is seeking fresh thinking and bold action.

In 2013, we began asking legal service buyers about the desire for innovation in the legal profession. What we learned spurred us to transform our approach to delivering services to align with clients' business needs — not how lawyers have always behaved. Portions of this service delivery platform are embraced in a program we call SmartPaTH™, which allows us to deliver more cost-effective, efficient services, using budgeting tools, work plans, workflow models, value-based pricing (priced other than on an hourly basis), and appropriate staffing, including nonlawyers when suitable. We have been applying this program for seven years. Through our service delivery platform, we have changed the way we do business. It is proven and practiced.

We see many players in the legal market talking about the importance of innovation. But the market needs more than talk. In our first innovation survey two years ago and again in our most recent survey, we've seen a significant gap between the buyers' desire for innovation and what law firms provide. When asked in our first survey whether law firms had undertaken any innovation to alleviate the pressures on in-house legal departments, only 28% of our respondents said "yes." This year's number is just one percentage point higher. Moreover, when asked if their primary firms employed specific innovations — data analytics and artificial intelligence (AI) — the vast majority said "no" or "did not know."

What accounts for the gap between what law firms say they are trying to do and what buyers experience? For one thing, law firms and their buyers often don't define or value innovation the same way. The so-called innovations touted by many simply don't translate into results that buyers see or care about. True innovation takes more than good ideas and new technologies. In a law firm particularly, it takes changed behaviors. Lawyers have to embrace a long-term commitment to developing systems in areas like legal project management, budgeting, and triage. To budget legal work in a way that delivers meaningful and predictable results to a client requires more than best guesses about the cost of a transaction. A firm needs a systematized, data-driven program that supplements a lawyer's knowledge about the transaction, litigation, or project at hand.

Innovation valuable to buyers takes small sustained daily actions as well as big leaps. And it takes measurable results before buyers will see any of this as moving the needle enough to make a difference.

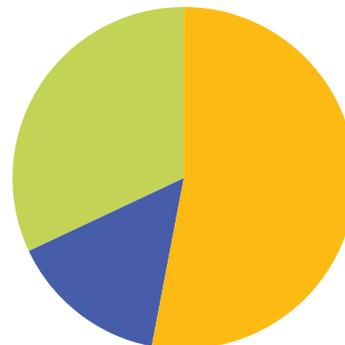
At Thompson Hine, we believe innovation = ideas + sustained action. We are raising the level of innovation within our firm, and we are committed to moving forward the profession as a whole. We hope you'll find this survey helpful and join us in working toward that goal.



Deborah Z. Read
Managing Partner

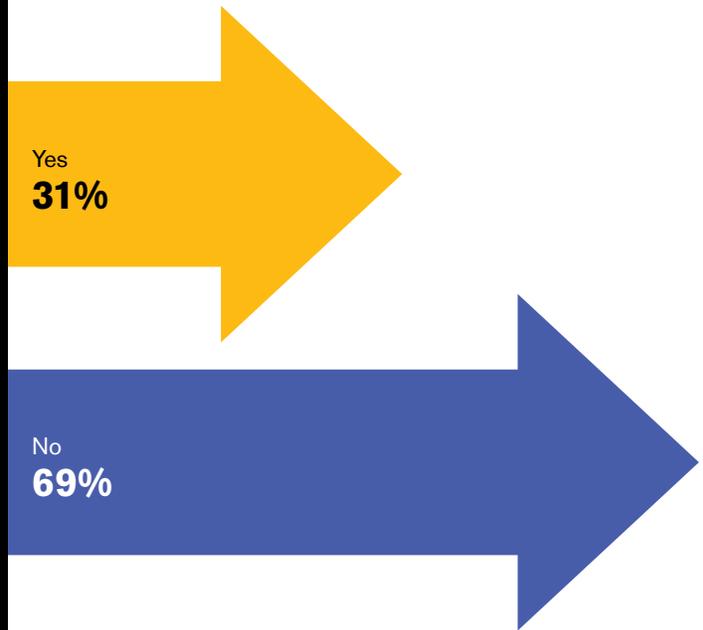
Would you consider hiring a new law firm because it is innovative?

Yes	53%
No	15%
Don't know	32%



IN-HOUSE LEGAL DEPARTMENTS OUTPACE LAW FIRMS

Have law firms increased their level of innovation over the past year?



In-house legal departments continue to face extraordinary pressures — pressures that could be eased through law firm innovation. Budgets — already taking a hit before COVID-19 — are tighter than ever in the wake of the pandemic, and companies are looking for efficiencies at every turn.

But more than two-thirds of our survey respondents said their primary outside firms had made no progress in innovation over the past year. As a result, 91% of in-house law departments have taken innovation into their own hands.

The changes in-house legal departments are making on their own show their priorities. Nearly two-thirds of our buyers cited improved project management as a key change in their legal departments. Almost half have streamlined outside counsel panels, while more than 40% have implemented self-service tools and restructured departments and/or processes. Clearly, efficiency is the order of the day, particularly when you compare the numbers with those in our first survey. Sixty-three percent of in-house law departments had improved project management in 2019 vs. 8% in 2017; 41% had restructured departments or processes vs. 8% in 2017; and 33% had outsourced to alternative legal services providers in 2019 vs. 3% in 2017.

“Outside of being more open to fixed-fee arrangements, I haven’t seen much from my law firms to help me reduce spending while increasing efficiencies.”

— Assistant General Counsel, Technology

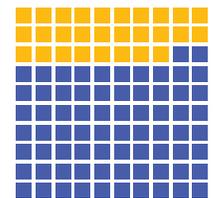
Top pressures on in-house legal departments (1 = most, 7 = least):

● Managing internal workloads	2.96
● Improving efficiencies and processes	3.39
● Operating within budget restrictions	3.59
● Expanding regulatory concerns	3.80
● Reducing outside legal spend	3.92

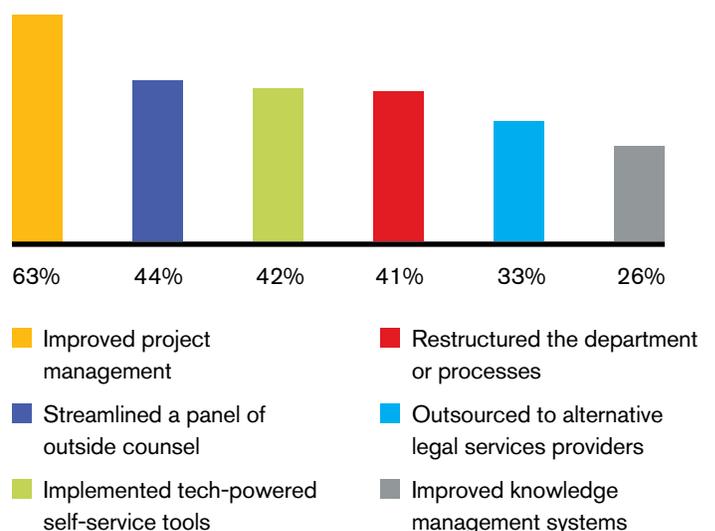


Have your primary outside law firms done anything in the past 3 years to alleviate those pressures?

■ Yes	28%
■ No	72%



Innovations by in-house departments



INTEREST IN DATA ANALYTICS GROWS, BUT KNOWLEDGE GAP REMAINS

Would it be helpful for a law firm to work with you to analyze operational or business data in a way that would inform business or legal strategy?

Don't know **46%**

Yes **38%**

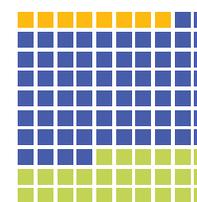
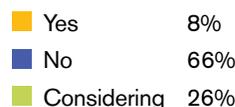
No **16%**

As businesses seek certainty in an unstable economy, data that helps predict potential litigation, timelines and settlement ranges, cost of resolutions or transactions, and successful deal characteristics will be crucial. However, legal buyers are profoundly unsure whether their outside firms will be able to mine or use data in ways that can inform business and legal strategies.

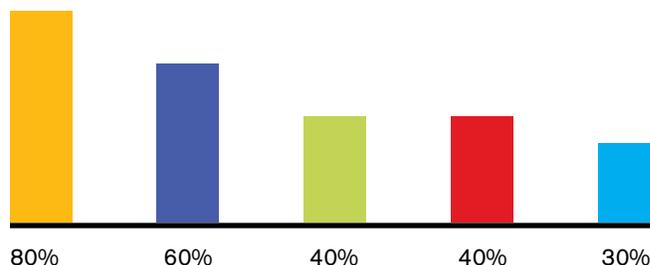
Although more than one-third of respondents thought it would be helpful for a law firm to use data to analyze legal strategy, most disagreed or didn't know enough to say. Ninety-three percent didn't know whether their main law firms used data for predictive analytics. Internally, fewer than half of respondents said their in-house legal services group uses or is considering using data analytics to support providing legal services to the company.

Far from showing a rejection of data analytics, these responses confirm that legal buyers need more information about their potential value in legal analysis. When presented with five specific use cases for data analytics projects, such as identifying trends that might lead to legal claims and using deal characteristics to determine "what's market," 90% showed interest. As knowledge about data analytics increases, so will its perceived value.

Is your in-house law team using or considering using data analytics to support legal services delivery?



For those in-house teams using data analytics, here's what they are doing:

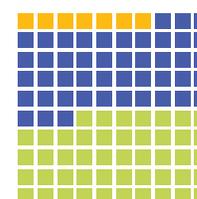
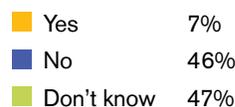


- In-house legal services group operations (efficiency of service delivery, etc.)
- Litigation management
- Business operations (contract management, labor and employment)
- Transaction management
- Risk assessment and mitigation

“While the firms we use are trying to appear to be moving toward more technology-based services, in reality, not much has really changed.”

— General Counsel, Government Contractor

Does your primary law firm analyze data to predict outcomes?



ARTIFICIAL INTELLIGENCE POTENTIAL LARGELY UNTAPPED



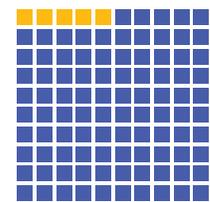
Ever since the Deep Blue computer stunned the world by besting a world chess champion, AI has been viewed with a mixture of excitement and foreboding. The term itself is often misunderstood because of its application to a broad range of activities — everything from language processing to simulating human behavior. In fact, law firms and legal departments have used some form of AI for decades to speed up legal research (think LexisNexis and Westlaw). More recently, lawyers have begun using AI to automate routine, high-volume tasks such as e-discovery, diligence, document drafting, and contract reviews. While AI has enormous potential to drive efficiency and free lawyers to focus on higher-level thinking, some in the profession fear a fleet of robot lawyers coming to steal jobs and degrade legal services.

Our survey showed a lack of knowledge about AI's potential, not only to enhance the cost-effectiveness and speed of routine tasks and manage budgets, but to analyze risk; study courts, opponents, jurors, and witnesses; and predict outcomes. More than 90% of respondents said "no" or "do not know" when asked if their law firms used AI for specified purposes (the exception being e-discovery, which 20% knew their law firms used). Most were unaware whether a law firm's use of AI had saved them money.

As with data analytics, this lack of knowledge leads to a lack of perceived value. More than half the respondents reported no interest in having their lawyers use AI for a list of specified purposes. Respondents were uncertain about the benefits of having law firms employ AI, and most were worried about potential negative consequences, particularly in the area of data security.

Have any of your law firms provided information about their use of AI?

- Yes 5%
- No 95%



Expected benefits from law firm use of AI (1 = not at all likely; 4 = most likely)

- Improved in-house professional skills 2.6
- Use of metrics or qualitative measures to determine performance 2.7
- Enhanced work quality 2.8
- Tech tools implemented for efficiency and performance 2.8
- Improved budgeting and forecasting 2.9



Possible negative consequences from law firm use of AI (1 = least concern, 4 = most concern)

- Less personal service 2.6
- Less customized service 2.6
- Lower-quality service 2.6
- More expensive service 2.9
- Data security concerns 3.0



“I’m sure I should be more concerned with AI, data analytics, and technology implementation. I only have experience with e-discovery programs.”

— General Counsel, Government Contractor

The Thompson Hine Approach

Thompson Hine practices real innovation that allows us to deliver what our clients want, at an appropriate cost.

We use our proprietary SmartPaTH™ program to help our clients not only survive but thrive. We work closely with them to plan, budget, staff, manage, and monitor engagements. We begin each engagement with a detailed scoping conversation, follow up with detailed budgets based on real data, and offer a robust variety of non-hourly value based fees. We end each engagement by measuring our results against concrete goals. To learn more, visit ThompsonHine.com/innovation.



Thompson Hine has been recognized for innovation by:

- ABA Journal
- The American Lawyer
- BTI Brand Elite
- BTI State of Alternative Fee Arrangements
- The Financial Times
- Law 360
- Legal Services Innovation Index
- Litera Microsystems

Embracing innovation is more critical than ever, given the fundamental changes in how and where we work. We are hoping the “next normal” will accelerate the use of new tools and methods by the entire profession.

Thompson Hine LLP
Always Innovating

