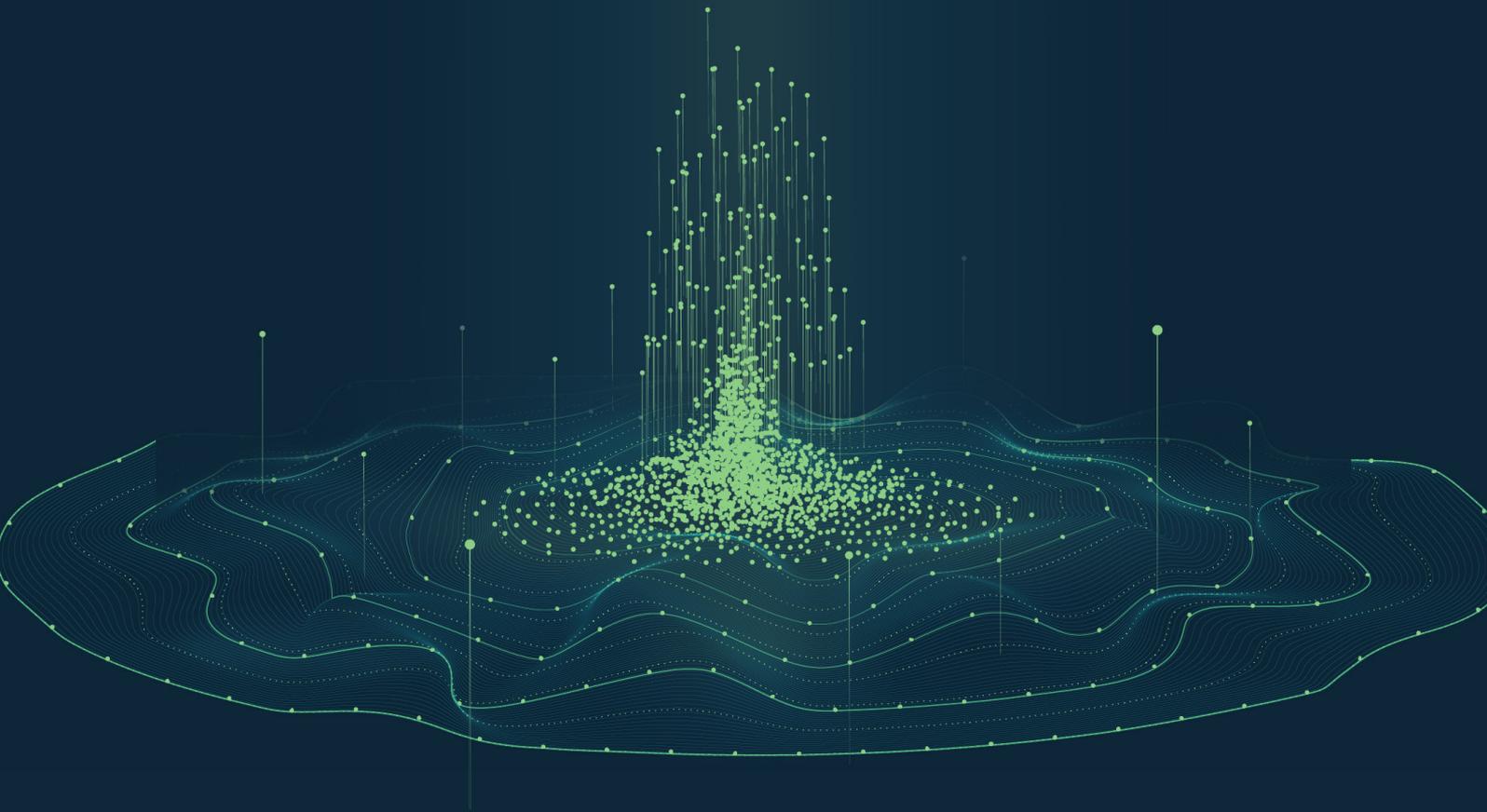


THE TIME FOR DIGITAL TRANSFORMATION IS NOW

BY DAN CARMEL



For the past several years, law firms have been confronted with a set of disruptive market changes: alternative providers, demands for alternative fee arrangements, and dissatisfaction of staff over difficult work-life balance, to name just a few. Firms have been told it's time to modernize, time to change, but often the response is a version of: "if it ain't broke, don't fix it," "don't rock the boat," or "leave well enough alone."

Yet, law firms are not immune from the forces that are disrupting other industries like retail, entertainment, and transportation, which have been upended by digital innovators such as Amazon, Netflix, and Uber. These companies redefined the markets in which they operate and the type of value that can be delivered to customers, becoming market leaders in the process at the expense of those who did not. Remember Blockbuster? Barnes & Noble? Hailing a taxi in the rain? As consumers, your clients have seen this transformation and are now asking their key suppliers "How will you transform to serve me better?"

A little more than twenty years after the IPO of Netscape (the company that launched the first popular commercial Internet browser, for those of you who don't remember), the Internet is now part of the technology fabric. Coupled with advances in cloud computing and artificial intelligence and cybersecurity, organizations are better connected and capable of securely accessing and analyzing huge volumes of data, leaving the only question: How will your organization take full advantage of these new digital technologies? Transformation goes well beyond just using them to automate existing processes, to using them to analyze client needs in order to develop enhanced or new services that address those needs and deliver value in ways that are not just incrementally, but radically, better.

There is a Way to Go About Transformation Programmatically

Forrester Research defines three stages in digital transformation. These provide a road map for thinking about your own organization's path to the future.

Phase 1 - Digitization: Despite the proliferation of innovation or transformation officers in organizations, this is where most firms are focusing their attention today. Digitization is the application of digital technology to existing processes and services with the goal of "going paperless" or reducing costs and improving efficiency through automation. This is the bread and butter of what most organizations consider digital innovation today, yet it provides only incremental benefits. Processes do not really change, they just get faster, and a perhaps bit cheaper. This is not transformation, but it does provide good value in the short term.

Phase 2 - Digital Transformation: This is where it gets interesting. Transformation occurs when you use AI, data analytics, cloud and other digital technologies to change how you operate or to develop new service offerings, based on information and insight gleaned from customers. Perhaps by analyzing client downloads from your portal, you uncover content that's particularly popular and downloaded more often. Transforming the process could involve making this content available to your clients at moments when they may specifically benefit from it, for example, by using AI to identify clauses in client documents (like wills or employment agreements delivered in past engagements) that may need to be updated based on changes in the underlying law. This turns a reactive - and potentially overlooked - asset into a key insight delivered to your client right when they need it. It also opens the door to additional revenue, because it is surfaced at the moment when the client is receptive - just like a smart online retailer knows what you are shopping for, and presents you with specific user reviews, photos, specifications, and suggested complementary offerings (those who bought X also bought Y, for example) directly related to that product.

Another example would be transforming an existing process such as document review, which is often a part of M&A, real estate, and other transactions. Today this is an expensive, mostly manual task, one which clients are less and less willing to pay for. Some firms are forced to sample large document sets in order to arrive

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at an expectation of what they may contain, but do not analyze the full document set as it is too expensive. AI allows you to transform this process, enabling you to automatically extract key content from all the documents you are reviewing, use this extracted content to assemble tables for use in new legal documents, and identify content exceptions that require manual review of a document. In doing so you can transform this process from one that is expensive and error prone, to one which can be 60-75 percent less expensive, while also producing better quality results and lower risk than manual review alone.

Another benefit? Transformed processes tend to eliminate low-level cognitive tasks – the grunt work – that many legal associates hate. Associates' work now becomes higher level and more about the law than about finding and validating content and documents. Associate satisfaction goes up as they do more lawyering and less grunt work, and achieve better work-life balance.

Phase 3 - Digital Disruption: Those organizations that find new ways of delivering customer value – by analyzing customer data, and by doing that well – earn the opportunity to reshape an entire market. Netflix started by shipping DVDs, transformed the value and price of its service by moving to streaming, and then transformed again by analyzing user behavior to disrupt the industry by sourcing new content and creating original shows that users are more likely to enjoy, based on their demonstrated preferences. Those law firms that pursue transformation aggressively and uncover ways to deliver more value to clients using advanced analytics and other technologies will similarly get a chance to define whole new ways of working – and reap the benefits in terms of market share and profitability. You can begin to see hints of this emerging, as established leaders bring entirely new services to market. Allen & Overy, for example, has announced a new service for clients to manage initial margin requirements on ISDA (derivatives)

agreements. This is an example of a law firm combining market data and technology to automate a difficult business problem for its clients in a new and innovative way – and other ground-breaking offerings like this are starting to appear from several large and mid-sized law firms.

For those who are not yet on this path, the risks are significant. Disruptive new legal services that offer higher value at a dramatically lower cost are difficult to compete with using traditional approaches. Trying to “follow the leaders” does not work very well in the digital domain, as leaders quickly win market share positions that make them very difficult to unseat. In this new world, first movers have a huge advantage.

The question is, will you be a first mover? The legal community has for years been talking about changing – but has still stayed pretty much the same. What is different now is that digital technologies have matured, innovation is sprouting up at many points in the legal services ecosystem, and clients are fed-up and demanding greater security value and innovation from their law firms. In other words, this time it's not just about giving lip-service to change. It's about action – action that uses digital technologies to build the new products and services your firm needs to increase (or at least maintain) its market share. A “business as usual” approach is not safe response to what is happening in the market.

Barriers to Transformation

Effective transformation requires that you also address several organizational and technological limitations that many law firms face:

1. Firm culture: Law is generally not a place for risk-taking, and digital transformation should not be viewed as risk-taking. It is a data-driven approach to delivering value in more efficient ways. Yet for many firms, the concept of change always raises the question of risk, and that leads many firms to delay adoption of new ways

of working until they are firmly established. In an era of digital transformation, not acting is actually the biggest risk of all. Firms need to recognize that pursuing small innovative projects, some of which will fail, is a necessary requirement for creating innovation and finding “winners.” IT leaders need to fight the traditional view that everything new is risky and explain instead why not testing new ideas and new approaches is the true risk. This is no small task. To win over firm management, avoid discussions focusing on just the new digital technologies and instead focus on getting closer to clients and using client data to change how you deliver value. Then, introduce new digital technologies as the means by which you can accomplish those goals. Client needs and value, not technology, should be your business case.

2. Technology arthritis: Firms traditionally have needed to integrate multiple software products to address core information management needs. This creates a tremendous drag on innovation, as changes or upgrades to one product may create incompatibilities with other products that are being used by the firm. To innovate, your firm must have agility: the ability to react quickly to new information and respond to changing customer needs. Firms should consider the cost of integrating and working with multiple different vendors across key areas of technology, and – where possible – should try to minimize and focus on a few “strategic” vendors that can provide broad-based platforms with multiple capabilities, while also taking responsibility for ensuring all these capabilities are seamlessly integrated. Modern platforms with consistent interfaces, integration methodologies and well documented APIs, support, and training processes remove friction and enable better and faster response to new market demands.

3. Cloud resistance: Firms should give serious thought to moving their key systems to the cloud, which enables faster upgrades and greater agility, and allow IT

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personnel to focus on adding business value and reengineering processes, rather than connecting systems together. Traditional fears about safety and governance have been addressed through the adoption of industry standards like ISO 27001 and SOC 2+. Here is a little data you can use to help management understand this better: Today, over 90 percent of new corporate legal department implementations completed by iManage are in the cloud. Your clients have discovered the benefits of the cloud – you should too. As a risk mitigation strategy, consider a vendor that offers a hybrid cloud solution: one which can maintain most content in the cloud, but work with on premises infrastructure for any clients or partners that feel the cloud is still not secure enough. The cost savings and agility gains can be significant in this approach, as 80 – 90 percent of your infrastructure and resulting overhead can still be eliminated.

If you seek to realize the benefits of digital transformation before existing and new competitors do so, the time to make the changes necessary to overcome the barriers preventing or slowing your transformation is now. You, your associates, and your clients will find that the rewards – more satisfied clients, lower expenses, increased agility and happier and more engaged associates – are well worth the effort. **ILTA**



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