Embracing AI: Why Small Law Firms Must Leverage Competitive Advantage

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Commentary

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Over the last decade, small litigation firms have successfully leveraged technological innovations to go toe-to-toe with their "Big Law" counterparts on complex litigation cases. In fact, technology has empowered small litigation firms to shape their chief competitive advantage – agility – and enabled them to quickly adapt to changing circumstances, devise creative strategies, and implement tailored approaches to meet the evolving demands of complex litigation.

But small litigation firms now face a technological inflexion point that may dramatically impact their ability to level the playing field: Artificial Intelligence (AI). Small firms must aggressively embrace AI or risk getting left behind by Big Law firms, whose technological resources will allow them to incorporate AI into the practice at every fundamental level. It will soon be the case that small litigation firms that rely solely upon current technology instead of emerging AI technologies will be at a severe disadvantage. Small litigation firms should instead exploit their agility to actively explore and create use cases for AI.

The Growing Influence of AI in the Legal Industry

Before delving into the specific advantages of AI for small law firms, it is essential to understand the growing influence of AI in the legal industry as a whole. AI technologies, including machine learning, natural language processing, and data analytics, have made significant strides in recent years. According to a report by McKinsey, the adoption of AI.[1] in the legal sector is projected to have an economic impact of up to $2.7 trillion annually. These advanced technologies offer unprecedented opportunities for automation, streamlining processes, and gaining valuable insights from vast amounts of legal data.

Undeniably, this change can already be felt in litigation. AI is significantly aiding in e-discovery, a process that involves identifying, collecting, and producing electronically stored information. Tools like Relativity and Everlaw use AI to sift through thousands of documents quickly and accurately, pinpointing relevant data, saving valuable time and resources. Another noteworthy use of AI is in predictive analytics: software like Lex Machina can analyze past case records and judge behaviors to predict case outcomes. These AI advancements are streamlining the litigation process, leading to more efficient and informed practices.

Leveling the Playing Field: AI as the Great Equalizer

The legal profession has traditionally relied on the expertise and experience of lawyers to provide top-notch legal services. But with the advent of AI, small law firms can now expand capabilities to compete more effectively against Big Law and level the playing field. AI-driven legal technology can assist small firms with legal research, contract analysis, due diligence, and predictive analytics, and more.

One of the significant advantages of AI is its ability to automate repetitive and time-consuming tasks. Small law firms often face resource constraints, making it difficult to dedicate extensive hours to manual work. By harnessing AI-powered tools, lawyers can instead focus on higher-value work such as client engagement, strategy development, and advocacy.

Additionally, AI can enhance the efficiency and accuracy of legal research. Traditionally, lawyers spent countless hours sifting through volumes of legal precedents, statutes, and case law to find relevant information. AI-powered platforms can expedite this process by swiftly analyzing vast databases and providing precise search results. This not only saves time but also enhances the quality and depth of legal research, enabling small firms to provide more comprehensive and well-founded advice to their clients.

Data-driven insights are another area where AI shines. By analyzing massive datasets, AI algorithms can identify patterns, trends, and correlations that might otherwise go unnoticed. Small law firms can leverage these insights to develop winning legal strategies, predict case outcomes, and make informed decisions. AI-powered analytics can also help identify potential risks, opportunities, and gaps in legal arguments, allowing small firms to craft stronger cases and better serve their clients' interests.

Big Law's Move to AI and Bespoke Systems

As empowering as AI can be for small firms, the future holds the potential for Big Law firms to truly embrace the possibilities of AI and develop their own in-house, bespoke AI systems. This development could provide those firms with an enormous competitive advantage over smaller counterparts. By employing the power of AI and tailoring it to their specific needs, Big Law firms can enhance efficiency, accuracy, and client service to unprecedented levels.

Big Law firms certainly have the resources and infrastructure to invest in the development of custom-built AI systems for their unique requirements. Unlike off-the-shelf AI solutions, in-house systems can be personalized to align seamlessly with the firm's workflows, practice areas, and client base. By fine-tuning the algorithms and training models, big law firms can optimize AI to address their specific legal challenges and improve decision-making processes. These sys-

tems can process vast amounts of legal data, extract relevant information, and generate valuable insights in a fraction of the time it would take a human attorney. By automating repetitive tasks such as document review, contract analysis, and legal research, Big Law firms can not only significantly improve the efficiency of their professional services, but also the velocity of their production. In complex litigation matters, that will empower Big Law firms to move faster and more effectively than opponents without AI support.

Moreover, bespoke AI systems can improve accuracy by minimizing human errors and biases. These systems can analyze data with precision, identify patterns, and make data-driven predictions, augmenting the capabilities of human attorneys. By leveraging AI's analytical power, Big Law firms can gain a deeper understanding of legal precedents, case outcomes, and legal strategies, enabling them to provide clients with intentional advice and make better-informed decisions.

While small firms may rely on third-party AI tools, Big Law AI systems will be tailored specifically to their clients' needs. Furthermore, in-house AI systems allow Big Law firms to accumulate valuable data over time, continuously improving their models and training algorithms. Their accumulated knowledge and expertise will create a virtuous cycle, strengthening the firm's competitive position and creating barriers to entry for smaller firms that may not have the resources or capacity to develop similar systems.

The Consequences of Inaction: Small Firms Falling Behind

While larger law firms have already begun incorporating AI – and now generative AI – into their practices, small firms that hesitate to embrace these transformative technologies risk falling behind permanently. As AI becomes more prevalent in the legal industry, the divide between AI-powered firms and those relying solely on traditional methods will widen. A report by Deloitte highlights that early adopters of AI in the legal sector are gaining a competitive advantage, driving differentiation, and capturing market share.[2] Small firms that fail to keep pace with this technological shift risk losing clients, market relevance, and ultimately, their standing within the legal industry.

Furthermore, clients are increasingly demanding innovative and cost-effective legal services. They

expect their lawyers to incorporate cutting-edge technologies to deliver efficient solutions and favorable outcomes. Large firms with robust AI capabilities are better positioned to meet these changing client expectations. If small litigation firms cannot match the efficiency and value offered by their larger competitors, clients may choose to take their business elsewhere, further marginalizing small firms and eroding their market share.

The Financial Case for AI Adoption

While the potential benefits of AI adoption for small law firms are clear, concerns about the financial feasibility of incorporating AI may arise. It is important to recognize, however, that the cost of AI technology has decreased significantly in recent years, making it more accessible to small firms. Numerous AI-powered legal tools and platforms are available on the market, offering affordable subscription models or pay-per-use options. By strategically investing in AI solutions targeted to their specific needs, small law firms can achieve significant cost savings, operational efficiencies, and improved client satisfaction.

Furthermore, the long-term financial implications of not adopting AI should be considered. A study conducted by Clio found that lawyers spend only 2.3 hours of their day on billable work, with the remaining time consumed by administrative tasks and non-billable activities.[3] By embracing AI and automating many non-billable tasks, small firms can increase their billable hours, improve revenue generation, and maximize their profitability.

Creating Use Cases for AI

Numerous success stories demonstrate how small law firms have leveraged AI to thrive in this evolving legal landscape. At Salazar Law, we have a policy of constantly testing and building a use case for AI in order to maximize our effectiveness in the high stakes business litigation matters we handle for our clients. We were an early adopter of ROSS Intelligence, a legal technology company that developed an AI-powered legal research platform. It utilized IBM's Watson technology to provide efficient and comprehensive search results.

Now, we encourage all our professionals to keep open one of the primary language-based, generative AIs for use as a daily tool. Our professionals have used these AIs to write first drafts of demand letters, motions, and other pleadings. These AIs are remarkably effective brainstorming partners in developing discovery requests, deposition questions, and more.

Many more opportunities to integrate AI are on the horizon. For example, CaseText is launching CoCounsel, an AI assistant that can read, write, and understand at a high level, giving lawyers the ability to delegate several substantive legal tasks, such as legal research and document review, and get answers to complex questions incredibly quickly.

Conclusion

The legal profession is undergoing a transformation driven by AI and legal tech innovations. Small law firms must recognize that failing to embrace AI and incorporate it into their practices can have lasting consequences. By harnessing the power of AI, small firms can level the playing field, enhance their capabilities, and compete effectively against larger rivals. But if they fail to act now, small firms risk not only their survival but also their ability to deliver exceptional legal services in an increasingly AI-powered world.

Endnotes

1.   McKinsey & Company. (2017). Artificial Intelligence: The Next Digital Frontier? Retrieved from https://www.mckinsey.com/business-functions/mckinsey-digital/our-insights/artificial-intelligence-the-next-digital-frontier

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3.   Clio. (2020). The 2020 Legal Trends Report. Retrieved from https://www.clio.com/resources/legal-trends/2020-report/