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Legal Market Landscape Report

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WILLIAM D. HENDERSON



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Executive Summary

This report is an update of the 2018 Legal Market Landscape Report. It provides an extensive analysis of the California legal market, focusing on key aspects such as market size, the role of law firms versus other legal service providers, the impact of legal technology, and the significant unmet legal needs within the state.

Comparison with 2018 Report

The most important finding of the 2018 report was a detailed statistical breakdown of two market segments—one part serving individuals (PeopleLaw) and another serving organizational clients (primarily businesses). Earlier research on the legal profession suggested that these two segments were roughly equal in size, comprising two “hemispheres” of practice. However, the data assembled for the 2018 Landscape Report documented that three-quarters of all law firm receipts were generated from organizational clients and that the fastest-growing practice setting, by a wide margin, was in-house legal departments. Conversely, the report also presented data showing that the segment of the bar serving individuals was struggling economically, as their services were increasingly unaffordable to ordinary people.

The 2018 Report assembled evidence showing that the common thread connecting the PeopleLaw and Organizational Client segments is the problem of lagging productivity, or what economists call cost disease. Quoting the 2018 Executive Summary, “As society becomes wealthier through better and cheaper goods and services, human-intensive fields such as law, medical care, and higher education become relatively more expensive.” Although organizational clients cope with these cost pressures by paying higher law firm rates, they also reshape the landscape by significantly investing in data, process, and technology (the legal operations movement) and diverting work to Alternative Legal Service Providers (ALSPs). In contrast, comparable innovation in the PeopleLaw sector is constrained by lawyers who lack the capital, business acumen, and managerial ability to design, build, and operate high-volume law practices that depend on marketing, technology, and allied legal professionals. Thus, without cost-effective alternatives, “a growing proportion of U.S. consumers are choosing to forgo legal services rather than pay a higher price.”

The data assembled for the 2024 Landscape Report corroborates the structural divide between PeopleLaw and Organizational Clients, including the differing ways these market segments are adapting to the problem lagging legal productivity. However, the 2024 Landscape Report differs from the 2018 Report in two significant ways: (1) it used the best available data to draw a more comprehensive picture of the legal market circa 2024, thus documenting the contours of a new legal ecosystem that is growing up and around traditional law firms; (2) it provides a much deeper analysis of the California legal economy as it related to both supply (lawyers, law firms, Legal Tech companies, and other legal service providers) and demand (individuals versus the full range of organizational clients, including microbusinesses).

Section 1: Definitions and Data Sources

Although traditional law firms remain the largest portion of the legal market, virtually every other segment—in-house legal departments, the Legal Tech sector, and new types of legal vendors, including those backed by venture capital and private equity investment—is growing faster.

To orient the reader within this complex legal landscape, Section 1 presents two empirically based frameworks. The first ([Figure 1](#)) defines the supply side of the legal market by graphically summarizing the various market segments circa 2024. The second ([Figure 2](#)) is a client typology that reflects how the demand side of the legal market is evolving.

The disparate growth pattern of different market segments is likely the result of regulatory features that effectively divide the market into Lawyer-to-Client (L2C) and Lawyer-to-Lawyer (L2L) businesses. These terms warrant definition. L2C refers to products and services provided directly to clients, often individuals or businesses without in-house legal counsel, whereas L2L products and services are provided to other lawyers or legal departments and thus can be classified as paraprofessional work under the supervision of licensed lawyers. This distinction likely accounts for the rapid growth of Legal Tech and other legal service providers, including Alternative Legal Service Providers (ALSPs), operating as L2L businesses.

The frameworks developed in Section 1 are empirically based, using the best and most recent data sources. Thus, Section 1 concludes with a section-by-section summary of all data used in this report, including their limitations.

Section 2: Overview of the California Legal Market (supply)

No single data source reflects the full breadth of the California legal market. Thus, the only way to understand the California market is by systematically analyzing adjacent market segments.

The largest market segment is organizations in the business of providing legal services to clients (NAICS 5411). In 2022, the California market was valued at \$57.8 billion, with 75.6% of total receipts earned from organizational clients and 24.4% coming from individuals ([Figure 3](#))—a breakdown similar to the national average (73.9%, 26.1%). Although most of these receipts (95.6%) are generated by traditional law firms, there are wide disparities in economic returns. For example, nearly one-third of all legal services receipts (\$19 billion) are generated by large AmLaw 200 corporate law firms with national and international reach. Although these fees generate lucrative income for approximately 15% of California lawyers working in private practice and legions of specialized support personnel, the majority of the private practice bar work at smaller law firms serving some combination of individuals and/or small to medium-sized businesses that, on average, generate relatively modest economic returns. These large disparities in earning power make it difficult to generalize about law firm economics, as market averages will often be misleading.

Although the second biggest category of service provider, “all other legal services” (NAICS 541199), is small compared to the law firm sector (NAICS 541110), it is economically significant. As of 2017, California’s “all other legal services” sector, which includes at least some ALSPs and many other service businesses adjacent to the practice of law, generated \$1.1 billion in total receipts—more than the total legal economy of 13 states. In addition, California’s “all other legal services” sector generated 23.2% of total national receipts, twice as much as any other single state.

Changes in the legal market can also be observed through significant, ongoing shifts in practice settings. As noted in the 2018 Report and updated here ([Figure 5](#)), since 1997, the growth rate of lawyers working in law firms has trailed both the in-house and government sectors. Between

2016 and 2023, California in-house lawyers increased by 45.3% (11,670 to 16,960), placing this market segment roughly on par with California-based AmLaw 200 lawyers (17,274). Likewise, both nationally and in California, in-house salaries continue to increase faster than private practice. This shift likely reflects the increased insourcing of legal work by corporate legal departments to manage costs and improve efficiency; yet, what remains for corporate law firms is highly specialized work that often commands premium rates.

Section 2 concludes with an overview of the rapidly growing Legal Tech sector, focusing on many Legal Tech companies headquartered in California and founded by California-licensed lawyers. By streamlining legal workflows through artificial intelligence and automation, several California Legal Tech companies have achieved “unicorn” status (valuations of more than \$1 billion). However, the benefits of these advancements are primarily felt by organizational clients, with limited impact on individual clients. Risk factors considered by investors suggest this is due to regulatory constraints on non-lawyer ownership and the provision of legal advice.

Section 3: Individual vs. Organizational Clients (demand)

The report delves into the structural divide between legal services provided to individual clients (PeopleLaw sector) and organizational clients. The PeopleLaw sector, serving 39.0 million Californians, faces significant challenges, particularly due to the rising cost of legal services. The increasing costs, driven by the ongoing problem of cost disease, have made legal services less accessible to ordinary citizens. As a result, lawyers serving people struggle to build sustainable business models for providing accessible, low-cost legal advice for ordinary people. Fifty years ago, more than half of lawyers served primarily individual clients. Today, the PeopleLaw sector accounts for only 24.4% of the market in California, a figure that roughly tracks the national average of 25.4%.

In contrast, California’s Organizational Client sector, which includes around 780,000 businesses and 4,500 government entities, represents more than three-quarters of California's legal service economy. Large businesses, especially Fortune 500 companies, are significant contributors to this sector, spending billions on outside legal services and in-house legal departments. This divide highlights the economic challenges faced by smaller law firms and solo practitioners who serve individuals and small businesses. They often struggle to sustain their practices in the face of rising costs and declining demand from price-sensitive clients.

The report concludes the problem of access to justice and unmet legal needs is limited to the portion of the market serving individuals and small businesses. Thus, California legal regulators should focus their attention there.

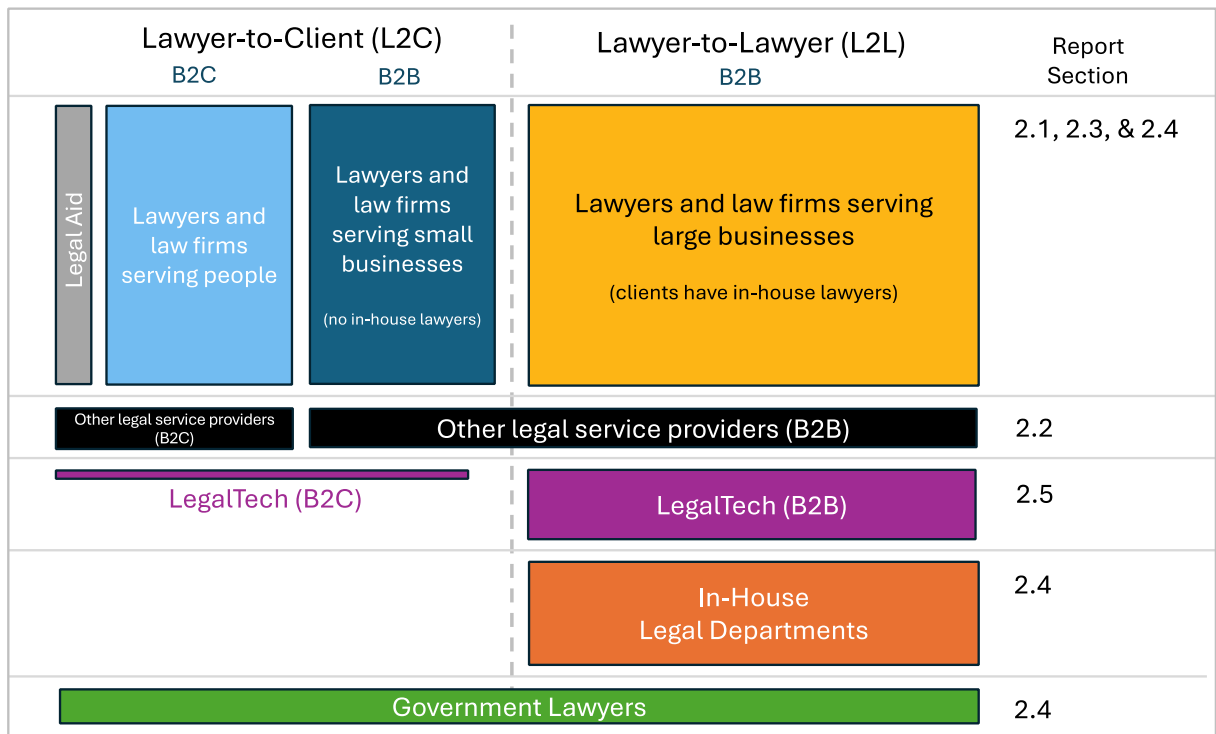
1. Definitions and Data Sources

The legal market circa 2024 is both complex and rapidly evolving. To help orient the reader, this initial section is broken into three parts. Section 1.1 presents a conceptual framework for describing this market, including how its segments interrelate. It is focused on lawyers and various service providers.¹ Section 1.2 presents a conceptual framework based on the type of client, which is necessary to understand bottleneck issue related to access and affordability.² Finally, Section 1.3 discusses data sources, including data limitations.

1.1. What is the legal market?

All readers would likely agree that a legal market landscape report should provide a thorough overview of lawyers working in private practice. Fortunately, there is relatively good data for that. Yet, with each passing year, making general statements about the legal market becomes increasingly difficult. To illustrate this issue, Figure 1 presents a graphic depiction of the legal market circa 2024.

Figure 1. Legal Market by segment, circa 2024



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Each box in Figure 1 represents a segment of the legal market. The size, or area, of each box is roughly proportionate to the relative size and economic significance of each segment. For example, the top row of boxes in Figure 1 are lawyers in law firms, including those in solo practice. This ranges from nonprofit legal aid organizations (gray) serving low-income people to law firms serving large corporate clients with in-house legal departments (gold). As discussed in

¹ The Section 1.1 framework for lawyers and service providers is used in Section 2 of this report.

² The Section 1.2 framework for client type is used in Section 0 of this report.

the body of this report, the income of private practice lawyers is strongly connected to the type of client served, with partners in large corporate law firms (gold box) earning ten to twenty times to the income of lawyers serving people (light blue box).³

Note that the top row is divided into two roughly equal parts—Lawyer-to-Client on the left and Lawyer-to-Lawyer on the right. These terms are analogous to the business-to-consumer (B2C) and business-to-business (B2B) but reflect business practices and ownership structures necessary to comply with legal ethics rules:⁴

- **Lawyer to Client (L2C)** means the client served is either a person or a business without in-house counsel. To avoid impermissible fee-splitting with nonlawyers or engaging in the unauthorized practice of law (UPL), any business in the L2C space must do one of two things: (1) carefully limit business activities to legal information, such as form preparation or ancillary activities that do not involve legal judgment, or (2) be 100% owned by lawyers.⁵
- **Lawyer to Lawyer (L2L)** means that legal work or work product is sold directly to a law firm or legal department and thus can be classified as paraprofessional work under the supervision of licensed lawyers.⁶

The black boxes in the second row of Figure 1 (“all other legal services”) and the purple boxes in the third row (Legal Tech segment) routinely have nonlawyer ownership, including substantial private equity and venture capital funding. As discussed in Section 2.2, “all other legal services” is a category tracked by the U.S. Census Bureau and includes, among other businesses, at least some Alternative Legal Service Providers (ALSPs), including operating units of Big Four accounting firms. Similarly, as discussed in Section 2.5, the Legal Tech segment comprises thousands of companies, most of whom are early-stage start-ups funded by sophisticated angel and venture-capital investors.

Although the “all other legal services” and Legal Tech segments are not currently regulated by the State Bar of California or the California Supreme Court, at least directly, there are at least two reasons why these segments should be included in the current legal landscape report. First, they are growing much faster than the current law firm sector. Second, these segments heavily depend upon lawyers' expertise, domain knowledge, and professional networks to identify commercial opportunities and execute their go-to-market strategies. Thus, they are part of a new and emerging legal ecosystem growing up and growing around the traditional law firm sector.

Note that in the Legal Tech segment, the purple box in the L2C space is much smaller than the purple box in the L2L space. This size differential is based on the volume of funding flowing into B2B versus B2C Legal Tech—approximately 20 times more for companies in the B2B Legal Tech

³ See Section 2.4.1, *infra*.

⁴ The most important of these rules for the purposes of this report are Rule 5.4, which prohibits nonlawyer ownership of any business engaged in the practice of law, and Rule 5.5, which pertains to the unauthorized practice of law.

⁵ See California Rules of Professional Conduct, Rule 5.4, Financial and Similar Arrangement with Nonlawyers (“A lawyer shall not practice with or in the form of a professional corporation or other organization authorized to practice law for a profit if: (1) a nonlawyer owns any interest in it ...”).

⁶ See WILLIAM D. HENDERSON, LEGAL MARKET LANDSCAPE REPORT (State Bar of California, July 2018) at 25 & notes 87-88 [hereafter 2018 LANDSCAPE REPORT] (discussing a series of California, New York, and ABA ethics opinions that classified legal services sold to legal departments and law firms as paraprofessional work if the work is supervised by a licensed lawyer, a detail commonly addressed in the engagement letter).

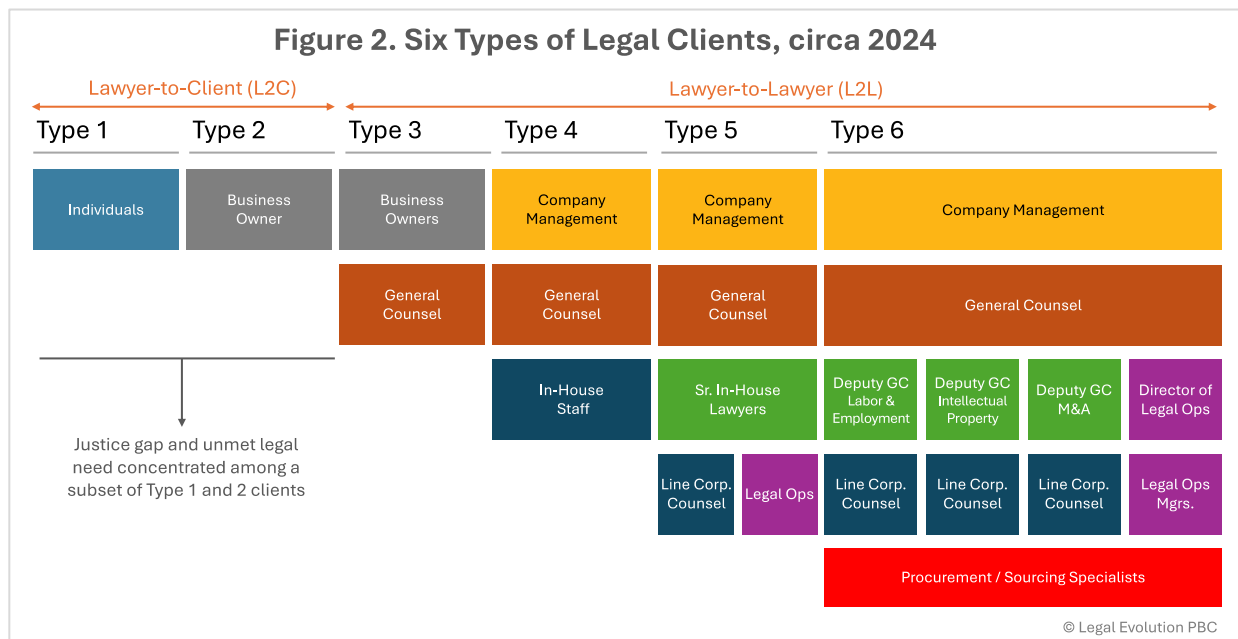
segment.⁷ Although a handful of Legal Tech companies are classified as both B2C and B2B in Pitchbook (a leading database for tracking investments into businesses), these exceptions tend to be companies that are selling legal information products. In the consumer realm, these may be wills or a healthcare directive. In the business realm, the products may be related to business formation or trademark registration.⁸

For this report, Legal Tech companies that sell directly to nonlawyers—whether a person, a small business owner, or any business without an in-house counsel—are L2C companies. This distinction is relevant because funding memorandum for companies in the L2C space routinely lists the unauthorized practice of law and, by extension, impermissible fee-splitting as risk factors that the company must successfully navigate. Thus, considering the large disparity in funding between L2C and L2L Legal Tech companies, it is reasonable to conclude that the risk of violating legal ethics rules is affecting the size and growth of the L2C Legal Tech market segment.

The fourth and fifth rows of Figure 1 pertain to in-house lawyers (orange) and government lawyers (green). The primary reason to include these market segments is that like the “all other legal services” and Legal Tech segments, these groups of lawyers are growing faster than the traditional private practice sector, thus signaling a potential long-term structural change in the legal market. In particular, over the last several decades, both the number in-house lawyers and their incomes have grown faster than lawyers in private practice.⁹

1.2. Types of clients

The market segments in Figure 1 describe the supply side of the legal market. Figure 2 is a typology of six types of legal clients that make up the demand side of the market.



⁷ See Section 2.5, *infra*. The data on Legal Tech companies is from Pitchbook.

⁸ California-based LegalZoom and Rocket Lawyer both fit this profile. See Section 2.5, *infra*.

⁹ See Section 2.4, *infra*, especially Sections 2.4.3 and 2.4.4.

Section 3 of this report draws upon various data sources to describe variations among client types. However, because this introductory section is focused on clear definitions, readers should be aware of three structural features of the legal market that vary by type of client:

- (1) The market serving individual clients (Type 1), referred to in this report as PeopleLaw, has different economic drivers and is evolving differently than the market for organizational clients, particularly those with in-house counsel (Type 3-6).¹⁰
- (2) The problem of access to justice and unmet legal need are substantially limited to individuals (PeopleLaw) and small businesses (sometimes called microbusinesses) who struggle to afford legal services.¹¹
- (3) There is tremendous innovation and dynamism occurring around Type 5 and 6 clients, primarily because these organizations are coping with the immense legal complexity associated with organizational size and geographic reach. Further, these organizations have the financial resources and economies of scale to make large investments in legal operations personnel (purple boxes in Figure 2) and legal technology.¹²

1.3. Data sources and limitations

As discussed above, the legal market is not a single, unified collection of buyers and sellers. Therefore, the Figures 1 and 2 frameworks are based on (or corroborated by) multiple data sources. To the author's knowledge, all data in this report are pulled from the best and most recent available sources.

The most critical data in this report comes from two federal agencies: The U.S. Census Bureau, which maintains several programs for tracking business activity by industry, and the U.S. Bureau of Labor Statistics (BLS), which tracks data on employed lawyers by geography and industry. Without these two data sources, we could not make comparisons across geography, practice settings (private practice, in-house, government), or market segments (law firms versus other legal services). We would also be unable to track changes over time.

However, these data sources also have significant limitations. For example, legal industry revenue data that enables segmentation of the legal services market by individuals versus organizational clients comes from the U.S. Census Bureau's Economic Census program,¹³ which is collected and published every five years (years ending in 2 and 7) and then published with a multiple-year lag. Therefore, in this report, the "class of customer" data at the state and industry levels are based on the 2017 Economic Census and adjusted upward based on California's or the U.S. GDP.¹⁴ Fortunately, these data follow long-term trendlines that are unlikely to change or reverse sharply.¹⁵

¹⁰ See Sections 3.1 & 3.2, *infra*.

¹¹ See Sections 3.2 & 3.3, *infra*.

¹² See Sections 3.3, *infra*.

¹³ See Economic Census, online at <https://www.census.gov/programs-surveys/economic-census.html> ("The Economic Census is the official five-year measure of businesses in the United States providing comprehensive statistics at the national, state, and local levels.").

¹⁴ The 2022 "class of customer" data will be published sometime in 2025 or 2026.

¹⁵ See Section 3.1 & Figure 9, *infra* (showing time trend over 45 years).

A second major limitation of these data sources is the inability to capture and separate all facets of law firms. For example, the Census Bureau provides precise annual data on the number of law firms by geography, number of employees (staff and employed lawyers combined), and payroll. Likewise, the Bureau of Labor Statistics provides employed lawyer salaries by geography and industry, including within law firms. However, there is no systematic tracking or counting of the number of lawyer-owners (i.e., partners, shareholders).¹⁶ Therefore, to help fill these gaps and draw reasonable inferences, the analysis in this report draws upon data from other published sources.

The chart summarized the data sources in this report by section, including relevant technical comments and data limitations.

Table 1. Overview of Data Sources for 2024 Legal Market Landscape Report

Sec.	Topic	Data Source	Comments / Limitations
2.1	Size of the California Legal Services Economy	U.S. Census Bureau, Economic Census 2017	Figure 3: Provides breakdown by client type; adjusted based on California GDP; limited to organizations in the legal services industry (NAICS 5411). 2022 data not yet available.
2.2	Law firms versus “other legal services”	U.S. Census Bureau, Economic Census 2012, 2017	Table 2: Provides a breakdown of law firms versus all other organizations providing legal services (NAICS 5411). 2022 data not yet available.
		NAICS Association (private vendor)	List of California companies listed under NAICS 541199; used to illustrate the types of companies found in “all other legal services”
2.3	Comparison with national legal industry and other large states	U.S. Census Bureau, Economic Census 1997, 2002, 2007, 2012, 2017	Figure 4: Shows the relationship between legal industry employ versus total industry revenues (NAICS 5411). 2022 data not yet available.
		U.S. Census Bureau, Economic Census 2017	Table 3: Provides breakdown of legal economy of United States and five largest states; adjusted based on U.S. GDP (NAICS 5411)
2.4	Differences by practice setting	U.S. Bureau of Labor Statistics, 1997 to 2023	Table 4: California and U.S. count and income data by practice setting Figure 5: Change in national lawyer employment over time by practice setting
2.4.1	Law Firms	2023 NLJ 500, 2023 AmLaw 200. These are listings of law firm published by ALM Media.	Table 5: Breakdown of lawyers in the 500 largest U.S.-based law firms based on number of lawyers. Table 6: Breakdown of lawyers in 200 largest U.S.-based law firms based on total firm revenues. NLJ 500 and AmLaw 200 firms overwhelmingly service corporate clients
		2023 Clio Legal Trends Report	Table 7: Average rate, realization, and collection rates of California lawyers by practice area. Clio is the leading technology company providing cloud-based practice management software to solo and small firms in North America.

¹⁶ Law firm partners and shareholders are classified as self-employed.

Sec.	Topic	Data Source	Comments / Limitations
		U.S. Census Bureau, County Business Patterns, 2012 & 2021	Figure 6: Breaks down salaries of California law firms based on size and change over time. Limitation: Data combines salaries of staff and employed lawyers. However, this is unlikely to distort economic comparisons of law firms based on size..
2.4.2	Gig economy	U.S. Census Bureau, Nonemployer Statistics (NES), 2004-2021.	Figure 7: Trends in number and revenue of California nonemployers in legal services (NAICS 5411). These data will include all California lawyers working on a contract basis in gig economy, but will also include other legal professionals, including paralegals and self-employed legal document assistants (LDAs). Table 8: Breakdown of California nonemployers in legal services (NAICS 5411) by type of entity.
2.4.1	In-house lawyers	U.S. Bureau of Labor Statistics, 1997 to 2023	Figure 8: Trend data on lawyers by practice setting. Table 9: Comparison counts and salaries by practice setting, 2016 versus 2023. Limitation: Law firm data limited to employed lawyers; no data for law firm partners. Table 10. Comparison of in-house salaries by largest in-house sectors, 2016 versus 2023
2.4.4	Government lawyers	U.S. Bureau of Labor Statistics, 2016 & 2023	Tables 11-12. Comparison on government lawyers in California and U.S. by level of government (local, state, federal), 2016 to 2023.
2.5	Legal Tech	Pitchbook	Proprietary database that tracks the financing of companies by sector, including detailed taxonomy of emerging sectors, such as Legal Tech. Tables 13-14: Segments legal services market into B2B and B2C.
3.1	How type of client affects the economics of practice	U.S. Census Bureau, Economic Census 1972, 1992, 2007, 2017	Figure 9: Shows that for nearly 50 years, legal market serving organizational clients has been growing faster than market serving individuals.
		U.S. Census Bureau, Economic Census, 2017; Statistics on U.S. Businesses (SUSB). 2017; Census of Governments, 2022; 2022 Fortune Magazine.	Table 15: Estimates the breakdown of U.S. legal services market by type of client (individual, organization, government) and size of organizational client base on total revenue. Based on 2017 revenues, adjusted based on 2022 U.S. GDP. Limitation: Legal spend for organizational clients is based on U.S. Census data; however, allocation of revenue based on organization size is an estimate based on industry benchmarks from a variety of sources.
3.2	PeopleLaw	U.S. Census Bureau	California population estimate as of July 1, 2023, including breakdown by age.
		U.S. Bureau of Labor Statistics, Consumer Price Index (CPI-U), 1986 to 2023, BLS Relative Importance data for CPI calculation, 1986 to 2023	Figure 10: Showing relative cost of legal services, medical care, and college tuition compared to overall CPI. Base year (price = 100) set to 1986 because it was the first year legal services data are available.

Sec.	Topic	Data Source	Comments / Limitations
		Consumer Price Index (CPI-U), 1986 to 2023 & BLS Relative Importance data for CPI calculation, 1987 to 2023	Figure 11: Showing decline in relative importance of legal services in the CPI-U.
		BLS Relative Importance data for CPI calculation, 1987 & 2023	Table 16: Comparing changes in relative importance weights for legal services, medical care, and college tuition.
		U.S. Census Bureau, 2022 American Community Survey, B19019.	Figure 12. Distribution of California households based on household incomes.
		2024 Poverty Guidelines, (48 Contiguous States), U.S. Department of Health and Human Services & U.S. Census Bureau, 2022 American Community Survey, B19019.	Table 17: Comparing legal aid eligibility threshold in California with median household income, by household size.
3.3	Organizational clients	U.S. Census Bureau, County Business Patterns, 2021	Table 18: Number of California businesses by total annual revenue. Limitation: Data limited to businesses with at least one employee. In California during the same period, there were more than 3.4 million nonemployer businesses. These are independent contractors and self-employed people.

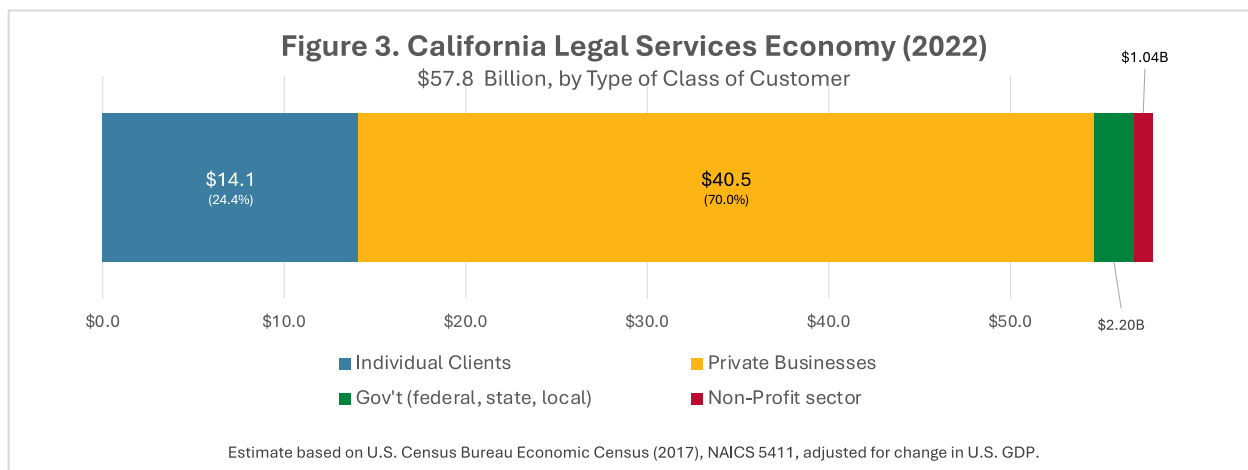
2. Overview of California Legal Market

Section 2 provides a detailed overview of the California legal market. The emphasis is on the types and categories of legal providers (supply), as the focus of Section 3 is on clients or potential clients (demand).

Section 2.1 focuses on the size and composition of California’s legal industry as defined by the U.S. Census Bureau’s Economic Census. Section 1.2 compares California’s law firm sector with a rapidly growing “all other legal services” category. Section 1.3 compares California to the national legal services economy and other large states. Section 1.4 analyzes California lawyer income, employment, and other attributes based on practice setting. Section 1.5 examines the rapidly growing Legal Tech sector, including the growing number of venture-capital-based California companies applying artificial intelligence to legal work.

2.1. Size of the California legal services market

Figure 3 estimates the size of the California legal services economy based on data from the most recent Economic Census.¹⁷



As shown in Figure 3, the California legal services market in 2022 was approximately \$57.8 billion,¹⁸ which is 15.0% of the total U.S. legal service market (\$385.9 billion) for the same year.¹⁹ The \$57.8 billion figure represents total receipts for all organizations in the business of providing legal services to clients.²⁰ As discussed in Section 2.2, most of these receipts (94.3%) are generated by traditional law firms engaged in the practice of law. Over three-quarters of total receipts (75.6%) came from organizational clients, including \$40.5 billion from private-sector businesses, \$1.04 billion from nonprofit organizations, and \$2.2 billion from state, local, and federal government. The remaining \$14.1 billion (24.4%) was generated from individual clients.

¹⁷ For information on the Economic Census, see Section 1.3, *supra*.

¹⁸ Estimate based on the 2017 Economic Census figure of \$44.6 billion for California’s legal economy (NAICS 5411) adjusted upward for the increase in the U.S. GDP through 2022.

¹⁹ See Table 3, *infra* (breaking down U.S. legal services market by top five states).

²⁰ For Figure 3, “clients” are individuals, private-sector businesses, government clients (state, local, federal), and nonprofit organizations. See Section 1.3, *supra* (discussing Economic Census and “Class of Customer” data).

Not shown in the graphic is an additional \$900 million allocated to nonprofit organizations that provide legal aid to low-income Californians.²¹

In California, the market for legal services shown in Figure 3 encompasses approximately three-quarters of the 190,000 active licensed lawyers in the state. The remaining 25% of the California bar work for private corporations (21,000, 11%), federal, state, or city government (21,000, 11%), or other private or nonprofit sector roles, including legal aid.²² Data on these other segments of the California legal market are presented later in this report.²³

2.2. Law firms versus “other legal services”

The legal services market discussed in Section 1.1 is based on the U.S. Census Bureau’s 4-digit category for legal services (NAICS 5411). At the 5 digit level, however, NAICS 5411 can be broken down into two categories: “offices of lawyers (54111),” which are traditional law firms, and “other legal services (54119),” which includes a growing array of specialized legal and paralegal services that are adjacent to the practice of law.²⁴ Table 2 provides a detailed breakdown of the total receipts and employees for the California legal services market.²⁵

Table 2. California Legal Services Market (NAICS 5411), Receipts and Employees, 2012 & 2017

Subcategory	2012 Receipts			2017 Receipts			% change
	(5-digit) (thousands)	(6-digit) (thousands)	%	(5-digit) (thousands)	(6-digit) (thousands)	%	
Offices of Lawyers (54111)	\$36,920,644		95.7%	\$42,637,607		95.6%	15.5%
Law firms (5411101)		\$36,506,552	94.6%		\$42,058,012	94.3%	15.2%
Nonprofit legal aid organizations (5411102)		\$414,092	1.1%		\$579,595	1.3%	40.0%
Other legal services (54119)	\$1,670,893		4.3%	\$1,975,648		4.4%	18.2%
All other legal services (541199)		\$717,802	1.9%		\$1,095,889	2.5%	52.7%
Title Abstract & Settlement Services (541191)		\$953,091	2.5%		\$879,759	2.0%	-7.7%
Total	\$38,591,537		100.0%	\$44,613,255		100.0%	15.6%
	2012 Employment			2017 Employment			
Offices of Lawyers (54111)	132,284		93.8%	140,110		93.8%	5.9%
Law firms (5411101)		128,396	91.0%		135,500	90.2%	5.5%
Nonprofit legal aid organizations (5411102)		3,888	2.8%		4,610	3.1%	18.6%
Other legal services (54119)	8,734		6.2%	10,095		6.7%	15.6%
All other legal services (541199)		4,592	3.3%		5,398	3.6%	17.6%
Title Abstract & Settlement Services (541191)		4,192	3.0%		4,697	3.1%	12.0%
Total	141,018		100%	150,205		100%	6.5%

²¹ The Economic Census “Class of Customer” data excludes revenue for service providers exempt from federal taxes. California nonprofit law firm payroll data for 2021 from the U.S. Census Bureau’s County Business Patterns was multiplied by the ratio of revenue to payroll from 2017 and produced \$900 million for nonprofit organizations.

²² See State Bar of California, “Where Do California Lawyers Work?,” BAR BRIEF 3 (Dec. 11, 2019).

²³ See Section 2.2 (legal aid), Section 2.4.3 (in-house), and Section 2.4.4 (government lawyers).

²⁴ The specific types of business in this category are discussed later in this Section. See notes 28-30 & accompanying text.

²⁵ As noted in Section 1.3, *supra*, the U.S. Census Bureau’s Economic Census provides the most comprehensive data on U.S. businesses. However, these data are collected every five years (years ending in 2 and 7), and detailed data are subject to a time lag. 2022 data will not be available until 2025 or 2026. Hence, the reliance on 2012 and 2017 data.

Source: 2012 & 2017 Economic Census, U.S. Census Bureau; table and calculations by Legal Evolution PBC.

In 2012 and 2017, “offices of lawyers (54111)” comprised more than 95% of the legal services market. As shown in Table 2, the vast majority were for-profit law firms (5411101). Between 2012 and 2017, total receipts for California law firms increased by 15.2%. California law firms also increased total employment by 5.5% (128,396 to 135,500). Both growth rates are slightly ahead of national averages (13.6% increase in receipts, 1.5% increase in total employment).

The offices of lawyers (54111) category also includes tax-exempt legal organizations. In 2017, legal aid organizations accounted for 1.3% of the total receipts in the California legal market but 3.1% of total legal industry employment. Although total receipts for California legal aid organizations increased by 40.0% between 2012 and 2017 (\$414 million to \$580 million), this rate of increase was only slightly higher than the national figure (39.2%) for the same period. Despite this relatively large increase, the supply of California legal aid services remains significantly below demand.²⁶

In reviewing the “all other legal services (541199)” subcategory, it is noteworthy that between 2012 and 2017, total receipts increased by 52.7%. Although this is a comparatively small part of the California legal services economy (3.6% in 2017, up from 3.3% in 2012), it generated nearly \$1.1 billion in total receipts. This is more than the total legal services economy of 13 states. In addition, California’s 541199 subsector category accounted for 22.0% of total national receipts in 2012 and 23.2% in 2017—more than twice as large as any other single state.²⁷

Examples of businesses classified under 541199 include jury consulting, trial consulting, notary public, patent agent, process serving, and paralegal services.²⁸ According to business intelligence services that generate lists of potential customers and competitors based upon the NAICS codes, the 541199 category includes several very large Alternative Legal Service Providers (ALSPs), including UnitedLex, Deloitte, and CPA Global,²⁹ which specialize in high-volume legal work for large corporate clients. According to 2023 Thomson Reuters report, the ALSP sector is growing at an annual rate of 20%, albeit with a blurring of boundaries between software, technology, consulting, and process-based legal work.³⁰ Another category of business that is specific to California is independent legal document assistants (LDAs). Since 2000, California has permitted LDAs to provide services directly to the public.³¹

2.3. Comparison with national legal industry and other large states

As shown in Figure 4 (updated from the 2018 report), the national legal services economy is growing in total gross receipts. However, employment in legal businesses is relatively stagnant,

²⁶ See STATE BAR OF CALIFORNIA, “THE CALIFORNIA JUSTICE GAP: MEASURING UNMET CIVIL LEGAL NEEDS OF CALIFORNIANS” (Nov. 2019) at 11 [hereafter CAL JUSTICE GAP REPORT] (“California’s legal aid organizations estimate that they will be able to fully serve approximately 30% of the problems presented to them.”).

²⁷ The next closest in size is New York (\$460 million) followed by Texas (\$424 million).

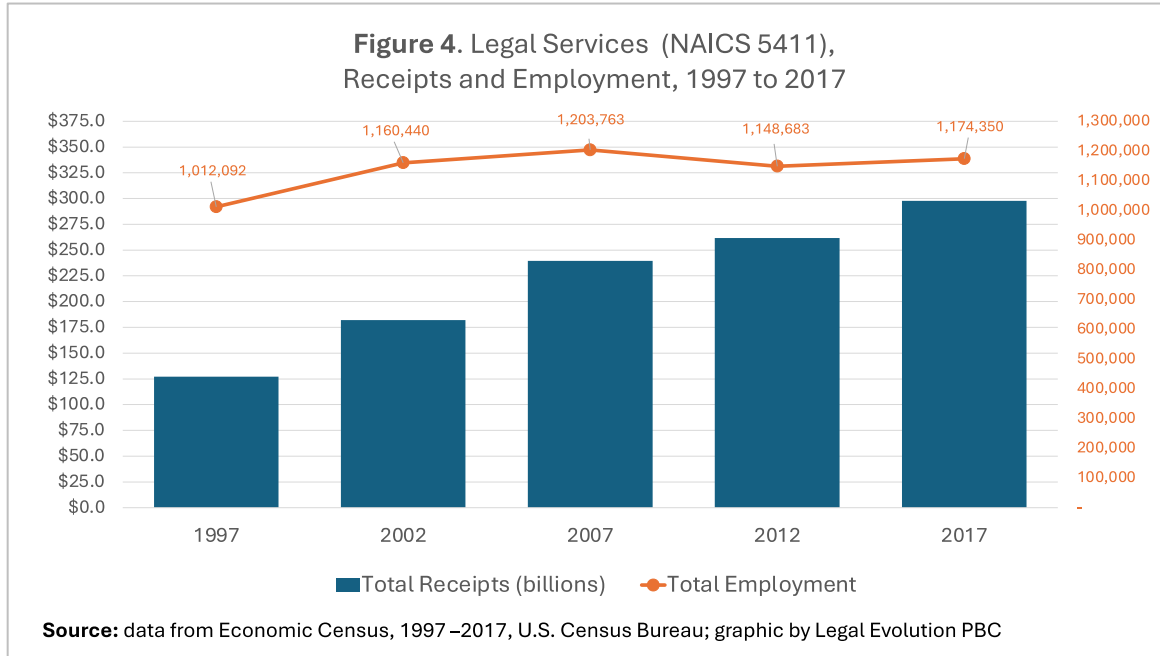
²⁸ See <https://www.census.gov/naics/?input=541199&year=2017&details=541199> (last visited June 2, 2024).

²⁹ See, e.g., NAICS Association, 54199 – All Other Legal Services, “Top Businesses by Annual Sales for 541199”, online at <https://www.naics.com/naics-code-description/?code=541199> (last visited June 15, 2024).

³⁰ See THOMSON REUTERS INSTITUTE, ALTERNATIVE LEGAL SERVICES PROVIDERS 2023: ACCELERATING GROWTH & EXPANDING SERVICES CATEGORIES at 2-3 (noting the boundaries between organizations and type of service offerings are “rapidly blurring”).

³¹ See California Business & Professional Code, §§ 6400 – 6415 (2023).

with total jobs remaining below the 2007 highwater mark and only slightly above total jobs for 2002.



Notwithstanding these national trends, portions of the United States, including California, are experiencing higher levels of growth. Table 3 summarizes the estimated size and composition of the five largest state-based legal service economies.³² In 2017, these five states comprised 50.9% of the national legal services economy, up from 50.0% in 2012. Similarly, their total share of employment in the national legal services market increased from 494,153 (43.0%) to 521,454 (44.4%).

Table 3. Five largest state-based legal economies (NAICS 5411)

State	Total (billions)	% of US legal economy	Organizations (billions / %)	Consumers (billions / %)
New York	\$61.1	15.8%	\$53.2 (87.1%)	\$7.9 (12.9%)
California	\$57.8	15.0%	\$43.7 (75.6%)	\$14.1 (24.4%)
Texas	\$25.2	7.6%	\$21.3 (72.8%)	\$8.0 (27.2%)
Florida	\$25.2	6.5%	\$16.1 (64.1%)	\$9.0 (35.9%)
Illinois	\$23.0	5.9%	\$18.2 (79.4%)	\$4.7 (20.6%)
United States	\$385.9	100.0%	\$285.2 (73.9%)	\$100.7 (26.1%)

Source: Data from the 2017 Economic Census, U.S. Census Bureau, which excludes tax-exempt organizations, such as legal aid. Adjusted based on U.S. GDP through 2022. Population data from U.S. Census. Table and calculations by Legal Evolution PBC.

³² Estimated based on the 2017 Economic Census figure of \$293.9 billion adjusted for the increase in U.S. GDP through 2022 (31.3%).

Nationally, California accounts for approximately 15.0% of the \$385.9 billion national legal services economy. Total receipts for California (\$57.8 billion) are slightly below New York (\$61.1 billion). However, when broken down by type of customer, California has, by a wide margin, the largest legal services economy for individuals (\$14.1 billion)—\$5 billion larger than Florida and \$6.0 billion larger than Texas. For organizational clients, which include private businesses, government entities, and nonprofits, California is the second-largest market (\$43.7 billion), trailing New York by \$9.5 billion, yet more than \$20 billion larger than Texas, Florida, and Illinois.

2.4. Differences by practice setting

The work and economics of law practice vary widely by practice setting. Table 4 lists the number of employed lawyers and average salaries in the United States and California.³³

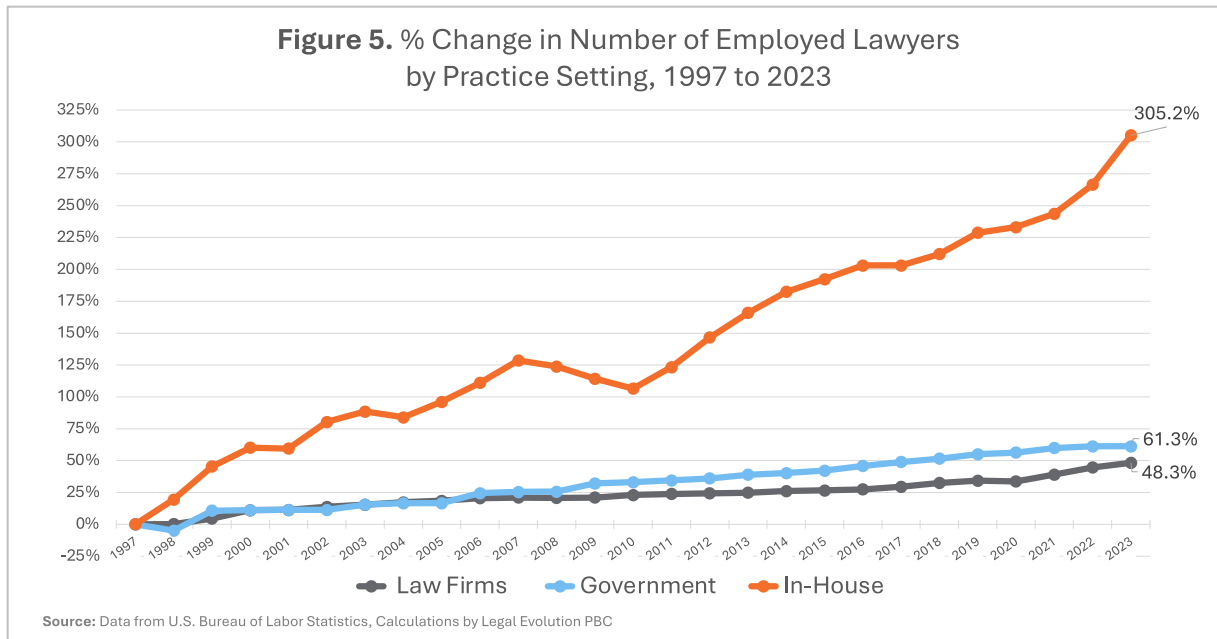
Table 4. Number and Average Salary of Lawyers by Practice Setting, 2023, U.S. & California

Practice Setting	Number of lawyers			Avg Lawyer Salary		
	United States	California	% of lawyers in Cal	United States	California	% Cal salary over U.S. avg.
Private practice	445,110	58,910	13.2%	\$182,020	\$215,890	18.6%
Government	145,440	18,430	12.7%	\$131,350	\$170,930	30.1%
In-house	138,830	16,960	12.0%	\$206,864	\$253,544	22.6%
All employed lawyers	729,380	94,300	12.9%	\$176,643	\$213,864	21.1%

Source: Data from U.S. Bureau of Labor Statistics, employment for Lawyers (SOC code 231011), May 2023. Calculations by Legal Evolution PBC.

One data point that may surprise some readers is that the average salary of a lawyer working in-house (\$206,864 nationally, \$253,544 in California) is substantially higher than that of lawyers employed in law firms (\$182,020 nationally, \$215,890 in California). In the 1990s, law firms and legal departments paid roughly comparable salaries. Yet, as shown in Figure 5, the number of in-house lawyers (all combined businesses, including nonprofits) has grown dramatically.

³³ Because these data are limited to “employed” lawyers, it does not include the number and income of lawyers who are either self-employed or partners (i.e., owners) of law firms.



As noted in the 2018 Landscape Report, a likely explanation for this trend is organizational clients (primarily corporations) insourcing operational legal work to save costs and improve internal efficiencies.³⁴ Although law firms are generally losing this work, they retain more specialized and complex legal work. Thus, despite the law firm sector’s overall slow growth rate, large corporate law firms continue to generate record profits for their partner-owners.³⁵

Yet, as detailed in the following subsections, there is wide variation among California lawyers working in private practice. While some lawyers prosper by serving large corporate clients, lawyers serving low and middle-income individuals, including small businesses, generate a modest living. Thus, rather than relying on averages, it is critically important to look at subparts of the law firm sector, including change over time.

2.4.1. Law firms

As noted in Figure 3, more than three-quarters of the California legal services market comes from organizational clients, with approximately \$40.7 billion generated from private for-profit businesses. This large volume of legal fees makes California a major global hub of sophisticated corporate legal work, attracting and supporting many regional, national, and international law firms.

The NLJ 500 ranks U.S.-based law firms based on the total number of lawyers. Table 5 summarizes the presence of NLJ 500 firms in California compared to the rest of the U.S.

³⁴ See WILLIAM D. HENDERSON, LEGAL MARKET LANDSCAPE REPORT (State Bar of California, July 2018) at 15-16 [hereafter 2018 LANDSCAPE REPORT]

³⁵ See, e.g., ALM Staff, “The 2024100: Ranked by Profits Per Equity Partner,” LAW.COM, Apr. 16, 2024 (reporting an average profitability increase per equity partner of 9.3% for fiscal 2023).

Table 5. Breakdown of 2023 NLJ 500 based on presence in California

NLJ 500 Attribute	In California		Other States & DC		Total
	Number	%	Number	%	
Largest office / headquarters	44	8.8%	456	91.2%	500
Number of offices	640	14.0%	3,945	86.0%	4,585
At least one Cal Office	220	44.0%	280	56.0%	500
Lawyers	20,835	13.5%	133,028	86.5%	153,863

Source: Data from 2023 NLJ 500, calculations by Legal Evolution PBC.

Of the 44 firms with their largest office in California, 24 are in Los Angeles, followed by seven in San Francisco, four in Irvine, two in San Diego, and two in Sacramento. Other locations include Cerritos, Mountain View, Newport Beach, Oakland, and Palo Alto. Of the 4,585 NLJ 500 offices in the U.S. in 2023, 640 (14.0%) were in California. Similarly, in 2023, the NLJ 500 employed 20,835 California lawyers, 13.5% of the U.S. total for NLJ 500 firms. However, what signals the importance and relevance of the California legal economy to national and international commerce is that nearly half of NLJ 500 firms (44%) have at least one office in California.

Similar numbers can be observed for the AmLaw 200, which ranks U.S.-based law firms based on total revenue.³⁶ Because number of lawyers is a primary driver of firm revenue, virtually every firm in the AmLaw200 also appears in the NLJ 500 ranking. In 2022, firms in the AmLaw 200 generated \$154 billion in total revenues, which is approximately 40% of the national legal services market. Table 6 provides a breakdown of 2023 AmLaw200 using the same format as the NLJ 500 analysis.

Table 6. Breakdown of 2023 AmLaw 200 based on presence in California

AmLaw200 attribute	In California		Other States & DC		Total
	Number	%	Number	%	
Largest office / headquarters	19	9.5%	181	90.5%	200
Number of offices	435	17.3%	2,074	82.7%	2,507
At least one Cal office	147	73.5%	53	26.5%	200
Lawyers	17,274	15.1%	96,903	84.9%	114,177

Source: Data from 2023 AmLaw200 and NLJ 500, calculations by Legal Evolution PBC.

Of these 200 firms, 19 (9.5%) have their largest offices in California. However, the state has a much larger share of total U.S.-based AmLaw 200 offices (435, or 17.3%). Further, as evidence of California’s importance to national and international legal work, 147 AmLaw 200 law firms (73.5%) have at least one California office. Overall, 15.1% of U.S.-based AmLaw 200 lawyers are in the state compared to 13.5% for the NLJ 500, suggesting that law firms that do business in California tend to generate higher total fees.

Roughly 15% of the California lawyers working in private practice work for AmLaw 200 law firms.³⁷ For fiscal year 2022, the average lawyer in the AmLaw 200 generated more \$1.1 million

³⁶ In 2023, 199 firms in the AmLaw 200 were included in the NLJ500 ranking.

³⁷ The State Bar of California reports 197,519 active licensed lawyers. See Attorney Demographics, online at <https://apps.calbar.ca.gov/members/demographics.aspx> (last visited June 5, 2023). The State Bar also reports that 58% of lawyers work in private practice. See “Where Do California Lawyers Work?,” *supra* note 22.

in revenue. Thus, the 147 AmLaw firms operating in California generate approximately \$19 billion—nearly one-third of the state’s overall \$57.8 billion legal services economy. There are approximately 7,000 AmLaw 200 partners based in California.³⁸ In 2022, they earned an average of \$1.4 million. Another 10,000 California lawyers work as associates or counsels in AmLaw 200 firms, where the average entry-level salary is \$225,000.³⁹

The above figures suggest two critical insights for California legal regulators. First, a significant portion of the national and global legal economy is based in California, which generates lucrative income for tens of thousands of California lawyers. It is also a source of good jobs for legions of support personnel. Second, a much larger proportion of California lawyers work at smaller law firms serving some combination of individual and/or small to medium-sized businesses that, on average, generate relatively moderate economic returns. Thus, industry averages that combine these two groups have the potential to paint a misleading picture of law firm economics.

The best data source on the economics of smaller law firms is Clio, the leading practice management software for solo and small firm lawyers. Because Clio is cloud-based, it can aggregate data across its platform to generate useful user metrics. This is the basis of Clio’s annual Legal Trends Report, which breaks down billing rates and related metrics by practice area and geography. Table 7 summarizes the California market for 2023.

Table 7. Economics of Small Firms in California Using the Clio Platform, by Practice Area and Billing Rate

Practice Area	Avg. Hourly Rate	Avg. Realization	Avg. Collection	Effective Hourly Rate	33% utilization (CA avg)	Estimated Revenue, 50-hr week
Bankruptcy	\$428	61%	77%	\$201	\$66.34	\$132,681
Corporate	\$400	83%	93%	\$309	\$101.89	\$203,782
Employment	\$377	63%	94%	\$223	\$73.68	\$147,351
Immigration	\$375	84%	94%	\$296	\$97.71	\$195,426
Real Estate	\$354	79%	93%	\$260	\$85.83	\$171,655
Wills & Estates	\$344	69%	93%	\$221	\$72.85	\$145,692
Business	\$341	82%	94%	\$263	\$86.74	\$173,476
Family	\$312	85%	90%	\$239	\$78.76	\$157,529
Average, all practice area	\$308	82%	88%	\$222	\$73.34	\$146,687
Collections	\$305	70%	86%	\$184	\$60.59	\$121,183
Elder Law	\$290	64%	83%	\$154	\$50.84	\$101,672
Personal Injury	\$280	43%	87%	\$105	\$34.57	\$69,134
Criminal	\$208	58%	87%	\$105	\$34.64	\$69,271
Small Claims	\$194	92%	90%	\$161	\$53.01	\$106,017
Workers Compensation	\$175	73%	94%	\$120	\$39.63	\$79,256

³⁸ Figures on AmLaw200 partnership include both equity and non-equity partners. In 2022, 53.5% of AmLaw 200 partners were equity.

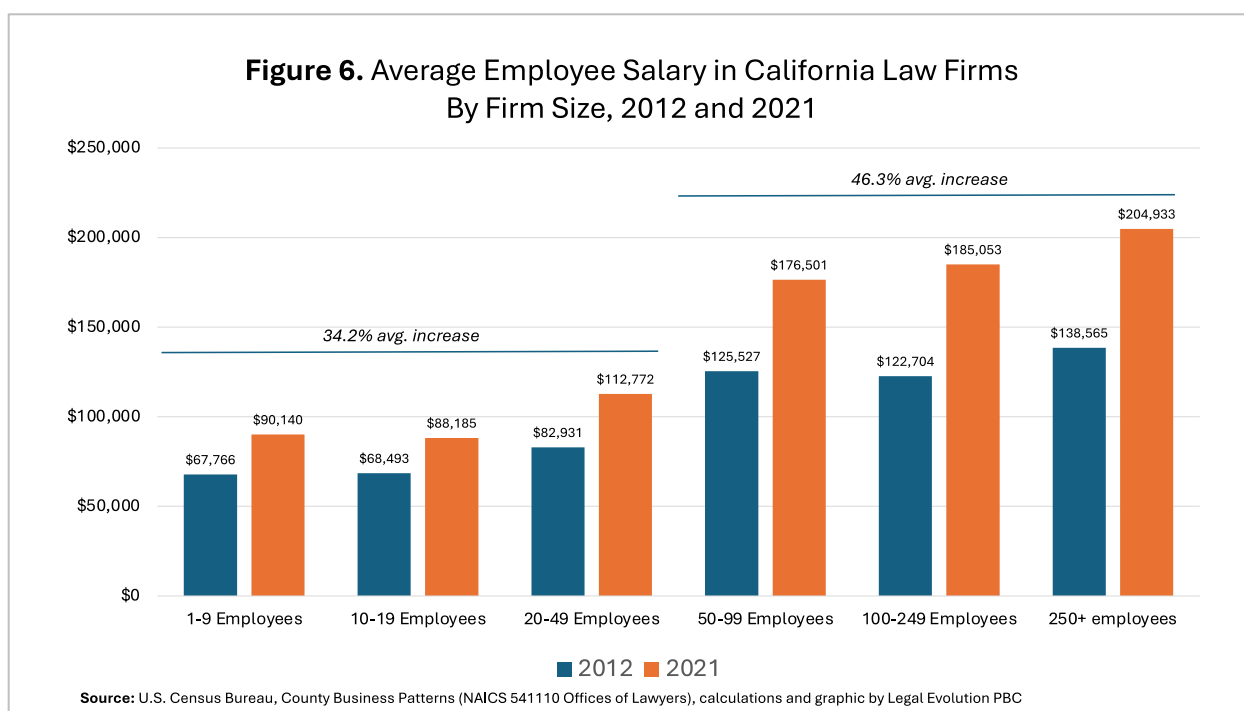
³⁹ Chambers, The 2024 Salary Survey, online at <https://www.chambers-associate.com/law-firms/law-firm-salaries> (last visited June 19, 2024) (collecting first and second-year associates salaries).

Practice Area	Avg. Hourly Rate	Avg. Realization	Avg. Collection	Effective Hourly Rate	33% utilization (CA avg)	Estimated Revenue, 50-hr week
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Source: Data from 2023 CLIO LEGAL TRENDS REPORT, 105-10. Calculations by Legal Evolution PBC.

The average billing rate of a California lawyer on the Clio platform⁴⁰ is \$308. If the average California lawyer at a smaller law firm is acquiring, billing, and collecting 1,500 hours of work per year, this generates \$462,000—an ample amount to support office overhead and lawyer income. Yet, Clio data persistently shows California lawyers, like lawyers in other states, struggling to find legal work (only 33% utilization). Of the legal work they perform, only 82% is billed to the client. Of the hours invoiced (again, with wide variations based on practice group), only 88% is collected. As a result, a California lawyer working a 50-hour workweek would be expected to generate \$146,687. This amount suggests that even if office overhead costs are carefully managed, many California lawyers in private practice are working long hours to generate a moderate income.

Finally, the economic spread between small versus large California firms appears to be widening. Figure 6 summarizes average employee pay for 2012 and 2021 based on law firm size.



In both 2012 and 2021, 69% of employees in California law firms worked for firms with fewer than 50 employees. As shown in Figure 6, average employee pay is strongly associated with law firm size. Yet, these data also show that larger firms' pay is going up faster. Between 2012 and 2021, the average salary for employees in firms with fewer than 50 employees increased 34.2% versus 46.3% for those working at larger firms.

⁴⁰ Clio is the dominant practice management software provider in North America for solo and small firm lawyers.

The simplest and likely most plausible explanation for the growing economic disparity between smaller and larger firms in California is differences in clients. Large firms often serve large corporate clients with a steady volume of specialized legal work. In contrast, smaller firms primarily do a mix of one-shot legal work for individuals and/or smaller businesses.⁴¹

2.4.2. Gig economy

The legal services economy includes lawyers and other legal professionals working in the gig economy. Data collected for the 2018 Landscape Report suggested that the gig economy for lawyers was steadily expanding.⁴² Yet, growth rates have flattened nationally and in California over the last several years.

Unfortunately, there is no precise mechanism for tracking the composition of this subsector. For example, some large and more established ALSPs maintain a stable of employed lawyers regularly assigned to major clients. Although these workers are technically contingent, they are W-2 employees with benefits. A second type of gig lawyer obtains contract work through professional networks, staffing companies, and/or online marketplaces. Staffing agencies and online marketplaces tend to match lawyers based on the type of client and lawyer experience and specialization.⁴³ A third type of gig lawyer, which in many instances could overlap with the first and second group, are lawyers engaged in solo practice with no employees.⁴⁴

Most lawyers in the gig economy are likely included as part of the U.S. Census Bureau's Nonemployer Statistics (NES) Program, which is an annual series that tracks businesses subject to federal income tax but without paid employees.⁴⁵ Figure 7 provides an updated version of the graphic that originally appeared in the 2018 Landscape Report.

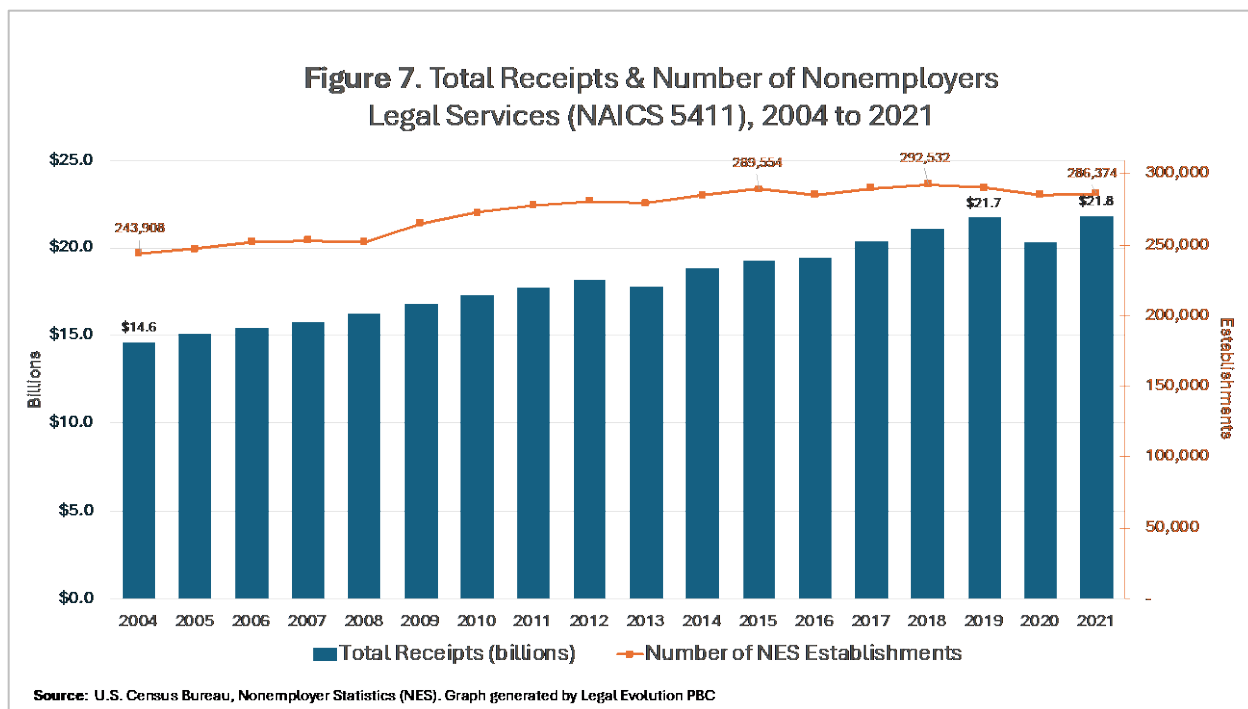
⁴¹ Section 3, *infra*, is a detailed discussion of the bar segmentation based on the type of client.

⁴² See 2018 LANDSCAPE REPORT, *supra* note 34 at 6-9.

⁴³ For example, Priori Legal (<http://www.priorilegal.com/>) and Upcounsel (www.upcounsel.com) provide vetted national legal marketplaces for corporate legal departments and experienced lawyers with large firm experience. In contrast, EsquireX (www.esquirex.com) and LawClerk (www.lawclerk.legal) attempt to match law firms seeking affordable, small-scale project work with junior or freelance lawyers. Legal service marketplaces are now a discrete part of the burgeoning legal tech sector discussed in Section 2.5, *infra*.

⁴⁴ The U.S. Census tracks businesses with payrolls separately from nonemployer businesses. See Section 1.3, *supra*.

⁴⁵ This NES measure is imprecise because it is limited to the 4-digit NAICS codes and thus combines self-employed lawyers, paralegals, and (in California) independent legal document assistants into a single group.



As shown in Figure 7, the high-water mark for legal gig workers occurred in 2018. Although total receipts for legal gig workers increased steadily from 2004 to 2019, the total number of legal gig workers appears to have hit a plateau, as the number of gig workers in the legal sector in 2021 (286,374) is below the figure for 2015 (289,554). One explanation may be the tightening of the legal labor market that coincided with the Covid pandemic, as busy law firms and legal departments reported a shortage of qualified lawyers.⁴⁶

The tight labor market may also account for the overall contraction of the California legal gig worker sector.

Table 8. Nonemployer Businesses in the California Legal Services Market (NAICS 5411)

Type of Entity	Number of NES Establishments			Total Receipts (thousands)		
	2016	2021	% Δ	2016	2021	% Δ
Individual proprietorships	43,364	39,673	-8.5%	\$3,250,949	\$3,183,703	-2.1%
S-corporations	1,900	2,437	28.3%	\$262,889	\$357,355	35.9%
Partnerships	1,147	1,079	-5.9%	\$337,061	\$367,739	9.1%
C-corporations / Other	649	635	-2.2%	\$82,591	\$80,938	-2.0%
All Establishments	47,060	43,824	-6.9%	\$3,933,490	\$3,989,735	1.4%

Source: U.S. Census Bureau, 2016 and 2021 Nonemployer Statistics.

⁴⁶ See, e.g., Sara Merken, “Growth in demand for law firm work hit highs in 2021, report says,” REUTERS, Dec. 9, 2021 (reporting 6.6% increase in client demand); Jack Newsham & Yoonji Han, “Inside the Big Law labor shortage,” BUSINESS INSIDER, Aug. 31, 2021 (reporting rising deals amidst a labor shortage, with firm turning to tech, freelancers, and outsourcing).

As shown in Table 8, between 2016 and 2021, the total number of NES in California declined by 6.9%. The one area of growth is the small segment of the NES establishments operating as S-corporations, which suggests a subset of legal services businesses with no employees planning for the longer term by seeking the most tax-efficient business structure. The average revenue of a California nonemployer in the legal services sector (NAICS 5411) was \$91,040 in 2021, compared to \$83,585 in 2016 (+8.9%).⁴⁷ These figures roughly align with the national average (\$68,508 in 2016, \$75,661 in 2021, +10.9%).⁴⁸

It is unclear what proportion of the businesses in Table 8 are self-employed lawyers. What is clear, however, is that the growth of the legal gig economy has flattened nationally and in California and that the overall economics are not favorable for lawyers.

2.4.3. In-house lawyers

As noted earlier, the number of in-house lawyers in legal departments has increased dramatically over the last several decades. In 1997, 34,750 lawyers worked in-house; by 2023, this number quadrupled to 140,790. As a point of comparison, in 2022, 114,200 lawyers worked in the domestic offices of AmLaw 200 law firms. Thus, at the national level, the in-house sector is now larger than the sector commonly referred to as BigLaw. These two sectors are very near parity in California: 16,960 in-house⁴⁹ versus 17,274 for the AmLaw 200.⁵⁰

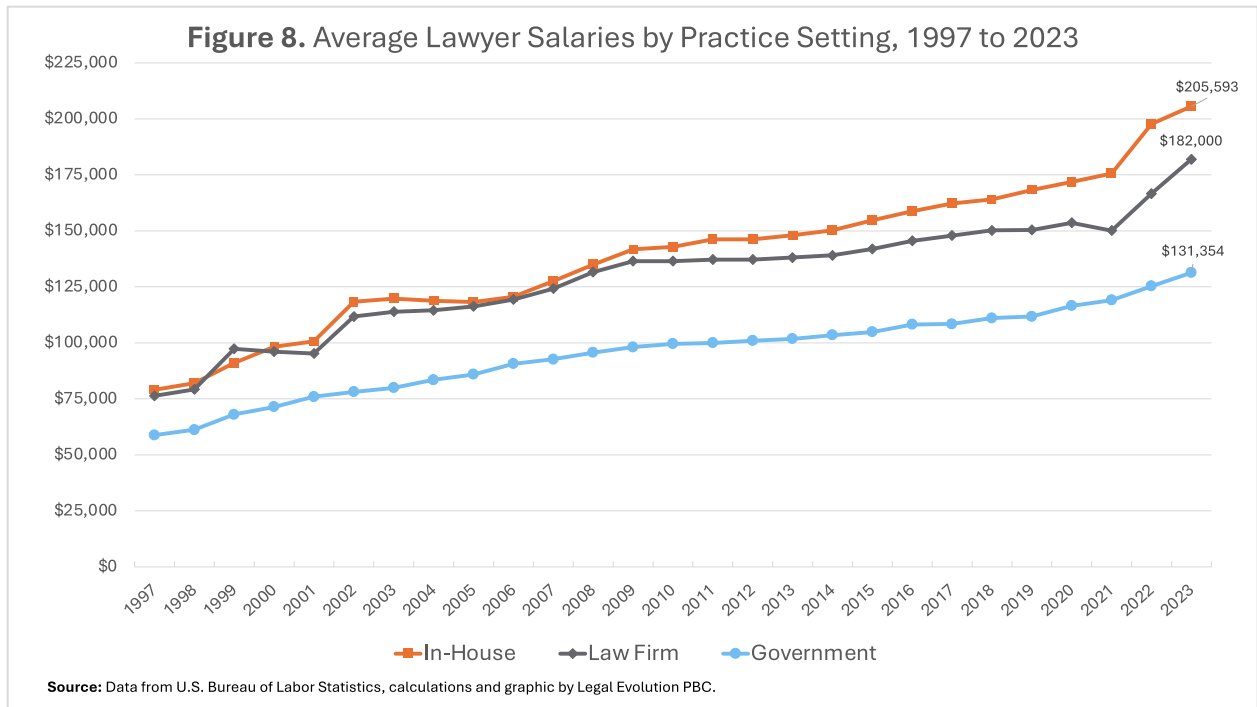
The rapid growth in the in-house sector has been accompanied by higher relative salaries for in-house lawyers. Figure 8 shows the salary trendlines of in-house lawyers compared to law firms and the government.

⁴⁷ Average revenue for NES is calculated by dividing total receipts (\$3.93 billion in 2016, \$3.99 billion in 2021) by the total number of NES establishments (47,060 in 2016, 43,824 in 2021).

⁴⁸ Calculation made using the same methodology discussed in note 47, *supra*, but using national-level data.

⁴⁹ See Table 4, *supra* (showing number of in-house lawyers in California in 2023).

⁵⁰ See Table 6, *supra* (showing number of AmLaw 200 lawyers in California in 2023).



From 1997 through the mid-2000s, law firm and in-house salaries were closely tied to one another. However, after 2008, average in-house salaries steadily diverged from the law firm average, with both figures ticking upward sharply in 2022 and 2023. In 2008, the gap between law firms and in-house was \$3,300. By 2023, it had increased to \$23,600.

The California in-house sector has also grown rapidly. Table 9 compares headcount and average salaries for in-house, law firm, and government-employed lawyers from 2016 to 2023.

Table 9. Headcount and Average Salaries of California In-House, Law Firm, and Gov’t Employed Lawyers, 2016 & 2023

Sector	Headcount			Average Salary		
	2016	2023	% Δ	2016	2023	% Δ
In-House	11,670	16,960	45.3%	\$181,410	\$254,544	40.0%
Law Firms	48,990	58,910	20.2%	\$164,820	\$215,890	31.0%
Gov’t (all levels)	16,160	18,430	14.0%	\$138,874	\$170,930	24.8%

Source: Data from U.S. Bureau of Labor Statistics. Calculations by Legal Evolution PBC.

In 2016, the average salary differential between in-house and law firms was \$16,660. By 2023, the differential increased to \$38,700. Likewise, the salary differential between in-house and government increased from \$43,000 to \$84,000.

In-house salaries vary widely by industry, with salaries higher in some of California’s largest and most dynamic sectors. Table 10 summarizes California’s largest industries (based on four-digit NAICS) for in-house lawyers. To appear in the below table, the industry employed 100 or more lawyers in both 2016 and 2023.

Table 10. California's Largest In-House Sectors, 2016 & 2023, Headcount and Average Salaries

4-digit NAICS	Sector / Industry	Lawyers			Avg Salary	
		2016	2023	△	2016	2023
	Manufacturing (Sectors 31-33)				\$206,552	\$289,012
3254	Pharmaceutical and Medicine	220	130	-90	\$210,820	\$297,950
3341	Computer and Peripheral Equipment	180	290	110	\$227,740	\$316,500
3344	Semiconductor and Other Electronic Component	170	160	-10	\$219,980	\$250,110
3345	Navigational, Measuring, Electromedical, Control Instruments	170	290	120	\$191,740	\$279,450
3391	Medical Equipment and Supplies	130	110	-20	\$171,800	\$287,770
	Information (Sector 51)				\$192,937	\$274,008
5121	Motion Picture and Video Industries	190	500	310	\$206,050	\$298,060
5132	Software Publishers	440	830	390	\$190,190	\$255,070
5182	Computing Infrastructure Providers, Data Processing, Web Hosting	190	530	340	\$212,290	\$265,560
5192	Web Search Portals, Libraries, Archives, Other Info Services	590	1270	680	\$184,530	\$280,440
	Finance and Insurance (Sector 52)				\$169,263	\$172,427
5222	Nondepository Credit Intermediation	140	160	20	\$167,240	\$236,380
5241	Insurance Carriers	870	900	30	\$162,240	\$152,790
5242	Agencies, Brokerages, Other Insurance-Related Activities	260	570	310	\$193,850	\$185,480
	Professional, Scientific, Technical Services (Sector 54)				\$191,172	\$275,787
5413	Architectural, Engineering, and Related Services	230	140	-90	\$196,280	\$263,490
5415	Computer Systems Design and Related Services	860	1440	580	\$208,520	\$272,340
5416	Management, Scientific, and Technical Consulting Services	340	350	10	\$159,400	\$214,570
5417	Scientific Research and Development Services	920	1010	90	\$185,420	\$303,620
	Management of Companies and Enterprises (Sector 55)				\$201,530	\$270,400
5511	Management of Companies and Enterprises	1770	2600	830	\$201,530	\$270,400
	Educational Services (Sector 61)				\$173,370	\$217,180
6113	Colleges, Universities, and Professional Schools	250	210	-40	\$173,370	\$217,180
	Health Care and Social Assistance (Sector 62)				\$78,440	\$92,200
6241	Individual and Family Services	430	170	-260	\$78,440	\$92,200
	Other Services (Sector 81)				\$117,365	\$164,885
8133	Social Advocacy Organizations	220	230	10	\$89,080	\$146,690
8139	Business, Professional, Labor, Political, Similar Organizations	230	200	-30	\$144,420	\$185,810

Source: U.S. Bureau of Labor Statistics, Occupational Employment and Wage Statistics, SOC code 231011, for 2016 and 2023. Calculations by Legal Evolution PBC. Sector averages (in bold) are weighted by size of component industries.

Based on the above data, California’s fastest-growing in-house industries are clustered in the Information Sector (51), with the four largest industries adding more than 1,700 in-house jobs.⁵¹ In 2023, average salaries in Manufacturing (\$289,012), Information (\$274,008), Professional,

⁵¹ This likely understates the importance of the Information Sector for lawyer employment. For 2022, NAICS created a new 4-digit industry category, “Media Streaming Distribution Services, Social Networks, and Other Media Networks and Content Providers (NAICS 5162).” In 2023, this sector employed 370 lawyers in California.

Scientific, Technical Services (\$275,787), and Management of Companies and Enterprises (\$270,400) were all above the state in-house average of \$254,544.

In contrast, large industries, such as Insurance Carriers (5241), Colleges and Universities (6113), Individual and Family Services (6241), Social Advocacy (8133), or Business, Professional, Labor, Political, or Similar Organizations (8139), all experienced either stagnant or declining headcount and/or stagnant or declining average pay.

In summary, the rise in the number and pay of in-house counsel in California appears to be inextricably tied to the vitality of the underlying industries and sectors. As companies in thriving parts of the economy get bigger, they hire more highly compensated lawyers.

2.4.4. Government lawyers

According to 2023 data from the U.S. Bureau of Labor Statistics, there are currently 145,440 lawyers working in government. Of these, 58,430 work in California (12.7%), which is slightly more than California’s 9.9% share of the U.S. population (39.0 million out of 333.3 million). Yet, as shown in Table 11, the mix of government lawyers in California is unusual.

Table 11. Government Lawyers in California and the United States, 2016 & 2023

Level of Gov't	2016			2023		
	California	United States	Cal as % of U.S.	California	United States	Cal as % of U.S.
Local	9,720	53,640	18.1%	11,280	57,160	19.7%
State	3,950	41,340	9.6%	4,470	47,650	9.4%
Federal	2,490	36,510	6.8%	2,680	40,630	6.6%
All Levels	16,160	131,490	12.3%	18,430	145,440	12.7%

Source: U.S. Bureau of Labor Statistics, Occupational Employment and Wage Statistics, SOC code 231011, for 2016 and 2023. Calculations by Legal Evolution PBC.

Specifically, California has 9.9% of the nation’s population, but in 2023, its local political subdivisions employed 19.7% of all local government lawyers in the U.S., up from 18.1% in 2016. In contrast, the proportion of state (9.4%) and federal lawyers (6.6%) in California is much more in line with the state’s overall population, declining slightly since 2016 as a percentage of total government lawyers in the U.S.

The large concentration of local government lawyers in California (roughly one out of five in the U.S.) may be due to the state's high population. Many cities and counties have large populations, so building municipal legal departments may be more cost-effective than heavy reliance on law firms. Another reason for the increase in California local government lawyers may be the larger and more complex array of programs administered by California cities, counties, and regional organizations.

As shown in Table 12, California’s local government sector has added lawyers significantly faster than the national average (16.0% versus 6.6%). Further, lawyers working in local government earn considerably higher salaries than their state and federal counterparts, which is rarely the case in other parts of the U.S.

Table 12. Growth of Gov't Lawyer Employment and Salaries in California and U.S.

	California			US		
Level of Gov't	Employment			Employment		
	2016	2023	% Δ	2016	2023	% Δ
Local	9,720	11,280	16.0%	53,640	57,160	6.6%
State	3,950	4,470	13.2%	41,340	47,650	15.3%
Federal	2,490	2,680	7.6%	36,510	40,630	11.3%
All gov't	16,160	18,430	14.0%	131,490	45,440	10.6%
	Average Salaries			Average Salaries		
Local	\$147,010	\$179,290	22.0%	\$100,940	\$132,290	31.1%
State	\$119,170	\$154,140	29.3%	\$93,320	\$106,420	14.0%
Federal	\$138,370	\$163,770	18.4%	\$135,840	\$159,280	17.3%
All gov't	\$138,874	\$170,930	23.1%	\$108,235	\$131,354	21.4%

Source: U.S. Bureau of Labor Statistics, Occupational Employment and Wage Statistics, SOC code 231011, for 2016 and 2023. Calculations by Legal Evolution PBC.

2.5. Legal Tech

The legal technology sector, commonly called Legal Tech by the legal press and sophisticated financial investors, is not formally part of the regulated legal profession. Yet, because its innovations hold out the potential to improve the quality, speed, and affordability of legal services—and accordingly, because these innovations are attracting enormous amounts of private capital, which is accelerating the sector’s growth in California, nationally, and globally—the Legal Tech sector warrants careful attention.

Pitchbook is one of the leading platforms for tracking the world of public and private finance, including mergers, acquisitions, and the funding of venture capital and private equity-backed companies.⁵² Because the scope of global private sector activity is vast, Pitchbook categorizes companies based on industries (similar to the North American Industrial Classification System, or NAICS) and verticals (typically based on technology).⁵³

Similar to much of this report, Pitchbook divides legal services into two separate industries nested within separate branches of larger industry categories:

- (1) “Business Products and Services / Commercial Services / Legal Services (B2B),” which tracks over 44,000 businesses, including 4,700 businesses based in California.

⁵² Pitchbook is owned by Morningstar, Inc., a publicly traded financial products and services firm (Nasdaq: MORN).

⁵³ Pitchbook also has an Emerging Spaces category. However, none of the 200+ subcategories appear connected to legal products, services, or inputs.

- (2) “Consumer Products & Services (B2C) / Services (Non-Financial) / Legal Services (B2C),” which tracks approximately 8,000 organizations, including nearly 1,200 businesses based in California.

Most organizations in both industry groups are law firms (the NLJ500 and AmLaw200 in B2B and specialized practices such as car accidents, bankruptcy, wrongful death, elder law, employment law, etc. in B2C). However, numerous businesses listed have a tech focus and a non-lawyer ownership structure. For example, the primary industry for California-based Legal Zoom,⁵⁴ which is now a publicly traded company (Nasdaq: LZ), is Legal Services (B2C). However, it is also included in two other industries: Information Services (B2C) and Business/Productivity Software.

Similarly, California-based LegalMation⁵⁵ is described as a “[d]eveloper of an artificial intelligence tool designed to provide assistance in practicing law by lawyers at different levels.” One of its primary use cases is reading and analyzing legal complaints, which serves as a launchpad for instantaneously drafting responsive pleadings with full citations, requests for the production of documents, interrogatories, and analytics to inform case strategy. LegalMation’s tool was developed to improve efficiency for Walmart’s legal department. LegalMation, founded in 2016 by lawyers at a California law firm, has \$22.95 million in venture capital funding. In Pitchbook, it is part of two industries: Business/Productivity Software (primary) and Legal Services (B2B) (secondary).

In addition to industries, Pitchbook organizes companies by verticals, which it defines as “a specific element of a company which is not accurately captured by industry focus.” Thus, the purpose of a Pitchbook vertical is to create “common investment focus areas that include companies that exist across multiple industries.”⁵⁶ One of Pitchbook’s verticals is Legal Tech, which it defines as follows:

The Legal Technology vertical includes companies developing technology for the purpose of automating, simplifying, or expediting legal workflows. Though many Legal Tech firms specifically address solutions for lawyers and law firms, the broader ecosystem include solutions that target legal workflows, and a broad range of industries. Solutions in this vertical include legal marketplaces, contract automation, eDiscovery platforms, legal research and operations software, litigation financing, document review and notarization, and legal analytics, among others.⁵⁷

Among Pitchbook’s 59 verticals, Legal Tech is relatively small, with only 2,290 companies compared to 51,691 for Artificial Intelligence & Machine Learning, 25,147 for Big Data, and 13,910 for CloudTech & DevOps. However, companies can span multiple verticals. For example, LegalZoom is part of the Legal Tech and E-Commerce verticals. Similarly, LegalMation is part of the four verticals: Legal Tech, Artificial Intelligence & Machine Learning, Big Data, and CloudTech & DevOps.

⁵⁴ See www.legalzoom.com.

⁵⁵ See www.legalmation.com.

⁵⁶ Pitchbook definitions.

⁵⁷ Id.

Pitchbooks lists 111 Legal Services (B2B) industry companies in the Legal Tech vertical with headquarters in California. These companies have raised a total of \$3.71 billion in investor funding. Table 13 summarizes the top 10 companies based on the investment size.

Table 13. Legal Services (B2B) industry companies in Legal Tech vertical with California HQ, by size of investment

Company & HQ Location	Description	Year founded	Financing	Total \$ raised (millions)
Ironclad (San Francisco)	Developer of a contracting platform intended to transform contract processes by automating workflows and approvals.	2015	VC-backed	\$332.5
Rocket Lawyer ⁵⁸ (San Francisco)	Provider of online legal services intended to help users meet the legal needs of their families and businesses.	2006	VC-backed	\$328.4
Everlaw (Oakland)	Developer of a cloud-based litigation platform designed to improve the practice of law for corporate counsels, litigators, and government attorneys.	2010	VC-backed	\$314.6
Ontra (Concord, CA)	Developer of an online legal management platform intended to automate and enhance high-volume legal processes easily.	2014	VC-backed	\$240.0
Evisort (San Francisco)	Operator of an innovative contract management platform designed to protect, scale, and accelerate business.	2016	VC-backed	\$154.7
Harvey.ai (San Francisco)	Developer of a generative AI legal tech application designed to assist law practitioners.	2022	VC-backed	\$116.0
Steno (Los Angeles)	Operator of a remote litigation platform intended to offer a full suite of court reporting services.	2018	VC-backed	\$107.2
Casetext (San Francisco)	Developer of a research platform that leveraging artificial intelligence and machine learning technologies to analyze litigation documents and uses that information to algorithmically query the law.	2013	Formerly VC-backed (now subsidiary of Thomson Reuter)	\$68.0
EvenUp (San Francisco)	Developer of legal practice management software designed for getting fair trials and outcomes in personal injury cases.	2019	VC-backed	\$65.0
FreeWill (Concord, CA)	Operator of a social-good enterprise intended to offer online tools to address estate planning needs and make charitable donations in tax-advantaged ways.	2016	VC-backed	\$42.3

Source: Pitchbook

The companies listed in Table 13 reflect diverse offerings and operating models. Yet, a common theme for all of them is that their technology replaces or supplements work traditionally performed by lawyers, paralegals, or legal assistants, thus enabling the end-user to do more legal work with less overall human effort. Because lawyers are best positioned to see and identify these types of business applications, many Legal Tech companies are founded by lawyers. For example:

- Ironclad’s CEO and co-founder is a former Fenwick & West associate
- Ontra’s co-founder and former COO is a former Kirkland& Ellis associate

⁵⁸ Rocket Lawyer is also at Top10 Legal Tech company in the B2C Legal Services space. See Table 14, *infra*.

- Harvey.ai’s CEO and co-founder is a former O’Melveny & Myers associate
- Steno’s co-founder is a trial lawyer and a former Steptoe & Johnson partner
- EvenUp’s Chief of Product and co-founder is a former Norton Rose Fulbright associate
- All three of Casetext’s co-founders are former large law firm associates.

The companies listed in Table 13 are also generating enormous wealth. In the investor community, VC-based companies that achieve a \$1 billion valuation are termed “unicorns.”⁵⁹ Although the Legal Tech vertical is relatively small, at the time of their last round of financing, three of the companies had achieved unicorn status: Ironclad (\$3.2 billion), Everlaw (\$2.1 billion), and Harvey.ai (\$2.0 billion). Similarly, CaseText built an AI research platform using Open AI’s GPT-4 large language model. In 2023, it was acquired by Thomson Reuters for \$650 million. At the time, CaseText had 104 employees, including its three lawyer founders.⁶⁰

The Legal Tech vertical in the Legal Service B2C industry is significantly smaller. Pitchbooks lists 31 California-based Legal Services (B2C) companies. These companies have raised \$1.4 billion in investor funding, though a single company, publicly traded LegalZoom, accounts for more than 60% (\$856.9 million). Table 14 summarizes the top 10 companies based on the investment size. Like Legal Tech in B2B legal services, many B2C founders are former or current practicing lawyers, including several California-license lawyers.⁶¹ This suggests that lawyers’ proximity to a problem in practice is a critical first step in developing a technology-based solution.

Yet, one significant difference between B2B and B2C Legal Tech—and one with important implications for investment and potential growth—is that B2B companies sell primarily to legal departments or law firms (i.e., L2L as discussed in Section 1.1), which obviates the risk of unauthorized practice of law (UPL). Specifically, if legal work or work product is sold directly to a law firm or legal department, it can be classified as paraprofessional work under the supervision of licensed lawyers—a responsibility made explicit in engagement letters or terms of services.⁶² Thus, Legal Tech companies in the B2B/L2L space can use artificial intelligence to generate sophisticated legal work products that can replace at least part of the expensive, time-consuming work traditionally performed by lawyers. Indeed, this is the precise use case of many of the most well-financed and fastest growing Legal Tech companies, including several companies listed in Table 13.

In contrast, most Legal Tech companies in the B2C space (see Table 14) do business exclusively with the public. Although it may be possible for generative AI and similar technology to provide high-quality, cost-effective legal advice to individual and small business owners, unless licensed lawyers wholly own the B2C legal services company, making it L2C, this type of service

⁵⁹ See, e.g., James Chen, Andy Smith, Kirsten Rohrs Schmitt, “Unicorn: What It Means in Investing, With Examples,” INVESTOPEDIA, July 19, 2024 (In the language of venture capital, a unicorn refers to a privately held startup company with a valuation exceeding \$1 billion. These companies, often found in technology and other sectors requiring massive capital to bring products to market, have included household names like Airbnb Inc.”).

⁶⁰ See “Thomson Reuters to acquire legal AI firm CaseText for \$650 million,” REUTERS, June 27, 2023, online at <https://www.reuters.com/markets/deals/thomson-reuters-acquire-legal-tech-provider-casetext-650-mln-2023-06-27/>.

⁶¹ For example, Robert Shapiro at LegalZoom, Charley Moore at Rocket Lawyer, Samuel Byker at Atticus, Erin Levine at Hello Divorce, Jennifer McGlone at LawChamps, and Teel Lidow at Fairshake.

⁶² See 2018 LANDSCAPE REPORT, *supra* note 6, at 25 & notes 87-88 (discussing a series of California, New York, and ABA ethics opinions that classified legal services sold to legal departments and law firms as paraprofessional work if the work is supervised by a licensed lawyer, a detail commonly addressed in the engagement letter).

would constitute the unauthorized practice of law as well as impermissible fee-splitting under Rule 5.4. To avoid this risk, Legal Tech companies in B2C legal services must limit themselves to providing legal information, preparing form documents, and/or providing ancillary business services.

Table 14. Legal Services (B2C) industry companies in Legal Tech vertical with California HQ, by size of investment

Company & HQ Location	Description	Year founded	Financing	Total \$ raised (millions)
LegalZoom (Glendale)	Online provider of services that meet the legal needs of small businesses and consumers in the United States.	1999	Formerly PE-backed, not publicly traded	\$856.9
Rocket Lawyer (San Francisco)	Provider of online legal services intended to help users meet the legal needs of their families and businesses.	2006	VC-backed	\$328.4
Global Music Rights (Los Angeles)	Provider of music rights management services intended to assist artists in the public performance licensing of their catalogs.	2013	PE-backed	\$112.6
Trust & Will (San Diego)	Developer of an online estate planning platform designed to provide an easy, fast, and secure way to set up an estate plan online.	2017	VC-backed	\$50.5
Atticus (Los Angeles)	Developer of online legal advice and referral platform designed to provide access to legal help.	2018	VC-backed	\$50.4
Marble Law (San Diego)	Operator of single platform for clients and attorneys to collect client information, schedule meetings, fill out paperwork, and manage billing and payments.	2020	VC-backed	\$12.8
Hello Divorce (Alameda, CA)	Operator of a proprietary platform to complete the divorce process exclusively online, complemented by self-service tools and integrated expert help.	2018	VC-backed	\$8.8
LawChamps (San Francisco)	Operator of a legal marketplace intended to assist consumers in connecting with local independent attorneys.	2015	VC-backed	\$7.3
FairShake (Oakland)	Provider of legal services intended to settle consumer disputes, including processing claims against phone, cable, and internet companies according to the terms of fine print contracts.	2018	VC-backed	\$3.6
DepoDirect	Operator of legal software to streamline and automate legal proceedings such as depositions, hearings, and mediations.	2021	VC-backed	\$2.0

Source: Pitchbook

The inability of B2C Legal Tech companies to fully leverage technology to benefit end users—i.e., individuals with legal needs—is likely a significant reason for a large disparity in Legal Tech investment. For example, the #10 California-based Legal Tech B2B company (see Table 13) has raised \$42.2 million compared to \$2.0 million for the #10 company in B2C legal services (see Table 14). This limitation on B2C Legal Tech narrows the pathway for leveraging technology to improve access to legal help for ordinary people.

3. Individual versus Organizational Clients

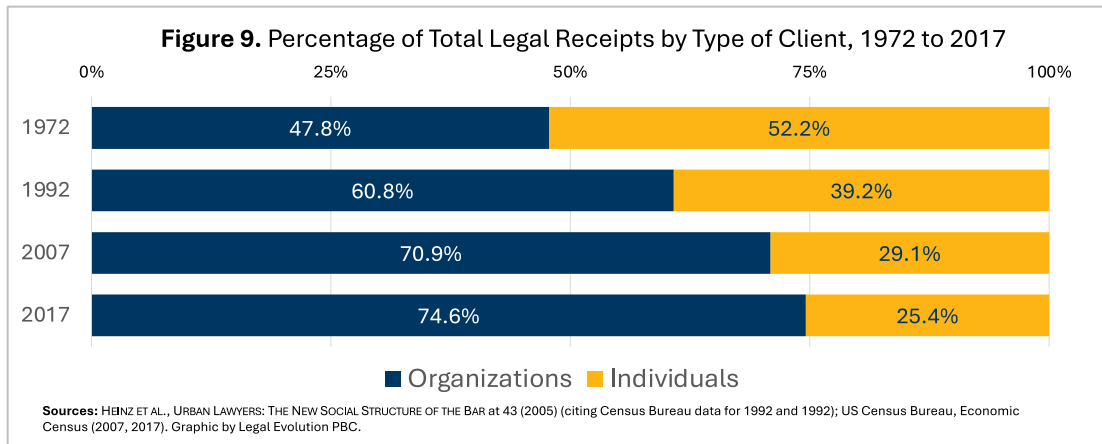
A substantial portion of the data and analysis in Section 2 is based on the type of client—individuals versus organizations. This is important because the legal profession and industry are functionally divided into two markets based on client type. These markets have different economic drivers and are evolving in very different ways. This report refers to these markets as the PeopleLaw and Organizational Client sectors.

3.1. How type of client affects the economics of practice

The structural divide between individual and organizational clients was first identified in two studies by researchers at the American Bar Foundation (ABF).

The first study (Chicago Lawyers I), which studied lawyers in the Chicago metropolitan area in 1975, observed that the bar was functionally divided into two “hemispheres,” with approximately half serving people and half serving organizational clients.⁶³ Although hemisphere, as in “half,” denoted two groups roughly equal in size, it also signaled the separateness of the two groups’ demographic attributes (race, religion, home and work zip codes) and professional affiliations (law school, bar associations). “Only in the most formal of senses,” observed the researchers, “do the types of lawyers constitute one profession.”⁶⁴ In 1995, the same core researchers replicated the study (Chicago Lawyers II),⁶⁵ finding that the size and economics of the two groups were sharply diverging. The real income of lawyers serving individuals declined, with many turning to second jobs to support themselves. Conversely, lawyers in large firms and legal departments (i.e., serving organizational clients) experienced rapid growth in both number and income.⁶⁶

The Chicago Lawyers hemisphere framework continues to be a useful lens for understanding the changes occurring within the legal profession. Drawing upon U.S. Census Bureau “class of customer” data, Figure 9 documents how the composition of the legal services market continues to shift toward organizational clients.



⁶³ See JOHN P. HEINZ & EDWARD LAUMANN, CHICAGO LAWYERS: THE SOCIAL STRUCTURE OF THE BAR (rev. ed. 1994); see also Gillian K. Hadfield, “The Price of Law: How the Market for Lawyers Distorts the Justice System,” 98 MICH L REV 953 (2000) (emphasizing structural differences and separateness of individual versus corporate law markets).

⁶⁴ Id at 29.

⁶⁵ See JOHN P. HEINZ, URBAN LAWYERS: THE NEW SOCIAL STRUCTURE OF THE BAR (2005).

⁶⁶ For additional details on the Chicago Lawyers I and II studies, see 2018 LANDSCAPE REPORT, *supra*, note 6, at 12-13.

Over the last several decades, the percentage of the national legal market serving individuals has been cut in half, dropping from 52.2% to 25.4%. For 2017 (the most recent year available), the PeopleLaw share of the California market is 24.4%, which is slightly lower than the 25.4% national share.⁶⁷

One reason for the decline of the two-hemisphere structure—and one suggested by the findings of Chicago Lawyers II and more recent data—is the growing difficulty of running a successful law practice that serves the legal needs of modest and middle-income individuals. The primary reason is that year after year, the cost of legal services increases faster than other consumer goods and services.⁶⁸ A second reason for the emerging imbalance is the size and scale of the modern global economy, which requires more and better lawyers to navigate and manage legal complexity risk.⁶⁹ As a result, the cleavage between these two sectors is likely to grow larger.

Drawing upon a wide array of published data and research, including detailed information on the size and number of U.S. businesses and government entities, Table 15 estimates the breakdown of law firm receipts based on the type and size of client. Thus, instead of binary individual/organizational client categorization, it presents a continuum of clients ranging from individuals to gradations of small, middle, and large businesses to Fortune 500 entities to government entities.⁷⁰

Table 15. Estimated breakdown of 2022 law firm revenue based on type and size of clients (NAICS 541110 Offices of Lawyers).

Type of Client	Number	Total Receipt for Legal Services	Dollar spent per client	% of Total Receipts
Individuals	333,271,271	\$93,300,000,000	\$280	25.4%
Businesses: < \$1M	4,400,837	\$20,800,000,000	\$4,726	5.7%
Business: \$1M to \$25M	1,496,611	\$75,700,000,000	\$50,581	20.6%
Business: <\$25M to \$100*M	73,150	\$41,000,000,000	\$560,492	11.2%
Business: \$100M to \$2.5B*	24,791	\$58,800,000,000	\$2,371,828	16.0%
Business: \$2.5B to \$6.7B*†	1,011	\$22,300,000,000	\$22,057,369	6.1%
Fortune 500*†	500	\$43,500,000,000	\$87,000,000	11.8%
Government Entities	90,888	\$11,700,000,000	\$128,730	3.2%
* Also has in-house counsel † Likely employs legal ops personnel		\$367,100,000,000		100.00%

Source: Client counts from U.S. Census Bureau programs, including 2017 Statistics of U.S. Businesses (SUSB), 2017 Economic Census, 2022 Census of Governments, and 2022 Fortune Magazine. Law firm receipts allocated based on 2017 Economic Census class of customer data for NAICS 541110 and published estimates of legal budgets based on company size, adjusted upward based on U.S. GDP through 2022.

⁶⁷ See Section 2.1. *supra*, discussing the size and composition of the California legal services market.

⁶⁸ This is the problem of cost disease, which is discussed in Section 3.2.

⁶⁹ This topic is discussed in Section 3.3.

⁷⁰ Table 15 is calculated from percentages from the 2017 Economic Census “class of customer” analysis. Total receipts, population, number of government entities, and businesses by operating revenue are also known from U.S. Census Bureau sources. Outside legal fees as a percentage of company revenues is a key performance indicator (KPI) for starting a legal department and, after that, assessing its performance. In Table 15, this percentage ranges from 1.20% for small companies (<\$1M) to 0.27% for the Fortune 500. These are estimates based on benchmarks published by numerous consultants and industry groups, including the Corporate Legal Operations Consortium (CLOC) and the Association of Corporate Counsel (ACC). One California-based Legal Tech company catering to small businesses suggests 1-2% of annual revenue per year for legal costs. See “What is the average legal expense for a small business?,” COBRIEF BLOG, Oct. 3, 2024.

One of the most striking features of the Table 15 continuum is the challenging economics of serving individual clients, particularly when we compare individual budgets versus individual needs. According to the State Bar of California’s 2019 Justice Gap Report, “55% of Californians experienced at least one civil legal problem in their household in the past year”; 13% reported “six or more household problems.”⁷¹ Across all income groups, this resulted in an average of 2.5 legal problems per household.⁷² This is an immense amount of legal need when compared to the relatively modest per individual (\$280) amount spent on legal services and the fact that solo or small firm lawyers in California charge an average of \$308/hour and typically only collect 88% of what they bill.⁷³ The only plausible way for lawyers or law firms to fully serve this high-need, low-resource population segment is through a high-volume practice that achieves substantial economies of scale.⁷⁴ This business model requires skills in process, technology, marketing, and business operations that are rarely part of any lawyer’s formal education.⁷⁵

The Table 15 breakdown also shows that nearly 70 percent of legal receipts are generated by businesses (for-profit or nonprofit) with at least \$1 million in annual revenue. From a lawyer’s perspective, larger organizations are attractive clients because they are more likely to have ongoing legal needs, which lightens the burden of prospecting for additional paid legal work. As a company grows, it considers the cost savings and operational benefits of hiring a general counsel and building a legal department.

Table 15 includes an annotation for businesses likely to employ a general counsel (orange asterisk). Evidence from the Association for Corporate Counsel (ACC), recruiters, and staffing companies who fill these positions suggest \$20 million as a tipping point for bringing work in-house.⁷⁶ Applying this threshold to the continuum of organizational clients in Table 15, roughly half of all law firm receipts originate from clients with at least one in-house lawyer. Thus, in addition to specialized legal expertise from law firms, these larger clients benefit from one or more full-time lawyers providing ongoing legal advice and guidance. As noted earlier, these positions are among the highest-paid in the legal profession. Further, large organizational clients

⁷¹ See CAL JUSTICE GAP REPORT, *supra* note 26, at 6-8.

⁷² The 2.5 average is for all income levels. See *id.* at 21; see also TECHNICAL REPORT, 2019 CALIFORNIA JUSTICE GAP STUDY at 8 (“Among all Californians, individuals reported an average of 2.5 problems in their household in the past year” and noting that the average for those below 125% of the federal poverty level (FPL), the threshold used for federally funded legal aid, was 4.3 versus 2.1 problems per household for those above the 125% level.)

⁷³ See Table 7, *supra*.

⁷⁴ See Gillian K. Hadfield, “The Cost of Law: Promoting Access to Justice through the Corporate Practice of Law,” 38 INT’L REV L & ECON 43 (2014) (economist and law professor arguing that the market serving individual requires organizational forms that can achieve economies of scale necessary to fund innovation and product development).

⁷⁵ For a roadmap to this type of practice, see JACK NEWTON, THE CLIENT-CENTERED LAW FIRM (2020) (the founder of Clio practice management software advises his clients on how to tap into the “latent legal market”). As evidence of a skills gap, Clio reports that most clients strongly prefer flat-fee pricing. Yet only 16% of all fees in the Clio system are earned through flat-fee agreements. See CLIO LEGAL TRENDS REPORT, 2017, at 27.

⁷⁶ See ASSOCIATION OF CORPORATE COUNSEL, 2022 LAW FIRM MANAGEMENT BENCHMARKING REPORT at 6 (report on 427 ACC legal departments; within this group, reporting \$23 million as the 10th percentile of company revenues); Ardy Taylor, “Should Your Startup Hire In-House Counsel?” OUTLAW BLOG, Mar. 9, 2012 (suggesting \$20 million as threshold for hiring an in-house counsel); Reid L. Phillips, “Is It Time For Your Company to Hire In-House Counsel?,” BROOKS PIERCE BLOG, Sept 4, 2018 (suggesting these benchmarks for hiring first in-house lawyer: 100+ employees, \$500,000 in annual fees, in a heavily regulated industry, IP critical to company strategy, outside investors regarding shareholder management).

garner additional support from legal operations personnel (green dagger annotation in Table 14)⁷⁷ and a rapidly growing B2B/L2L Legal Tech sector.⁷⁸

In summary, a massive and complex legal ecosystem is growing up and around large organizational clients. The fact that these organizations are the biggest consumer of law firm services (see Table 15) is but one of their many structural advantages.

3.2. PeopleLaw

This section focuses on California’s PeopleLaw sector, which, as of July 1, 2023, includes 39.0 million Californians as potential or actual clients. Of this number, 30.5 million (78.3%) are 18 or older.

Consistent with the findings of the 2018 Landscape Report, the most challenging trend affecting the PeopleLaw sector is that the cost of legal services is increasing faster than the overall cost of living. Economists refer to this dynamic as “cost disease,” which afflicts labor-intensive fields with highly specialized human capital, such as medical care, higher education, and legal services.⁷⁹ The primary reason for increasing relative cost is that productivity gains in these fields lag behind productivity gains in the broader industrial economy, particularly technology, manufacturing, transportation, and food production. Thus, as the relative prices of cars, computers, textiles, etc., decrease, a larger share of income is allocated to human-intensive services.⁸⁰

The U.S. Bureau of Labor Statistics tracks the prices of various goods and services to calculate the Consumer Price Index (CPI), the most widely used measure of inflation. Figure 10 compares relative prices for legal services, medical care, and college tuition—three items subject to cost disease—to the overall CPI-U.⁸¹

⁷⁷ See 2018 LANDSCAPE REPORT, *supra* note 6, at 5-6, 16-17 (discussing the rise of the legal ops field, including the critical role played by the large Bay-area corporate legal departments in launching the Corporate Legal Operations Consortium (CLOC); discussing the prominent role played by legal ops professionals in large organizations).

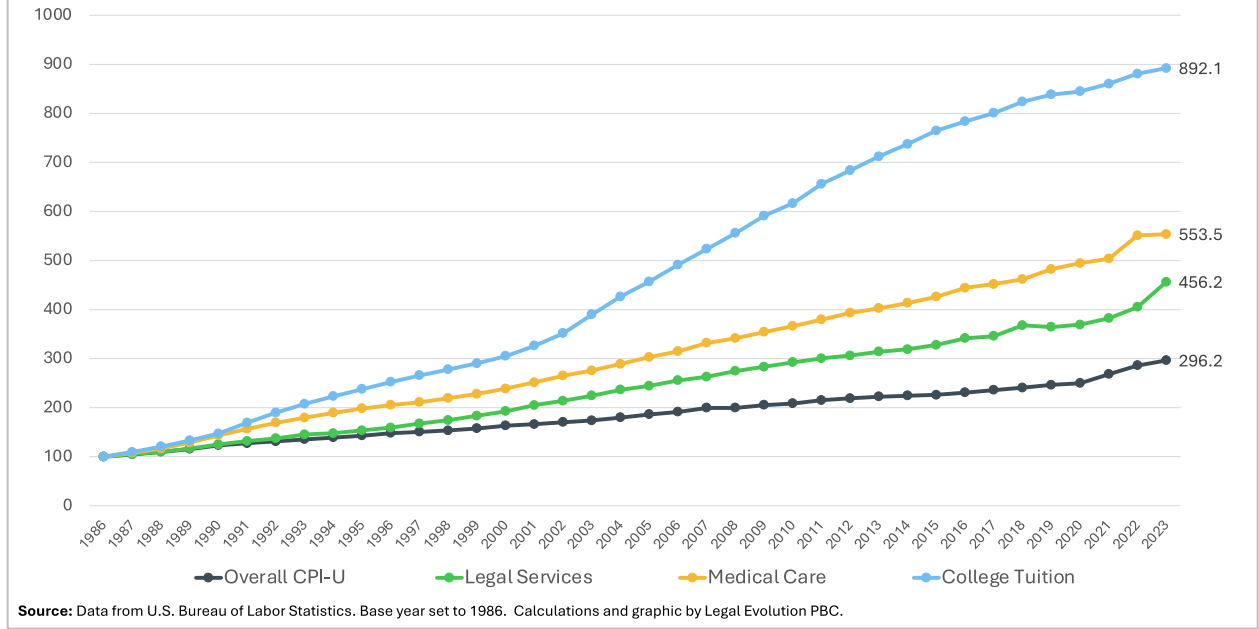
⁷⁸ See Section 2.5, *infra* (discussing and presenting data on B2B/L2L Legal Tech vertical, particularly in California).

⁷⁹ See generally WILLIAM J. BAUMOL, THE COST DISEASE: WHY COMPUTERS GET CHEAPER AND HEALTH CARE DOESN’T (2013) (discussing industries afflicted by cost disease along with possible public policy responses).

⁸⁰ For additional background on cost disease, see 2018 LANDSCAPE REPORT at 17-19.

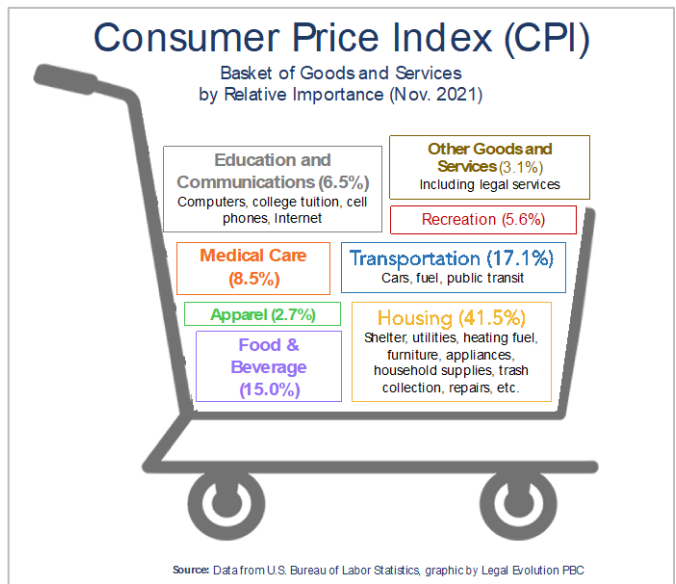
⁸¹ The CPI-U (All Urban Consumers) is used in this report because it covers 93 percent of the total U.S. population compared to 29 percent for the CPI-W (Urban Wage Earners and Clerical Workers). See U.S. Bureau of Labor Statistics, “Consumer Price Indexes Overview,” online at <https://www.bls.gov/cpi/overview.htm>.

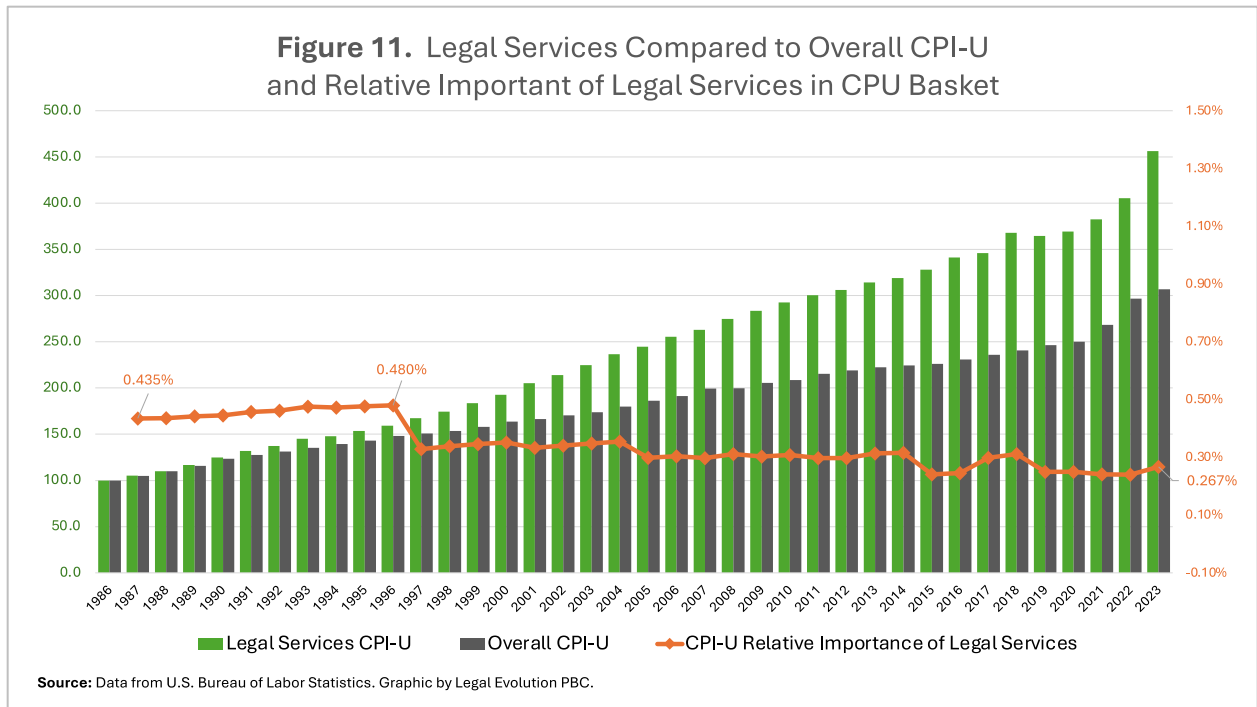
**Figure 10. Legal, Medical Care, College Tuition versus Overall CPI-U
1986 to 2023**



For many households, higher relative costs for highly valued goods and services raise the specter of tradeoffs. Thus, part of the CPI calculation is weighing the “relative importance” of a good or service in the overall CPI basket, which is determined by detailed surveys of household spending. See right insert graphic. In effect, the relative importance assigned to a good or service is its weight in the overall CPI.

Below, Figure 11 shows the trendlines for the CPI-U, legal services CPI, and the relative importance weight assigned to legal services.





The left axis (green) in Figure 11 is the Consumer Price Index for all Urban Consumers (“CPI-U”) with the base year set to 1986 (Index = 100). Thus, green and gray bars show the cost of legal services rising faster than the overall cost of living. However, the right axis (orange) measures the relative importance of legal services in the CPI-U basket. The downward slope shows that, on average, U.S. households have been taking legal services out of the CPI-U basket, presumably to pay for goods or services they perceive as more valuable. In 1987, the typical U.S. household allocated approximately 43.5¢ per \$100 to legal services. In 2023, this figure decreased to 26.7¢ per \$100.

Table 16 compares the change in wallet share of legal services to medical care and college tuition. Although the legal services sector is declining relative to medical care and higher education, it is crucial to note that the CPI is focused on the cost of *consumer* goods and services and thus excludes the Organizational Client sector, which is three times as large and continuing to grow.

Table 16. Change in CPI Relative Importance for three sectors

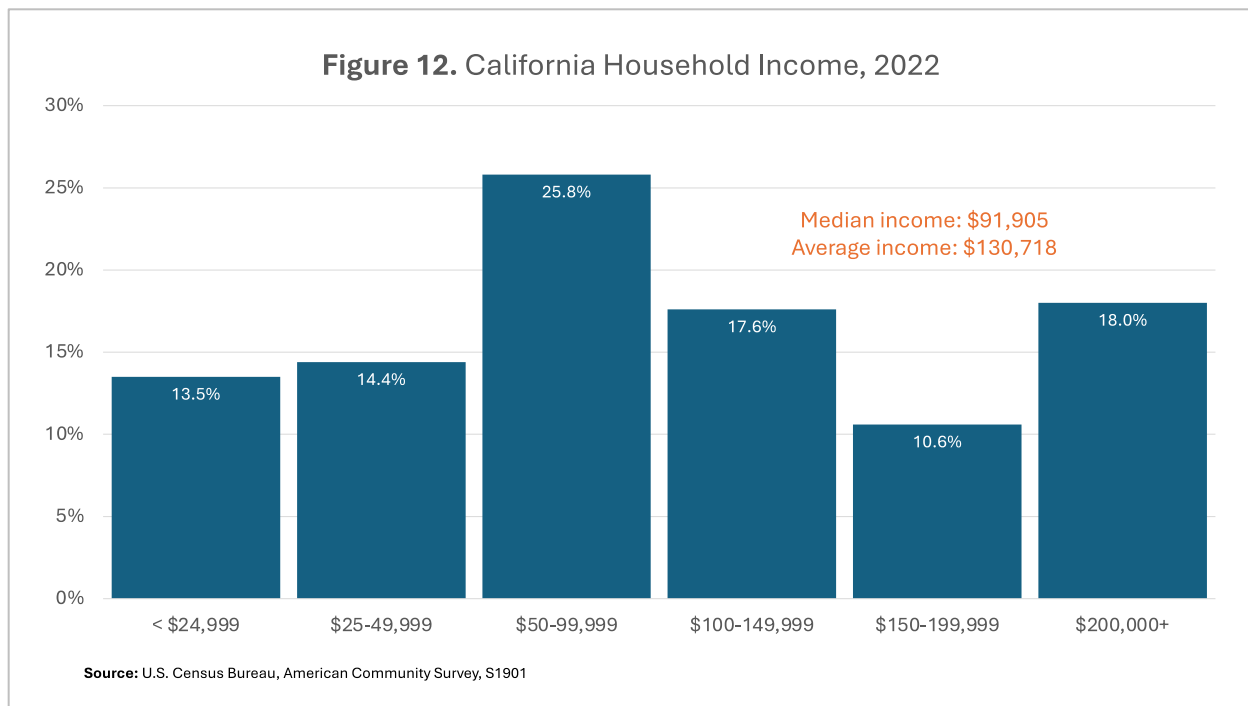
CPI component	1987	2023	Change, 1987 to 2023
Legal Services	0.435	0.267	-38.6%
Medical Care	4.807	8.004	+66.5%
College Tuition	0.840	1.275	+51.8%

Source: U.S. Bureau of Labor Statistics, calculations by Legal Evolution PBC.

A major risk for the California legal profession is that the size, vibrancy, and affluence of the state’s Organizational Client sector, including massive investments in B2B/L2L Legal Tech,⁸² obscures the difficulties of running a successful PeopleLaw practice for nonaffluent clientele. According to the State Bar’s 2019 Justice Gap Report, “Californians received inadequate or no

⁸² See Section 2.5, *supra* (presenting data on California’s Legal Tech sector, including disproportionately large investments in companies in the B2B/L2L legal services space).

legal help at all for 85% of their legal problems,” with very similar rates for Californians above (84%) and below (86%) the income levels for federal legal aid assistance.⁸³ Figure 12 presents the distribution of California household incomes for 2022.



Although cost or affordability is not the sole reason why people fail to seek and obtain adequate legal assistance—attitudinal barriers and knowledge gaps also play a role⁸⁴—it is sobering that the 85% figure in the Justice Gap report includes households making more than \$200,000 per year. To assist Californians at the lower ends of the income distribution, effective 2022 the state law was changes to increase the threshold for legal aid eligibility from 125% to 200% of the federal poverty level (FPL).⁸⁵ Prior to the increase, approximately 16% of Californian adults qualified for legal aid.⁸⁶

⁸³ See CAL JUSTICE GAP REPORT, *supra*, note 26 at 7. The eligibility level for legal aid funded by the Legal Services Corporation (LSC), the nation’s largest legal aid funder, is 125% of the federal poverty level (FPL). In 2021, the State of California increased eligibility for state-funded legal aid to 200% FPL.

⁸⁴ See LEGAL SERVICES CORPORATION, THE JUSTICE GAP: THE UNMET CIVIL LEGAL NEEDS OF LOW-INCOME AMERICANS (April 2022) at 44-52 [hereafter LSC JUSTICE GAP] (identifying three barriers to seeking legal help— attitudinal, affordability, and knowledge gap—that are fairly similar across income groups).

⁸⁵ This was accomplished through the passage of SB 498, which was passed in late 2021 and went into effect in January 2022. SB 498 also exempts veterans’ disability benefits from income calculations for legal aid eligibility.

⁸⁶ See Justice Gap Report, *supra*, note 26, at 7 (reporting 4.6 million out of 29.6 million California adults met the <125% FPL income requirement).

Table 17 compares the state’s new 200% FPL thresholds with California median incomes based on household size. For households of 1 to 4 people, the median California income (i.e., 50th percentile) is roughly twice the threshold for legal aid. Similarly, the median income of larger households exceeds the legal aid thresholds by \$30,000 to \$40,000. These figures suggest that even with more generous qualifying levels, legal aid continues to cover a relatively small subset of the state’s population.⁸⁷

Table 17. Legal Aid Eligibility and California Median Income, by size of household

Household size	200% FPL	CA Median Income
1	\$30,120	\$60,360
2	\$40,880	\$92,781
3	\$51,640	\$105,130
4	\$62,400	\$123,451
5	\$73,160	\$109,691
6	\$83,920	\$110,036

Source: 2024 Poverty Guidelines (48 Contiguous States), U.S. Department of Health and Human Services & U.S. Census Bureau, 2022 American Community Survey, B19019.

Unfortunately, even among the newly eligible low-income Californians who seek legal help, State Bar-funded legal aid organizations report they can only fully serve 30% of eligible civil legal problems presented to them by low-income Californians.⁸⁸ An even bigger systemic problem, however, is that Californians only seek legal help for 32% of the civil legal problems they experience.⁸⁹

In summary, with the continued rising costs of legal services, California’s PeopleLaw sector is becoming less accessible to the people of California. This has broad social and political implications, as an accessible and just legal system is essential for the public’s faith in government.⁹⁰

3.3. Organizational clients

The section focuses on California’s Organizational Client sector. Potential and actual clients include approximately 780,000 businesses (for-profit and nonprofit) and 4,500 governmental entities.

Although there are 20 times as many people in California versus organizational clients, the Organizational Client sector accounts for more than three-quarters of the state’s legal service economy (\$43.9 billion versus \$14.1 for PeopleLaw).⁹¹ Further, as discussed in Section 3.1, the estimate for the Organizational Client sector is conservative because it does not include the economic contributions of in-house legal departments, which is the fastest growing practice setting for lawyers,⁹² and a booming Legal Tech sector oriented toward B2B/L2L legal services.⁹³

Yet, within the Organizational Client sector, there is a significant and overlooked cleavage between large organizational clients and smaller businesses. For example, California’s

⁸⁷ A second data point supporting this estimate is that the average California household had 2.82 members in 2022. See U.S. Census Bureau, 2022 American Community Survey, S1101.

⁸⁸ See CAL JUSTICE GAP REPORT, *supra*, note 26, at 45.

⁸⁹ See CAL JUSTICE GAP REPORT, *supra*, note 26, at 7.

⁹⁰ Cf California Business & Professions Code, §6001.1 (“Protection of the public, which includes support for greater access to, and inclusion in, the legal system, shall be the highest priority for the State Bar of California and the board of trustees in exercising their licensing, regulatory, and disciplinary functions.”).

⁹¹ See Section 2.1 & Figure 3, *supra*.

⁹² See Section 2.4.3, *supra*.

⁹³ See Section 2.5, *supra*.

Organizational Client sector includes 132 California-based Fortune 1000 companies, with revenues ranging from \$2.1 billion (DocuSign, #1000) to \$365.8 billion (Apple, #3). Applying revenue-based industry benchmarks for corporate legal departments,⁹⁴ the 132 California-based companies are spending \$7.2 billion annually on outside legal expenses—roughly one-sixth of the state’s \$43.9 Organizational Client sector—and an additional \$9.4 billion for internal legal department personnel.

Yet, California’s Organizational Client sector also includes hundreds of thousands of small businesses with limited financial resources. Table 18 breaks down California’s economy into four categories based on annual revenue:

Table 18. Number of California Businesses by total annual revenue, 2021

Size of Business (by revenue)	Firms	% of all Firms	Total Employees	% of all Employees	Avg # of Employees	Avg Pay per Employee
Less than \$100K	100,326	12.9%	97,096	0.7%	0.97	\$30,508
\$100K to \$250K	138,914	17.9%	206,763	1.5%	1.49	\$34,157
\$250K to \$1 million	288,181	37.0%	1,033,197	7.3%	3.59	\$41,917
Greater than \$1 million	250,591	32.2%	12,896,525	90.6%	51.46	\$92,455
Total	777,112	100.0%	14,233,581	100.0%	18.32	\$87,517

Source: U.S. Census Bureau, County Business Patterns (2021). Calculations by Legal Evolution PBC.

Of California’s nearly 780,000 businesses, roughly two-thirds (527,000) gross less than \$1 million annually. Further, based on the average number of employees for companies in the lower revenue categories, most California businesses fit the U.S. Small Business Administration’s definition of a microbusiness (1 to 9 employees).⁹⁵ Although the microbusiness sector includes small technology start-ups that will eventually attract venture capital funding, the sector also includes landscaping companies, hair salons, street vendors, carpenters, plumbers, independent mechanics, machine shop operators, independently owned retailers, e-commerce businesses on Amazon, eBay, or Shopify, small farmers, private practice doctors, dentists, mental health counselors, and consultants doing specialized knowledge work.⁹⁶

A second important observation from Table 18 is that among the 14.2 million Californians who work as W-2 employees in private-sector California businesses, 90.6% work at companies with more than \$1 million in revenue. These companies pay substantially higher wages—an average of \$92,455 versus \$30,508 to \$41,917 for companies grossing less than \$1 million. Because of their size, complexity, and financial resources, high-revenue companies are sought-after law firm clients, as they hold out the prospect of ongoing legal needs. In contrast, hundreds of thousands of California’s microbusinesses risk being underserved by lawyers, putting them in

⁹⁴ See 2022 LAW DEPARTMENT BENCHMARKING REPORT, note 76, *supra*, at 20.

⁹⁵ Brian Headd, Economist, U.S. Small Business Administration, “Small Business Facts” (August 2017).

⁹⁶ The businesses in Table 17 all have employees. As noted earlier in this report, the U.S. Census Bureau tracks nonemployer separately from employers. See Section 1.3, *supra* (discussing NES data set). In 2021, California had more than 3.4 million nonemployer businesses, grossing more than \$203 billion (approximately 5% of California’s annual GDP). However, the average revenue per business was only \$59,356, making them more economically vulnerable than the businesses listed in Table. 17.

the same precarious situation as low and middle-income households.⁹⁷ Unfortunately, unlike legal aid, no organization or advocacy group attempts to understand or quantify the legal needs of small businesses. Instead, it’s presumed that they can afford private legal services. Yet, is that an accurate assumption?

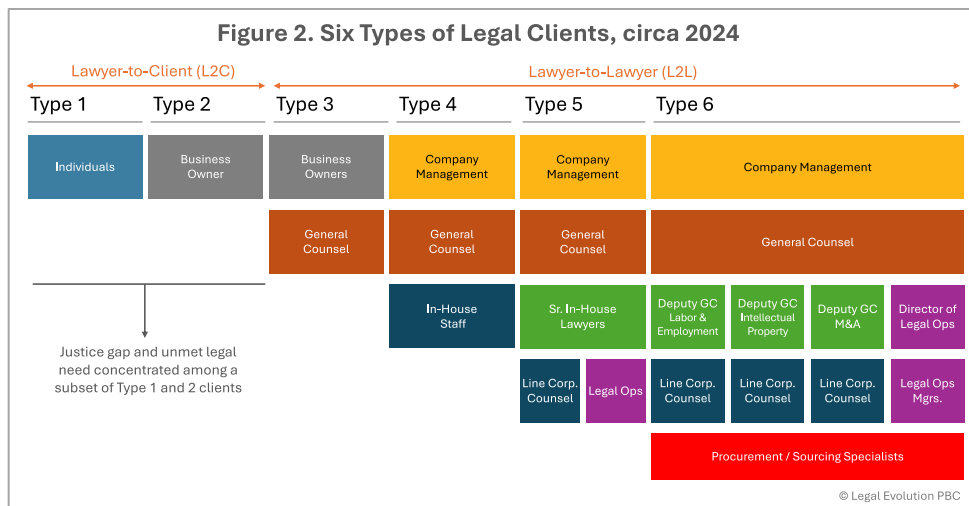
As discussed in the 2018 Landscape Report, buyers of legal services can respond to cost disease—the cost of legal services rising faster than other household staples—in one of three ways:

- (1) Buy fewer (or no) legal services
- (2) Find substitution goods and services
- (3) Pay higher relative prices.⁹⁸

Over the last several decades, large organizational clients have responded to cost disease through an elaborate substitution strategy: bringing work in-house, building legal operations teams, investing in technology, and outsourcing to ALSPs. In addition, they have also been willing to pay higher relative prices for the highly specialized legal work of outside counsel. Hence, most large corporate law firms continue to enjoy relentlessly higher profits.⁹⁹

In contrast, many California microbusinesses are much closer in size and resources to the typical California household and thus may view legal services as an unaffordable luxury.¹⁰⁰ Regarding possible substitution for traditional legal services, it is noteworthy that several of the largest Legal Tech companies classified as B2C legal services include offerings targeted at small business owners.¹⁰¹ Yet, are these offerings adequate substitutes for legal advice, which remains the providence of licensed lawyers? Because most businesses don’t employ an in-house general counsel, this is a very important practical problem.

As noted in Figure 2 of this report, which is reprinted below, only Type 1 and 2 clients are at risk of being unable to consult with a lawyer. Hence, the State Bar should focus its attention here.



⁹⁷ See Section 3.2, *supra* (discussing the impact of cost disease on the PeopleLaw sector).

⁹⁸ See 2018 LANDSCAPE REPORT, *supra*, note 6, at 19.

⁹⁹ See note 35, *supra*, and accompanying text.

¹⁰⁰ See, e.g., Bridgett Weston Pollack, “Hearing from Real Small Business Owners,” SBA BLOG, May 4, 2017 (reporting that 65 percent of micro businesses surveyed [by the U.S. SBA] report they are struggling or stagnant”).

¹⁰¹ For example, Table 14, *supra*, lists the ten largest California-based B2C Legal Tech companies based on total investment, the top three (LegalZoom, Rocket Lawyer, and Global Music Rights) target small business owners.

About the Author



Professor William Henderson is on the faculty at Indiana University Maurer School of Law, where he holds the Stephen F. Burns Chair on the Legal Profession. His research focuses primarily on the empirical analysis of the legal profession and has appeared in leading legal journals, including the *Stanford Law Review*, the *Michigan Law Review*, and the *Texas Law Review*.

In addition to frequent articles in the legal press, Professor Henderson's observations on the legal market have been quoted in the *New York Times*, *Wall Street Journal*, *Los Angeles Times*, *Atlantic Monthly*, and *The Economist*. Based on his research and public speaking, Professor Henderson was included on the *National Law Journal's* list of The 100 Most Influential Lawyers in America (compiled every ten years). In 2015 and 2016, The *National Jurist* magazine named him the Most Influential Person in Legal Education.

Professor Henderson has participated in several legal innovation initiatives, including the Institute for the Future of Law Practice (IFLP, "i-flip"), an education nonprofit that combines sophisticated training in modern law practice with paid internships for law students; Lawyer Metrics, an applied research company that helps lawyers and law firms use data to make better operational and strategic decisions (acquired by AccessLex in 2015); and *Legal Evolution*, an online applied research publication focused on successful legal industry innovation.