

US LegalTech market

April 01, 2026

Interviewee

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How would you characterize the US LegalTech market?

Answer:

The end market that LegalTech serves, which is law firms, has historically had very low adoption of technology. There are a few key reasons for this. First, the market is highly fragmented, with many small law firms and family offices. Second, the revenue model is typically based on billable hours, so there is not always an incentive to adopt technology. In areas where adoption has been higher, such as case management, those tend to be areas that are not driven by billable-hour models. A combination of these factors has led to inefficiencies, and there is ongoing pressure from clients on the billable-hour model, which is driving greater adoption of technology. In the US, there has also been early financial sponsorship and ownership of law firms, and this is expected to accelerate the use of technology. The LegalTech market itself is quite fragmented. Across the segments discussed—practice and case management, litigation and eDiscovery, and enterprise and in-house tools—there are distinct sets of players. Within these segments, vendors often specialize in specific types of law firms or case types. For example, some platforms focus only on personal injury or mass tort software.

Are scaled platforms emerging through roll-ups or acquisitions?

Answer:

There have been roll-ups in certain areas. Historically, eDiscovery has seen consolidation activity. However, activity in that space has slowed in recent years, partly due to uncertainty around AI. This trend existed before generative AI and has continued since. There are also areas such as intellectual property where companies have built scale through acquisitions, with some platforms acquiring smaller players and establishing stronger positions. Overall, while there are some scaled players, the market still consists of many point solutions.

How do smaller players differentiate themselves?

Answer:

Go-to-market strategy is a key factor. Within law firms, different teams may use different tools, particularly in less standardized environments. In some areas, such as eDiscovery, there are core platforms that are widely used. However, in other areas like case management, transcription, or litigation support tools, usage can vary across clients.

Another important differentiator is specialization. Some companies focus on specific legal segments, such as personal injury or mass torts, and tailor their offerings accordingly.

How has AI affected LegalTech?

Answer:

AI has had a significant impact, particularly in eDiscovery and document review, where it has been used for around ten years, even before generative AI. There are two key trends at play. The volume of data being processed continues to increase, while AI is making it easier to process that data. These two trends offset each other. More recently, large language models have expanded into areas such as contract review and redlining. Most legal work involves unstructured data, which makes it well suited to these types of AI applications. There is likely to be continued disruption, although smaller providers may still have a role where they offer niche or specialized functionality.

Do you expect regulation around AI in LegalTech?

Answer:

Law firms remain accountable for their work and can be sued for malpractice, regardless of whether AI is used. At present, there has not been specific regulation targeting AI in LegalTech. AI is more likely to be used as a support tool rather than a fully autonomous system, and human oversight will remain important. It is also difficult to fully control or police the use of AI, so it is likely to continue being used as an assistive tool rather than a replacement for lawyers.

Is AI affecting employment in legal services?

Answer:

Workforce structures are already beginning to change. Historically, large law firms followed a pyramid structure with a high proportion of junior associates performing tasks such as document review. There has been a reduction in the proportion of junior roles, which indicates that technology is already influencing how work is carried out.

What is the outlook for LegalTech over the next 3–5 years?

Answer:

The market is expected to continue growing. The legal industry remains highly fragmented, and technology adoption is still relatively low compared to other sectors. There is also continued pressure on the billable-hour model, along with increasing financial investment, which is expected to support further adoption. An important question will be which companies benefit from this shift and whether they are able to maintain a defensible position against larger or more generalist players.

What factors could slow adoption?**Answer:**

There are two main factors that could slow adoption. First, decision-making within law firms is fragmented, with individual partners often influencing technology choices, which makes firm-wide adoption more difficult. Second, the billable-hour model reduces the incentive to adopt efficiency tools unless there is pressure from clients. These factors may slow adoption, although they are unlikely to stop it.

How do revenue models differ across segments?**Answer:**

Practice and case management tools typically follow a recurring SaaS model, as they are used continuously in day-to-day operations. Litigation and eDiscovery tools tend to be more variable and can be project-based, with revenue depending on document volumes and case activity. Enterprise and in-house tools, such as contract or IP management systems, are also generally recurring, as they are used on an ongoing basis.

Why is litigation software more variable?**Answer:**

Demand in litigation is tied to case activity. For example, a large case may generate significant usage for a period of time, followed by a decline once the case concludes. Some firms maintain baseline licenses, but additional usage depends on workload. In certain cases, revenue models may include retainers or performance-based elements linked to case outcomes.

What are the key cost drivers and barriers to entry?

Answer:

In areas such as eDiscovery, there are significant data hosting and processing requirements, which create cost. Developing specialized software has historically taken time, although AI has reduced development timelines. Barriers to entry are not only related to development but also to factors such as customer stickiness, access to data, and the ability to generate value from that data.

How easy is it for law firms to switch providers?

Answer:

Switching costs are higher for practice management and enterprise tools because they are embedded in daily workflows. In litigation and eDiscovery, switching can be easier, as tools may be selected on a case-by-case basis. Pricing can be a factor, particularly for smaller firms. However, if a solution provides significant efficiency benefits, the value delivered may outweigh the cost.

Which segments are more attractive for investment?

Answer:

Practice management and enterprise tools may be easier investment cases, as they are workflow-driven and potentially less exposed to disruption. Litigation and eDiscovery continue to see investment activity, although there is more caution due to uncertainty related to AI.

Are companies building or acquiring AI capabilities?

Answer:

Both approaches are being used. Larger companies may acquire AI-focused businesses while also developing their own capabilities. Having an AI strategy is increasingly expected, and companies need to define how they differentiate from generalist AI providers and how they use AI to deliver value.

Will the market consolidate further?

Answer:

Further consolidation is expected. There are potential synergies in offering multiple related

tools, particularly in litigation workflows where purchasing decisions may occur together. Providing a suite of solutions can create value for clients and support consolidation strategies.