Legal's Vital Role in the US Economy

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IBISWorld estimates that 66.1% of revenue from the Law Firms industry is derived from business and corporate clients

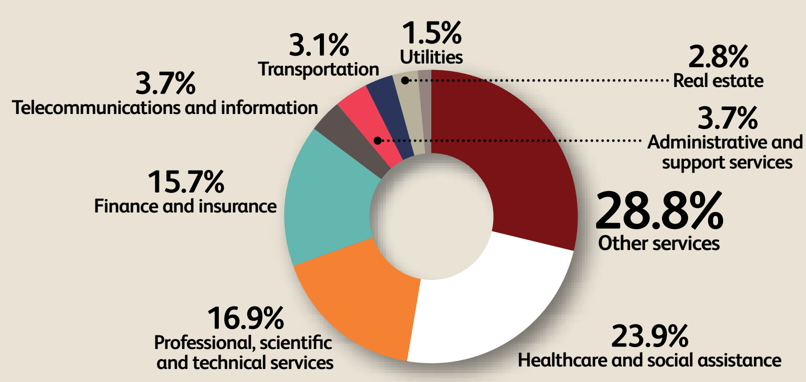
Legal expertise is essential for businesses to minimize risk

The Law Firms industry (IBISWorld report 54111) plays a significant role in the US economy. In particular, legal expertise is essential for businesses, as companies often require legal services to aid in everything from opening new locations to mergers and acquisitions. As a result, IBISWorld estimates that 66.1% of the industry's revenue is derived from business and corporate clients. Below is an analysis of how business spending on legal services is distributed among the services, manufacturing and retail sectors of the economy.

Services

Service industries greatly outspend both manufacturing and retail industries when it comes to legal services. Professional, scientific and technical services, which include industries such as Management Consulting (IBISWorld report 54161), Accounting Services (IBISWorld report 54121c), Laboratory Testing Services (IBISWorld report 54138) and Public Relations Firms (IBISWorld report 54182), account for 16.9% of service industries' total spending on legal counsel in 2015. The finance and insurance portions of the services

Estimated Legal Spending in Services



SOURCE: US CENSUS BUREAU AND IBISWORLD

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sector also comprise a sizeable share of the sector's overall legal spending, as operators require a range of legal services in their daily functions. Finance and insurance firms require legal counsel for matters such as mergers and acquisitions, shareholder and governance agreements, lending transactions, bankruptcy and restructuring. More recently, banks have also incurred rising compliance and regulatory costs as a result of reforms under the Dodd-Frank Act, a federal law that aims to mitigate widespread risk in the US financial system.

However, it is the healthcare and social assistance (HCSA) subsector that spends the most on legal counsel; IBISWorld expects the HCSA to account for 23.9% of the service sector's total legal spending. Specifically, hospitals account for 11.9% of total legal expenditure, followed by ambulatory healthcare services (8.3%), nursing and residential care facilities (2.2%) and social assistance (1.4%). The Hospitals industry, which includes general operators, is expected to generate $1.0 trillion in revenue in 2015, while psychiatric and specialty hospitals are together anticipated to post $72.2 billion in revenue this year.

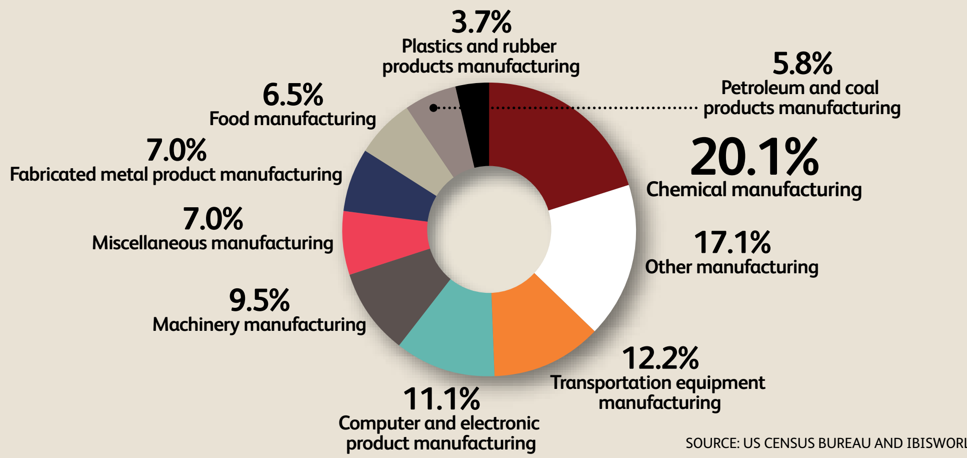
Healthcare industries experience heavy, and in some cases, increasing regulation, due in part to ongoing healthcare reform. A component of such regulation relates to reducing health expenditures' growth rate, which includes reigning in medical liability costs. Ongoing policy discourse across governmental levels will determine the extent of medical liability reform, but if successful, could result in lower legal spending by hospitals and other healthcare and social assistance industries going forward.

Manufacturing

IBISWorld estimates that manufacturing accounts for about 7.0% of total legal expenditure examined in this analysis. Due to the heavy regulation and the importance of research and development (R&D) associated with manufacturing, legal services are used to ensure compliance with local, state and federal laws, and also to protect intellectual property rights. Legal spending is largely concentrated within the pharmaceutical and motor vehicle manufacturing subsectors.

Within the manufacturing sector, chemical manufacturing accounts for the largest share of total legal expenditure. The Brand Name and Generic Pharmaceutical Manufacturing industries

Estimated Legal Spending in Manufacturing



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(IBISWorld report 32541a and 32541b) are the largest consumers of legal services within this sector, accounting for a combined 12.8% of manufacturing's total legal spending. The Law Firms industry has a varied and important role within pharmaceutical manufacturing. The relatively high number of mergers and acquisitions within the pharmaceutical industries requires extensive legal services, including assessing the viability and value of the merger and defending clients from possible antitrust suits. Over the past five years, a wave of consolidation occurred within the industry. A large number of patents expired over this time period, resulting in increased internal competition, and leading large operators to often aquire smaller competitors. Extensive regulation by the Food and Drug Administration (FDA), covering everything from manufacturing standards to advertising campaigns, necessitates the use of legal counsel to ensure compliance and avoid steep punitive fines. In the event that an operator is found to be out of compliance, tort lawyers are used to defend against possible lawsuits.

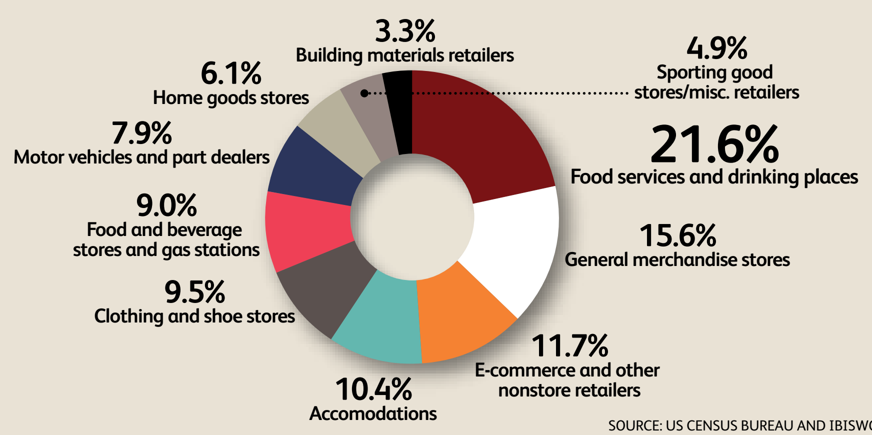
Transportation equipment manufacturing accounts for an estimated 12.2% of manufacturing's total legal expenditure. In particular, legal services are necessary to the Car and Automobile Manufacturing industry (IBISWorld report 33611a) and its various suppliers, where recalls and class-action lawsuits are relatively common. For example, the emissions cheating scandal currently engulfing Volkswagen and its subsidiaries has resulted in numerous class-action lawsuits and a US Justice Department criminal inquiry. Similarly, in 2012, Toyota paid $1.1 billion in repairs and compensation to members of a class-action lawsuit who claimed their vehicles accelerated without warning. In order to mitigate financial and reputational damage, automakers spend a large amount of money on legal services to avoid such events and, if necessary, represent them in court.

Retail

Retail accounts for just 6.3% of total legal expenditure examined in this analysis. While research and development costs are slim for retail, as well as associated intellectual property protection and patent expenditures, its client-facing nature and changing tax and labor landscape have forced retail businesses to up their legal spending.

Food services and drinking places are the biggest legal spenders, at

Estimated Legal Spending in Retail



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an estimated 21.6% of retail legal expenditure. Maintaining compliance with FDA-specified and local food safety standards is vital for industry operators, as code violations can result in closures or fines. Customers that consume tainted food can sue food-service establishments, making it necessary for them to have adequate legal representation. The Fast Food Restaurants industry (IBISWorld report 72221a), in particular, is in the middle of regulatory change that is necessitating increased legal spending. A racially charged wrongful termination suit filed against McDonald's in January 2015 is threatening to challenge the legal insulation that franchisors have enjoyed from their franchises, which could force corporate and franchise legal expenditures alike to go up. Most importantly, however, is the industry's current involvement in wage battles. As fast-food workers' petitions to raise hourly wages to $15.00 continue to gain steam, fast-food operators that already pay an estimated 24.6% of revenue on wages, per IBISWorld, will likely bolster legal spending to fight wage bumps. IBISWorld estimates that regulation in the Fast Food Restaurants industry will continue to increase.

E-commerce and other nonstore retailers are also large legal spenders, accounting for an estimated 11.7% of retail legal expenditure. The sheer size and sales volumes of large companies within this segment, such as the E-Commerce and Online Auction industry's (IBISWorld report 45411a) Amazon and e-Bay, have led to high legal spending to ensure compliance with labor and tax codes, but the Streamlined Sales and Use Tax Agreement has put a premium on the latter. As the law stands now, sales tax is only applied to a purchase if the company selling has a physical presence in that state, meaning online retailers can offer lower prices in states where they do not have physical storefronts. The agreement would nullify that competitive advantage and increase tax compliance complexity in its 24 member states. As a result, e-commerce retailers have had to increase legal spending to comply with this increasingly complex tax burden.

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