

# Calculating the Size of a Legal Market

Christopher M. White

*NOTE ON ACCESSIBILITY: THERE IS AN ACCESS TO JUSTICE AND LEGAL SERVICES CRISIS FOR LOW INCOME INDIVIDUALS ACROSS THE COUNTRY. THE AUTHOR FULLY RECOGNIZES THAT THIS IS A MAJOR ISSUE THAT IS ACTIVELY BEING DISCUSSED. THE PURPOSE OF THIS ARTICLE TO ADDRESS HOW TO CALCULATE WHAT THE SIZE OF A LEGAL MARKET IS FOR THE PURPOSE OF BUILDING A LEGAL SERVICES BUSINESS ON THE PERCENTAGE OF THE POPULATION THAT HAVE A LEGAL NEED, CAN AFFORD LEGAL SERVICES, AND ARE SEARCHING FOR A SOLUTION. BY NECESSITY THIS WILL EXCLUDE THOSE THAT HAVE A LEGAL NEED BUT CANNOT AFFORD LEGAL SERVICES FROM THE DEFINITION OF LEGAL MARKET. THIS IS IN NO WAY TO BE INTERPRETED AS FURTHER MARGINALIZATION OF THESE INDIVIDUALS. THE HOPE IS THAT BY UNDERSTANDING THE SIZE OF THE LEGAL MARKET AND PLANNING APPROPRIATELY THIS WILL ALLOW PRACTITIONERS TO PLAN AND ALLOCATE TIME, ENERGY, AND RESOURCES TO NOT JUST TAPPING INTO THE LEGAL MARKET BUT ALSO PROVIDING HELP TO THOSE IN NEED WHO CANNOT TRADITIONALLY AFFORD LEGAL SERVICES.*

**“THE PRACTICE OF LAW IS AN ART FORM.  
BUT THE PROVISION OF LEGAL SERVICES IS A SCIENCE.”**

## What is the Size of Our Legal Market?

This is a difficult problem to solve. The definition of legal market is fluid and most studies focus on top Am Law service providers. But for those of us outside the Am Law 200, there is a disconnect with the result of those studies. We experience the legal market as a microcosm of our local or regional communities, and not on national trends. Therefore, I set out to try and capture how to calculate the size of a legal market for the purpose of setting benchmarks for my team based on a share of our legal market.

## What is a Legal Market?

The first step was to define what a legal market was. I started with the question, “What percentage of the population has a legal need on an annual basis?” Surprisingly I had to go back to 1980 before I found a best guess by the American Bar Association that approximated 20% of the population had a legal need on an annual basis (pg. 1254 ¶19, Department of Commerce Report 1980). Without a more current study or estimate, I began with the assumption that 200 of every 1000 people in a community would have a legal need on an annual basis.

The second question was, “What percentage of the 20% of people with a legal need had the means to afford a solution to their problem?” Granted this is a very broad question, but assuming that group includes individuals who can afford flat fee services as well as those that can afford tens of thousands of dollars of specialized legal solutions, I set about calculating what portion of the population did not have the means to afford a legal solution.

The Legal Services Corp estimates that 70% of individuals below the poverty line have a legal need on an annual basis (Legal Services Corp). As of late 2019, 12.3% of the country was below the poverty line. Therefore, if 70% of the 12.3% below the poverty line have a legal need, then

8.61% of the population has a legal need but cannot afford a legal solution. This 43.05% of the 20% of the population that has a legal need on an annual basis has just left the definition of a legal market.

Of the remaining 11.39% of the population that has a legal problem and the means to acquire a legal solution there was one more barrier they must overcome to be a part of a legal market. They must also be actively looking for a solution to their legal problem:

**“WHAT PERCENTAGE OF THE POPULATION THAT HAS A LEGAL PROBLEM AND MEANS TO AFFORD A SOLUTION, ARE ACTIVELY LOOKING TO ENGAGE THE SERVICES OF A LEGAL SERVICE PROVIDER TO SOLVE THEIR PROBLEM?”**

According to the Center for America Progress, 40-60% of the legal needs of middle-American’s go unmet ([Making Justice Equal - Center for American Progress](#)). If we extrapolate that 40-60% across the 11.39% of the population that has a legal problem and means to acquire a solution, we are left with the following potential percentages of the population that define our legal market:

- A. **40%:** If 40% of the 11.39% with a legal need above the poverty line seek out a solution, then only 4.556% of the population will seek out an attorney.
- B. **50%:** If 50% of the 11.39% with a legal need above the poverty line seek out a solution, then only 5.695% of the population will seek out an attorney.
- C. **60%:** If 60% of the 11.39% with a legal need above the poverty line seek out a solution, then only 6.834% of the population will seek out an attorney.

Taking a conservative, but optimistic approach, if we say that 50% of the population that has a legal need and the means to afford some solution to that legal need is actively looking to have the legal need solved, then we have defined the legal market as 5.695% of the total population.

This means that approximately 57 out of every 1,000 people in our communities will have a legal need that they can afford to have met and be looking for a legal service provider to help them meet that need.

5.7% of the population is a small market, especially on a microcosm of a local community. But unfortunately, the percentage gets even smaller when you take into account that normally individuals in the same household are not going to have multiple needs in the same year, so attorneys are normally serving households or family units verses individuals. Therefore, if we take a population base in a given community, we also have to take our calculations a step further and divide population base by the PPH (people per household) estimate. At this juncture it may be helpful to use a small community as an example.

Holmes County, Ohio has a 2017 population estimate of 43,808.

**LEGAL MARKET FORMULA (LMF) STEP 1:  
43,808 X 5.695% = 2,495 INDIVIDUALS**

To take into account minors, older individuals on fixed incomes, etc. and the reality of servicing household instead of individuals, apply the PPH to the formula.

**HOLMES COUNTY HAS 3.45 PPH (PEOPLE PER HOUSEHOLD)  
LMF STEP 2:  
2,495 INDIVIDUALS / 3.45 PPH = 723 POTENTIAL LEGAL MATTERS**

This means that in the Holmes County, Ohio community there is are approximately 723 individual matters that create its legal market on an annual basis.

$$\text{LMF:} \\ (P \times LM) / PPH = M$$

*P = Population Base*

*LM = Legal Market*

*PPH = Average People Per Household in Population Base*

*M = Matters available in legal market*

## How to use the LMF to Find Economic Value of a Legal Market

By using the LMF as a starting point, a practitioner can calculate the value of their legal market by applying data from their practice. Based on our example, Holmes County, a general practitioner can utilize the LMF to calculate the potential value of their legal market and benchmark growth potential inside their market.

Smith Law Firm opened 100 new matters last year. By dividing their gross revenue by the amount of new matters created, they have discovered that the average per matter revenue is \$1,500. Armed with this information they can extrapolate both the percentage of the legal market they have captured and the total value of their legal market.

Per the sample LMF, Holmes County has a legal market of 723 potential matters. Smith's 100 new matters translated to capturing 13.8% of the market last year ( $100 / 723 = 13.8\%$ ).

If they assume that their average per matter revenue is the average for the market, they can then apply their average per matter revenue to the total available matters in the legal market. They can estimate that their legal market has a total value of \$1,084,500 ( $723 \times \$1,500 = \$1,084,500$ ).

The LMF becomes:

$$((P \times LM) / PPH) \times A = V$$

*A = Average per matter revenue*

*V = Value of legal market*

The benefit of understanding the size of the legal market let's Smith know how large his available immediate legal market is, gauge investment in marketing his firm, evaluate how the market is potentially divided across competitors both inside and outside his market, and benchmark growth projections. Based on the LMF Smith knows that if he multiplies V by his market share his should be within an acceptable margin of error of last year's revenue. And if Smith wants to grow his practice by acquiring a larger portion of the market share, he can easily project the impact of pursuing 5 extra percentage points and what the likely result to revenue would be. Therefore, allowing him to project the ROI for funds spent on acquiring those extra percentage points. Furthermore, Smith now can set benchmarks for growth that are based on external factors that are not subjective to his impression of how his firm is growing.

As a concrete example, we use the LMF at White Law Office, Co. to evaluate a new market for its potential over a 5 year period. By applying the details of the prior 5 years of our firm's trajectory to an LMF calculation of a new market we can benchmark what successful growth could be over 5 year period in a new market.

## General v. Niche

The LMF is a useful tool for understanding the value of a general legal market, but for lawyers in a niche practice area the tool is too broad. Therefore, a niche attorney needs to dig further into the details of their legal market to discover its potential value. Using an example of the Jones firm, which specializes in domestic relations, specifically divorce and dissolution, the LMF would change as follows:

$$C \times A = V$$

C = Average cases filed  
A = Average per matter revenue  
V = Value of legal market

Jones does not need an entire market analysis, but they do need a specific market analysis. Thankfully they have a public record to draw from. They can research the clerks' offices inside of their market to calculate and average the number of divorces and dissolutions filed over an extended number of years (5-10 years) and reach a conclusion that on average C number of divorce and dissolution cases are filed on an annual basis in their legal market. Once they know C, they can then apply their average per matter revenue to obtain the value of their legal market. If their legal market has an average 150 cases filed annually and their average per matter revenue is \$2,500 per matter, then they can calculate that their legal market is \$375,000. They can then analyze what portion they have captured as a percentage of the legal market and make choices about marketing to increase their market share and/or evaluate new markets for expansion.

## Low Hanging Fruit and the Non-Market Legal Market

The legal market, as defined herein, is the low hanging fruit of the broader market. The individuals defined in the legal market have a problem, that they have the means to solve, and are seeking a solution. The responsibility of the practitioners is just to make sure these individuals know you are available to help them.

But there is an entire other market, the non-market legal market. These are the individuals with a problem and means who, for whatever reason, are not seeking help. Maybe they are aren't seeking help because they don't see the problem as being a problem, they think they can just do it later, or they have a misconception about lawyers that is keeping them from talking to one. Whatever the reason, there is a market of matters that are not low hanging fruit. An attorney seeking to capture a portion of that market must enter into more aggressive campaigning that seeks to empower those that are not seeking an attorney to solve their legal problem.

The campaign must help these individuals identify the problem, create urgency and opportunity to get it solved, and reframe the attorney as a problem-solver that can help them. This empowerment takes resources, energy, time, and the risk of failing to communicate that message in a way that resonates with the broader market. Because of the risk involved, and the stigma surrounding failure, most practitioners will stay within the legal market that is searching for an attorney instead of risking reaching out to a market that may be "hostile" to them. But at

some point, the ROI on capturing market share within the low hanging fruit legal market becomes inverted and an attorney must start looking outside that market to new opportunities.

## Local, Regional, & State

The LMF allows for attorneys to broaden their market by setting realistic boundaries based on the market share inside of their local markets. Often an attorney will inadvertently set geographical boundaries around their market. These boundaries become fixed psychological barriers that can artificially limit the success of an attorney. Understanding that our sample community cannot sustain a growing firm by itself without escalating the investment for smaller and smaller ROI, looking beyond our geographical boundaries can create an opportunity for our brand to enter into new markets with unmet capacity.

5.695% is not a lot of people in a small community. But when applied to a region or state the market does not seem so small. Take Ohio for example. The estimated 2019 population of Ohio is 11.68 million people with an average PPH of 2.43.

$$(11,680,000 \times 5.695\%) / 2.43 = 273,735 \text{ AVAILABLE MATTERS}$$

That is a massive market. Especially as a general practitioner that covers a broad base of services. If the average matter is worth \$1,000 on average then the Ohio general practice market is worth:

$$273,735 \times \$1,000 = \$273,735,000$$

This means that the low hanging fruit of the legal market is potentially a quarter billion dollar market. If attorneys are willing to reach beyond the individuals with an issue, means, and are searching for an attorney to individuals with an issue and means, but aren't looking, they could double this market.

## Final Remarks

A number of factors can influence the LMF and determining the value of an individual market. And value can be drastically impacted by adjusting fees in alignment with market tolerance. At the end of the day the LMF is designed to create an objective measurement for an attorney that is seeking to measure current and future performance of their practice against an object external tool. The externalization of metrics can create accountability, reduces uncertainty, and inform the attorney if they are succeeding.

About the Author: Christopher M. White is the Managing Partner of EQUES®, Author of Bootsville, speaker, teacher, and nerd.  
cmw@eques.law