

# Centralized AI's Hidden Threat

What Happens When Vendors Learn More Than Law Firms



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The legal AI market is splitting in two, and most law firms have not yet recognized which path they are on.

This divergence stems from a fundamental architectural choice, one that will determine whether a firm builds a lasting competitive advantage or unintentionally surrenders it to a software vendor.

For the first time in the history of legal services, firms have the ability to build proprietary AI assets that capture institutional knowledge, accelerate productivity, and grow more valuable over time. But this opportunity only materializes when the underlying architecture allows firms to truly own what they are building.



# The Centralized Model: Today's Convenience, Tomorrow's Risk

On one side are centralized AI platforms in which thousands of law firms share the same multi-tenant system. The value proposition is compelling: rapid deployment, automatic updates, and AI that improves as firms use it.

For organizations seeking quick wins, the appeal is clear. Implementation requires little effort. There is no infrastructure to maintain. Everything just works.

But the hidden cost is significant: every document attorneys analyze and every strategy they refine contributes training data – not to the firm's competitive advantage, but to a pool of shared intelligence available to every other customer, including competitors. Because multi-tenant platforms learn from aggregate usage patterns and product-wide signals, improvements benefit all firms equally. Over time, this erodes competitive differentiation and flattens the playing field.

The implications compound. By year three or five, when every sophisticated firm uses similar platforms trained on similar collective data, meaningful differentiation becomes difficult. Capabilities that once felt like advantages turn into table stakes, and vendors increasingly hold more strategic knowledge about legal practice than any individual firm.

The 2025 ILTA Technology Survey reports that confidentiality remains the leading concern for firms: 83-88% list confidentiality or misuse as their top AI concern. Multi-tenant systems that learn from aggregate signals only amplify that anxiety.

## The Alternative: Firm-Owned Intelligence

The contrasting model looks fundamentally different: private cloud deployments where each firm operates its own isolated AI instance, trained exclusively on its own data and evolving according to its own strategic priorities.

In this model, the AI belongs to the firm. When attorneys refine the system's understanding of securities law or teach it the firm's distinctive communication style, that intelligence remains within the firm's competitive perimeter.

It's the difference between owning a headquarters and renting a desk in a co-working space. Ownership requires more initial investment, but it becomes an appreciating asset that reflects the firm's unique identity. According to ILTA's 2025 Technology Survey, among the largest firms (700+ lawyers), 48% have already deployed a private version of OpenAI within their Azure tenant, and 34% of mid-large firms (350-699

lawyers) have followed suit. Leading firms are clearly moving toward isolated AI environments where their data and training signals remain in-house.

This model closely aligns with how law firms have historically created value: by developing proprietary expertise that compounds. When an AI system continually learns from the firm's internal interactions, that accumulated knowledge becomes a genuine capital asset.

With a private instance, the firm controls priorities. It's no longer dependent on a vendor's product roadmap. Instead, it directs its own AI evolution, building capabilities that competitors cannot replicate because those capabilities are grounded in the firm's unique experience. At the same time, the vendor continues to maintain and support the private environment, ensuring reliability and minimizing the technical burden on the firm's internal teams.



# Why This Choice Determines Who Wins

AI advantages compound over time, which makes the choice of architecture strategic, not just technical.

Consider a three-year horizon. Firm A chooses a centralized platform, Firm B invests in private deployment. In year one, Firm A might be ahead, but by year three, Firm B has something Firm A doesn't: a proprietary AI asset reflecting years of firm-specific learning. Firm A, despite using sophisticated AI, is renting the same capabilities as their rivals.

	Firm A (Centralized AI)	Firm B (Private Cloud AI)
Year 1	Fast implementation Access to mature platform	Slower start (building infrastructure)
Year 2	Plateau begins Competitors on the same platform have the same capabilities	Proprietary data loops kick in Model begins reflecting firm-specific processes
Year 3	Still renting the same AI No unique asset	Fully differentiated AI asset Capabilities rivals can't copy Competitive moat forms

This pattern is playing out across professional services. Firms that built proprietary analytics capabilities have different competitive positions than those using shared platforms. Ownership of the intelligence layer creates lasting competitive separation.

The following matrix breaks down how each architectural path shapes a firm's long-term competitiveness.

# Build vs. Buy vs. Hybrid: AI Architecture Decision Matrix for Law Firms

Dimension	BUY (Centralized AI Platform) e.g. <i>Harvey</i>	BUILD (Private, Firm-Owned AI Instance) e.g. <i>Alexi</i>	HYBRID (Vendor Infrastructure + Private Data + Custom Models) e.g. <i>Microsoft Copilot</i>
<b>Speed to Deploy</b>	Fast - turnkey setup, pre-configured environment	Slower, but still light lift - requires internal governance and vendor coordination (~2-6 weeks)	Moderate - vendor hosts infrastructure, firm customizes models
<b>Upfront Cost</b>	Low	Medium to High	Medium
<b>Long-Term Cost</b>	Increasing (subscription & usage fees, vendor lock-in)	Decreasing (asset accumulates value, costs flatten)	Moderate/Increasing
<b>Ownership of Intelligence</b>	Vendor owns the core model & improvements	Firm owns model instance, knowledge, fine-tunes	Moderate/Increasing
<b>Competitive Differentiation</b>	Low - every firm gets the same improvements	High - proprietary knowledge compounds over time	Medium - some unique, some shared
<b>Data Privacy / Control</b>	Limited - multi-tenant systems share training signals	Maximum - fully isolated environment	High - isolated data, shared base models
<b>Ability to Customize Workflows</b>	Limited - vendor sets roadmap	Maximum - firm chooses what to train and prioritize	High - firm modifies models, vendor supplies infrastructure
<b>Ability to Build Capital Assets</b>	None - firm trains vendor's model	High - gains accumulate as proprietary IP	Medium - firm builds partial data assets
<b>Vendor Dependency</b>	Low short-term, high long-term strategic risk	High short-term, low long-term strategic risk	Balanced
<b>Risk Profile</b>	None - firm trains vendor's model	High - gains accumulate as proprietary IP	Medium - firm builds partial data assets
<b>Ideal For</b>	Small firms needing quick wins with low technical investment	Firms seeking sustainable differentiation; mid-large firms; expertise-heavy practices	Firms that want customization without managing infra

# How Centralized Platforms Move Into the Law Firm's Territory

Centralized AI platforms gather signals, patterns, and strategic insights from thousands of firms at once. Each interaction strengthens the vendor's model, giving the platform a full understanding of legal practice that one day, no single firm will be able to rival. Over time, this concentration of knowledge reshapes the balance of power in the legal ecosystem.

When a vendor's system learns from cross-firm workflows, matter structures, negotiation strategies, deal outcomes, and drafting conventions, the platform steadily develops an independent intelligence layer. That layer becomes capable of performing increasingly sophisticated tasks that typically require a human lawyer.

This creates a structural pathway where centralized platforms naturally expand into territory traditionally owned by firms. The evolution is gradual:

- First, they streamline routine tasks.
- Next, they begin offering advanced drafting and analysis.
- Then, they build guidance engines that resemble expert decision-making.
- Eventually, they can deliver end-to-end legal workflows that begin to look like services rather than tools.

As the platform accumulates more intelligence, its incentives shift. With enough data, capability, and market trust, vendors can start offering products that bypass the firm entirely, targeting corporate legal departments directly or supplying "AI-first" legal solutions that perform large portions of the work. This trajectory mirrors patterns seen in other professional sectors, where software providers evolved from tool vendors into primary service providers.

A clear example comes from the recruiting industry. LinkedIn began as a tool that helped recruiters source candidates, understand talent pools, and manage outreach more efficiently. As the platform accumulated data on hiring trends, candidate behavior, and employer needs across millions of

interactions, it naturally developed deeper insight into how recruiting decisions are made.

Over time, LinkedIn expanded its offering with products like LinkedIn Recruiter and Talent Solutions, which allow employers to identify and engage candidates directly. While the platform didn't set out to replace recruiters, it evolved in that direction because its growing intelligence made new types of services possible.

Centralized legal AI platforms follow this same pattern: when a system learns from the collective workflows of many firms, its capabilities might naturally expand into territory that once belonged exclusively to lawyers.



# The Call to Action

The legal AI market is splitting. One path leads to firms that own their intelligence infrastructure. The other leads to dependency on shared capabilities.

This divergence is happening now. Early choices will compound into structural advantages (or disadvantages) over the next few years.

For firms that want to genuinely differentiate themselves and capture the economic value of their expertise: **build, don't just buy. Own your AI, don't rent it.** Invest in capabilities that compound within your firm, not across the industry.

Choose architectures that preserve your competitive advantage. Build proprietary capabilities. The firms that own their AI infrastructure will define the next era of legal services.

