THE 2017
ADERANT BUSINESS OF LAW AND LEGAL TECHNOLOGY SURVEY

EXECUTIVE SUMMARY

A perspective of the legal market from the professionals who manage the business of law.

The market for legal service is flat-to-improving according to the 112 professionals charged with managing the business of law that responded to this survey.

Law firm efficiency and agility top of mind.
While most business of law professionals say that the performance of legal business this year is about the same as last year, 36% said things were better or much better. Respondents indicated the top challenges facing law firms today are 1) pricing pressure, 2) improving operational efficiency, 3) winning new business, 4) growing more business from existing customers, and 5) improving law firm agility and adaptability.

Clients as competitors in a tight market.
The vast majority of respondents (98%) said the market remains competitive or very competitive. Most firms see other firms as the chief rival but law firms also see clients, who have been taking work in-house over the last few years, as a significant source of competition.

The billable hour reigns as firms aren't seeing AFAs broadly.
The median number of law firm client accounts structured under alternative fees arrangements (AFAs) – those invoiced by a model other than the billable hour – is 14%. Estimating the time it takes to complete legal work, and structuring AFAs profitably, are among the top barriers to broader AFA adoption. Sentiment analysis indicates, despite the public narrative, many clients still favor the familiarity of the billable hour over alternative fee structures.

Law firm billing benchmarks and challenges.
More than half cite the sprawl of complex and lengthy outside counsel guidelines and the proliferation of e-billing technology as the most difficult aspects of law firm billing. The amount of time it takes to get an invoice through the pre-bill process varies, but the largest group (37%) said it requires 1-2 weeks. More than 90% said their firm spends too much time during the billing and invoicing process.

Collaboration inside law firms is changing for some firms.
The market dynamics that are changing the legal industry are not just external. Nearly half (47%) of respondents said who they collaborate with, inside the firm, is different from five years ago.

Operational efficiency is both a challenge and opportunity.
While most firms cite operational efficiency as a top challenge, many also see it as an opportunity to get ahead. Nearly three-quarters (74%) say automating manual tasks is the technology concept with the greatest upside. The top technology tools that deliver the most benefit for law firms include 1) document management, 2) financial applications and ERP, 3) business intelligence, 4) matter pricing and planning, and 5) case management.
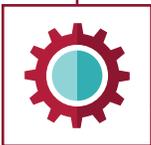
How is business for law firms compared to last year?

About half (48%) of survey respondents said business is about the same as it was last year, while a little more than one-third (36%) suggest business is picking up. Just 16% said business has gotten worse.

The market for legal services in the U.S. appears to track the macro economic trends: continuous but slow growth. What makes legal complicated may well be the flux of competition – traditional, new, alternative and even a client base that has taken work in-house.

The data reflects signals heard anecdotally from law firm leaders about adaptability and agility. Many believe there will not just be some winners and losers but the gap between those two groups is both growing – and growing at greater speeds.
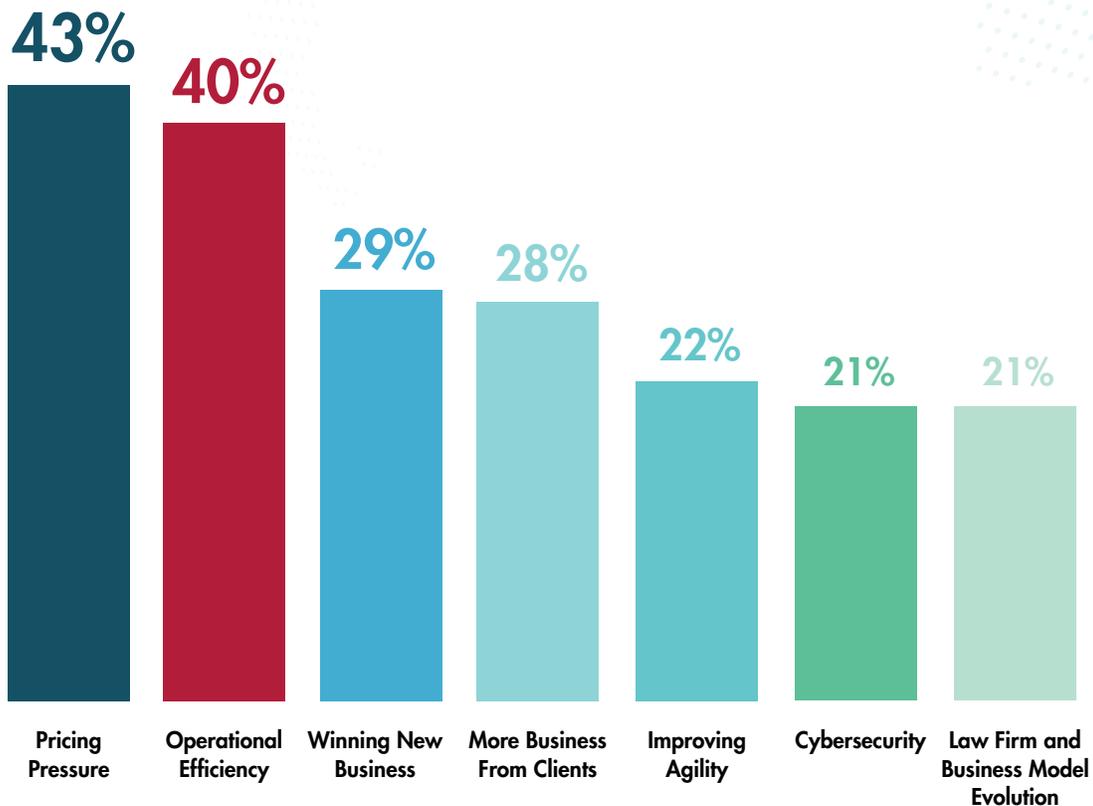
4%
Much Better

0%
Much Worse

32%
Better

100%

16%
Worse

48%
About the Same
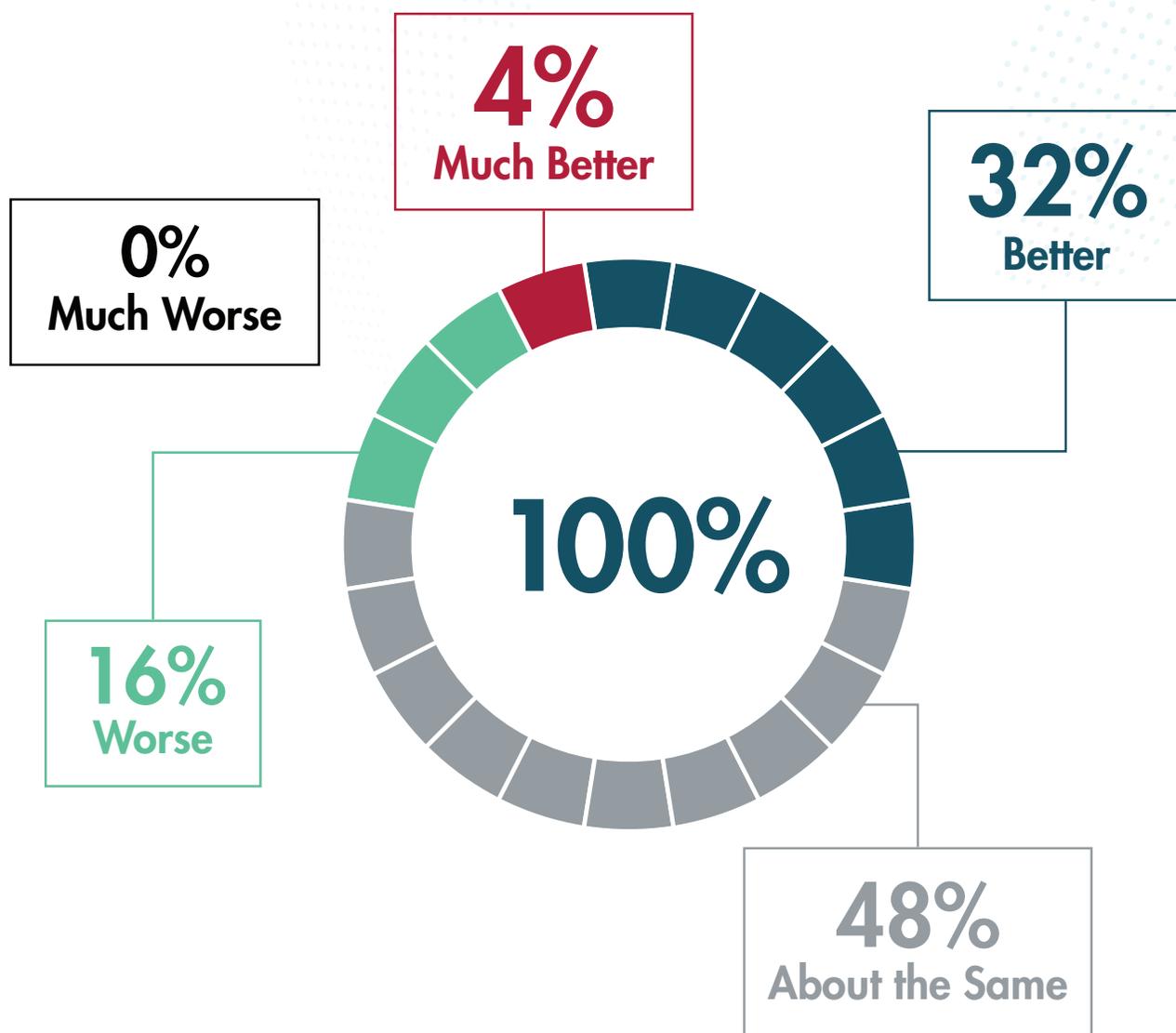
What are the top challenges currently facing law firms?

If the market is flat-to-improving, where are law firms feeling the most pressure? Respondents were presented with a list of 16 possible challenges that commonly face law firms and were asked to select the top three.

Pricing topped the list and was followed closely by operational efficiency. The two are inextricably linked given time in legal services, is often synonymous with money. Winning new business, and growing more business from existing clients, were neck-and-neck for third and fourth place, respectively.

In a flat market, winning new business often means taking market share from another firm – a pitched battle. By contrast, conventional business thinking finds it is usually more profitable to sell more services to existing clients than it is to acquire new ones.

Overall, seven challenges garnered at least 20% or more of the responses. The top seven are depicted graphically below.

| 43%	40%	29%	28%	22%	21%	21%
Pricing Pressure	Operational Efficiency	Winning New Business	More Business From Clients	Improving Agility	Cybersecurity	Law Firm and Business Model Evolution

The legal market remains competitive

Although it didn't explicitly rank high on the list of comparable challenges, there's little doubt that the market for legal services remains fairly competitive.

Certainly, flat demand and stiff competition are factors in an equation that puts pricing pressure and operational efficiency at the top of a list of challenges.

Very Competitive	Competitive	Neutral	Noncompetitive	Very Noncompetitive
44%	54%	3%	0%	0%
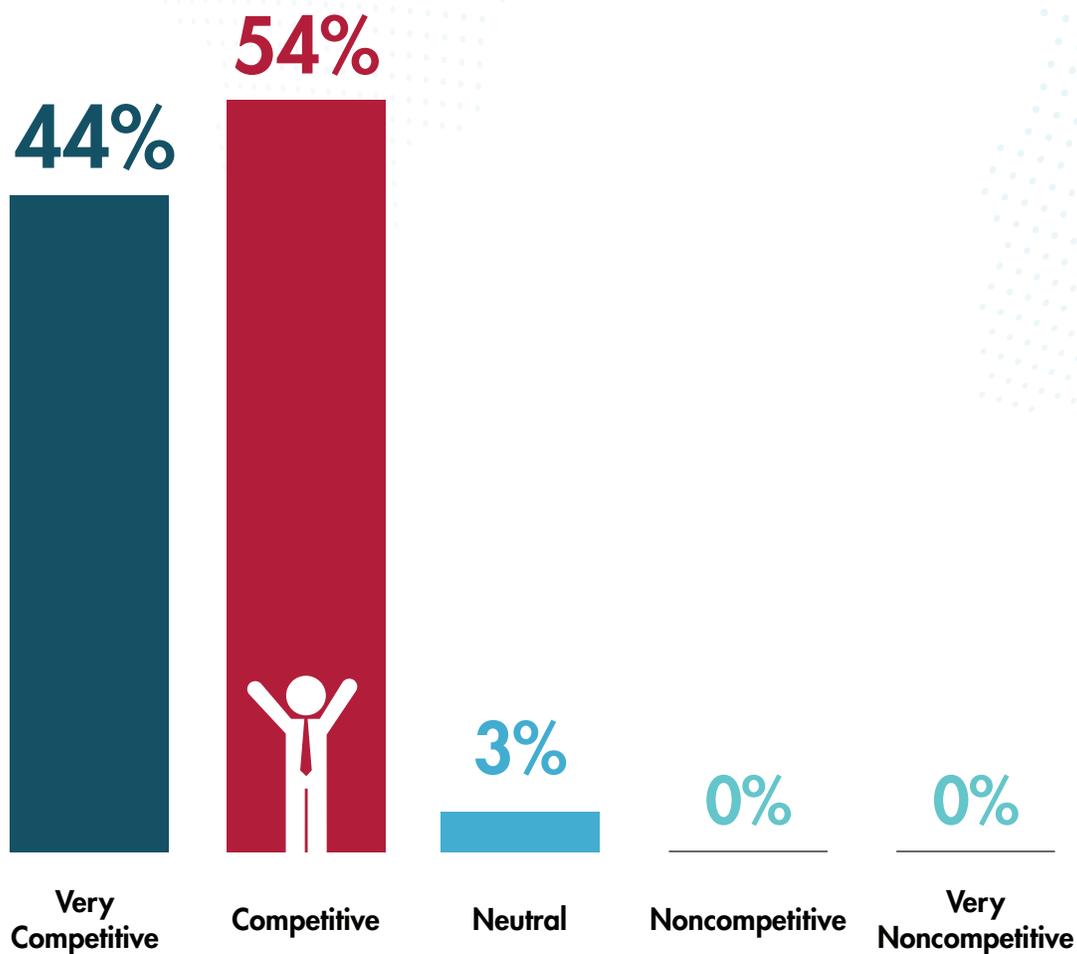
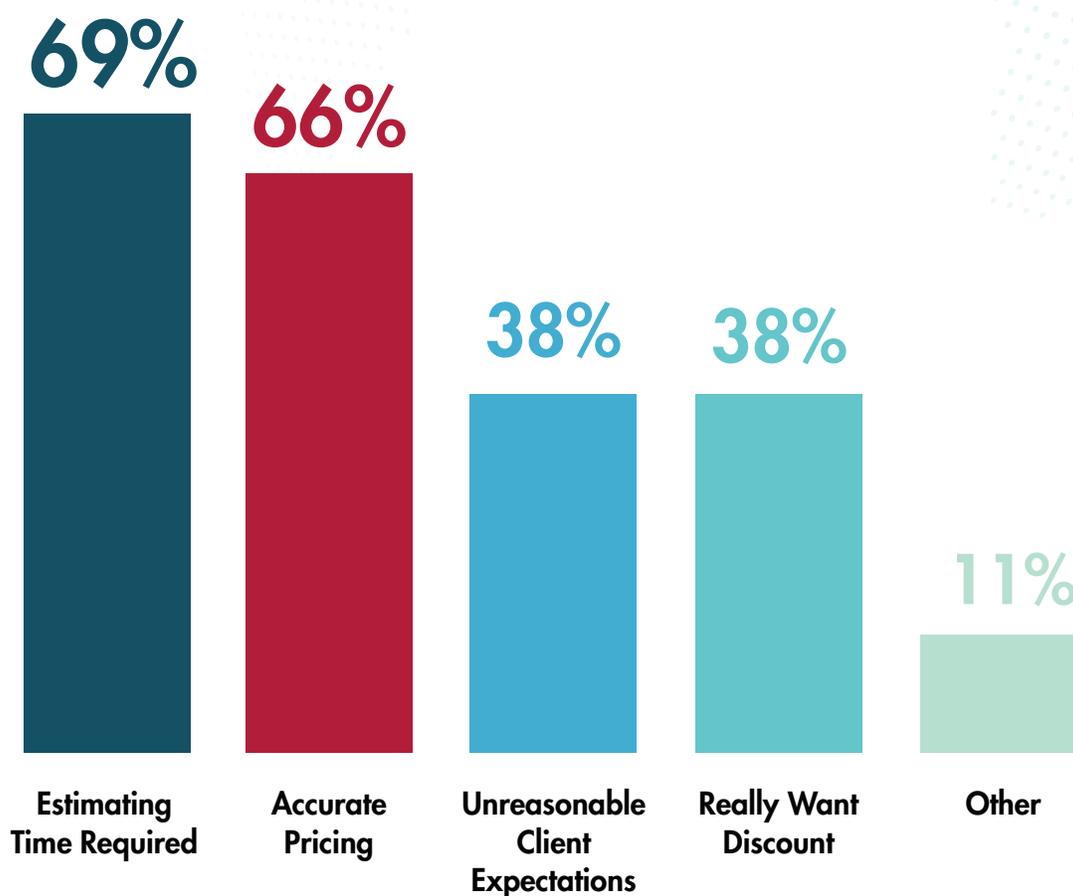**Note: data that is shy or just over 100% is due to rounding.**

What are the barriers to AFAs?

Respondents were asked to estimate the percentage of client accounts their law firm currently has structured under a non-hourly billing model. The percentage of law firm client accounts structured under alternative fee arrangements (AFAs):

Median: 14%
Mean: 20%

The primary challenge with implementing AFAs centers on estimating how much time and effort a matter will require and determining accurate or profitable pricing. However, client dynamics remains a prominent factor both in the survey and open-ended commentary which is shared on the next page.

69%	66%	38%	38%	11%
Estimating Time Required	Accurate Pricing	Unreasonable Client Expectations	Really Want Discount	Other

Do clients really want AFAs?

Respondents were encouraged to share open-ended comments around pricing and AFAs in order to provide context. The responses expose a variety of complicating factors, including client preferences for hourly billing, technology and data gaps, and poorly defined business processes, among others. The following are representative and verbatim answers provided by survey respondents:

> "Lawyers not managing client expectations or choosing to have business relationships that are based on poor communication about expectations on both sides."

> "Financial systems that do not properly track and support the execution of creating pricing alternatives and lawyers that do not understand pricing concepts."

> "Unwillingness of management to consider technological efficiencies that are currently available and leverage them in firm processes."

> "Clients wanting a discount as opposed to a fixed price fee arrangement and determining appropriate time inputs are equal challenges."

> "Once an AFA is approved by both the client and attorneys, communicating with the billing department and the follow through of the actual billing and processes of the AFA is a struggle."

> "Shadow billing on flat fee AFA deals."

> "**80%** of our client base requires hourly billing."

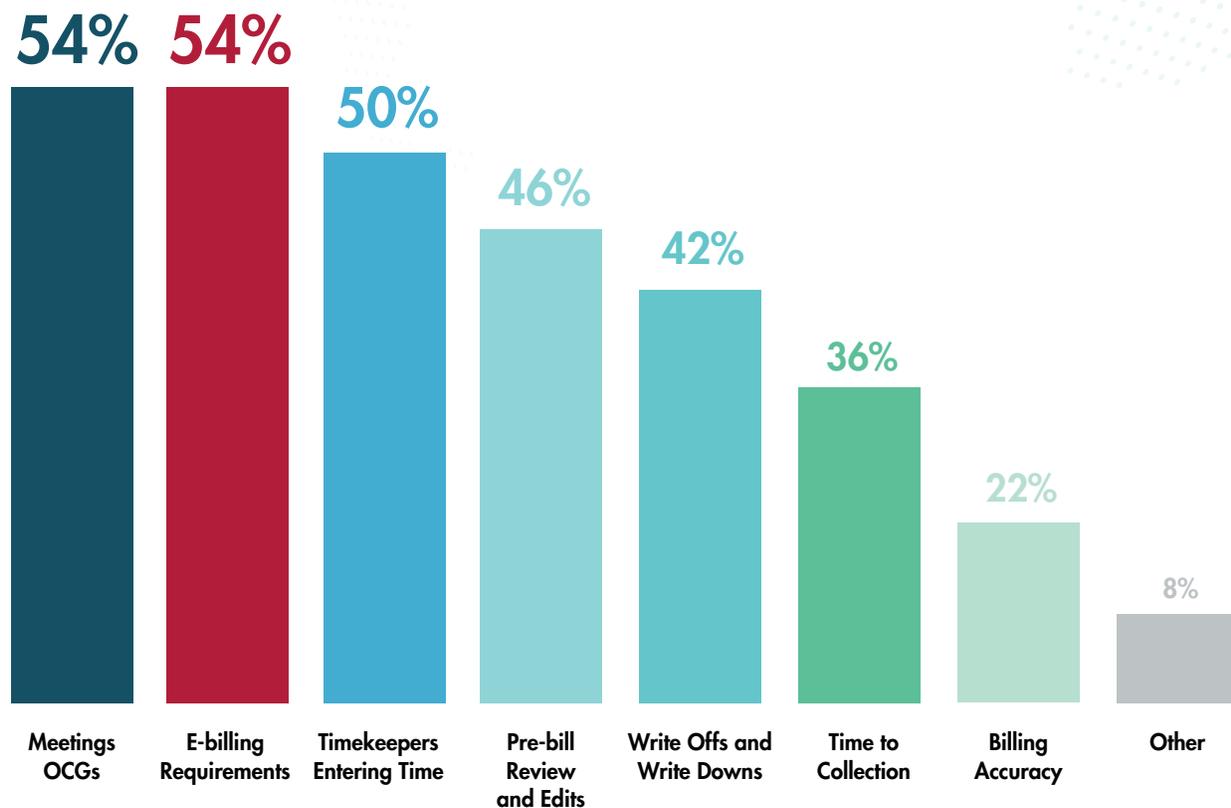> "Changing the lawyer's (and client's) mindset from hours to value of the service."

> "Many clients feel that traditional hourly billing is more transparent – they can see exactly what was done and how much time it took; they feel like the firm stands to make more profit (i.e. charge the client more) for non-hourly alternatives"

What are the most difficult aspects of law firm billing and invoicing?

Outside counsel guidelines (OCGs) have grown in size, scope and complexity, which explains why this is the a top challenge. A 40-page document from corporate counsel addressing what it will, and will not, pay for is common. For a larger firm, with hundreds of clients, managing unique specifications of each client has grown unwieldy. As one respondent wrote in, "Tracking the client specific billing requirements and ensuring that they are adhered to," was a major problem in the law firm process of billing. "This relates to our firm size as we have many, many clients with specific requirements and it is difficult information to manage – too many process exceptions."
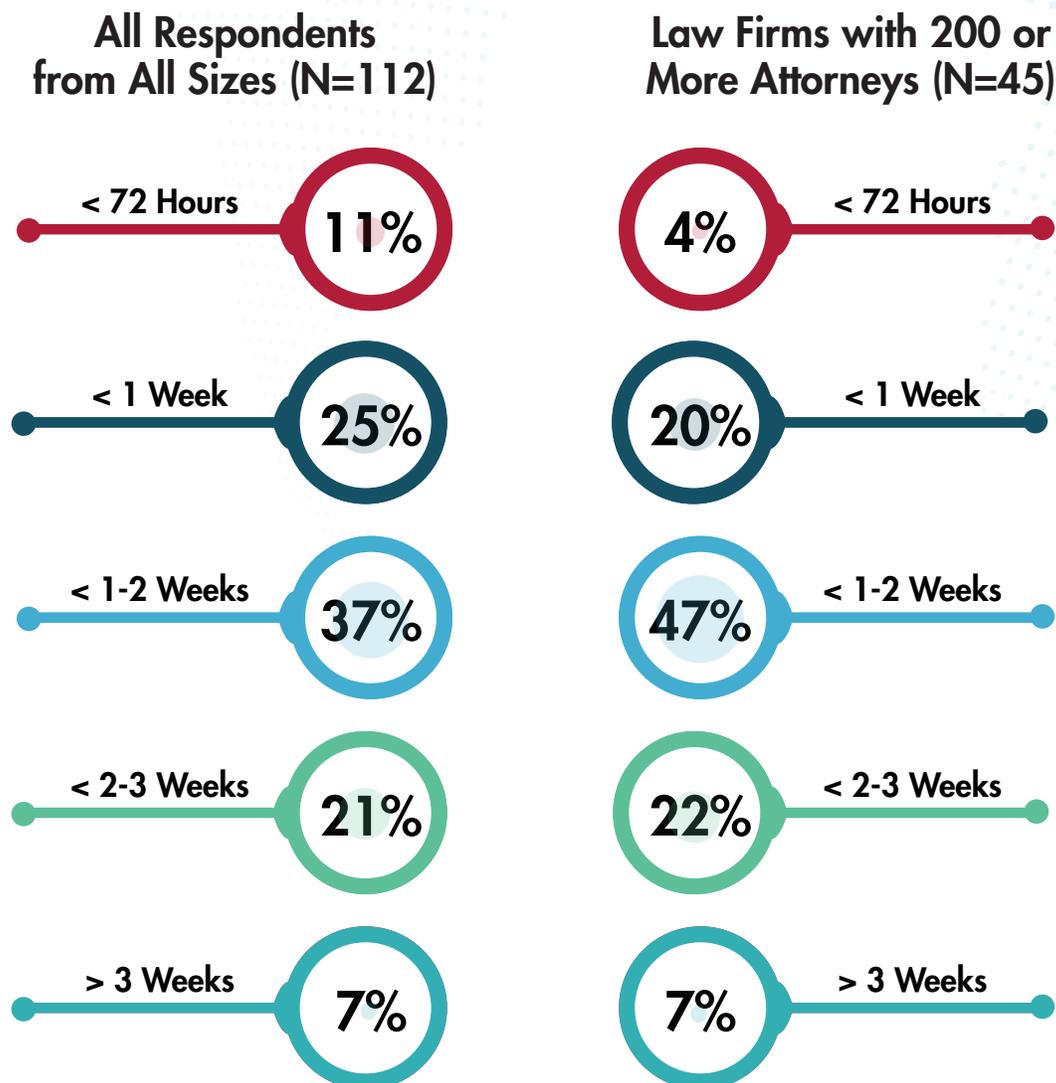
E-billing goes hand in hand with OCGs, because these systems often trigger invoice rejection notices based on certain words in billing narratives. Some of the commentary suggested that time-entry notes has become a skill, or a game, to avoid setting off a billing alert.

54%	**54%**	**50%**	**46%**	**42%**	**36%**	**22%**	**8%**
Meetings OCGs	E-billing Requirements	Timekeepers Entering Time	Pre-bill Review and Edits	Write Offs and Write Downs	Time to Collection	Billing Accuracy	Other

Including pre-bills, how long does it take a law firm to publish an invoice?

Against the backdrop of OCGs and e-billing, the process of pre-bill reviews, edits and approvals can be grueling in law firms. The numbers do not change too dramatically with the size of the law firm. For example, the chart to the left detects benchmarks for all respondents (N=112) and from all sizes. The chart on the right looks at just law firms with 200 or more attorneys (N=45).

All Respondents from All Sizes (N=112)

< 72 Hours	11%
< 1 Week	25%
< 1-2 Weeks	37%
< 2-3 Weeks	21%
> 3 Weeks	7%

Law Firms with 200 or More Attorneys (N=45)

4%	< 72 Hours
20%	< 1 Week
47%	< 1-2 Weeks
22%	< 2-3 Weeks
7%	> 3 Weeks

Do firms spend too much time on pre-bills and invoices?

The vast majority of respondents (93%) say their firm spends too much time on pre-bills and invoicing at least some of the time. In addition, nearly half (44%) say this happens "often" or "almost always."

The question remains how can law firms bring down the administrative time spent on the preparation of pre-bills and invoices?

We have observed the answer usually rests in a combination of improved communication, process improvement and collaborative technology.

17%
Almost
Always

27%
Often

49%
Sometimes

6%
Rarely

1%
Almost
Never
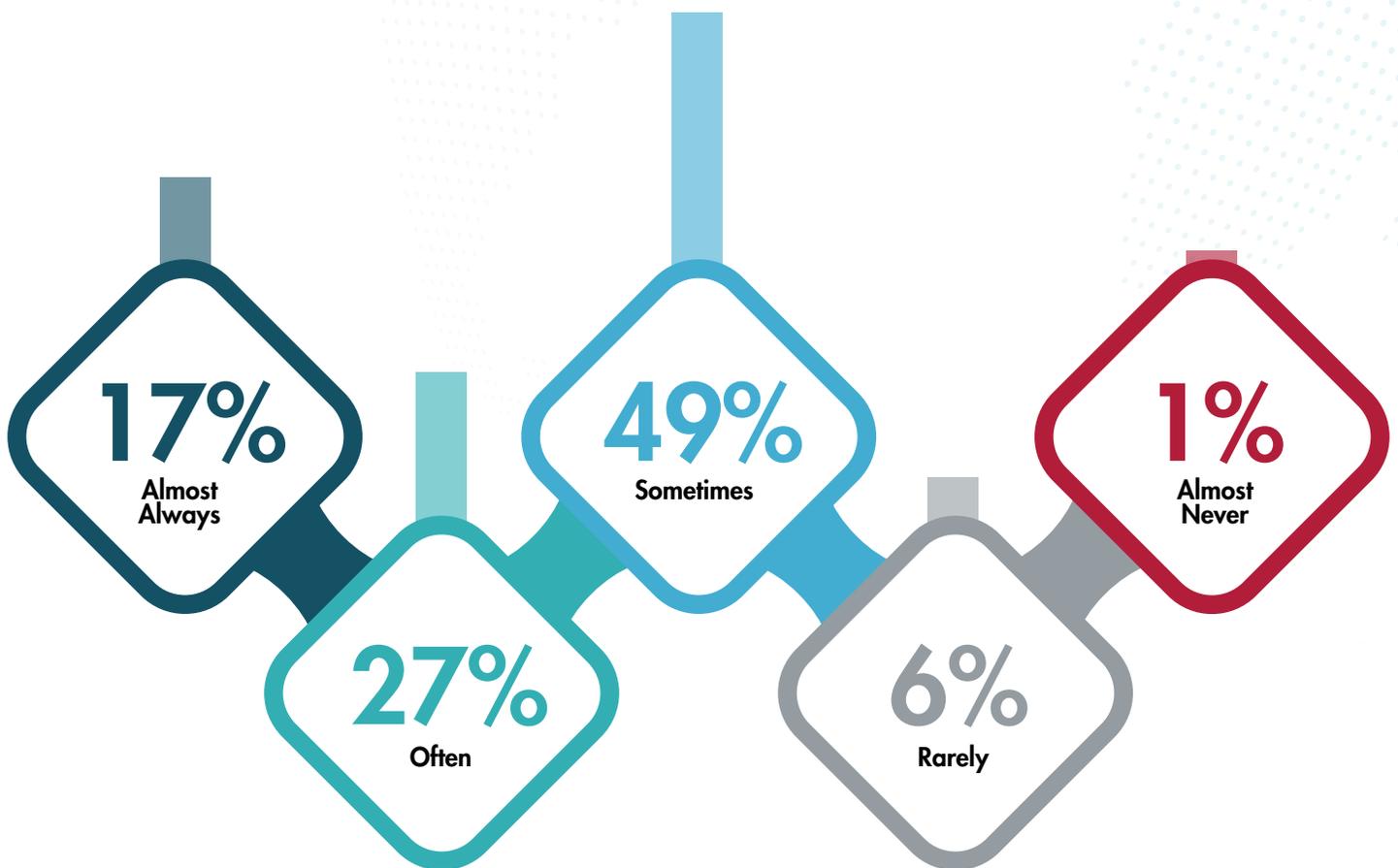
Are you collaborating with different staff in the law firm?

The preponderance of attention placed on how the legal business has changed tends to focus on external factors such as client demands and competition. However, this survey surfaced the notion that external changes have prompted changes inside the law firms too. Almost half of all respondents (47%) said the people with whom they routinely work with inside a law firm is different than it was five years ago.
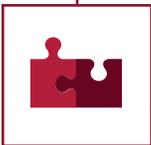
Open-ended responses suggest the front office – lawyers and other timekeepers – are becoming more tightly integrated with the back office including finance, accounting, marketing and technology departments.
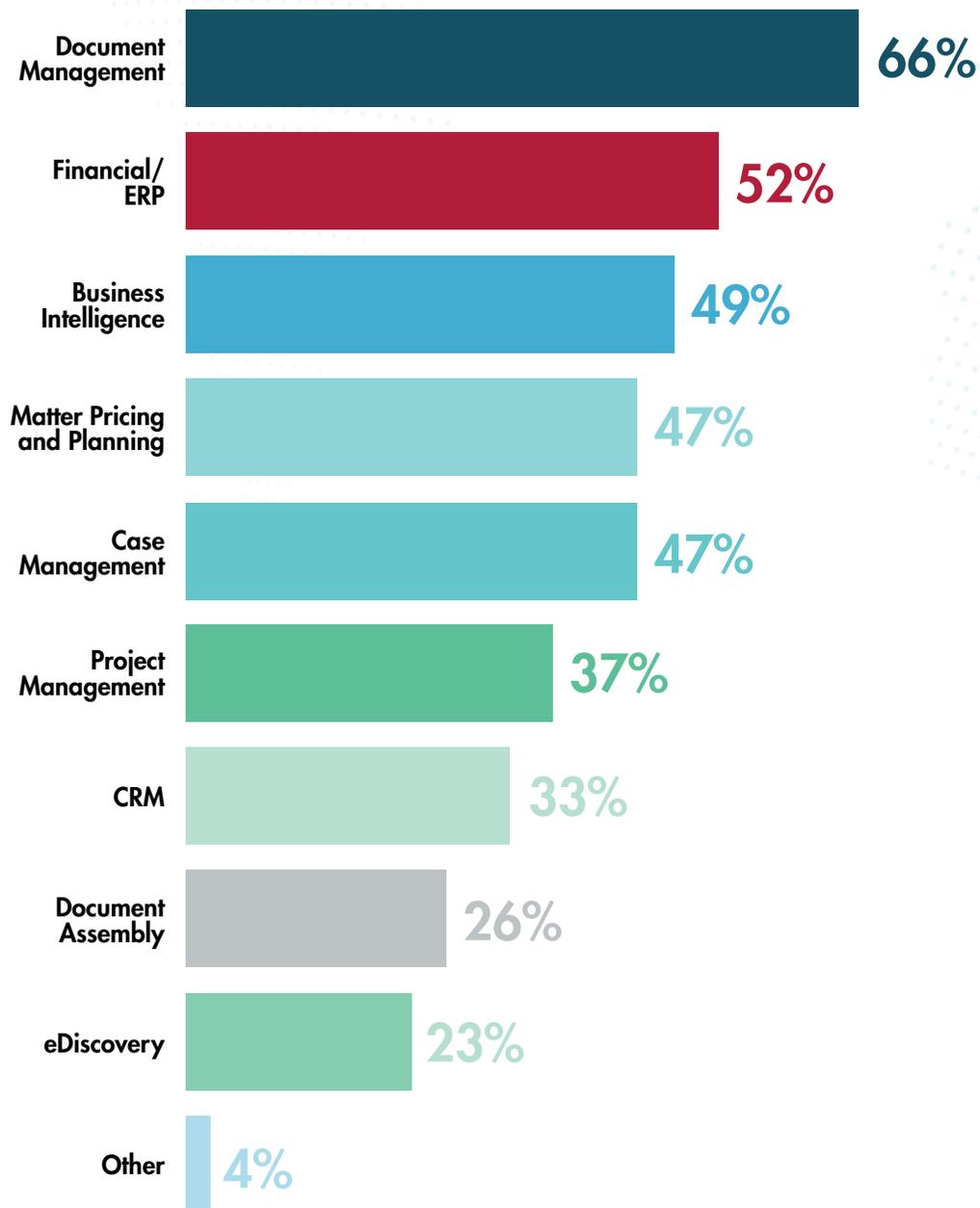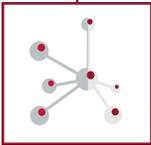
47%
Yes

20%
No

22%
It's about the same

11%
Unsure

Which technologies provide law firms with the greatest overall effectiveness?

The technology platforms and systems respondents say provide firms with the greatest benefits run parallel to the top challenges identified earlier in the survey – pricing and improving operational efficiency.

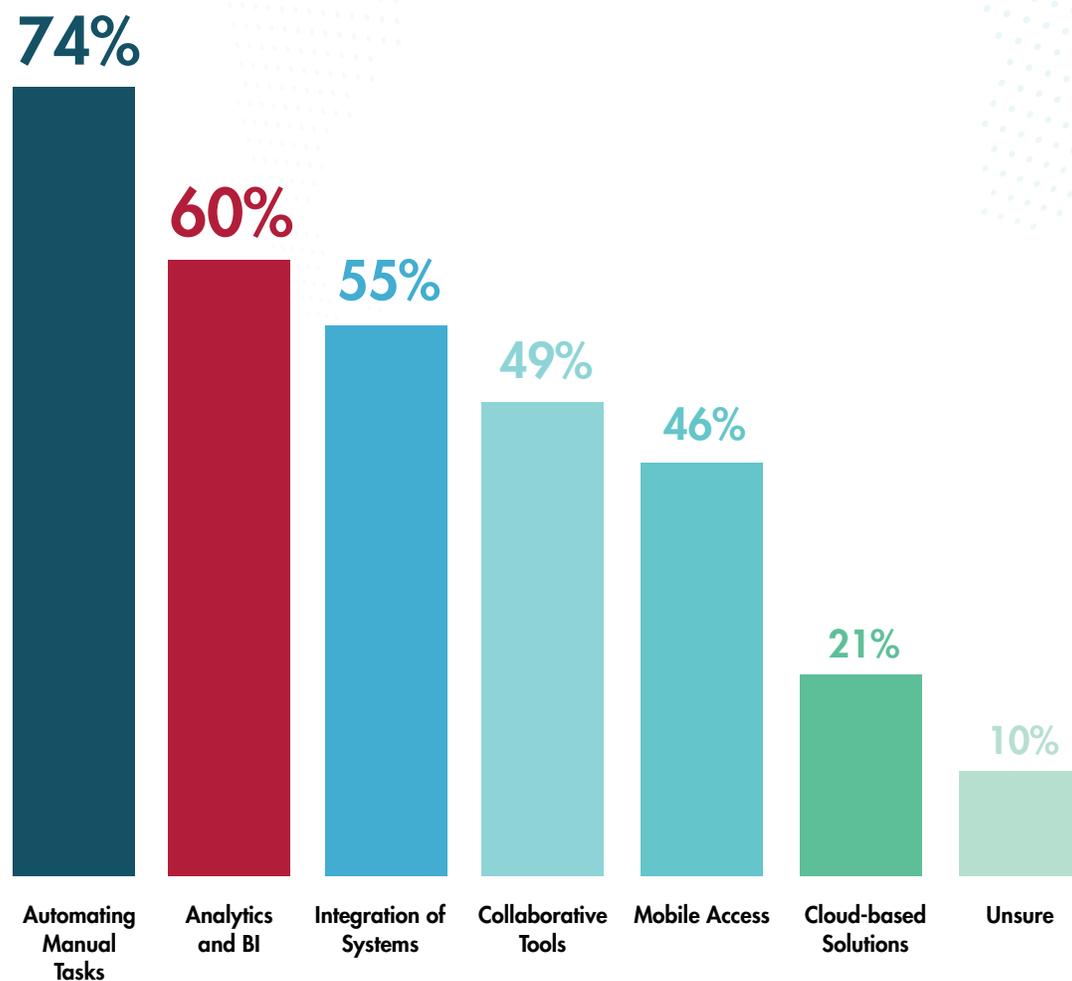| Technology	Percentage
Document Management	66%
Financial/ERP	52%
Business Intelligence	49%
Matter Pricing and Planning	47%
Case Management	47%
Project Management	37%
CRM	33%
Document Assembly	26%
eDiscovery	23%
Other	4%

Which technology concepts have the potential to drive the most efficiency?

Driving greater operational efficiency is one of the greatest challenges facing law firms – but respondents indicated it is also one of the greatest opportunities.

Automating manual tasks – as in work flow and task flow tools – was the top choice. This was closely followed by analytics and business intelligence (BI) tools aimed at driving better decisions. Law firms posses "massive amounts of potentially useful data" that goes un-examined according to open-ended comments.

This is the sort of thinking that is aimed squarely at mining data to drive profitable and competitive pricing, process improvement and law firm agility – the ability to react to change without causing systemic stress.
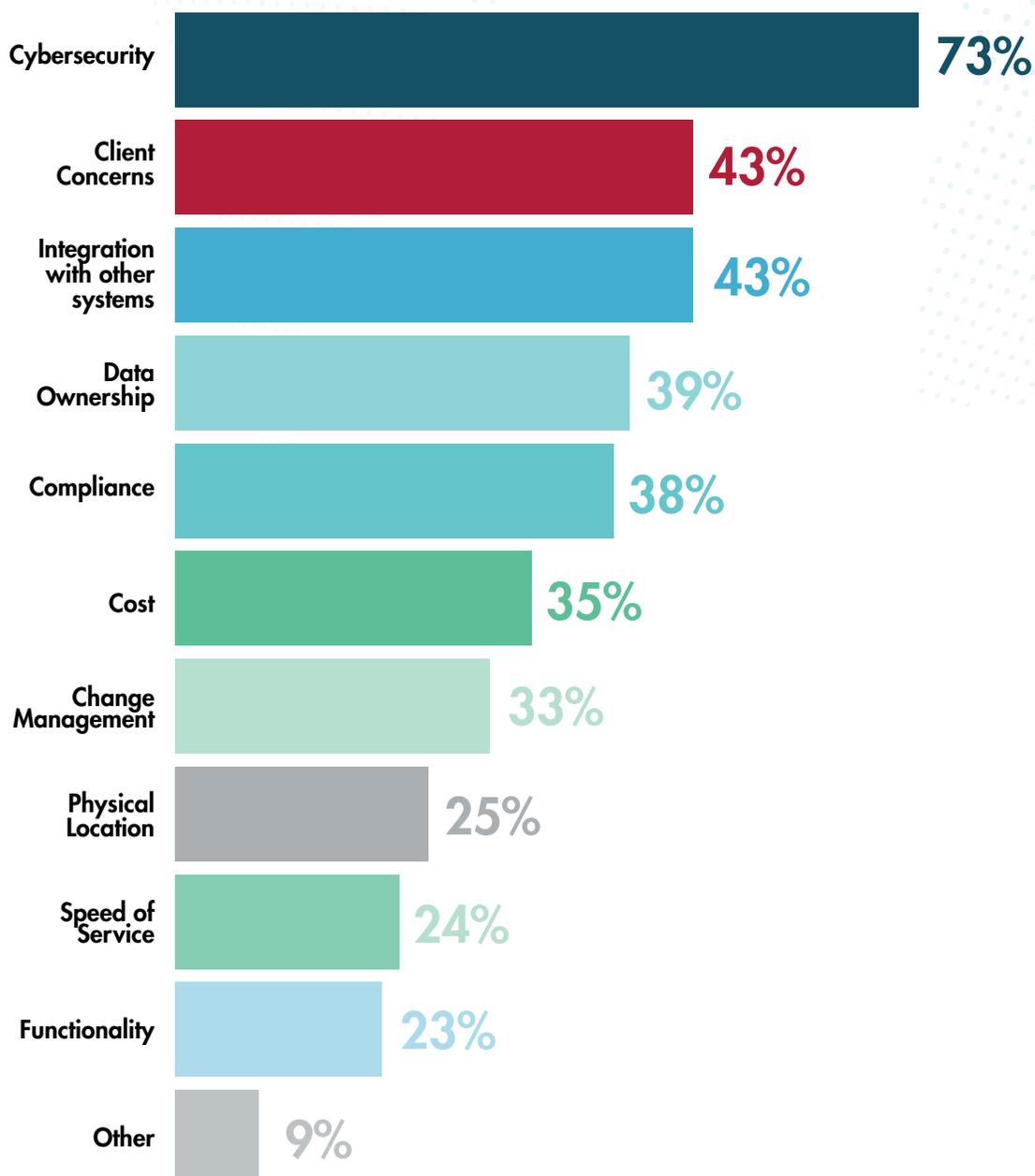
Category	Percentage
Automating Manual Tasks	74%
Analytics and BI	60%
Integration of Systems	55%
Collaborative Tools	49%
Mobile Access	46%
Cloud-based Solutions	21%
Unsure	10%

What is preventing the adoption of cloud technologies?

Cybersecurity remains the top barrier to cloud-adoption. This finding is consistent with other survey data, which suggests the view is the persistent and prevailing perspective.

Yet that notion is questionable. Even the largest law firms would struggle to match the people and resources that a business solely focused on commercializing cloud computing can dedicate to cybersecurity. The 2016 ILTA/InsideLegal Technology Purchasing Survey, suggested that law firm appetite for cloud would probably be driven by gains in efficiency and profit, rather than cost savings.

Category	Percentage
Cybersecurity	73%
Client Concerns	43%
Integration with other systems	43%
Data Ownership	39%
Compliance	38%
Cost	35%
Change Management	33%
Physical Location	25%
Speed of Service	24%
Functionality	23%
Other	9%

Survey Methodology and Demographics

A total of 112 respondents from U.S.-based law firms completed this survey, which was conducted online from June 6, 2107 to June 21, 2017. Respondents were solicited by email invitation and the vast majority hold business of law or supporting roles typically held by professionals other than attorneys. This included C-suite staff, financial or accounting staff, IT personnel, and other important functions essential to running a law firm. Respondents who selected "other" wrote in that they held roles ranging from project management and process improvement – to knowledge management and data analytics. The only incentive offered was a promise by Aderant to donate $2.00 for every completed survey to the Fund for Justice and Education by the American Bar Association. Aderant has made good on that promise.

Financial or Accounting	**30%**	34
C-Suite (CFO, CMO, CBDO, Executive Director)	**26%**	29
Paralegal	**12%**	13
Administrative	**11%**	12
IT	**10%**	11
Other (please specify)	**7%**	8
Attorney	**2%**	2
Managing Partner	**2%**	1
Marketing of Business Development	**1%**	1
Total Respondents: 112		

NUMBER OF **ATTORNEYS** IN YOUR FIRM

13%	29%	17%	25%	15%
< 25	25-100	< 101-200	201-500	500-More
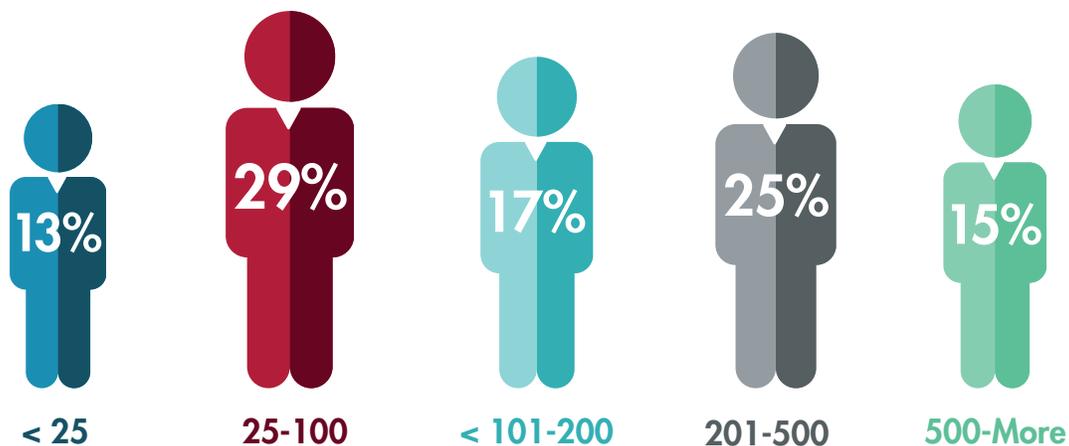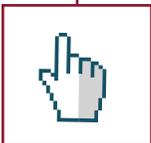
Additional Resources by Aderant

Legal Market Report: The Agile Law Firm
Legal Market Report: The Partner's Business Case for Modernizing Law Firm Billing
Legal Market Report: Efficiency is the Future of Law: the New Role of Modern
Comprehensive Case Management Technology in Competitive and Profitable Law Firms
Think Tank: Navigating the Complexity of Billing Guidelines
Think Tank: 11 Considerations in Practice Management Technology
Think Tank: Will the Cloud Ever Take Hold in Large Law?
Think Tank: How Law Firms are Using Business Intelligence to Improve Profitability

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