

**2017**  
**Law Firms in Transition**  
**An Altman Weil Flash Survey**



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## LAW FIRMS IN TRANSITION 2017

Since 2009, when our *Law Firms in Transition Survey* was first launched, we have seen the outlines of a new, post-recession legal market emerge and then solidify. In 2017, there are few law firm leaders who would dispute the permanency of more price competition, a need for greater efficiency, an influx of new kinds of competitors, and the inexorable force of technology innovation.

Law firms are slowly changing – more slowly than we think is wise, but changing nonetheless. Clearly not all change efforts are resulting in overnight success. Some efforts require long-term investments that can be a tough sell with partners. Other initiatives may work quickly, but are one-time fixes that can't be replicated for year-on-year gains. We see firms making only cursory investments where they should be aiming for broader, deeper transformation. And still many partners resist change in all its forms.

Progress will not be linear in most firms, but after nine years of surveying law firms on the challenges of transitioning to a decidedly client-centric, technology-driven market, we see that certain investments are paying off.

This year, we added a new element to the survey to look at which change efforts – those pricing, staffing, and efficiency tactics specifically undertaken to improve law firm performance – are actually producing results. Among the twenty performance tactics we looked at, four of the top five rated most effective by law firm leaders involve alternative lawyer staffing, including using contract lawyers, staff lawyers and shifting work to paraprofessionals.

These changes are being driven by what is perhaps the most immediate and basic threat that traditional law firms face in 2017 and beyond – the continuing erosion of demand.

### THE 2017 SURVEY

#### WE POLLED:

Managing Partners and Chairs at 798 US law firms with 50 or more lawyers.

#### PARTICIPATION:

386 firms (48%) including 50% of the 350 largest US law firms and 50% of the AmLaw 200 participated.

#### WHAT'S NEW:

Look for 'New' flags in the upper right corner of pages to indicate questions we asked for the first time in 2017.

## **Oversupply of Lawyers; Decreasing Demand for Services**

Decreasing demand for legal services is endemic in the profession. Fifty-two percent of firms report their equity partners are not sufficiently busy, and 62% of firms said their non-equity partners are not busy enough. Lawyers other than partners and associates are not busy enough in 43% of law firms. And in 25% of firms, even associates don't have full workloads.

Overall 61% of respondents said overcapacity is diluting firm profitability. 88% of firm leaders said they have chronically underperforming lawyers. 68% of respondents think fewer partners will be awarded equity status in the future and that this is a permanent trend going forward.

When asked about the reasons for chronic under-performance, 82% of firm leaders identified weak business development skills and efforts as the culprit, while 59% pointed to flat or declining market demand. Firms are dealing with chronic under-performance in a number of ways: by reducing compensation (96%), asking for individual improvement plans (79%), removing chronic under-performers from the firm (73%), and de-equitizing full partners (57%).

While reducing compensation may be an appropriate response to under-performance, it should not be mistaken for a remedial tool. Experience shows that the right response is to make a plan for improvement with a clear timeline, and to remove those lawyers who are not able to turn their performance around. This can be a difficult and painful process, but it is a critical step in addressing a fundamental threat to law firm financial health and long-term viability.

Addressing this issue with increasing pace and more robust implementation will help determine how quickly and strongly profitability can be maintained or increased.

## **Lawyer Headcount Growth**

Despite widespread overcapacity, 56% of law firm leaders still believe headcount growth is a requirement for their firm's success. Virtually all respondents plan to pursue organic growth and the acquisition of laterals in 2017. Two-thirds of firms will also seek to add groups of laterals.



However, we know that more than half of laterals do not meet expectations in terms of books of business brought in and/or personal productivity. Laterals who do not measure up within 24 months of joining the firm should, in our opinion, be subject to reduction in compensation and/or departure from the firm. Unproductive laterals are not only economic burdens but ‘culture killers’ as well.

### **Contract Lawyers**

Firms are using contract lawyers, staff lawyers and part-time lawyers in an effort to mitigate costs and improve efficiency and profitability. The stigma about the quality of contract lawyer work is gone in most firms, in our experience, and clients find such strategies to be acceptable if not preferable.

Half of all law firms in the 2017 survey said they have significantly changed their staffing strategy since the recession. The use of contract lawyers is the top staffing tactic firms are pursuing and the most effective lawyer staffing technique. The most effective staffing tactic overall is the creation of low-cost service centers for non-lawyer, back-office functions, although only about 12% of firms have gone to this length.

The use of contract lawyers allows firms to flex up and down in response to demand fluctuations without increasing overhead. A firm that has addressed the issue of underperformance and identified a cohesive and productive core partnership should certainly add contract lawyers to its toolkit if it has not already done so.

### **Alternative Service Providers**

Alternatives to the traditional law firm are an important part of the demand equation in 2017, and the largest current challenge in this area comes from clients themselves. Two-thirds of firms report losing business to corporate law department insourcing.

However, there is also a rapidly-growing cohort of Alternative Legal Service Providers – a market recently estimated by *Georgetown Law Center for the Study of the Legal Profession* at approximately \$8.4 billion annually.

Non-law-firm providers of legal and quasi-legal services are showing up on some firms’ radar, according to the survey. Nineteen percent of firms report those

organizations are taking business from them now, and another 40% see them as a potential threat.

Undoubtedly, this growing industry will continue to provide options attractive to many purchasers of legal services, and may be a threat to traditional law firms. But, as suggested in the Georgetown study, it also gives innovative firms “new potential avenues for growth” by providing efficiencies that the market craves and cost reductions that it demands.

### **Efficiency**

Ninety-four percent of respondents in this year’s survey said that a focus on improved practice efficiency will be a permanent trend going forward. But only 49% of law firms said that they have significantly changed their approach to the efficiency of legal service delivery. This represents a frightening disconnect.

Knowledge management is the most frequently used efficiency technique among surveyed firms, but those firms report that is not yielding quick successes, possibly due to poor utilization by partners. Legal project management training is another efficiency tactic that is used relatively widely but has not generated convincing results.

Initiatives like these, which seek to change fundamental lawyer behavior, are certainly the most difficult to execute. But forward-looking firms will not be deterred. Quick wins have obvious value, but long-term investments in behavioral change can be even more important and beneficial.

Firms that pursue thoughtful efficiency initiatives and stick with them will improve internal performance and add value for clients. Firms that do not will experience competitive disadvantage over time. It can cost very little to test-run pilot programs in these areas, and we believe it is an investment worth making.

### **Pricing**

Pricing of legal services is inextricably linked to improving efficiency and providing greater client value. Unfortunately, in our experience, most lawyers are untutored on why and how to have robust pricing conversations with clients, are often reluctant to

discuss pricing at all, and are too quick to simply accept discounts whenever asked. These weaknesses lead to decreases in potential profitability.

Only 39% of respondents indicated that their firms have made significant changes in their strategic approach to pricing; 44% said they have not, and 17% said they are considering it.

This year, we asked for the first time whether new pricing tactics have resulted in significant improvement in firm performance. The top three successes reported are: adding a pricing director (44%), incorporating pricing in all planning efforts (39%), and setting margin goals in firm and practice group plans (34%). The majority of respondents indicated it was “too soon to tell” whether each of these efforts would be effective.

An important new question this year asked whether firms are routinely linking discounted, capped and alternative fees to changes in how work is staffed and delivered. Only 30% of law firms said yes.

This is a hugely significant and extremely troubling result that goes to the heart of successful change and illustrates a critical misunderstanding in many firms. The strategic elements of a law firm’s business model are all interlocking gears in the same engine. A firm that does not consider the interaction between scope, staffing, price, project management and margin cannot achieve optimal performance.

## **Profitability**

We are encouraged to see the broad use of profitability data as a management tool to assess partner performance (71%), to analyze the profitability of individual clients (62%), and to manage practice groups (51%). While the use of such data can be difficult to implement (more for political than technological reasons), we believe that ignoring its use is managerial malpractice.

For the first time this year, we asked firm leaders about the use and effectiveness of ten short- and long-term tactics to improve profitability.

The number one thing law firms are doing specifically with the goal of improving profitability is the acquisition of laterals or law firms (cited by 75% of firms surveyed).

However, only about half of those firms (53%) report that those acquisitions have resulted in significant profit improvement.

Another profitability tactic that is widely used but is not delivering immediate results is investing more on business development. Seventy-one percent of firms are pursuing this tactic, but it is ranked as the least effective method of improving profitability with only 30% of firms realizing the desired improvement. An additional 65% of firms said it was too soon to tell if the investment would ultimately pay off.

At the other end of the spectrum, moving to smaller, cheaper space is the tactic used least frequently (by only 25% of firms) but most effectively (in 75% of those firms). It is not surprising that actions like cutting staff, cutting under-performing lawyers and cutting low-margin practices and offices have all delivered immediate boosts to profitability.

Many firms are making progress in this area, but all firms should be committed to the disciplined use of all available profitability levers.

### **Partner Compensation and Business Origination**

For the first time we asked, “How important is an individual partner's business origination in your firm’s partner compensation decisions?” The median answer was 8 on a scale of 0 to 10. Origination has been the number one factor in many firms for well over a decade. However, a new factor is fast emerging – the profitability of the originations.

In answering the question “How important is *profitability* of partners' origination in your firm’s partner compensation decisions?” respondents gave a median score of 6. In our work with law firms on partner compensation issues, we see this as the fastest growing criterion that affects compensation. It is also in many respects the most vexing in that firms use different philosophies and processes to calculate profitability. As yet there is no single standard in the profession. However, over-paying people for their books of business is beginning to be rectified, and that is long overdue.

### **Law Firm Innovation**

Half of survey respondents reported that their firms are actively engaged in creating special projects and experiments to test innovative ideas or methods. This is heartening.

Additionally, 49% of firms are currently using technology to replace human resources with the aim of improving efficiency. Many more (84%) believe this will be a permanent trend in the profession.

There are many innovative things law firms can do (some with little investment or cost) to improve service delivery in ways that clients will appreciate. A strategic focus in this area is an absolute necessity at the firm and practice group levels. No law firm can afford to be playing catch-up as clients embrace innovative initiatives from other service providers.

We have included an extensive section of participant responses describing innovations law firms are pursuing in 2017. These run the gamut from technology and data analytics to new business ventures, pricing and staffing improvements, efficiency initiatives, and efforts aimed directly at client engagement and retention.

There should be no argument or surprise that the rise of artificial intelligence (AI), cognitive computing and machine learning has the potential to revolutionize law practice. But few in the profession appear to be doing much about it.

Only 7.5% of firms said they have begun to make use of legal AI tools, and another 29% are beginning to explore their options. The remaining 64% are not doing anything or are not even aware of what is going on in this area. We think at the very least, firms should be keeping a watchful eye on competitors and technology companies that are investing in legal AI solutions. This is coming, and the day is not far off when ignorance will carry a steep cost.

### **Lawyers are Reluctant to Change**

*Why aren't law firms doing more to change?*

Partners are a big part of the problem, since their cooperation determines in large part whether change takes root in their firm. 65% of law firm leaders say partners resist most change efforts, and 56% say most partners are unaware of what they might do differently.

These findings do not inspire confidence – but neither are they surprising. A reluctance to change is a significant and ongoing challenge in most firms, especially

in adapting robust strategies, systems and procedures in the area that clients crave – provision of more efficient legal work at a more cost-effective price.

At the same time, a large majority of respondents (72%) believe that the pace of change in the profession will continue to increase. This is a 12-point increase over six years ago – a significant jump. There is a very concerning misalignment between what law firm leaders believe regarding the pace of change and what their partners believe or are willing to do. That problem must be solved if firms are to make necessary strategic changes.

Although almost all firms engage in strategic planning at both the firm and practice group level, many are doing so without a broad and deep understanding of the environment. This is a cardinal sin and can be catastrophic.

Lawyers are very good at interpreting data and information that is set before them, but they also need to be able to recognize when part of the picture is missing. They must ask and answer the question, *'What don't we know that might matter?'*

## **Conclusion**

The results of Altman Weil's ninth annual *Law Firms in Transition Survey* highlight a number of fundamental problems and challenges that are interfering with law firms' ability to succeed in a rapidly changing and highly challenging marketplace. It also includes some clear direction on what's working in law firms to improve performance and profitability.

Some of this year's results should be disturbing to every lawyer, but opportunities also abound. Law firms that seize those opportunities can create important competitive advantage. We hope they will take up the challenge.

## SURVEY METHODOLOGY

Conducted in March and April 2017, the *Law Firms in Transition Survey* polled Managing Partners and Chairs at 798 US law firms with 50 or more lawyers. Completed surveys were received from 386 firms (48%), including 50% of the 350 largest US law firms.

A complimentary copy of the full survey can be downloaded at [www.altmanweil.com/LFiT2017](http://www.altmanweil.com/LFiT2017).

Special reports based on law firm size ranges are available exclusively to survey participants.

May 2017  
Altman Weil, Inc.



## ABOUT THE AUTHORS

**Thomas S. Clay** is a principal of Altman Weil, Inc. With over 30 years of experience consulting to the legal profession, he is an acknowledged expert on law firm management principles and is a trusted advisor to law firms throughout the United States. Mr. Clay heads complex consulting assignments in strategic planning, law firm management and organization and law firm mergers and acquisitions. He is a thought-leader on the key issue of law firm practice group strategy and leadership.

He is Fellow of the College of Law Practice Management (COLPM) and has served as a Judge for the College's InnovAction Awards which recognize outstanding innovation in the delivery of legal services worldwide. He is a member of the COLPM Futures Committee. Mr. Clay has been named one of the "100 Legal Consultants You Need to Know."

**Eric A. Seeger** is a principal of Altman Weil, Inc. He works with law firms in the areas of strategy formulation and execution, practice group planning and practice leader training, merger search, organizational issues and retreats. Mr. Seeger directs Altman Weil's market research department. Over the years he has managed hundreds of strategic research projects for law firms and legal vendors.

Mr. Seeger has held positions as Chief Operating Officer of a regional law firm and Director of Strategic Planning and Practice Group Management at an AmLaw 200 firm. Prior to joining Altman Weil, he worked as an independent consultant to law firms and corporate executives, performed market analysis for a global manufacturer, and served in budgeting and planning capacities for a major university.

### About Altman Weil, Inc.

Founded in 1970, Altman Weil, Inc. is dedicated exclusively to the legal profession. It provides management consulting services to law firms, law departments and legal vendors worldwide. The firm is independently owned by its professional consultants, who have backgrounds in law, industry, finance, marketing, administration and government. More information on Altman Weil can be found at [www.altmanweil.com](http://www.altmanweil.com).



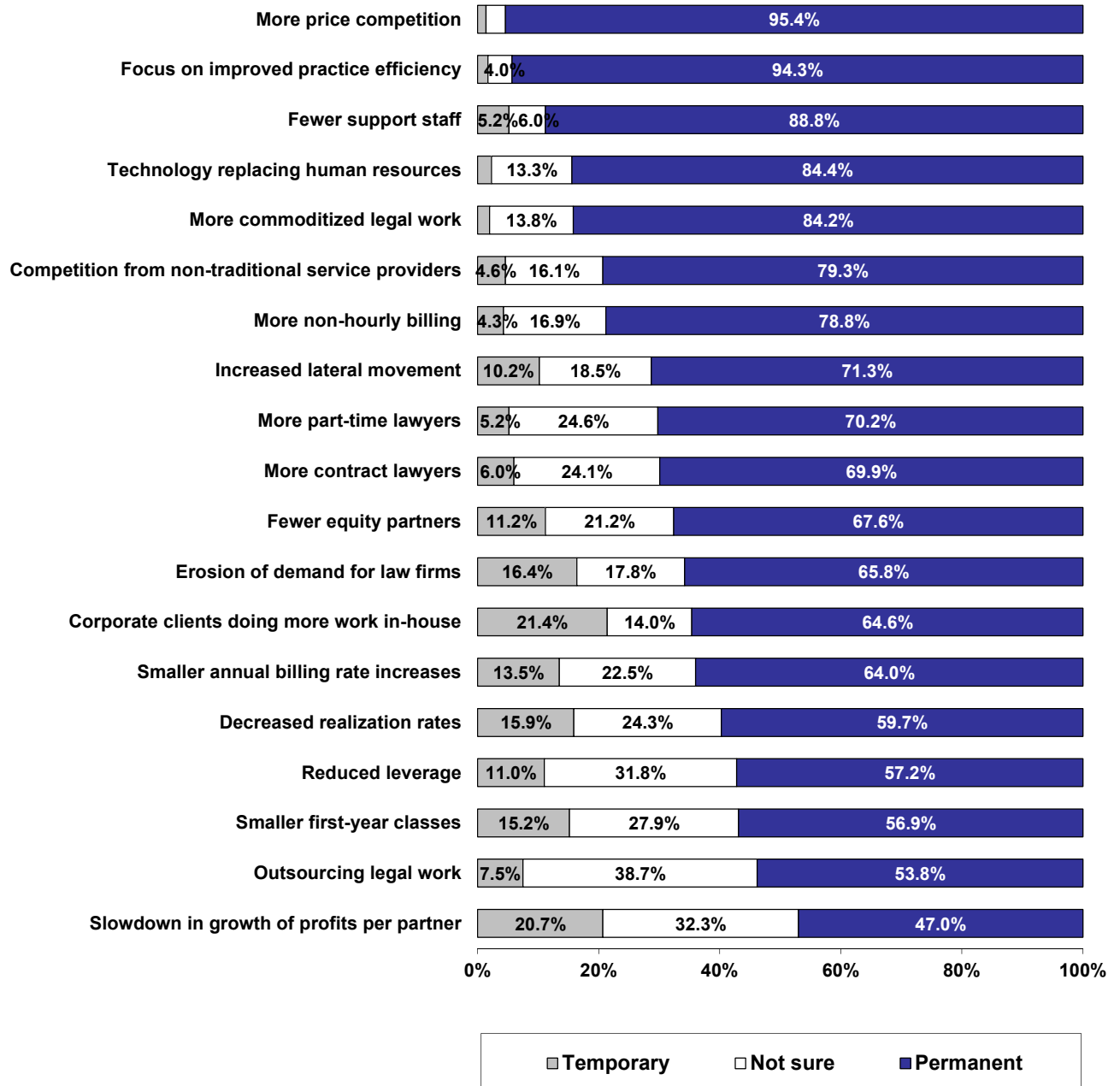
Market Forces

**LAW FIRMS IN TRANSITION 2017**

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## Law Firms in Transition: 2017 Trends

**Q:** Which of the following legal market trends do you think are temporary and which will be permanent?



## Market Forces: The Pace of Change

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**Q:** Going forward, do you think the pace of change in the profession will:



### Pace of change

Comparison by firm size:

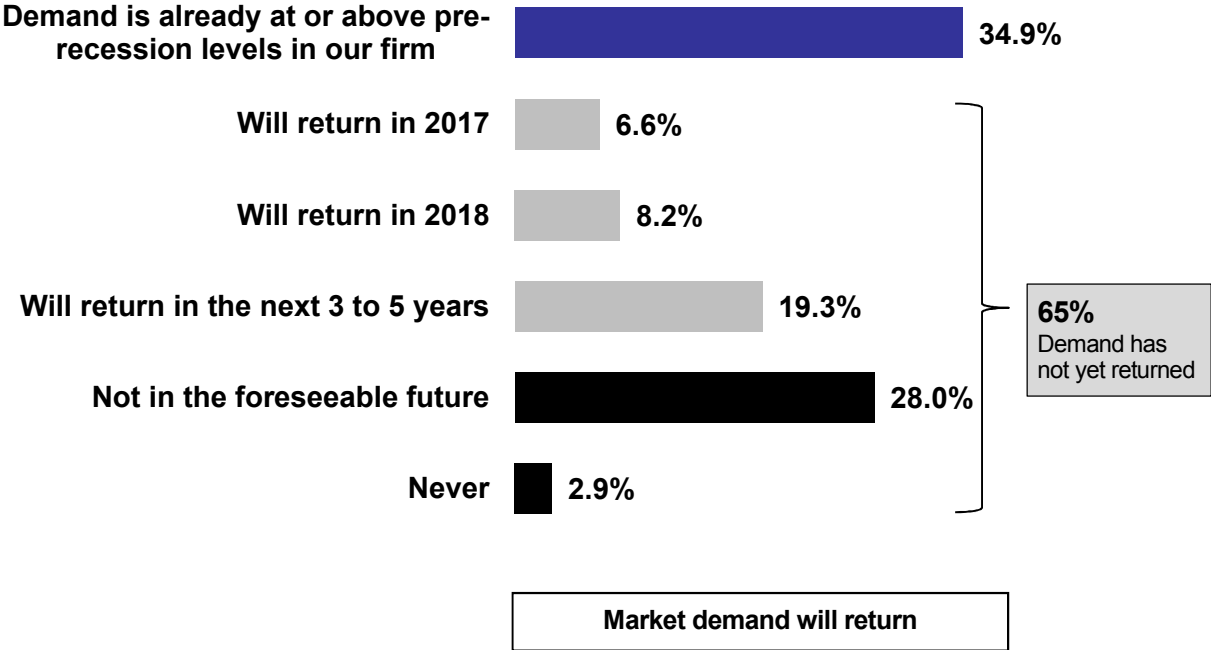
	NOT SURE	DECREASE	SAME	INCREASE
Under 250 lawyers	0.8%	0.8%	27.3%	71.2%
250 lawyers or more	1.1%	0.0%	24.1%	74.7%

Comparison by year:

	NOT SURE	DECREASE	SAME	INCREASE
2017	0.9%	0.6%	26.5%	72.1%
2016	1.5%	0.3%	29.3%	68.9%
2015	2.5%	1.4%	23.8%	72.4%
2014	2.1%	1.4%	29.9%	66.7%
2013	0.0%	0.9%	32.4%	66.7%
2012	2.4%	1.4%	36.1%	60.1%

Market Forces: Demand

**Q:** Do you expect market demand for your law firm’s services to return to pre-recession levels?

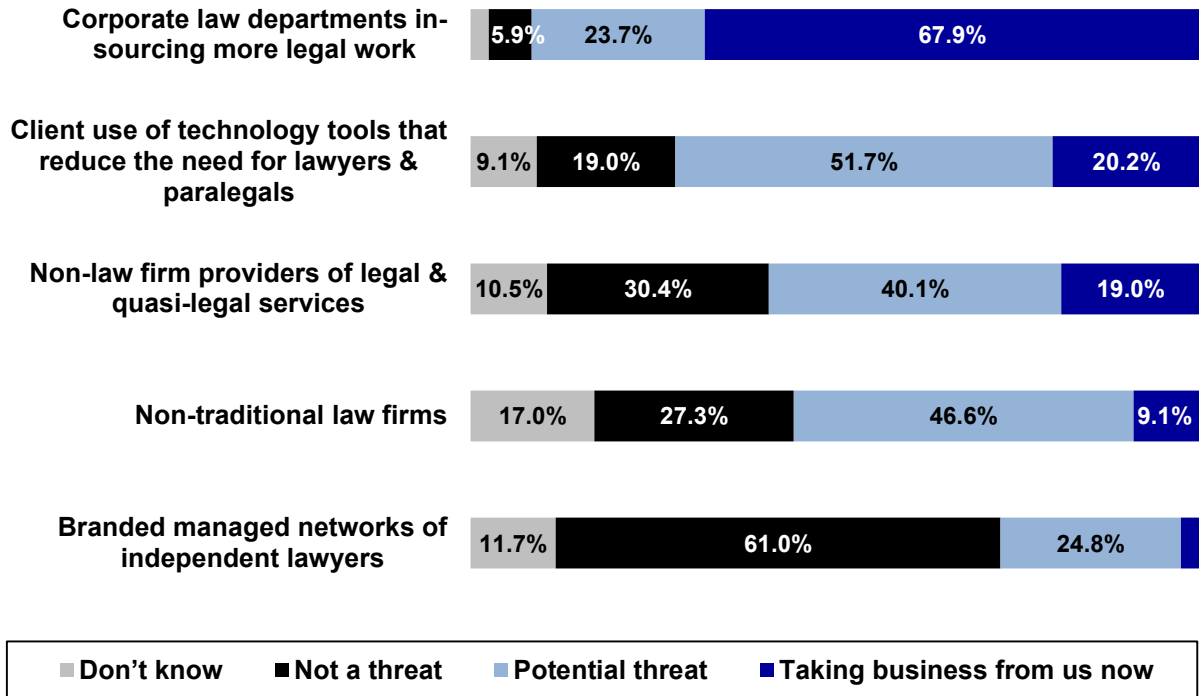


Comparison by firm size:

	Already back	In 2017	In 2018	In 3-5 years	Not in foreseeable future	Never
Under 250 lawyers	37.9%	7.8%	9.6%	18.4%	24.1%	2.1%
250 lawyers or more	26.0%	3.1%	4.2%	21.9%	39.6%	5.2%

## Market Forces: Competition from Non-Traditional Sources

**Q:** Aside from your traditional law firm competitors, is your firm losing any business to other providers of legal services?



*“Non-traditional law firms” defined for this question as: “virtual firms, flat fee only, partners only, tech heavy, etc.”*

## Market Forces: Competition from Non-Traditional Sources

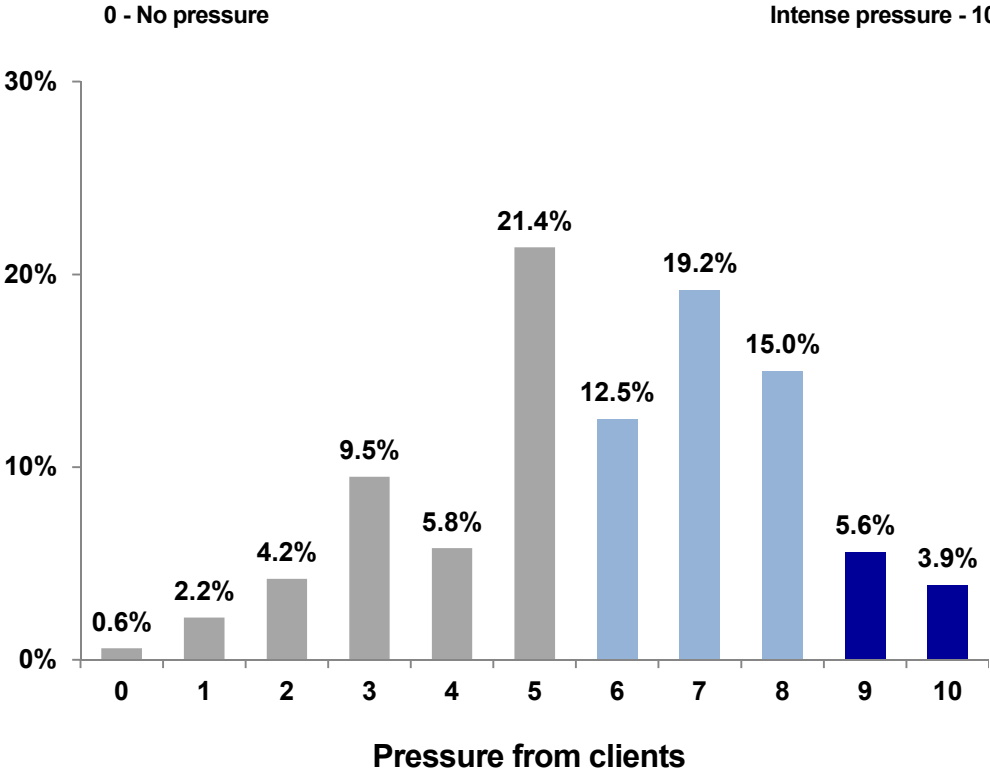
**Q:** Aside from your traditional law firm competitors, is your firm losing any business to other providers of legal services?

Comparison by firm size:

	Don't know	Not a threat	Potential threat	Taking work from us now
<b>LAW DEPARTMENT IN-SOURCING</b>				
Under 250 lawyers	2.6%	7.8%	26.1%	<b>63.4%</b>
250 lawyers or more	2.3%	0.0%	16.1%	<b>81.6%</b>
<b>CLIENT USE OF TECHNOLOGY</b>				
Under 250 lawyers	9.4%	22.9%	49.2%	<b>18.4%</b>
250 lawyers or more	8.1%	7.0%	59.3%	<b>25.6%</b>
<b>NON-LAW FIRM PROVIDERS</b>				
Under 250 lawyers	11.2%	33.3%	38.2%	<b>17.2%</b>
250 lawyers or more	8.2%	21.2%	45.9%	<b>24.7%</b>
<b>NON-TRADITIONAL LAW FIRMS</b>				
Under 250 lawyers	17.2%	27.7%	45.3%	<b>9.7%</b>
250 lawyers or more	16.5%	25.9%	50.6%	<b>7.1%</b>
<b>BRANDED MANAGED NETWORKS OF INDEPENDENT LAWYERS</b>				
Under 250 lawyers	11.7%	61.1%	25.3%	<b>1.9%</b>
250 lawyers or more	11.6%	60.5%	23.3%	<b>4.7%</b>

Market Forces: Client Pressure

**Q:** In your opinion, in 2017 how much pressure are corporations really putting on law firms to change the value proposition in legal service delivery (as opposed to simply cutting costs)?



	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	43.7%					46.7%			9.5%		

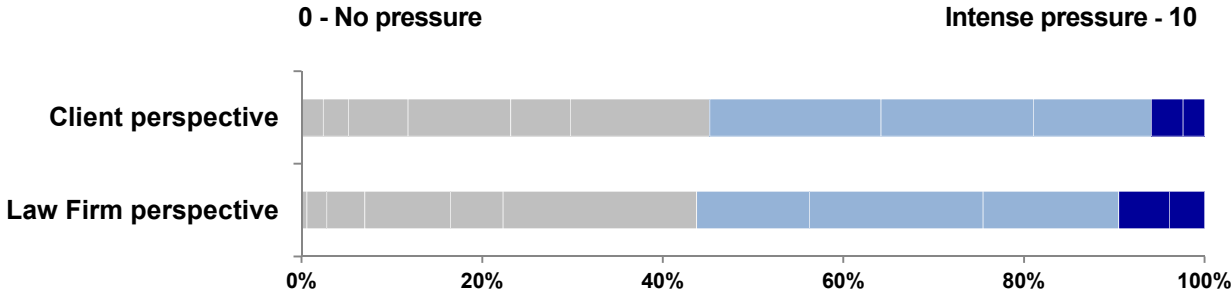
Median rating: 6



Client Pressure: The Client Perspective

*In October 2016, we asked the same question of Chief Legal Officers. Following is a summary of their responses set against responses from law firm leaders in this survey:*

**In your opinion, in 2016 how much pressure are corporations really putting on law firms to change the value proposition in legal service delivery (as opposed to simply cutting costs)?**



	LOW					MODERATE			HIGH	
	0	1	2	3	4	5	6	7	8	9
Clients	45.3%					49.0%			5.9%	
Law Firms	43.7%					46.7%			9.5%	

Median rating by year:

	2013	2014	2015	2016	2017
Clients	6	5	5	6	6
Law Firms	6	6	6	6	6

## Market Forces: What Clients Want

**Q:** Which of the following activities is your firm proactively initiating to better understand what individual clients want? Select all that apply.



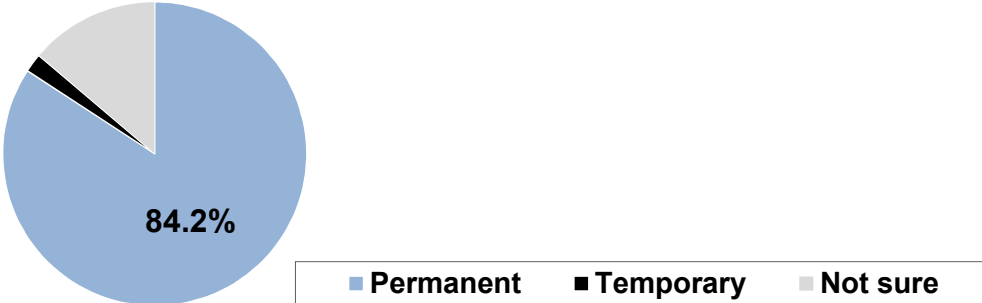
### Efforts to understand clients

#### Comparison by firm size:

	Under 250 lawyers	250 lawyers or more
Conversations about pricing / budgets	83.1%	90.8%
Participation in client industry groups and events	67.3%	73.6%
Management visits to key clients	60.2%	85.1%
Conversations about project staffing	63.9%	71.3%
Conversations about matter management efficiency	53.4%	67.8%
Formal client interview program	35.7%	64.4%
Industry research and issue spotting (at firm expense)	34.2%	50.6%
Legal issue spotting/preventative law (at firm expense)	29.3%	40.2%
Post-matter reviews	19.9%	37.9%
Formal client survey program	19.5%	39.1%

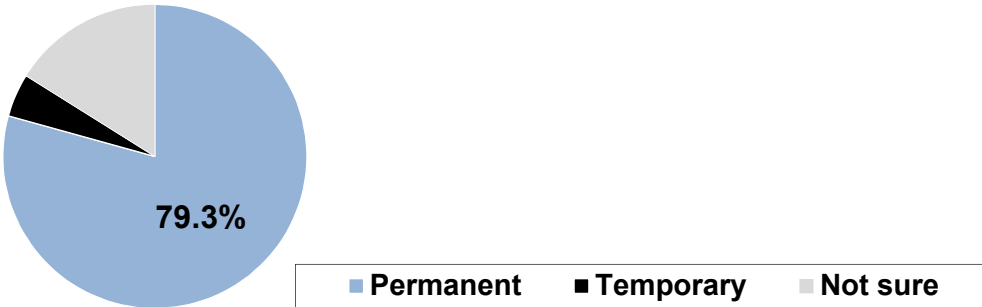
Market Forces: Trends

**Q:** Do you think more commoditized legal work will be a permanent trend going forward?



	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>PERMANENT</b>	25.5%	65.9%	81.3%	83.6%	89.7%	88.6%	89.4%	88.3%	84.2%

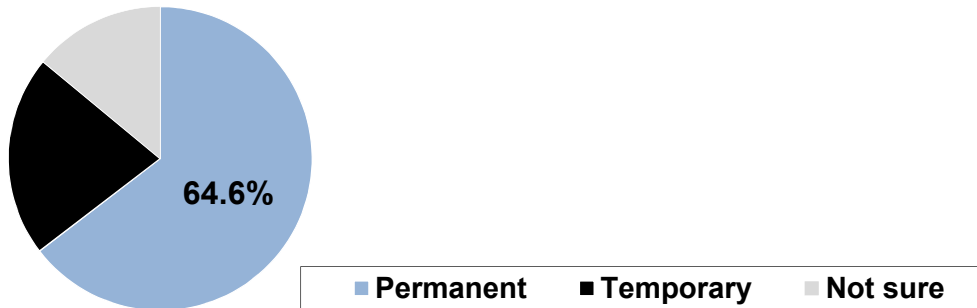
**Q:** Do you think competition from non-traditional (including non-lawyer) service providers will be a permanent trend going forward?



	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>PERMANENT</b>	NA	NA	69.8%	72.6%	78.6%	82.3%	82.8%	82.0%	79.3%

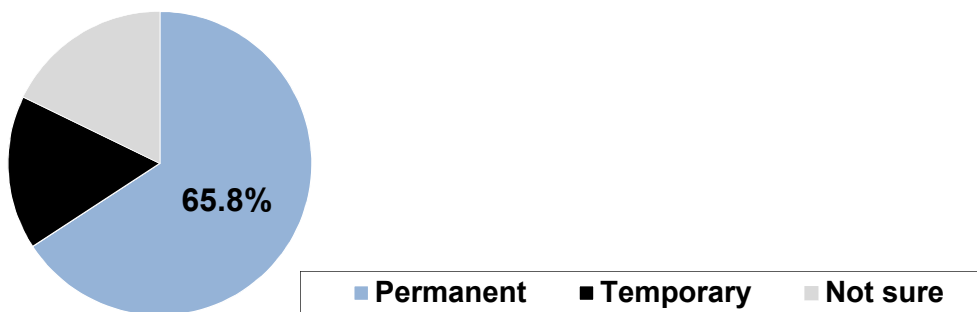
## Market Forces: Trends

**Q:** Do you think corporate clients doing more work in-house will be a permanent trend going forward?



	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>PERMANENT</b>	NA	NA	NA	NA	NA	NA	NA	69.1%	64.6%

**Q:** Do you think erosion of demand for work done by law firms will be a permanent trend going forward?



	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>PERMANENT</b>	NA	NA	NA	NA	NA	NA	NA	61.9%	65.8%

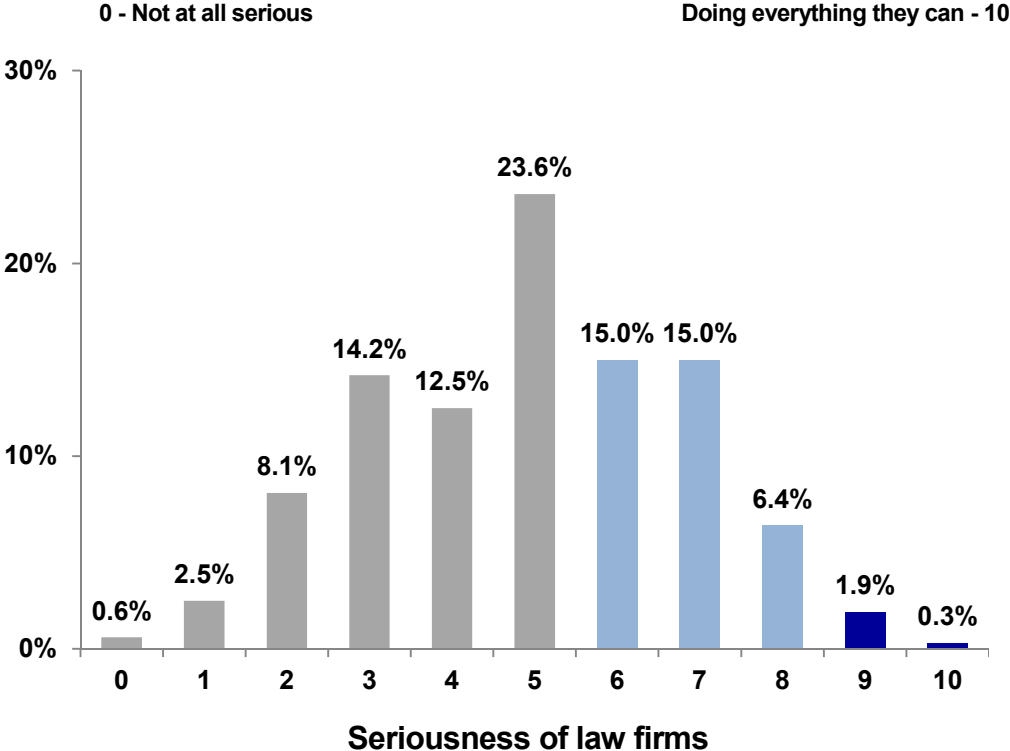
Leading Change

**LAW FIRMS IN TRANSITION 2017**

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Leading Change: Seriousness of Change Efforts

**Q:** In your opinion, in 2017 how serious are law firms about changing their legal service delivery model to provide greater value to clients (as opposed to simply reducing rates)?



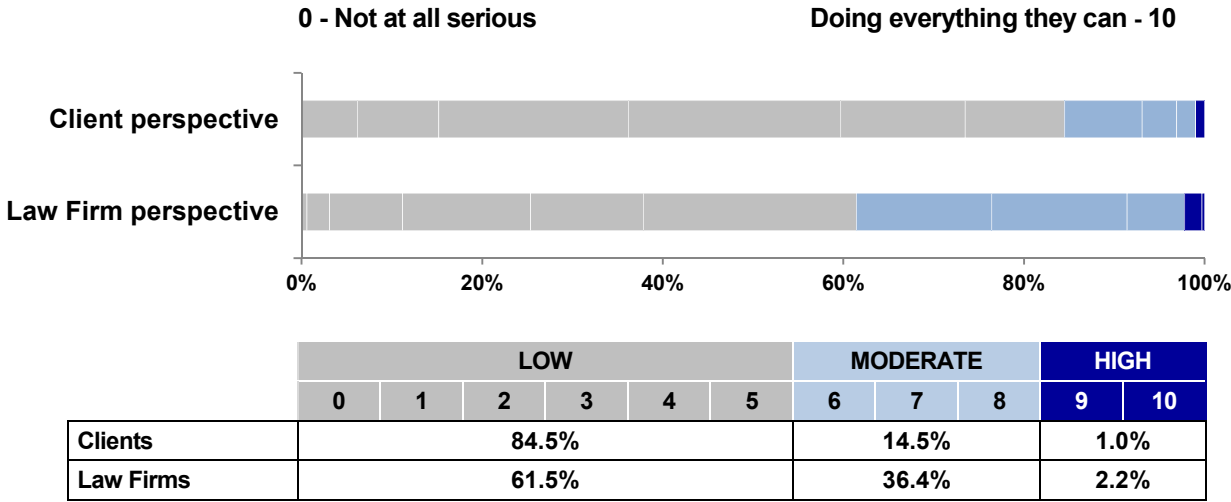
	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	61.5%					36.4%			2.2%		

**Median rating: 5**

Seriousness of Change Efforts: The Client Perspective

In October 2016, we asked the same question of Chief Legal Officers. Following is a summary of their responses set against responses from law firm leaders in this survey:

In your opinion, in 2016 how serious are law firms about changing their legal service delivery model to provide greater value to clients (as opposed to simply reducing rates)?



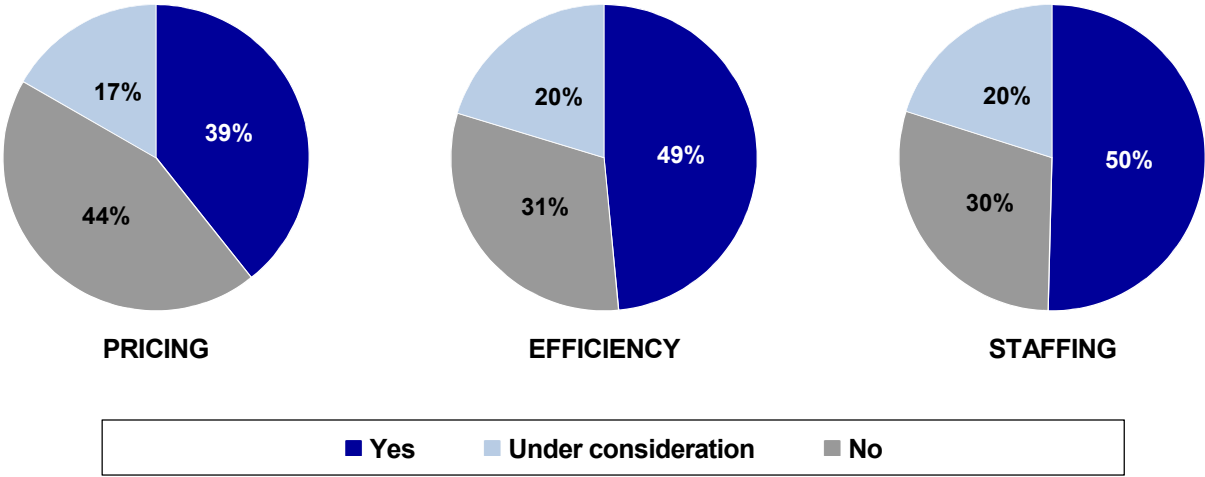
Median rating by year:

	2013	2014	2015	2016	2017
Clients	3	3	3	3	3
Law Firms	5	5	5	5	5



Leading Change: The Law Firm Business Model

**Q:** Many law firms feel pressure to change elements of their business model to stay competitive in the post-recession economy. Since the recession, has your firm significantly changed its strategic approach to pricing, efficiency of legal service delivery or lawyer staffing?

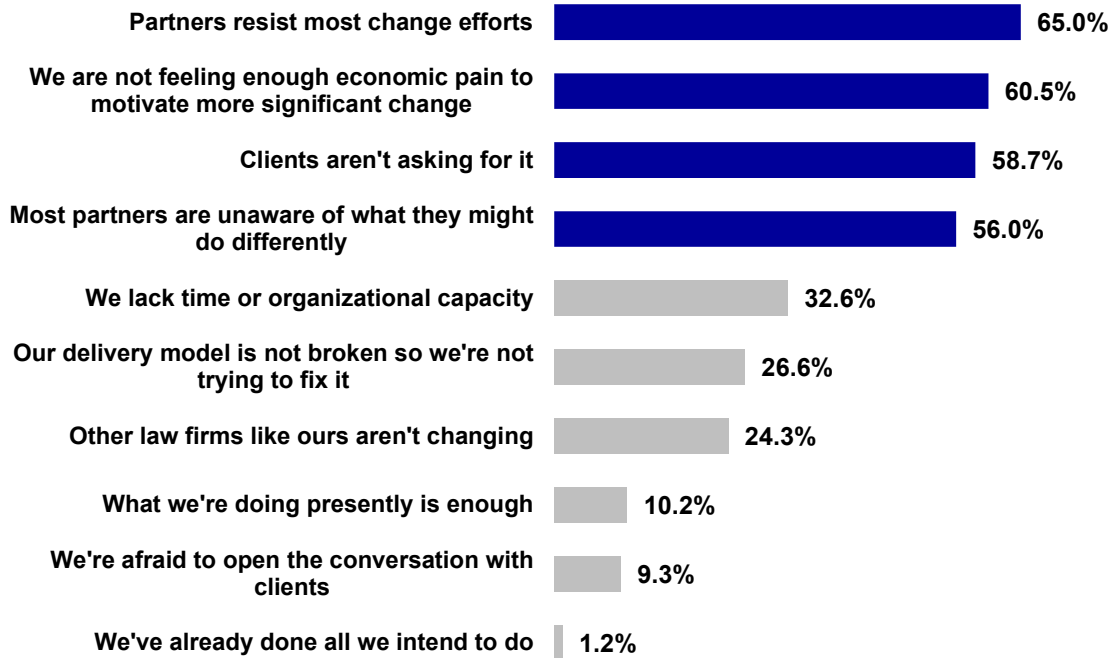


“Yes” responses: Comparison by year

	2013	2014	2015	2016	2017
Pricing	29.0%	29.5%	31.1%	34.0%	39.3%
Efficiency	44.6%	39.4%	36.9%	44.0%	48.5%
Staffing	NA	45.8%	43.1%	42.8%	50.4%

## Leading Change: Why Firms Aren't Doing More

**Q:** Why isn't your firm doing more to change the way it delivers legal services?  
 Select all that apply.



Why not do more to change?

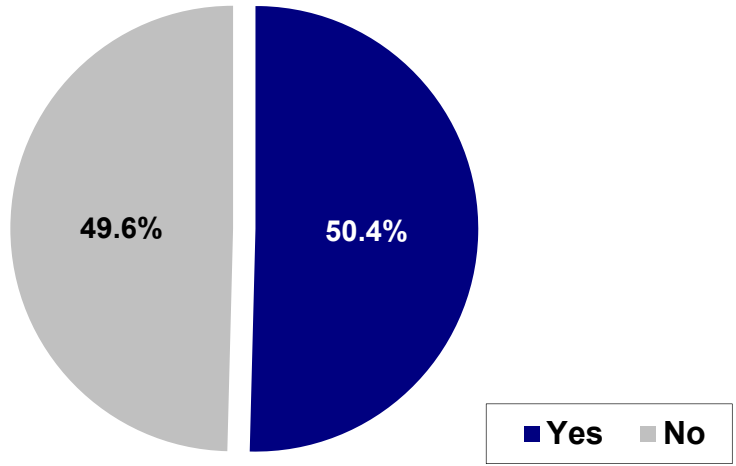
### Top three responses: Comparison by year

	Partners resist most change efforts		Not feeling enough economic pain		Clients aren't asking for it	
	% Firms	Rank	% Firms	Rank	% Firms	Rank
<b>2017</b>	65.0%	1st	60.5%	2nd	58.7%	3rd
<b>2016</b>	64.4%	1st	55.9%	3rd	59.1%	2nd
<b>2015</b>	44.4%	3rd	45.8%	2nd	62.7%	1st

Leading Change: Innovation

**NEW**

**Q:** Is your firm actively engaged in creating special projects / experiments to test innovative ideas or methods?



Comparison by firm size:

	YES	NO
50-99 lawyers	39.3%	60.7%
100-249 lawyers	51.6%	48.4%
250-499 lawyers	58.1%	41.9%
500-999 lawyers	72.7%	27.3%
1,000+ lawyers	81.8%	18.2%

## Leading Change: Innovation

**NEW**

**Q:** Is your firm actively engaged in creating special projects / experiments to test innovative ideas or methods? *If yes, please describe what you've done.*

### SAMPLE COMMENTS

#### Technology / Data Analytics

- Use of IBM Watson
- Developing strong data analytics team to track client and firm predictive data
- We have completely redesigned our internal financial and performance reporting platforms to provide partners with access to more timely, accurate and complete financial information - with the goal of delivering all data in a tablet / smartphone-friendly manner. We are now pointing these same tools towards client-facing initiatives with the intention of building an entirely new delivery model for legal services in the middle market. The key to this initiative is going to be asking what our clients want and need, rather than working from what we think they want or need.
- Most notably bringing EDiscovery in house; making substantial investment there.

#### New Ventures

- We created an online/mobile app training tool that we sell as a product to clients needing to conduct legal trainings of large groups of employees/stakeholders on specific legal topics.
- We are partnering with outside vendors to develop algorithmic, subscription based services in various regulatory practices.
- Development of products such as state law surveys.
- Implemented venture accelerator program under which legal fees for start-up companies are deferred. The theory is to build up our client base in the start-up and entrepreneurial community.

#### Innovation Director / Program

- We have a Chief Innovation Officer that supervises IT, KM, LPM, Pricing, in house consulting services, ESI discovery/Contract counsel. He pushes all kinds of experimentation across all these areas.
- An R&D Council to investigate and champion innovation
- We are doing an "Innovation Day" with lawyer teams coming up with innovative ways to improve our performance.
- Tasking each Industry Group to devise and then client test innovative products/services.

**Q:** Is your firm actively engaged in creating special projects / experiments to test innovative ideas or methods? *If yes, please describe what you've done.*

#### **SAMPLE COMMENTS (continued)**

##### **Efficiency / Process Improvement**

- In the patent prosecution area, we're making extensive use of patent engineers and an internal Dev Ops group to redesign workflows and create a highly leveraged and efficient model that automates and totally changes the way those services are delivered to clients. The Dev Ops group is now applying a number of those principles to workflow redesign in other groups.
- Reengineering litigation process
- Moving to paperless environment

##### **Staffing Alternatives**

- We have focused on an inverted pyramid for lawyer staffing.
- We have increased significantly a new class of lawyers at our firm, staff attorneys, who can handle discovery-related matters efficiently and inexpensively.
- Teaming lawyers and non-lawyer business professionals
- Investing in more creative diversity programs, cultivating part-time diverse attorneys to develop a specialized workforce
- Providing more flexibility for lawyers to work from outside the office.

##### **Pricing**

- Built tools to create AFA's that incorporate multiple data points from the client juxtaposed with historical case proxies.
- Inviting more retainer arrangements with clients (call us 100 times in a month if you need to in order to get the type of partnership you need on (employment law issues) (contract review)....)
- Special approaches to pricing that include transparency re costs
- Giving permission to people to take risks and make mistakes to test out alternative fee arrangements.

**Q:** Is your firm actively engaged in creating special projects / experiments to test innovative ideas or methods? *If yes, please describe what you've done.*

#### **SAMPLE COMMENTS (continued)**

##### **Profitability**

- Built tools to create real time client profitability analysis.
- Doing post-matter project management and cost analyses
- We are aggressively pursuing process improvement and project management coupled with more intelligent pricing focused on profitability.

##### **Practice Groups**

- We have created a Wellness program to study each of our practice groups every 3 years. The Wellness study looks at structure, capacity, practice group needs, practice group problems, staffing ratios, profitability, write-offs and write-downs, etc. It has been very successful, and we have seen positive changes take hold in several of our practice groups due to the Wellness studies.
- We have moved to non-lawyer management of practice groups to improve lawyer efficiency and better utilize resources.

##### **Clients**

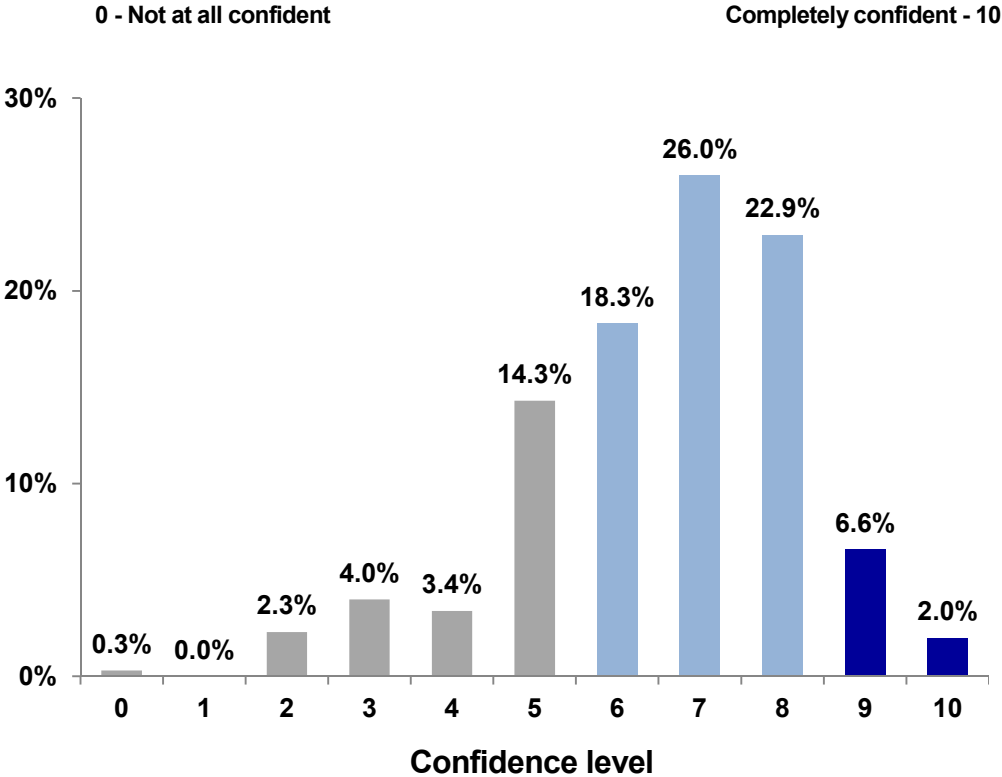
- We have significantly increased our client collaboration and share technology to improve coordination. We have invested significantly in new technology to spare our clients the high costs of third-party providers.
- We are nearing the completion of the development of a program we call Extraordinary Client Experience. It combines project management techniques with ISO quality management principles and emphasis on delighting the client to enhance the client's experience with our firm
- We have a "crown jewel" program aimed at enhancing key client relationships, and we are targeting certain sizes of clients for growth.

##### **Business Development**

- Started an "entrepreneur fund" for new and creative business development proposals.
- We have developed a comprehensive firm wide program to develop and support client acquisition at every level.

Leading Change: Confidence

**Q:** What is your overall level of confidence that your firm is fully prepared to keep pace with the challenges of the new legal marketplace?

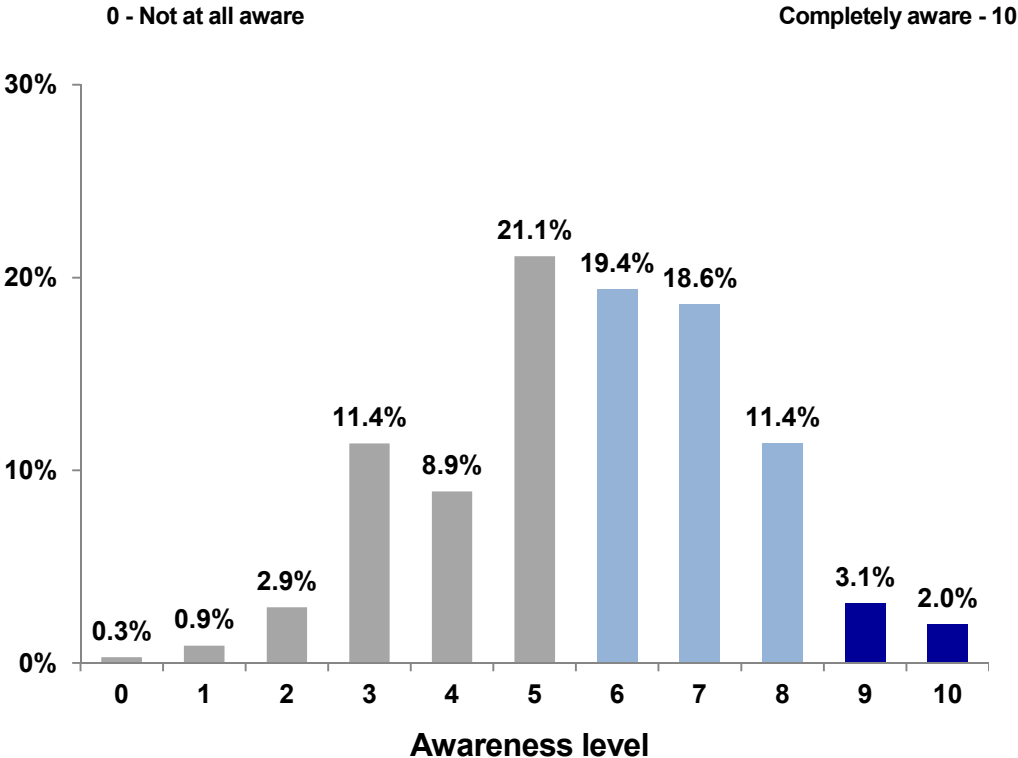


	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	24.3%					67.2%			8.6%		

Median rating: 7

Leading Change: Partner Awareness

**Q:** How would you rate your partners' awareness of the challenges of the new legal market?



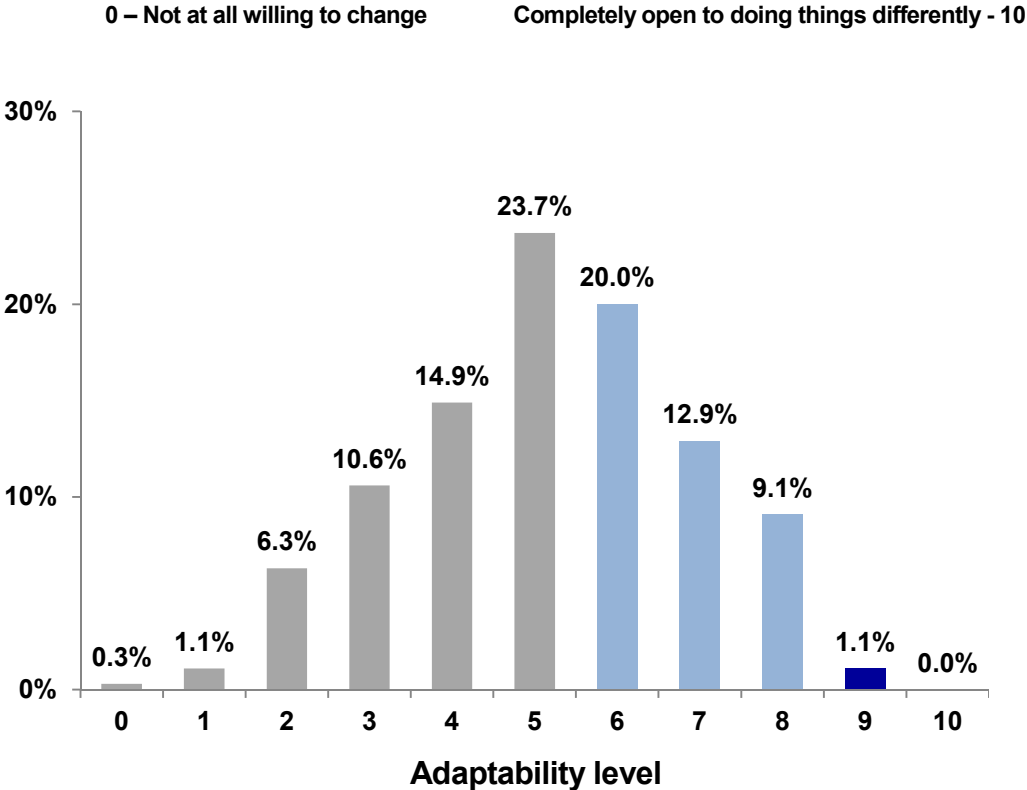
	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	45.5%					49.4%			5.1%		

Median rating: 6



Leading Change: Partner Adaptability

**Q:** Most agree that competing in the new legal market will require some changes in how law firms are organized and how lawyers practice. How would you rate your partners' level of adaptability to change?



	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	56.9%					42.0%			1.1%		

**Median rating: 5**

## Leading Change: Trends

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Comparison of firm leader confidence by year:

	LOW	MODERATE	HIGH
2017	24.3%	67.2%	8.6%
2016	22.8%	69.6%	7.6%
2015	22.8%	68.2%	9.1%
2014	21.6%	65.3%	13.2%
2013	21.0%	66.0%	12.9%
2012	11.3%	74.3%	14.2%
2011	7.8%	68.3%	23.9%

Comparison of 2017 change preparedness factors in the legal profession:

	LOW	MODERATE	HIGH
Confidence of firm leader	24.3%	67.2%	8.6%
Awareness of partners	45.5%	49.4%	5.1%
Adaptability of partners	56.9%	42.0%	1.1%

Law Firm Profitability

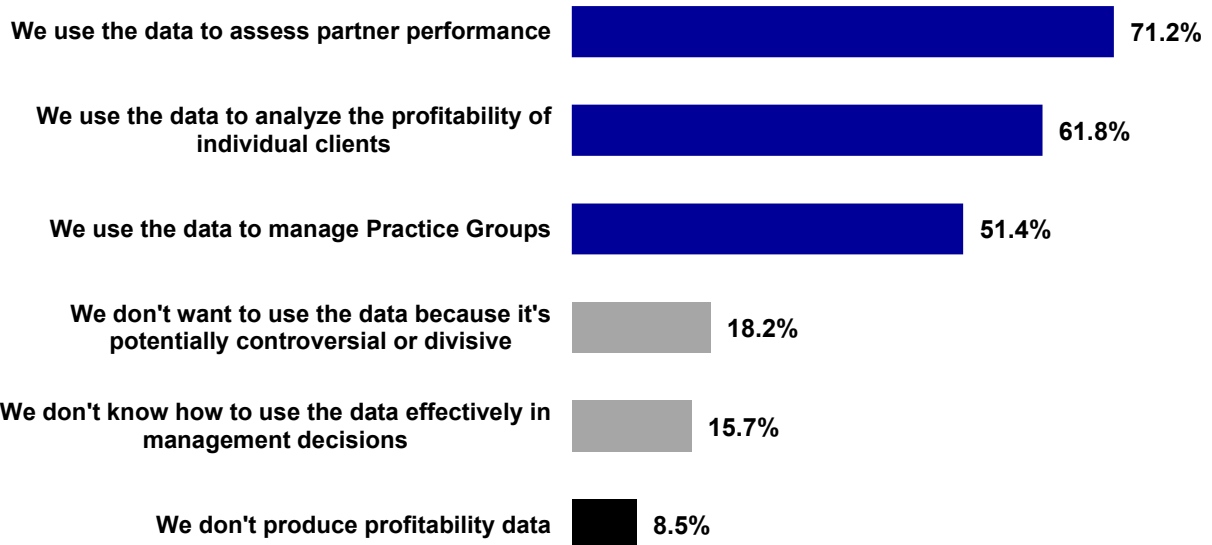
**LAW FIRMS IN TRANSITION 2017**

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## Profitability Data as Management Tool

**NEW**

**Q:** Which of the following statements describes your firm’s use of profitability data as a management tool? Select all that apply.



Profitability data as a management tool

### Comparison by firm size:

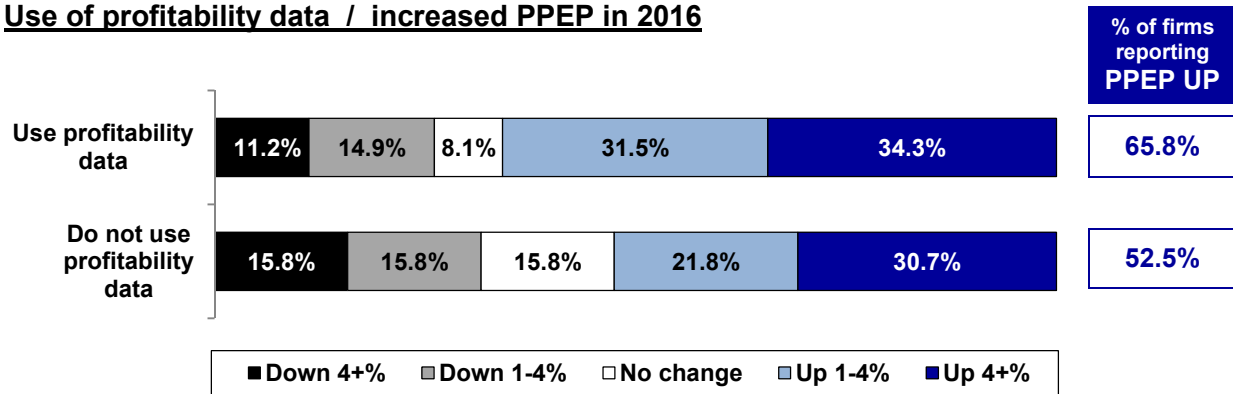
	Under 250 lawyers	250 lawyers or more
Use to assess partner performance	68.9%	78.2%
Use to analyze profitability of individual clients	53.5%	87.2%
Use to manage Practice Groups	46.9%	65.4%
Don't use because potentially controversial or divisive	22.0%	6.4%
Don't know how to use effectively in management	17.8%	9.0%
Don't produce profitability data	11.0%	3.8%

Profitability Data as a Management Tool

**CORRELATION**

To what degree does the use of profitability data in management decisions correlate with increased profitability? We compared reported changes in a firm’s Profits per Equity Partner (PPEP) in 2016 between firms that use profitability data and those that do not\*.

**Use of profitability data / increased PPEP in 2016**



\*Responses were aggregated as follows:

‘Use profitability data’ includes firms that selected one of the following answer options:

- We use profitability data to manage practice groups.
- We use profitability data to assess partner performance.
- We use profitability data to analyze the profitability of individual clients.

‘Do not use profitability data’ includes firms that selected one of the following answer options:

- We don’t know how to use profitability data effectively in management decisions.
- We don’t want to use profitability data because it’s potentially controversial or divisive.

## Efforts to Improve Profitability

**NEW**

**Q:** In the last few years, has your firm done any of the following specifically to improve firm profitability? Select all that apply.



## Efforts to improve firm profitability

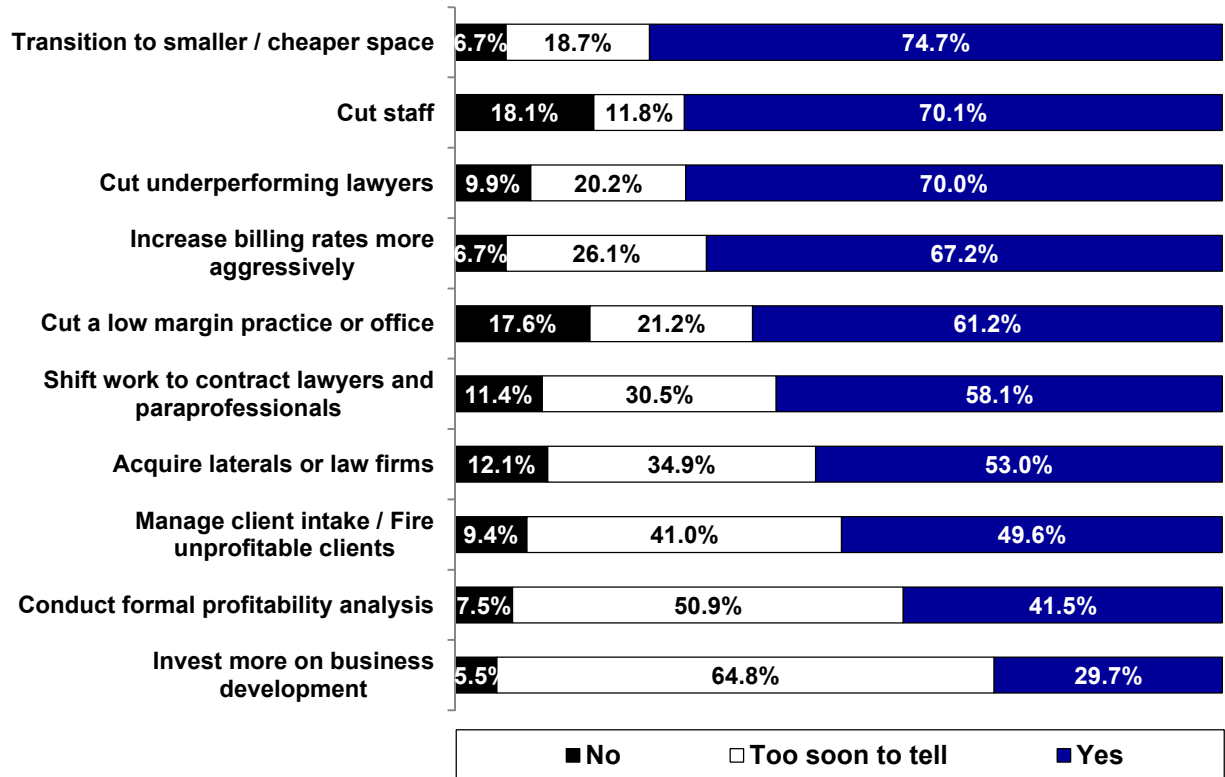
## Comparison by firm size:

	Under 250 lawyers	250 lawyers or more
Acquire laterals or law firms	72.5%	81.3%
Invest more on business development	69.1%	77.5%
Cut underperforming lawyers	65.3%	87.5%
Conduct formal profitability analysis	46.2%	71.3%
Cut staff	45.8%	53.8%
Manage client intake / Fire unprofitable clients	41.9%	62.5%
Increase billing rates more aggressively	41.1%	51.2%
Shift work to contract lawyers and paraprofessionals	26.3%	58.8%
Cut a low margin practice or office	23.7%	48.8%
Transition to smaller / cheaper space	22.9%	31.3%

Profitability: What Works

**NEW**

**Q:** For each of those things you've done to improve your firm's profitability, has the action resulted in a significant improvement in profitability?

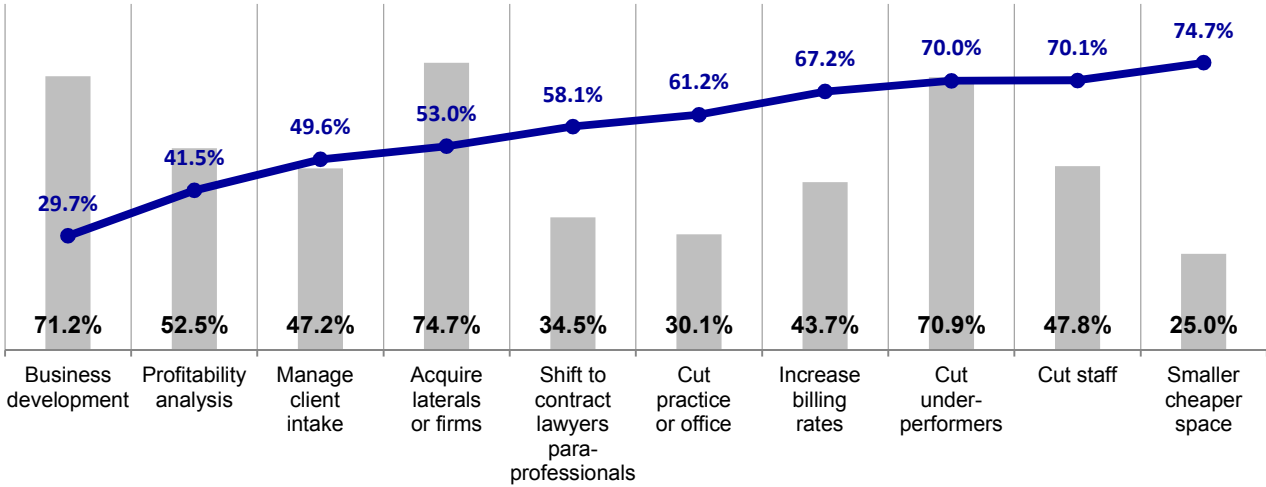




# Profitability: What Works

**NEW**

## Comparison of Use and Results:

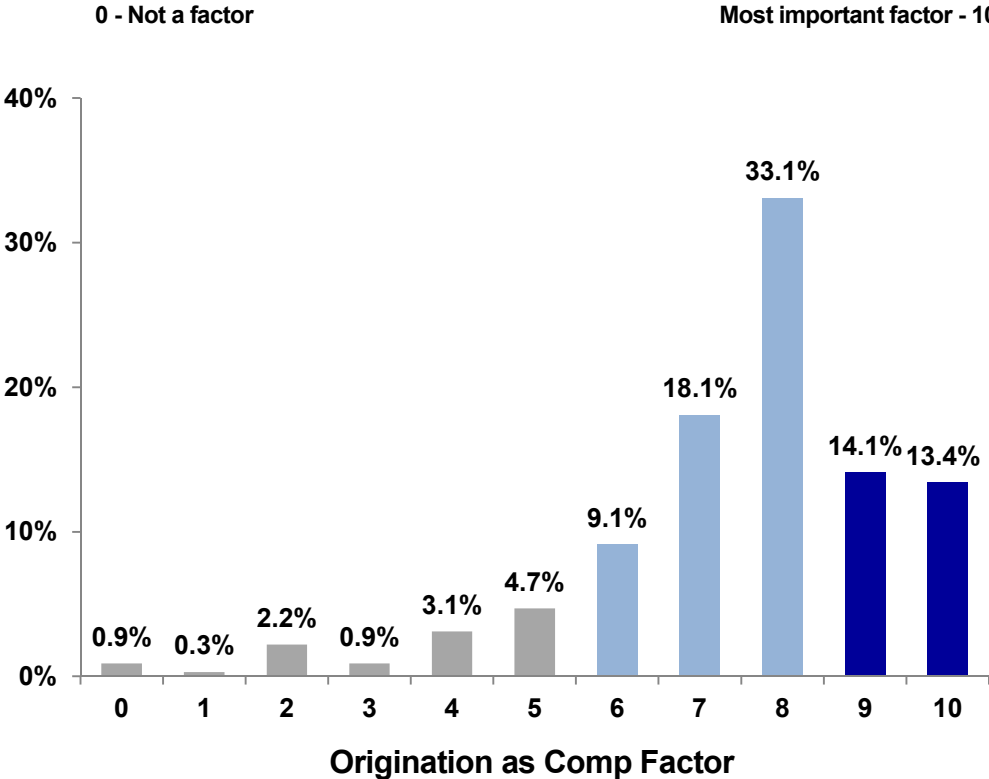


■ Using tactic   ■ Yes, has resulted in significant improvement in profitability

Compensation Factor: Partner’s Business Origination

**NEW**

**Q:** How important is an individual partner’s business origination in your firm’s partner compensation decisions?



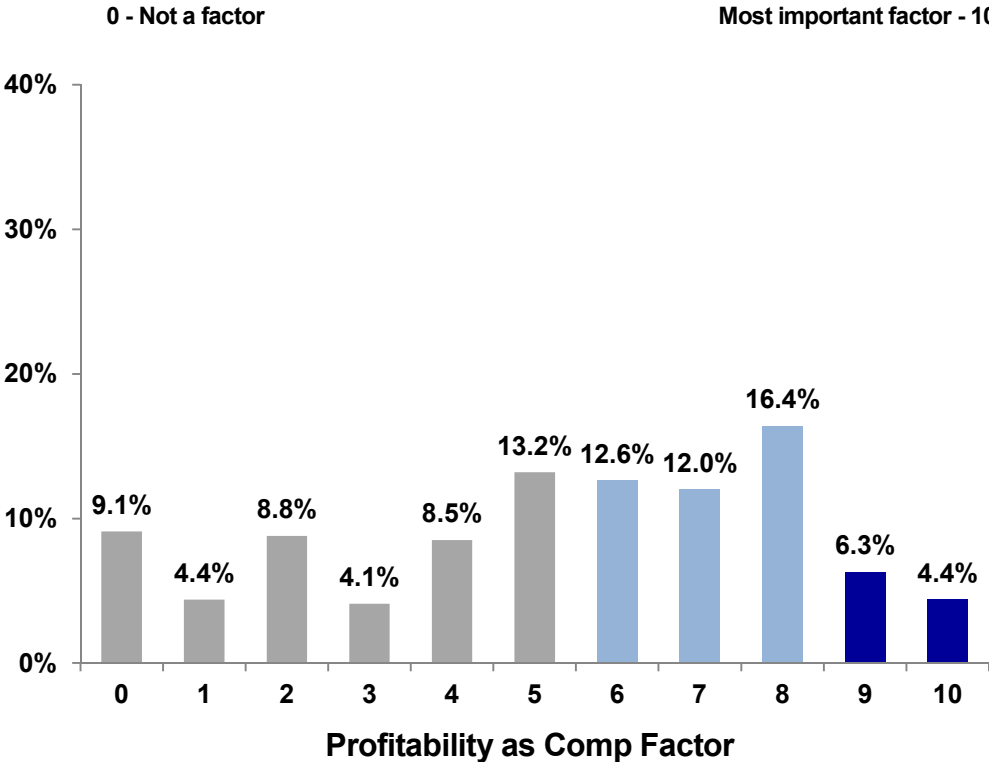
	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	12.1%					60.3%			27.5%		

**Median rating: 8**

Compensation Factor: Profitability of Origination

**NEW**

**Q:** How important is the profitability of a partner's origination in your firm's partner compensation decisions?



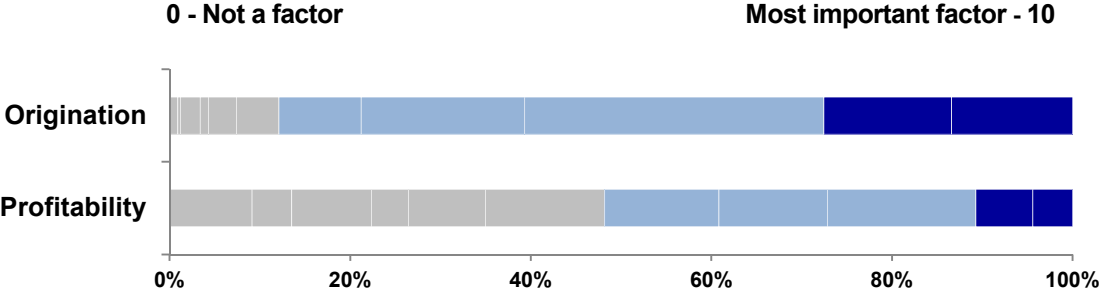
	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	48.1%					41.0%			10.7%		

**Median rating: 6**

Compensation Factors: Comparison

**NEW**

Comparison of the importance of partner business origination and the profitability of partner origination in compensation decisions:



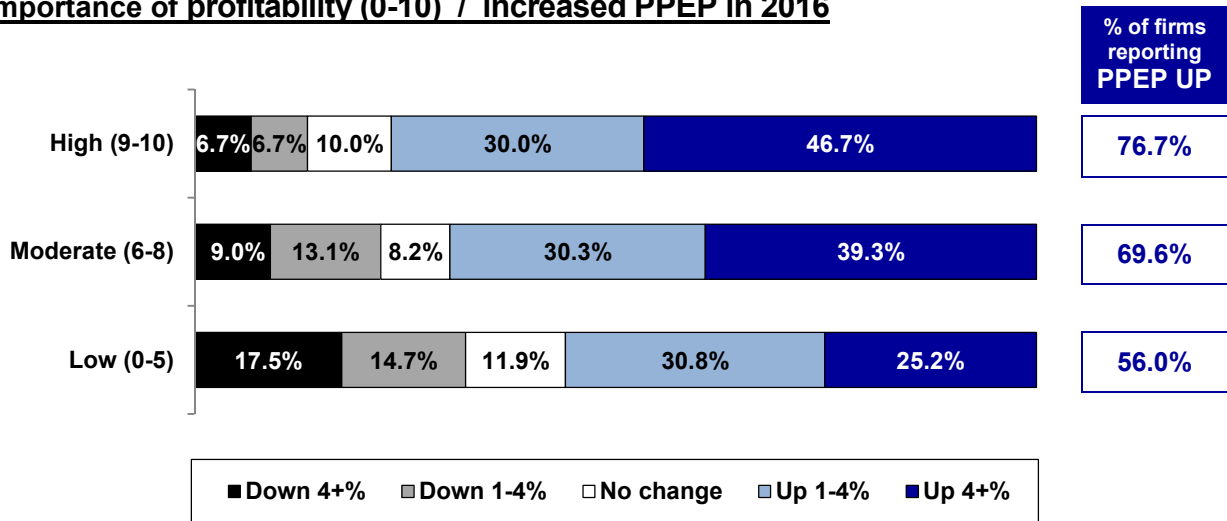
	LOW					MODERATE			HIGH	
	0	1	2	3	4	5	6	7	8	9
<b>Origination</b>	12.1%					60.3%			27.5%	
<b>Profitability</b>	48.1%					41.0%			10.7%	

Compensation Factors and Profitability

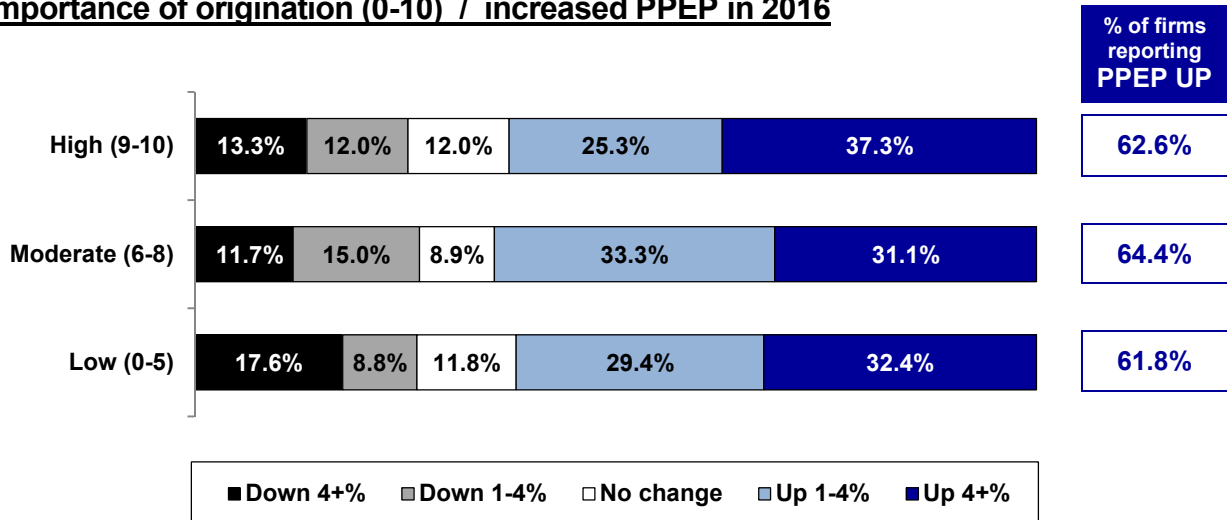
**CORRELATION**

To what degree does the weight of different compensation factors correlate with increased profitability? We compared reported changes in a firm’s Profits per Equity Partner (PPEP) in 2016 with the level of importance the firm gives to a partner’s individual profitability and business origination.

**Importance of profitability (0-10) / increased PPEP in 2016**



**Importance of origination (0-10) / increased PPEP in 2016**



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Lawyer Staffing Strategies  
**LAW FIRMS IN TRANSITION 2017**

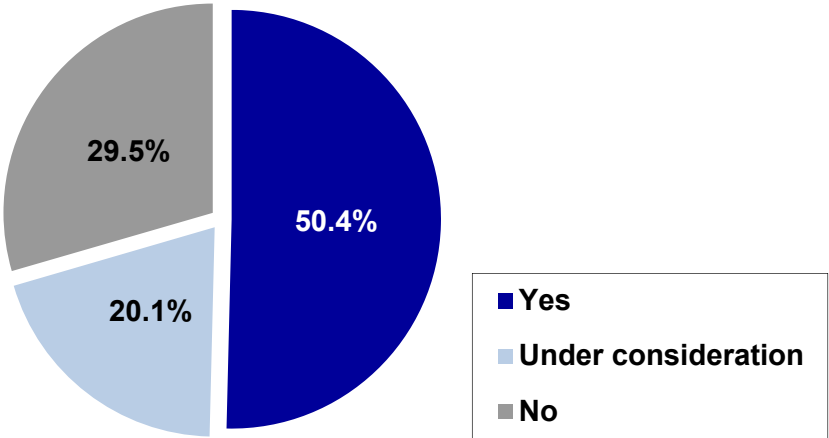
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## Lawyer Staffing: Strategic Approach

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**Q:** Many law firms feel pressure to change elements of their business model to stay competitive in the post-recession economy. Has your firm significantly changed its strategic approach to lawyer staffing strategy?

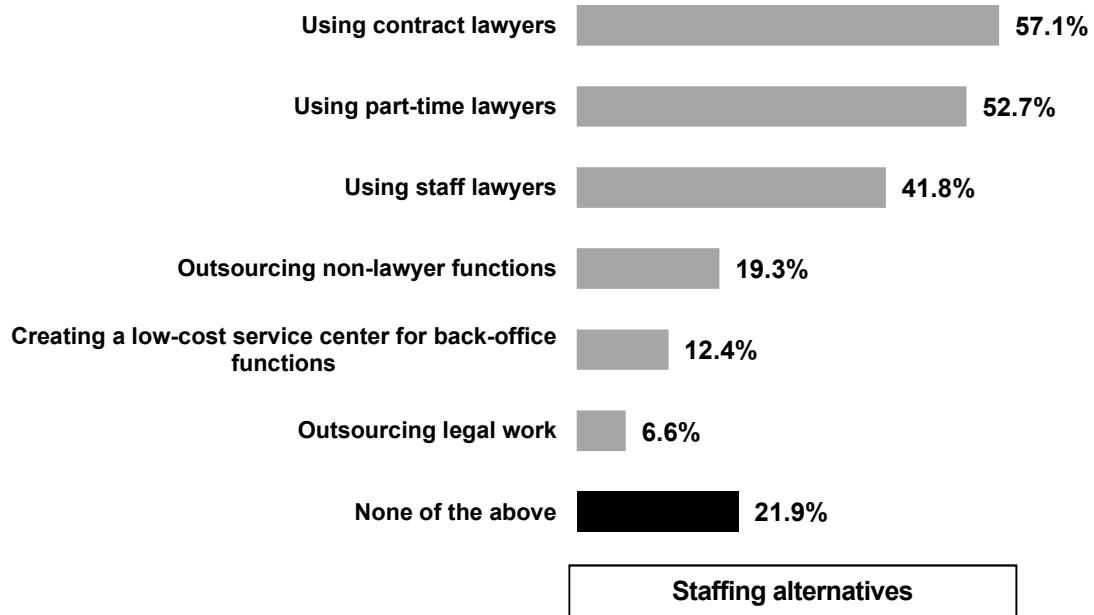


Comparison by firm size:

	Yes	Under consideration	No
Under 250 lawyers	46.5%	18.5%	35.1%
250 lawyers or more	62.5%	25.0%	12.5%

## Alternative Staffing Strategies

**Q:** Is your firm currently pursuing any of the following alternative staffing strategies?



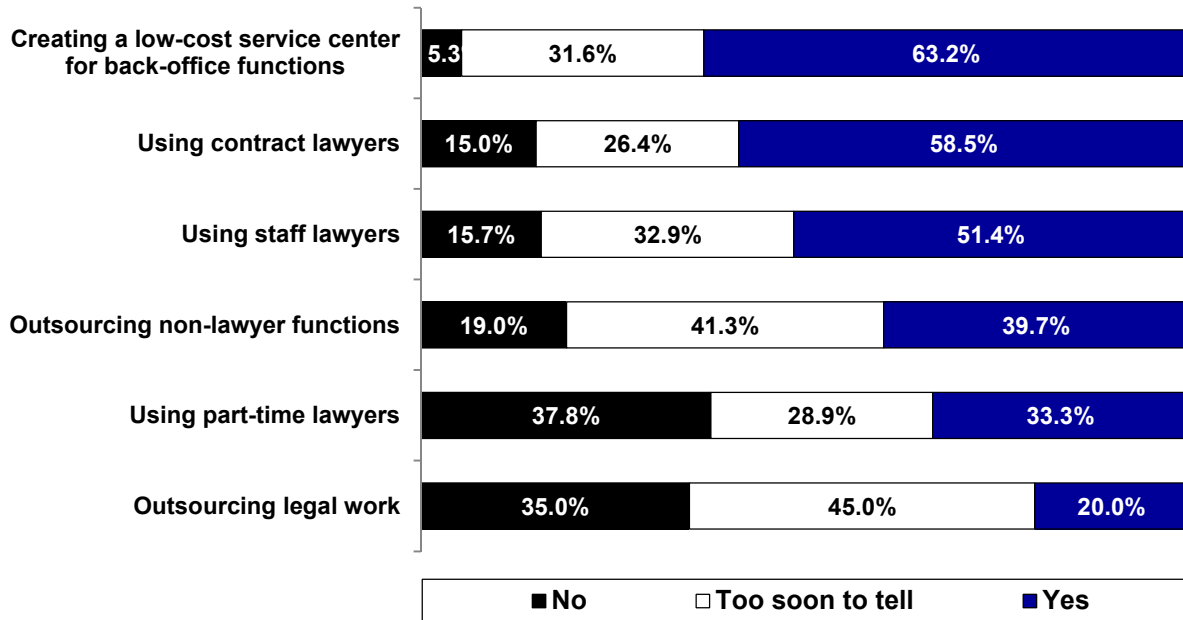
### Comparison by firm size:

	Under 250 lawyers	250 lawyers or more
Using contract lawyers	50.4%	77.0%
Using part-time lawyers	46.5%	71.3%
Using staff lawyers	29.6%	78.2%
Outsourcing non-lawyer functions	17.7%	24.1%
Creating a low-cost service center for back office	9.2%	21.8%
Outsourcing legal work	4.2%	13.8%
None of the above	27.3%	5.7%

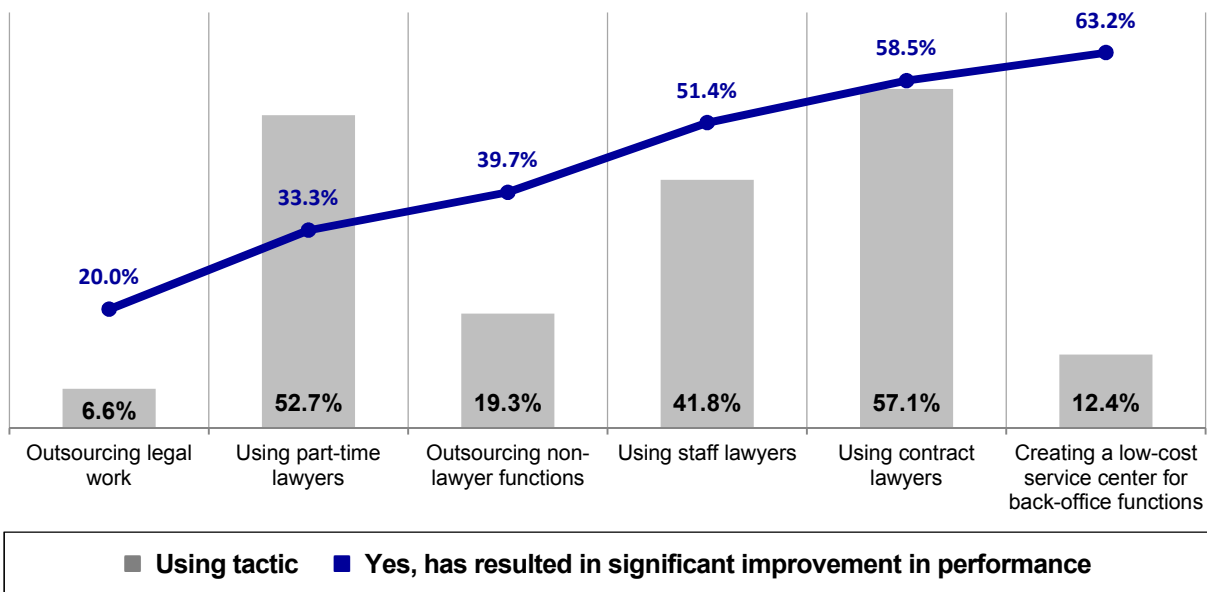
## Alternative Staffing: What Works

**NEW**

**Q:** For each of the alternative staffing tactics your firm is pursuing, has it resulted in a significant improvement in firm performance?



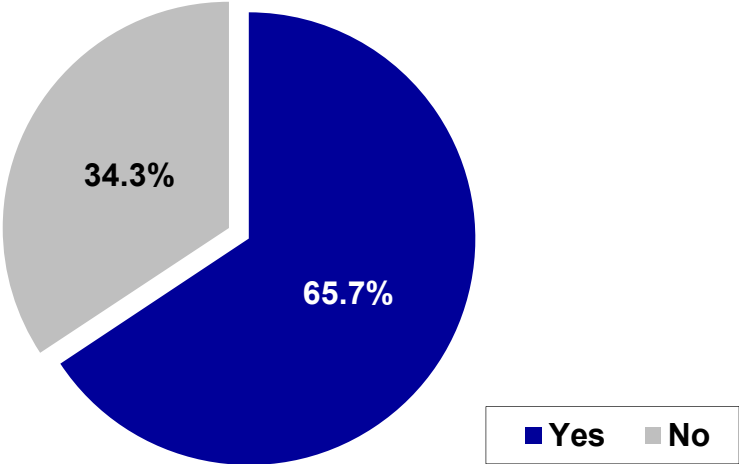
### Comparison of Use and Results:



## Project Staffing: Talking with Clients

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**Q:** Is your firm proactively initiating conversations about project staffing to better understand what individual clients want?



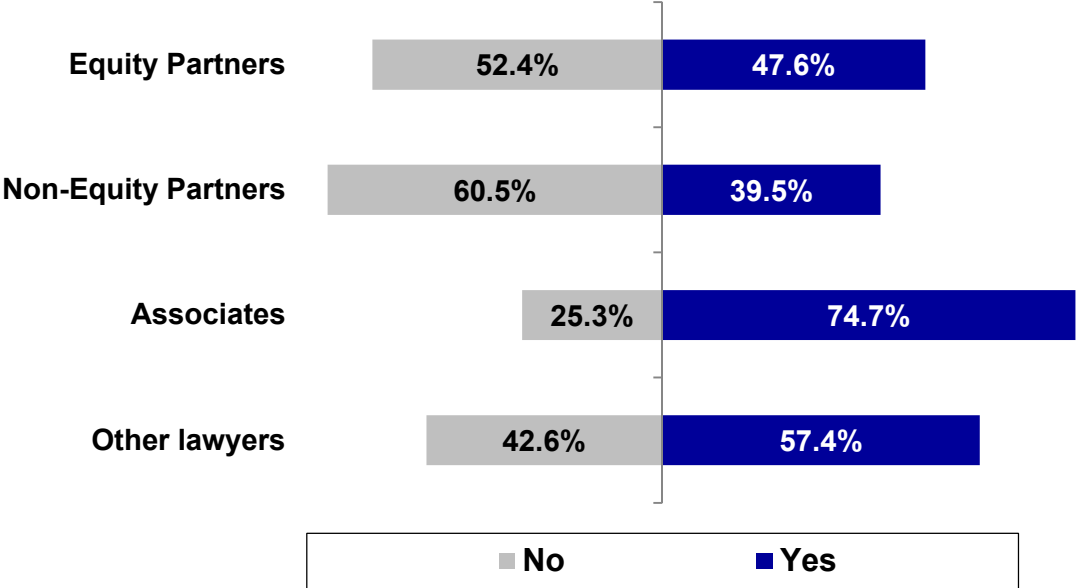
Comparison by firm size:

	Yes	No
Under 250 lawyers	63.9%	36.1%
250 lawyers or more	71.3%	28.7%

Lawyer Staffing: Capacity

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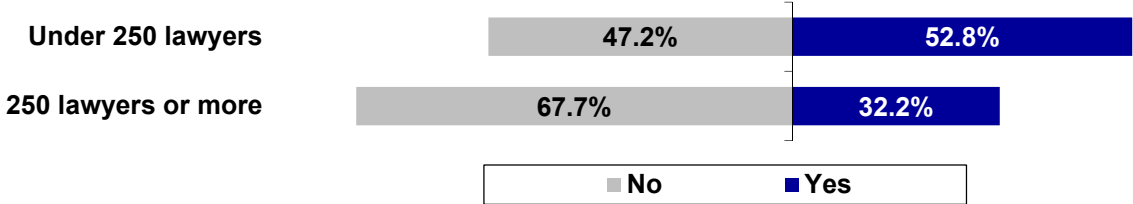
**Q:** Are each of the following lawyer classes in your firm sufficiently busy?



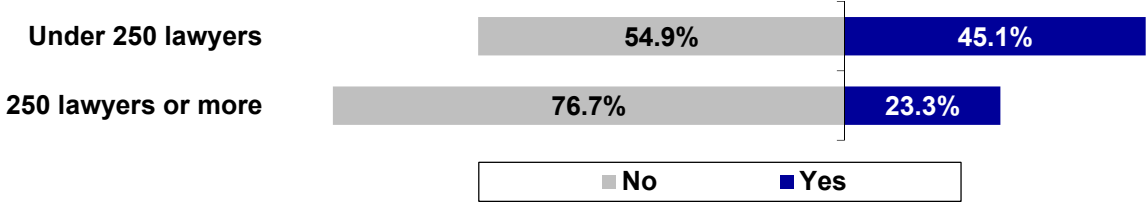
## Lawyer Staffing: Capacity

**Q:** Are each of the following lawyer classes in your firm sufficiently busy?

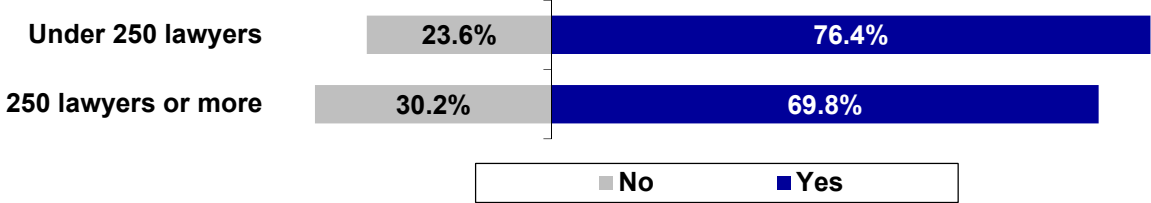
### EQUITY PARTNERS – BY FIRM SIZE



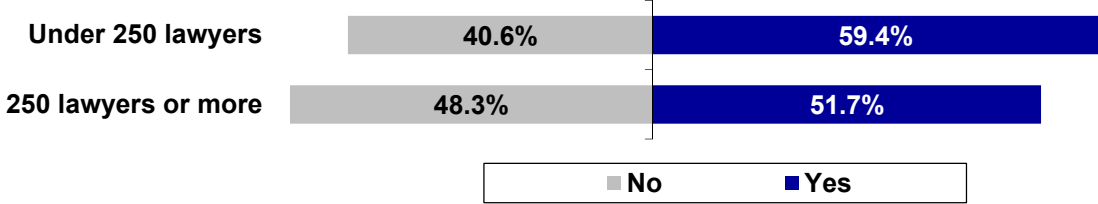
### NON-EQUITY PARTNERS – BY FIRM SIZE



### ASSOCIATES – BY FIRM SIZE



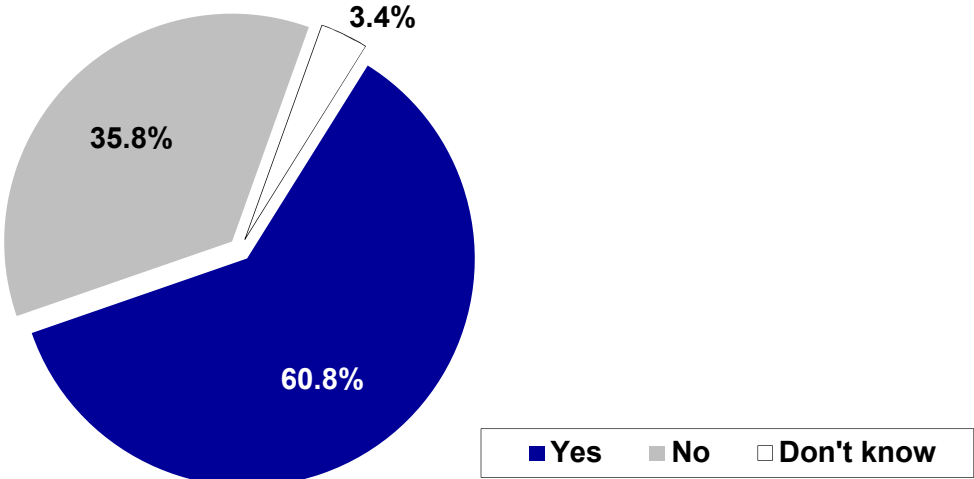
### OTHER LAWYERS – BY FIRM SIZE



## Lawyer Staffing: Overcapacity

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**Q:** Is overcapacity diluting your firm’s overall profitability?



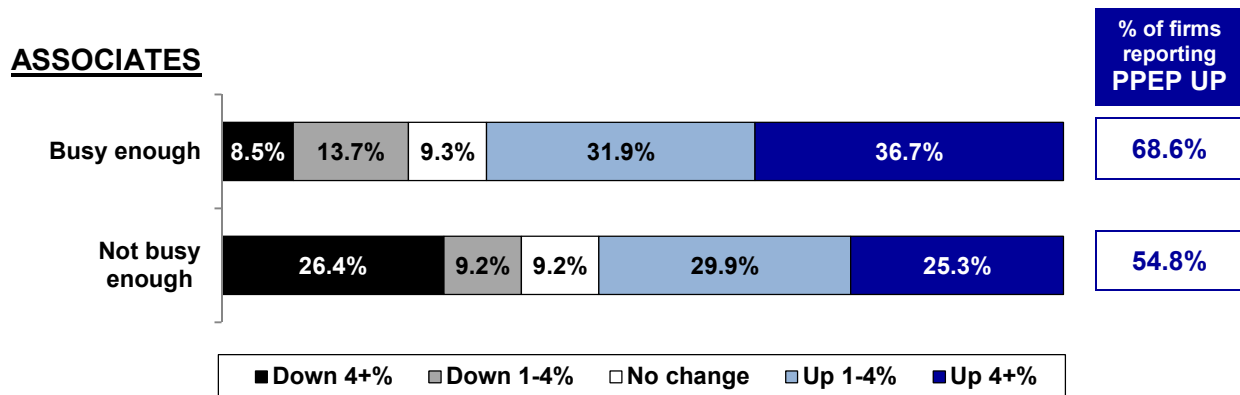
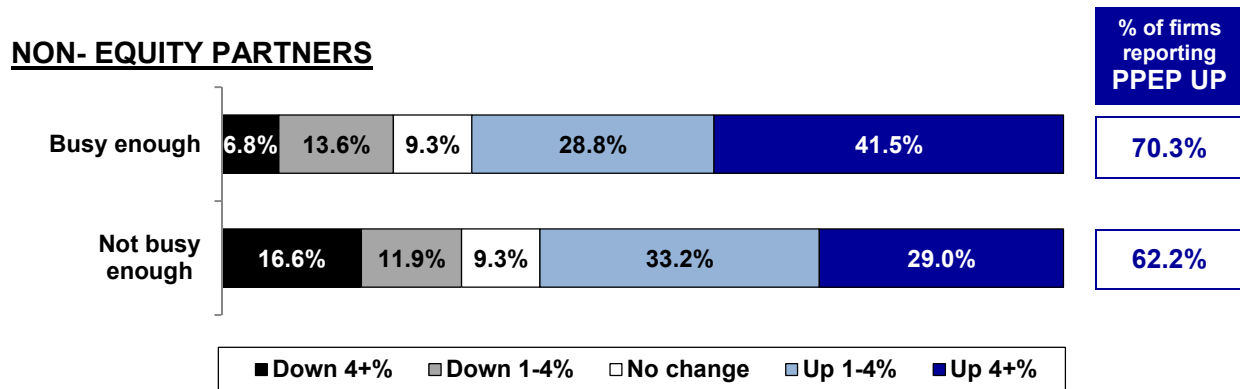
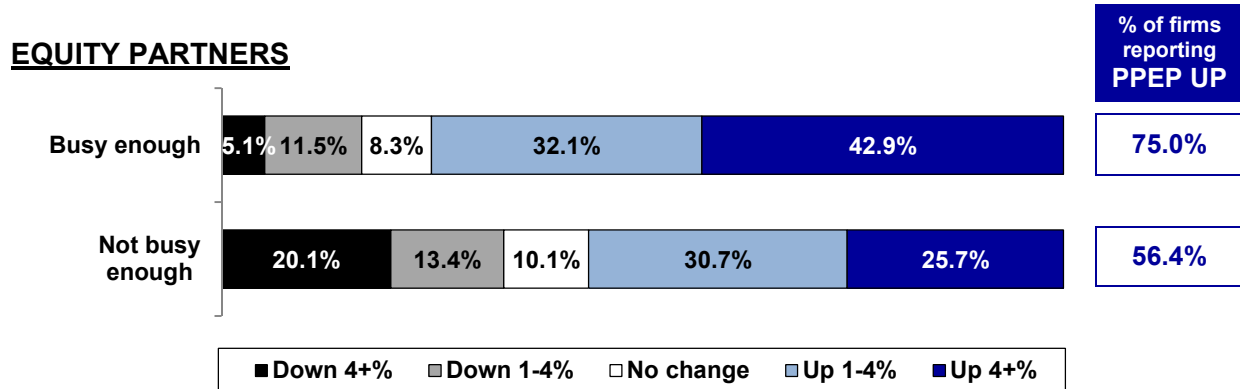
Comparison by firm size:

	Yes	No	Don't know
Under 250 lawyers	55.6%	39.8%	4.6%
250 lawyers or more	76.0%	24.0%	0.0%

Lawyer Staffing: Overcapacity and Profitability

**CORRELATION**

To what degree does overcapacity correlate with increased profitability? We compared reported changes in a firm's Profits per Equity Partner (PPEP) in 2016 between firms reporting their lawyers are sufficiently busy and firms in which they are not busy enough.



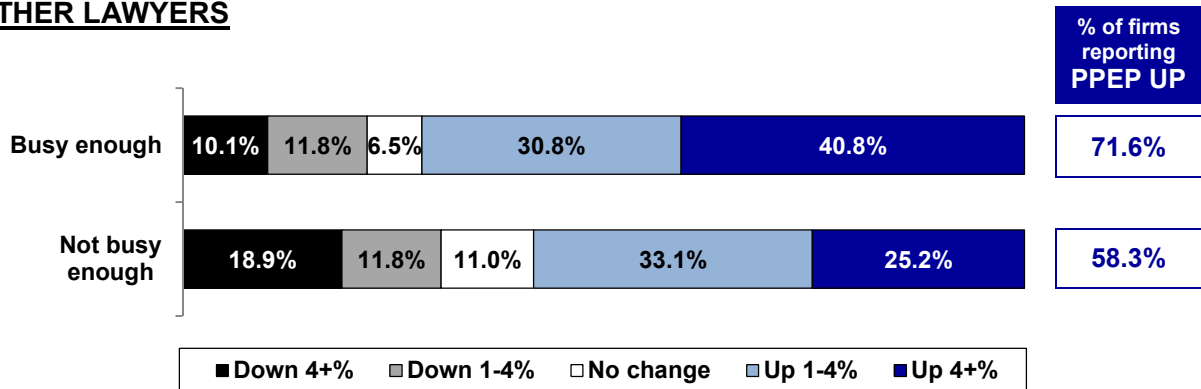


Lawyer Staffing: Overcapacity and Profitability

**CORRELATION**

To what degree does overcapacity correlate with increased profitability? We compared reported changes in a firm's Profits per Equity Partner (PPEP) in 2016 between firms reporting their lawyers are sufficiently busy and firms in which they are not busy enough.

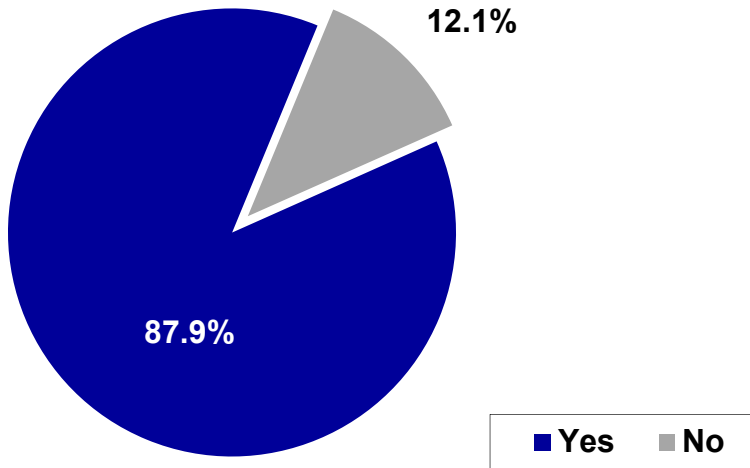
**OTHER LAWYERS**



## Lawyer Strategy: Under-Performance

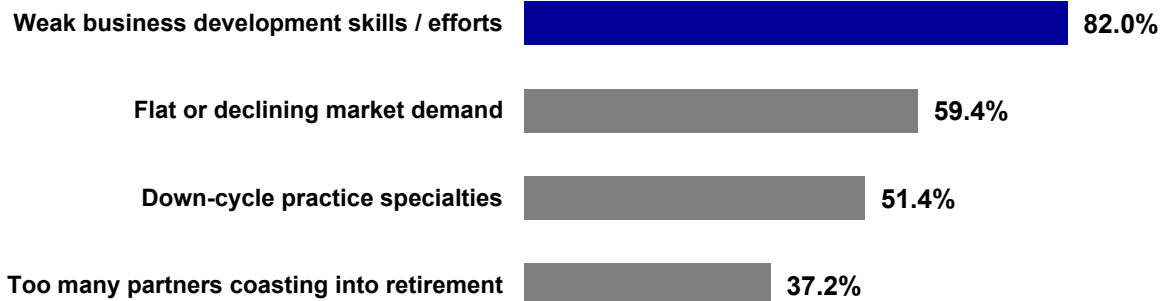
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**Q:** Does your firm currently have any chronically under-performing lawyers?



**NEW**

**Q:** What are the main reasons for chronic under-performance in your law firm?  
(Select all that apply.)



Reasons for under-performance

## Lawyer Strategy: Under-Performance

**Q:** Is your firm doing any of the following to deal with chronically under-performing lawyers?



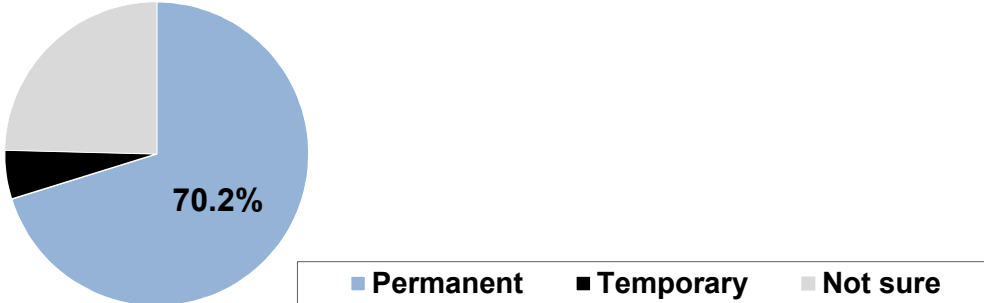
**Dealing with under-performing lawyers**

**Comparison by firm size:**

	<b>Under 250 lawyers</b>	<b>250 lawyers or more</b>
Reducing compensation	95.5%	96.4%
Requiring individual plans and timelines	76.9%	85.7%
Investing additional business development resources	72.2%	65.1%
Removing chronic under-performers from the firm	65.7%	92.9%
De-equitizing full partners	52.1%	72.0%

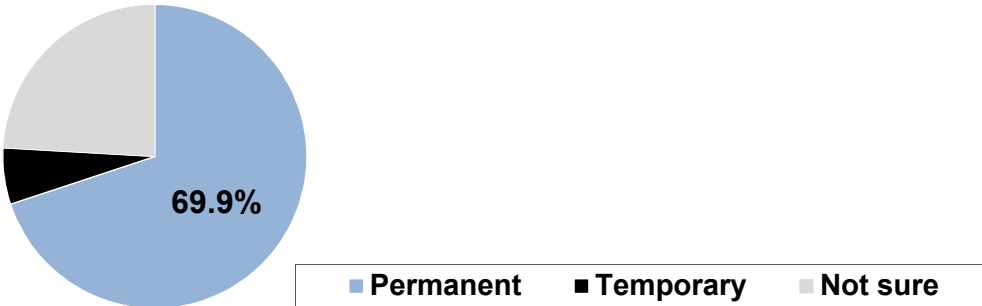
Lawyer Staffing: Trends

**Q:** Do you think more part-time lawyers will be a permanent trend going forward?



	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>PERMANENT</b>	NA	NA	NA	NA	70.5%	74.1%	73.1%	73.2%	70.2%

**Q:** Do you think more contract lawyers will be a permanent trend going forward?



	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>PERMANENT</b>	28.3%	52.3%	59.6%	66.2%	74.6%	71.5%	72.4%	67.8%	69.9%

## Lawyer Staffing: Trends

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**Q:** Do you think outsourcing legal work will be a permanent trend going forward?



	2009	2010	2011	2012	2013	2014	2015	2016	2017
PERMANENT	11.5%	27.6%	41.1%	45.5%	46.4%	50.7%	52.3%	52.3%	53.8%

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Law Firm Growth

**LAW FIRMS IN TRANSITION 2017**

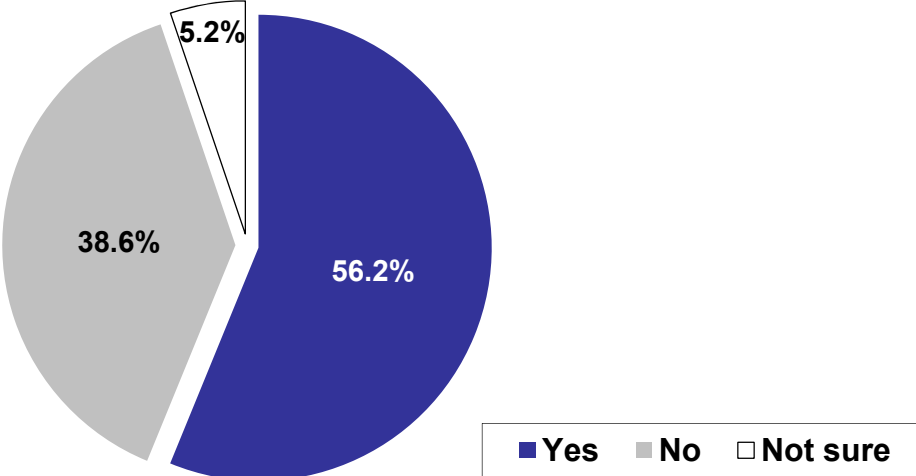
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## Law Firm Growth Imperative

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**Q:** Do you believe growth (in terms of lawyer headcount) is a requirement for your law firm's continued success?



## Law Firm Growth Imperative

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**Q:** Do you believe growth (in terms of lawyer headcount) is a requirement for your law firm's continued success?

### Sample Comments – Yes

- Growth is essential to "move the needle." We can continue to be successful at our current size, but if we want to continue our upward movement in a material way, we need to grow.
- Growth for growth's sake is not a successful strategy. Growth must be targeted to achieve and maintain market branding and, if possible, dominance. We need to grow in those categories where we can dominate.
- We do not believe in growing for the sake of increasing headcount. However, our ability to attract strong laterals has been very helpful to our growth and success and we will continue to pursue strategic growth.
- For a smaller AmLaw 200 firm, we not only need to replace retiring partners but add new partners with business development expertise to grow revenue.
- It is becoming harder for smaller and mid-sized firms to compete. Despite controlling many overhead costs, expenses related to network security and technology advances continue to increase. At the same time there are growing pricing constraints. It requires an ever larger economy of scale to maintain the current level of profitability let alone increase profits.
- Need to have critical mass in order to remain a full service business firm. We either grow headcount to maintain that standing or shrink to be a quasi-boutique firm in limited areas.
- Demand of legal services overall is at best flat. Fewer lawyers entering marketplace means an aging workforce. That workforce will want to be paid in retirement, so many law firms will need to grow topline revenue to pay out retiring partners
- Especially in the associate ranks - needed for blending rates, having a pipeline of partner replacements, and profits, in that priority
- It is hard to ignore the adage "if you aren't growing you are dying" and maintain a successful vibrant professional services company.

### Sample Comments – Not Sure

- We need to shift the makeup of our headcount to a group that has more appropriate skills for today's marketplace, so I anticipate the names will change but not necessarily the total number.
- Total headcount may not necessarily change but the people will change as older partners retire and younger partners and associates must step up.
- Although growth is not required for continued success we would benefit from growth.

## Law Firm Growth Imperative

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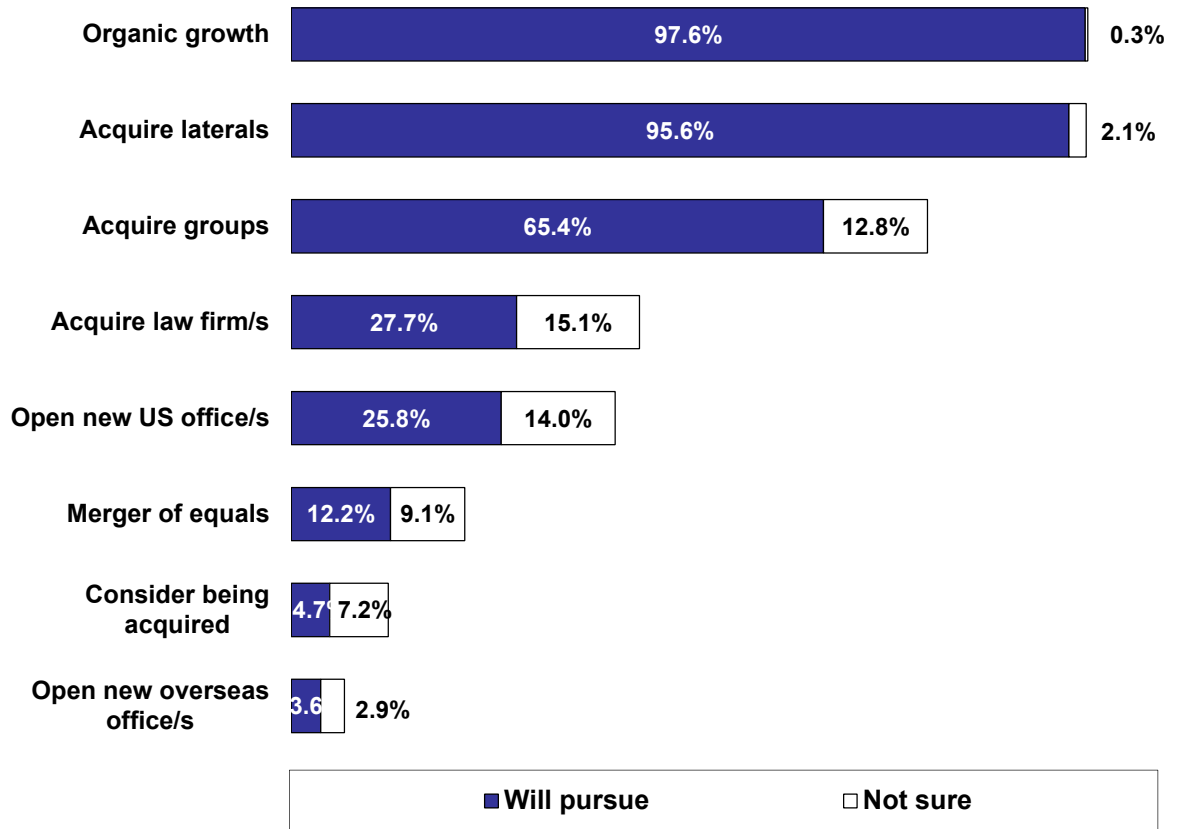
**Q:** Do you believe growth (in terms of lawyer headcount) is a requirement for your law firm's continued success?

### Sample Comments – No

- I actually think in order for our firm to be successful, we need to contract a bit and shed some of the less than fully engaged lawyers that we currently employ.
- Technology has already reduced headcount and will continue. We will staff down in those areas where we aren't number one or two in the market and will staff up where we are.
- Timekeeper headcount needs to grow, may not be attorneys
- More right-sizing by increasing headcounts in practice areas that are more profitable and decreasing headcounts in areas not as profitable
- We believe in building depth rather than breadth by building market position not market share by simply growing our headcount.
- Would prefer more profitable work, more client options, not necessarily more attorneys or work.
- Only strategic growth that adds to the bottom line for everyone (rather than just the new lawyers) really matters. Growth for growth's sake does serve some psychological purposes, but that can't be the sole reason to grow.

## Law Firm Growth Strategy: 2017 Plans

**Q:** What growth options, if any, will your law firm pursue in 2017?



## Law Firm Growth Strategy: Trends

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### Top 2017 growth options by firm size:

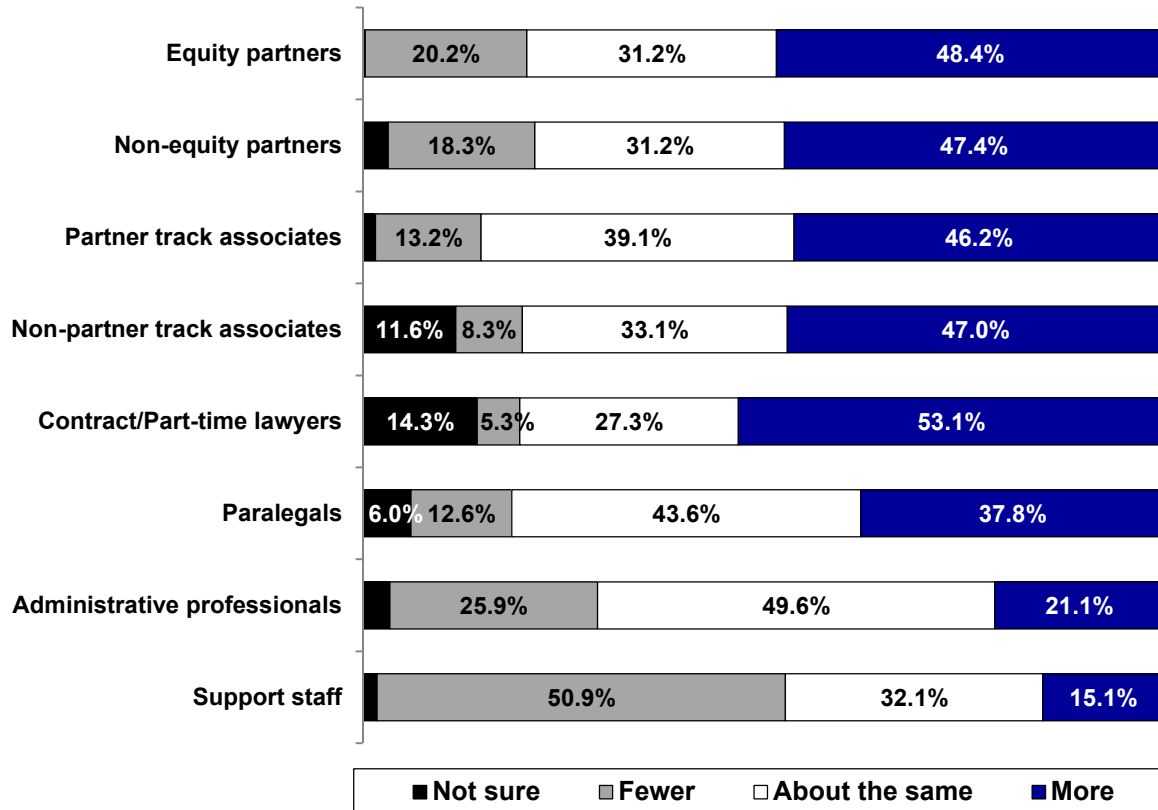
	Under 250 lawyers	250 lawyers or more
Organic growth	96.7%	100.0%
Acquire laterals	94.4%	99.0%
Acquire groups	57.4%	87.4%
Acquire law firm/s	20.7%	46.6%
Open new US offices/s	19.8%	42.4%

### Top growth options by year:

	2010	2011	2012	2013	2014	2015	2016	2017
Organic growth	NA	NA	NA	NA	NA	NA	94.5%	97.6%
Acquire laterals	85.3%	91.6%	92.3%	89.4%	91.1%	93.3%	93.7%	95.6%
Acquire groups	54.8%	67.1%	68.2%	62.0%	64.7%	70.1%	62.6%	65.4%
Acquire law firm/s	19.7%	23.0%	29.5%	27.1%	23.1%	28.7%	29.4%	27.7%
Open new US office/s	17.5%	24.6%	27.9%	27.4%	26.1%	31.3%	23.0%	25.8%

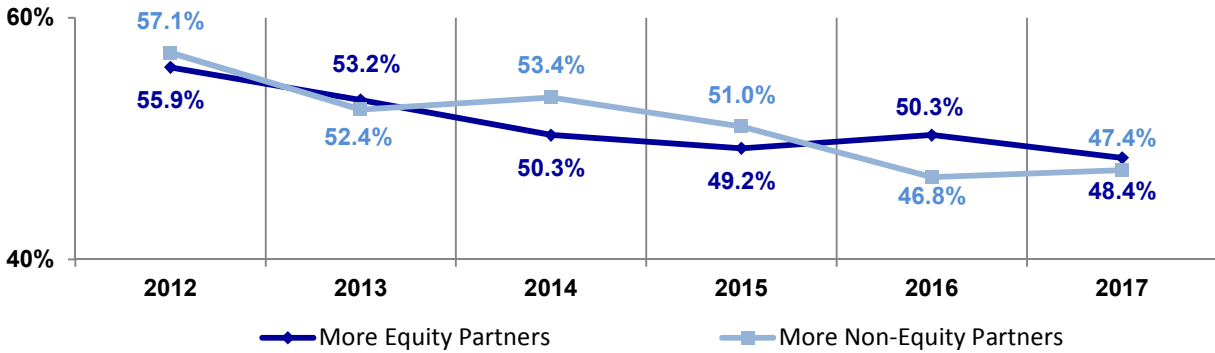
## Law Firm Growth: Five Year Outlook

**Q:** Five years from now, how do you think the core components of your law firm will have changed in size?

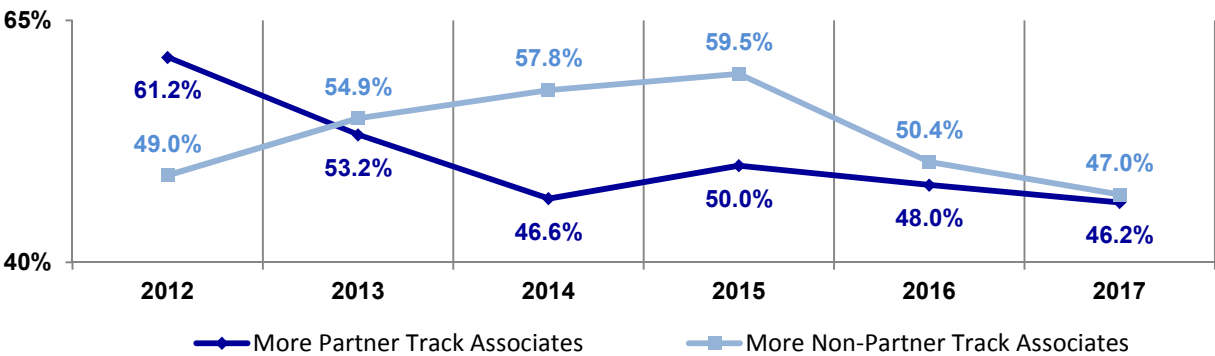


## Law Firm Growth Outlook: Trends

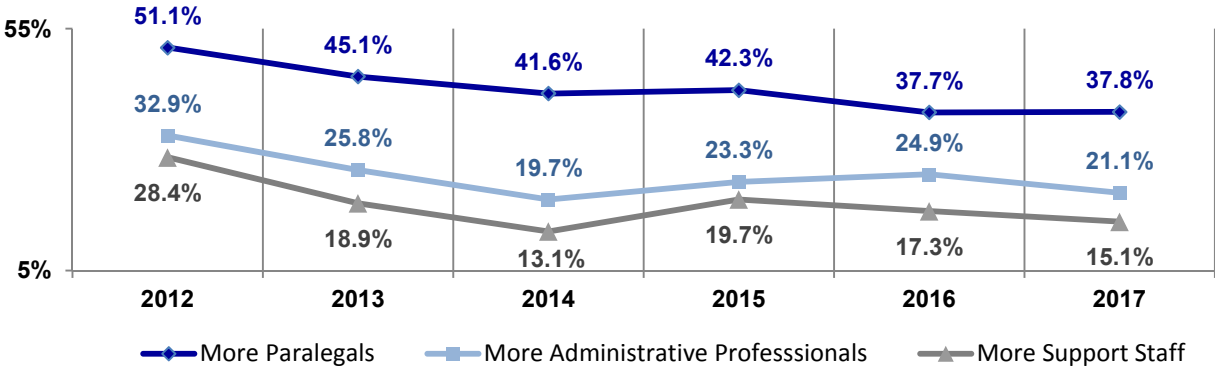
**Comparison by year: Percentage of firms that expect to have more partners in five years**



**Comparison by year: Percentage that expect to have more associates in five years**



**Comparison by year: Percentage that expect to have more non-lawyers in five years**



Partnership: Trends

**Q:** Do you think fewer equity partners will be a permanent trend going forward?



	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>PERMANENT</b>	22.8%	63.4%	68.4%	67.6%	72.1%	74.1%	69.6%	59.9%	67.6%

**Q:** Do you think increased lateral movement will be a permanent trend going forward?

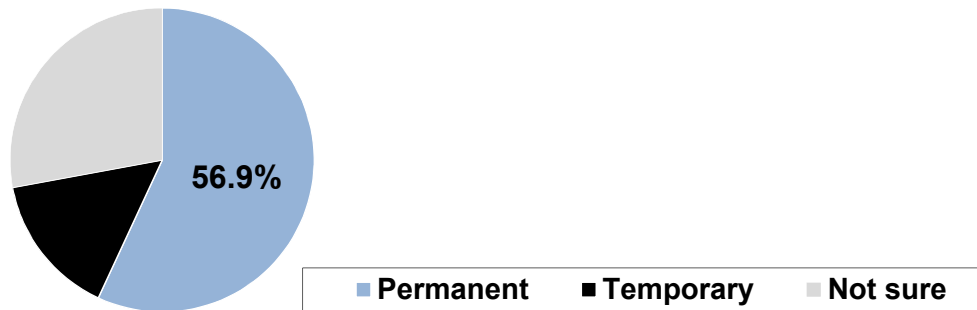


	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>PERMANENT</b>	NA	NA	NA	NA	72.8%	74.5%	74.7%	73.6%	71.3%



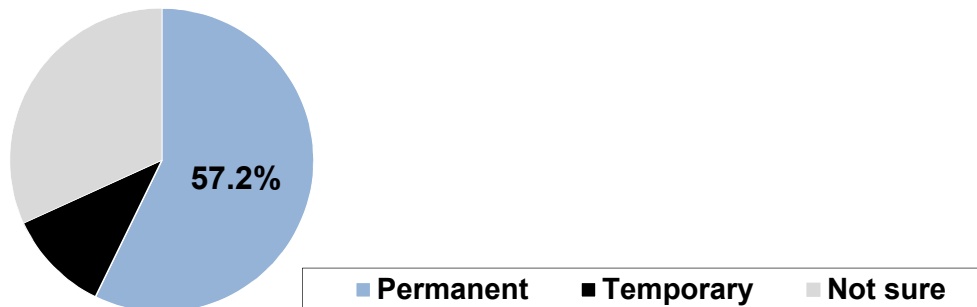
## Associates: Trends

**Q:** Do you think smaller first-year classes will be a permanent trend going forward?



	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>PERMANENT</b>	11.4%	41.8%	39.6%	55.4%	62.2%	60.3%	60.6%	62.8%	56.9%

**Q:** Do you think reduced leverage will be a permanent trend going forward?



	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>PERMANENT</b>	12.1%	42.0%	44.6%	57.7%	56.7%	65.4%	55.7%	54.0%	57.2%

Support Staff: Trends

**Q:** Do you think fewer support staff will be a permanent trend going forward?



	2009	2010	2011	2012	2013	2014	2015	2016	2017
PERMANENT	NA	NA	88.3%	80.5%	89.7%	88.6%	83.1%	88.2%	88.8%

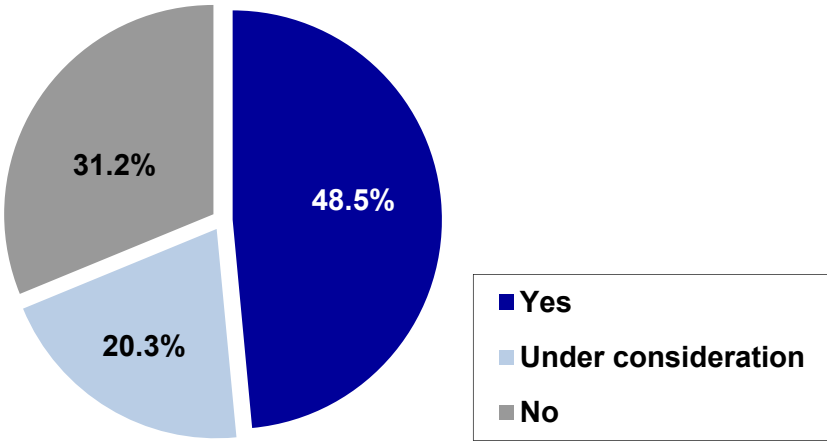
Efficiency of Legal Service Delivery

**LAW FIRMS IN TRANSITION 2017**

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Efficiency of Legal Service Delivery: Strategic Approach

**Q:** Many law firms feel pressure to change elements of their business model to stay competitive in the post-recession economy. Has your firm significantly changed its strategic approach to efficiency of legal service delivery?



Comparison by firm size:

	Yes	Under consideration	No
Under 250 lawyers	42.4%	20.3%	37.3%
250 lawyers or more	67.0%	20.5%	12.5%

Comparison by year:

	Yes	Under consideration	No
2017	48.5%	20.3%	31.2%
2016	44.0%	30.4%	25.6%
2015	36.9%	27.6%	35.5%
2014	39.4%	25.7%	34.9%
2013	44.6%	22.3%	33.0%

## Efforts to Increase Efficiency

**Q:** Is your firm doing any of the following to increase efficiency of legal service delivery?



Efforts to increase efficiency

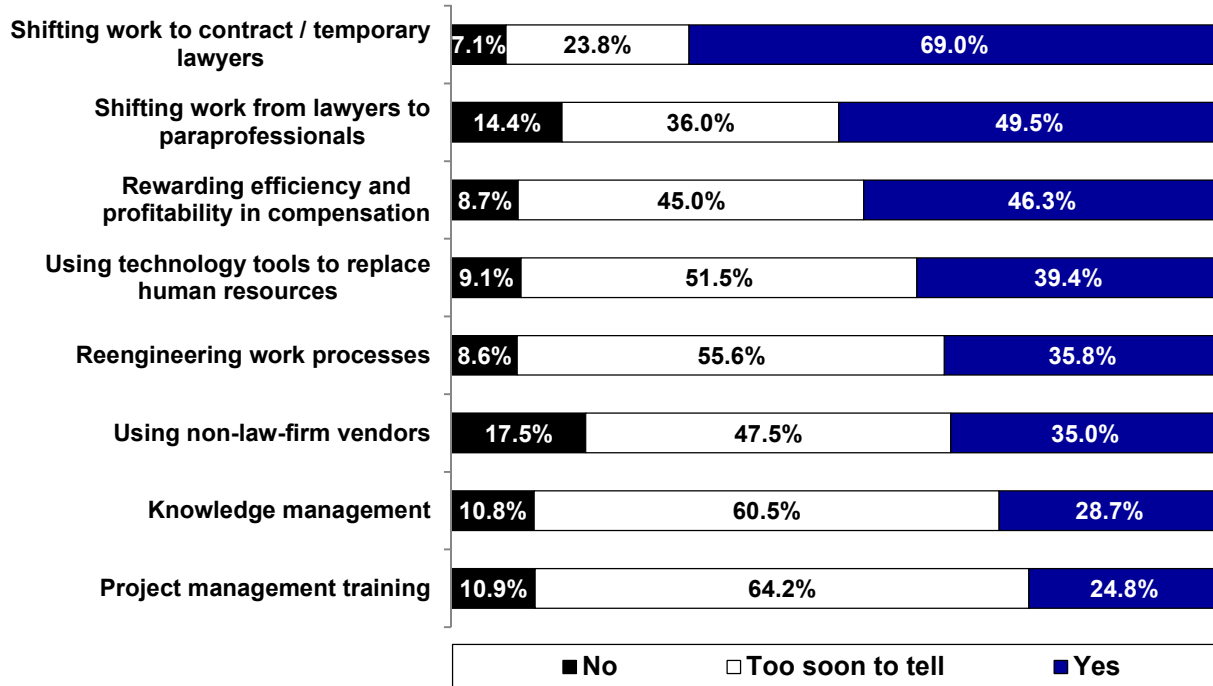
### Comparison by firm size:

	Under 250 lawyers	250 lawyers or more
Knowledge management	47.7%	56.8%
Using technology tools to replace human resources	49.6%	47.7%
Rewarding efficiency/profitability in comp decisions	41.2%	52.3%
Project management training	30.9%	68.2%
Shifting work to contract/temporary lawyers	27.1%	64.8%
Shifting work from lawyers to paraprofessionals	34.0%	31.8%
Reengineering work processes	22.1%	35.2%
Using non-law-firm vendors	10.3%	17.0%
None of the above	10.7%	2.3%

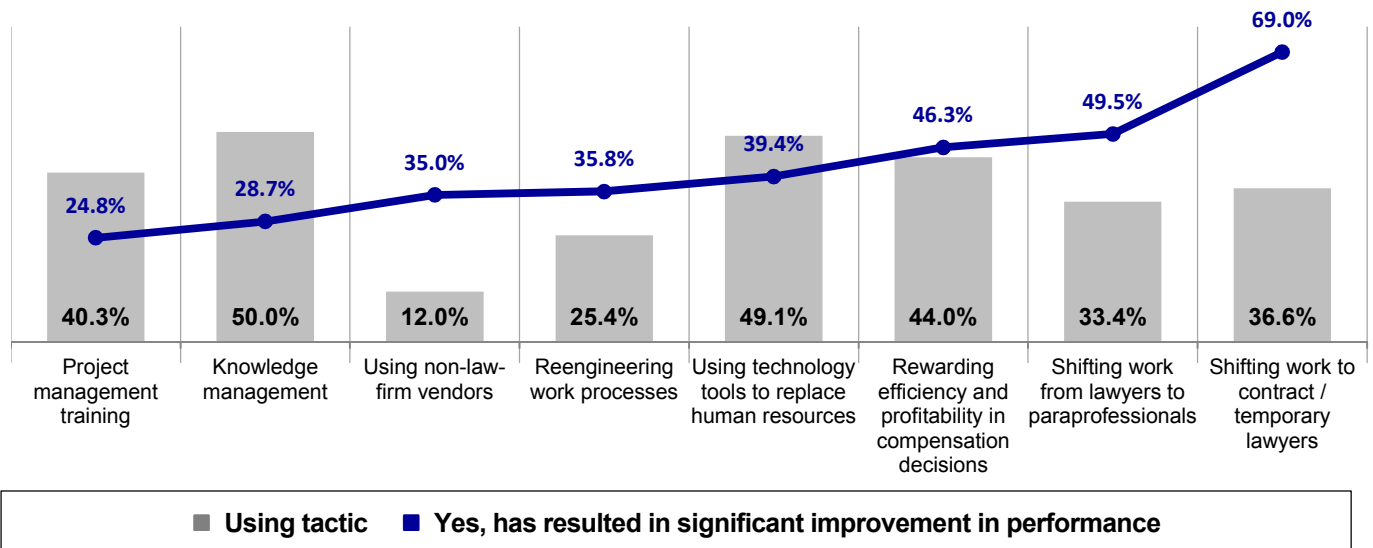
## Efficiency Tactics: What Works

**NEW**

**Q:** For each of the legal service efficiency tactics your firm is pursuing, has it resulted in a significant improvement in firm performance?



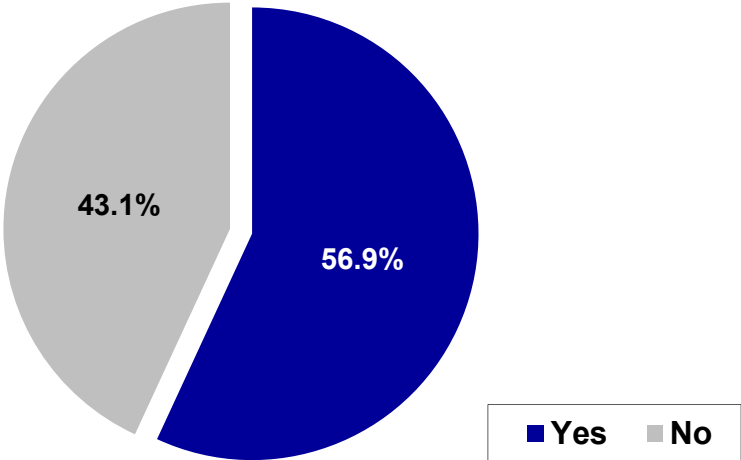
### Comparison of Use and Results:



## Matter Management Efficiency: Talking with Clients

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**Q:** Is your firm proactively initiating conversations about matter management efficiency to better understand what individual clients want?



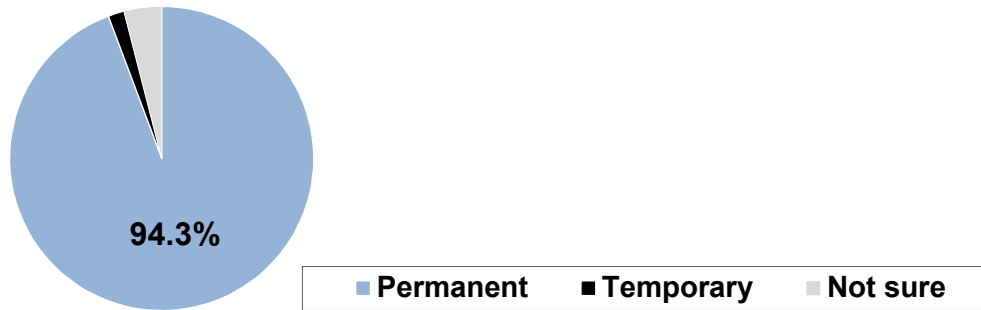
Comparison by firm size:

	Yes	No
Under 250 lawyers	53.4%	46.6%
250 lawyers or more	67.8%	32.2%



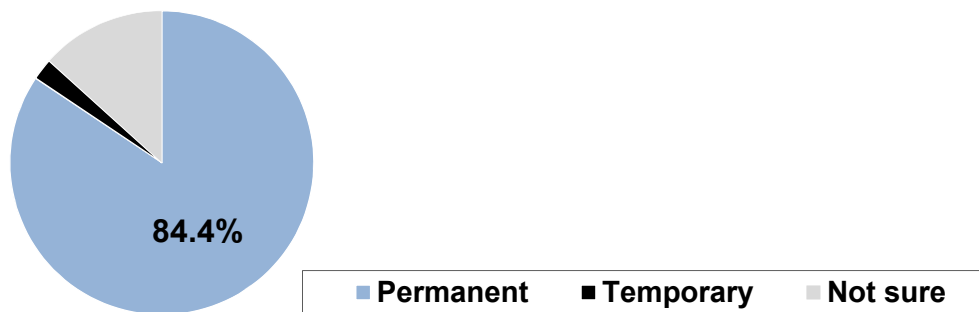
## Efficiency of Legal Service Delivery: Trends

**Q:** Do you think focus on improved practice efficiency will be a permanent trend going forward?



	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>PERMANENT</b>	NA	NA	93.5%	95.8%	95.6%	93.8%	92.6%	93.3%	94.3%

**Q:** Do you think using technology to replace human resources will be a permanent trend going forward?



	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>PERMANENT</b>	NA	NA	NA	NA	NA	84.8%	84.3%	85.2%	84.4%

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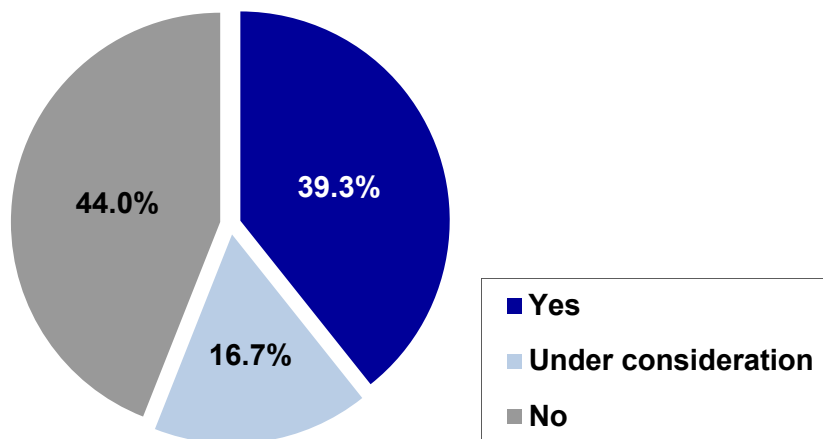
Pricing Strategies

**LAW FIRMS IN TRANSITION 2017**

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## Pricing: Strategic Approach

**Q:** Many law firms feel pressure to change elements of their business model to stay competitive in the post-recession economy. Has your firm significantly changed its strategic approach to pricing strategy?



### Comparison by firm size:

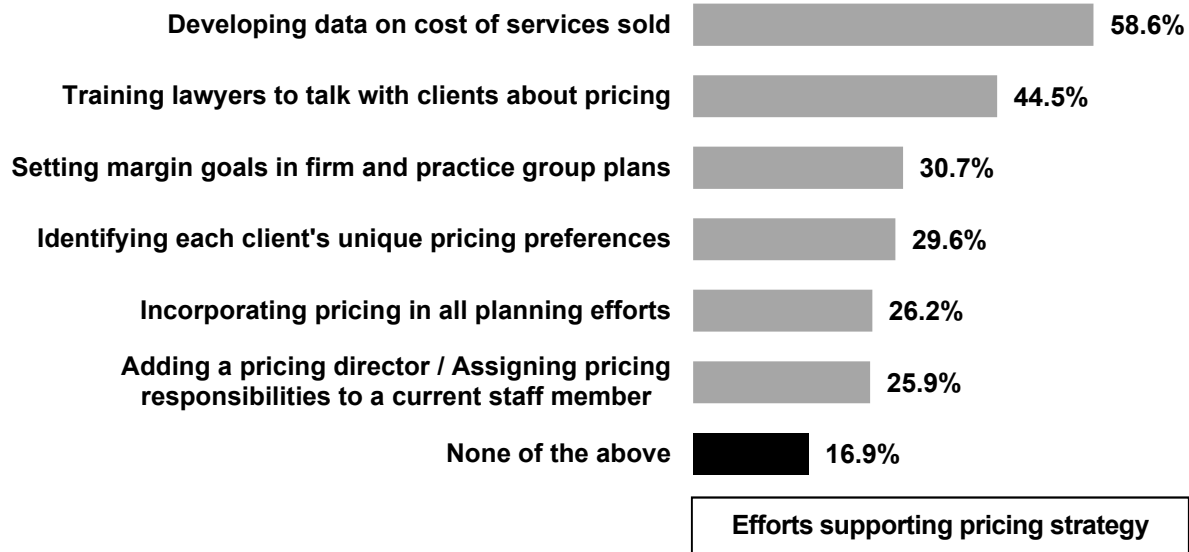
	Yes	Under consideration	No
Under 250 lawyers	33.2%	16.2%	50.6%
250 lawyers or more	58.0%	18.2%	23.9%

### Comparison by year:

	Yes	Under consideration	No
2017	39.3%	16.7%	44.0%
2016	34.0%	20.2%	45.8%
2015	31.1%	18.3%	50.5%
2014	29.5%	22.6%	48.0%
2013	29.0%	17.4%	53.6%

## Efforts to Support Pricing Strategy

**Q:** Is your firm doing any of the following to support its pricing strategy?



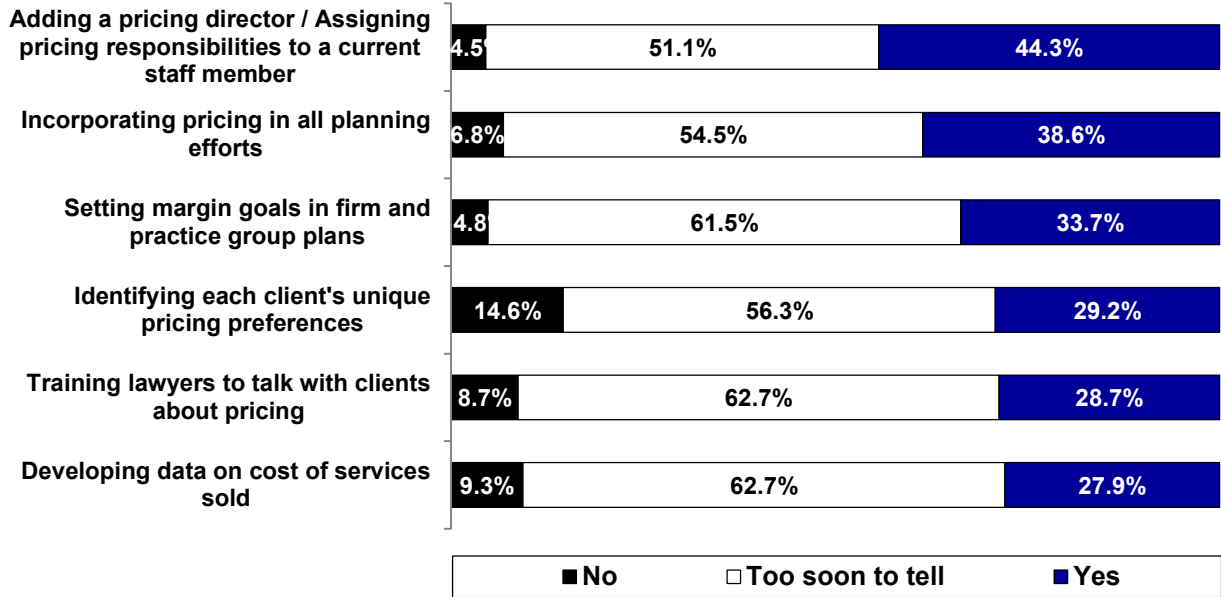
### Comparison by firm size:

	Under 250 lawyers	250 lawyers or more
Developing data on cost of services sold	49.1%	87.5%
Training lawyers to talk with clients about pricing	40.1%	58.0%
Setting margin goals in firm and practice group plans	26.2%	44.3%
Identifying each client's unique pricing preferences	29.6%	29.5%
Incorporating pricing in all planning efforts	20.6%	43.2%
Adding Pricing Director / Staff member	13.9%	62.5%
None of the above	22.1%	1.1%

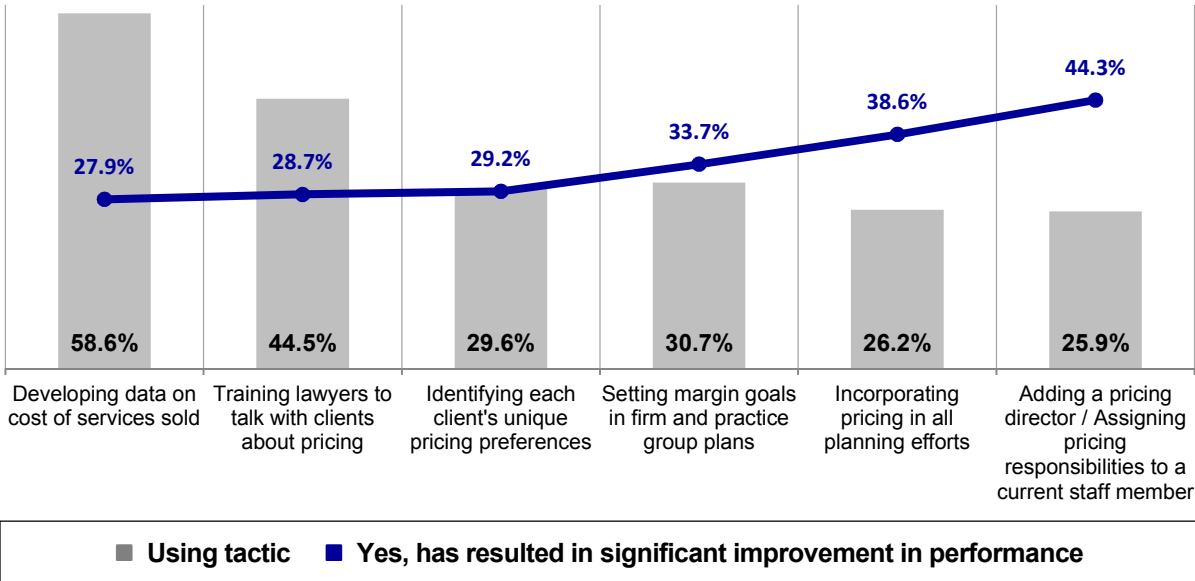
Pricing Tactics: What Works

**NEW**

**Q:** For each of the pricing tactics your firm is pursuing, has it resulted in a significant improvement in firm performance?



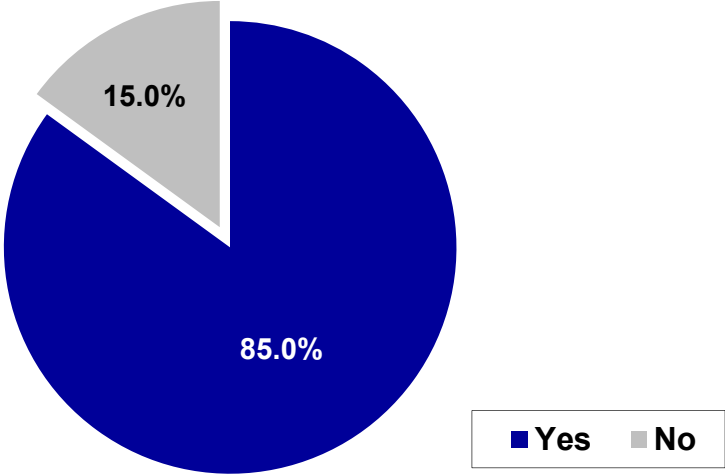
Comparison of Use and Results:



## Pricing / Budgets: Talking with Clients

---

**Q:** Is your firm proactively initiating conversations about pricing / budgets to better understand what individual clients want?



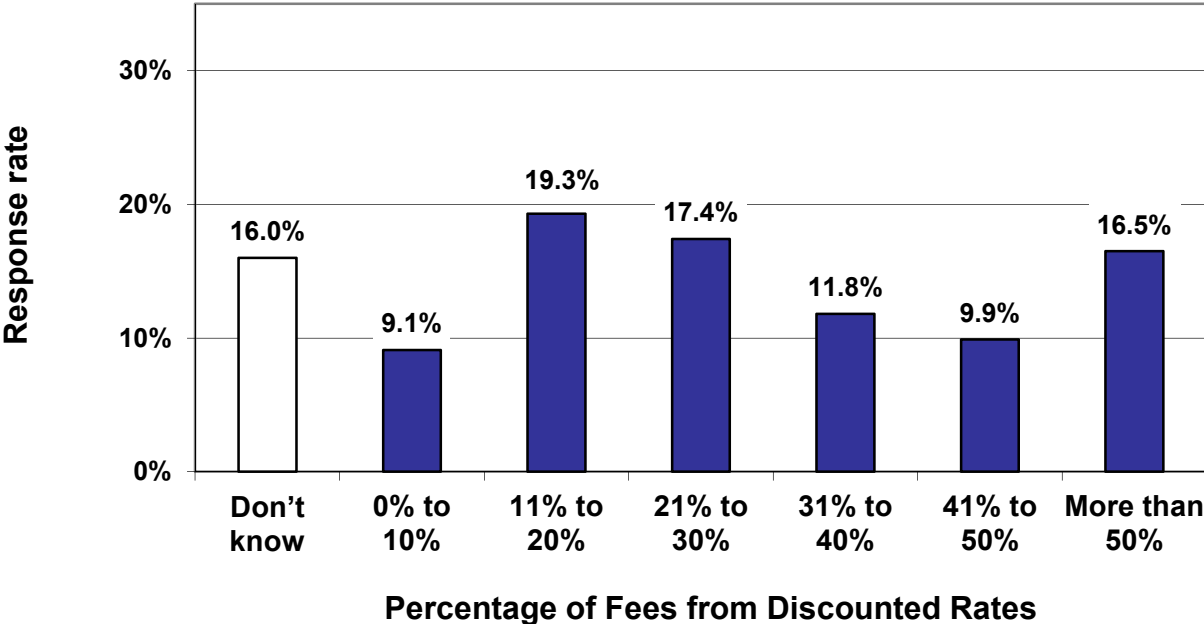
Comparison by firm size:

	Yes	No
Under 250 lawyers	83.1%	16.9%
250 lawyers or more	90.8%	9.2%



Pricing: Discounts

**Q:** Do you know approximately what percentage of your firm’s legal fees come from discounted rates?



**Median: 21% to 30%**

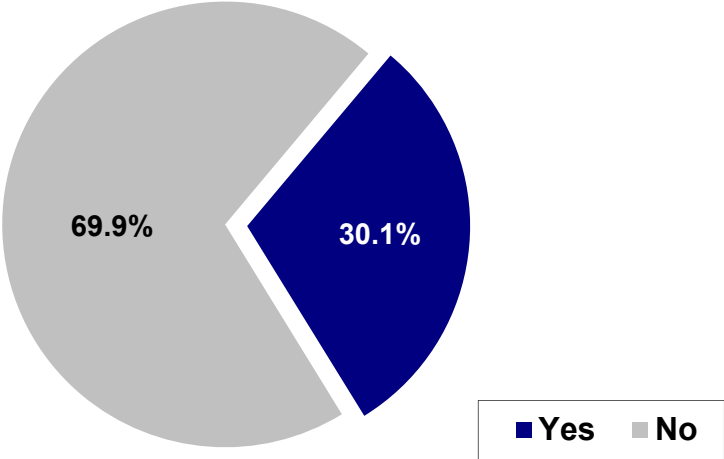
Comparison of median results by firm size:

	MEDIAN
Under 250 lawyers	21% to 30%
250 lawyers or more	31% to 40%

Pricing: Alternative Fees Linked to Alternative Staffing

**NEW**

**Q:** In your law firm, are discounted, capped or alternative fees routinely linked to changes in how the work is staffed and delivered?



Comparison by firm size:

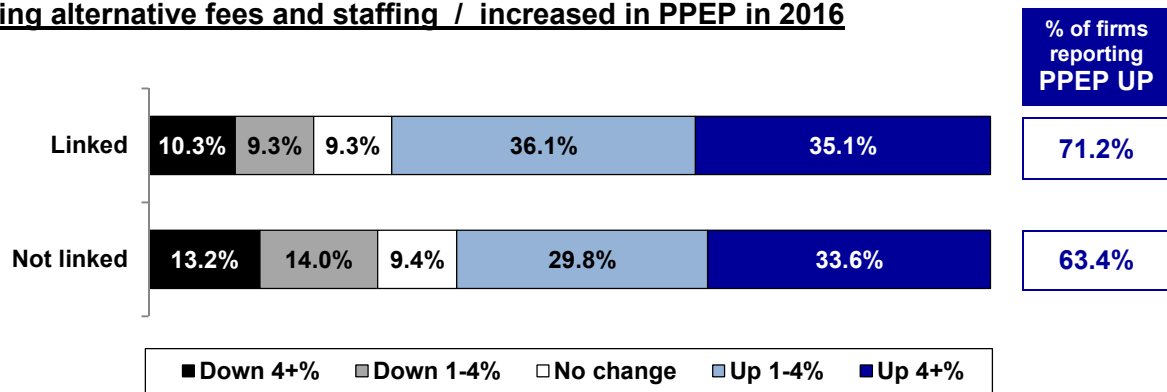
	YES	NO
50-99 lawyers	24.1%	75.9%
100-249 lawyers	28.8%	71.2%
250-499 lawyers	38.1%	61.9%
500-999 lawyers	41.7%	58.3%
1,000+ lawyers	54.6%	45.4%

Linking Alternative Fees to Alternative Staffing

**CORRELATION**

To what degree does routinely linking discounted, capped or alternative fees to how the work is staffed and delivered correlate with increased profitability? We compared reported changes in a firm’s Profits per Equity Partner (PPEP) in 2016 between firms that do, and do not, link the two.

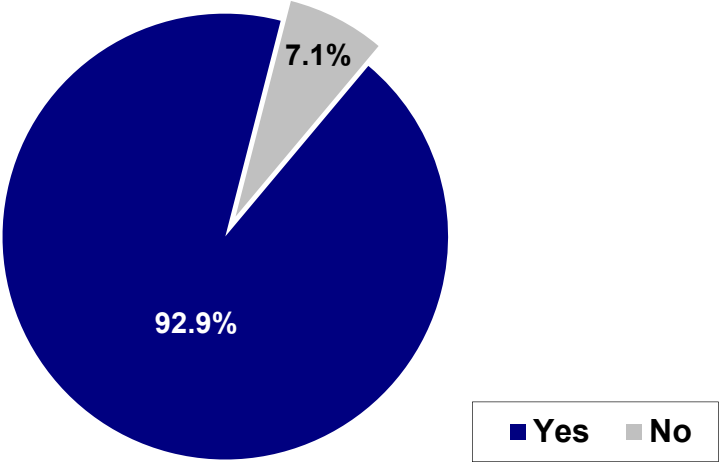
Linking alternative fees and staffing / increased in PPEP in 2016



Alternative Fees: 2016 Usage

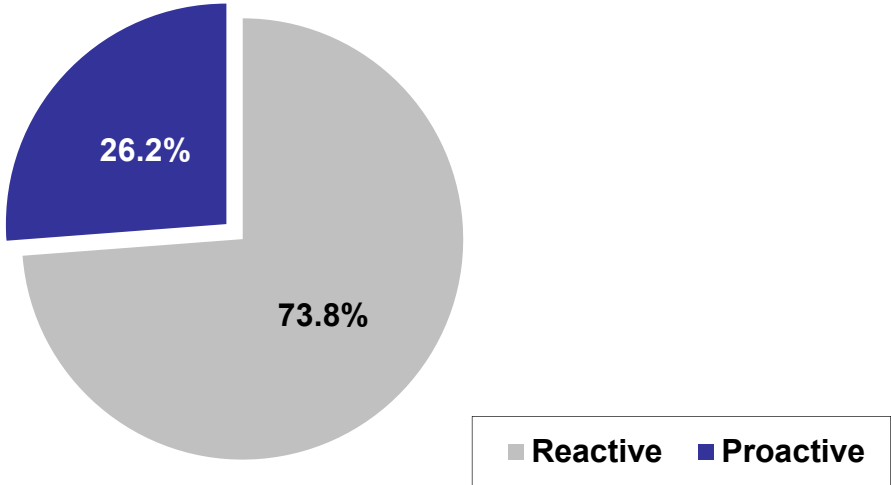
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**Q:** Does your firm use any non-hourly based billing?



Alternative Fees: Strategic Approach

**Q:** If your firm uses any non-hourly based billing, is your use of alternative fee arrangements primarily reactive (in response to client requests) or primarily proactive (arising from your belief in the competitive advantage of alternative fees)?

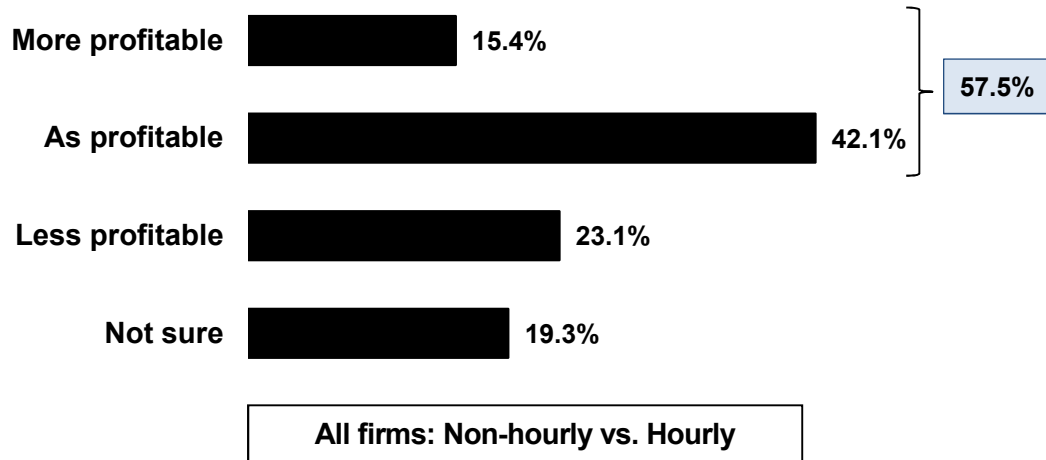


Comparison by year:

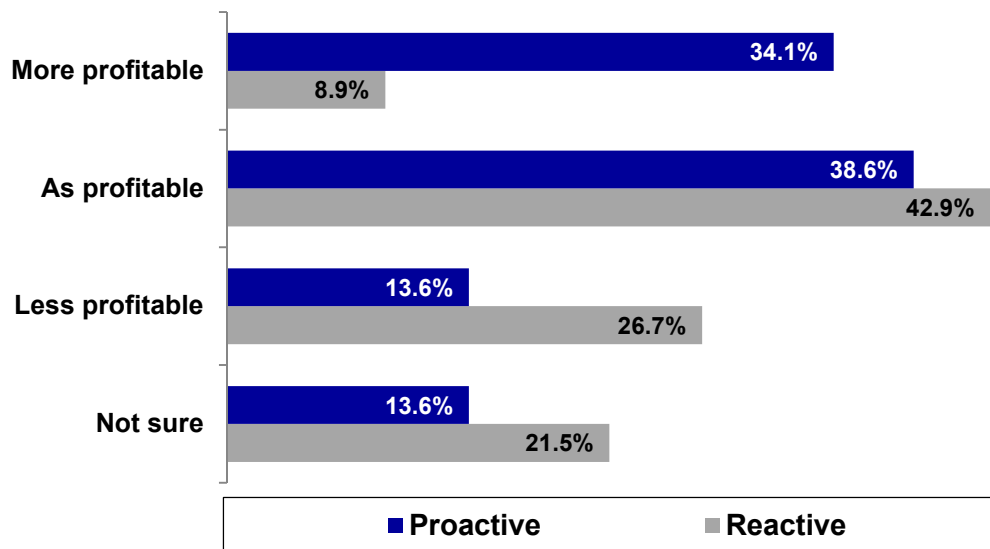
	PROACTIVE	REACTIVE
2017	26.2%	73.8%
2016	27.8%	72.2%
2015	32.0%	68.0%
2014	28.4%	71.6%
2013	31.5%	68.5%
2012	33.2%	66.8%
2011	32.2%	67.7%
2010	41.3%	58.7%

## Alternative Fees: Profitability vs. Hourly Fees

**Q:** Overall, compared to projects billed at an hourly rate, are your firm's non-hourly projects more profitable or less profitable?



A comparison of the reported profitability of alternative fee arrangements in those firms that report they are proactive in their use of non-hourly billing versus those that are reactive.



## Alternative Fees: Profitability Trends

---

### Comparison by year:

#### Profitability of non-hourly vs. hourly projects

	Not sure	Less profitable	As profitable	More profitable
<b>2017</b>	19.3%	23.1%	42.1%	15.4%
<b>2016</b>	12.7%	27.9%	41.5%	17.9%
<b>2015</b>	14.7%	31.9%	37.7%	15.8%
<b>2014</b>	14.0%	29.9%	40.2%	15.9%
<b>2013</b>	14.2%	30.1%	39.7%	16.0%
<b>2012</b>	17.4%	28.5%	40.1%	14.0%
<b>2011</b>	19.8%	32.0%	36.5%	11.7%
<b>2010</b>	26.3%	23.9%	38.5%	11.2%

### Comparison by year:

#### Profitability of non-hourly vs. hourly projects in proactive firms

	Not sure	Less profitable	As profitable	More profitable
<b>2017</b>	13.6%	13.6%	38.6%	34.1%
<b>2016</b>	11.0%	5.5%	44.0%	39.6%
<b>2015</b>	10.5%	11.6%	48.8%	29.1%
<b>2014</b>	13.2%	14.5%	40.8%	31.6%
<b>2013</b>	7.4%	13.2%	55.9%	23.5%
<b>2012</b>	8.7%	15.9%	49.3%	26.1%
<b>2011</b>	16.9%	12.7%	50.7%	19.7%
<b>2010</b>	23.3%	14.0%	45.3%	17.4%

Pricing: Trends

**Q:** Do you think more price competition will be a permanent trend going forward?



	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>PERMANENT</b>	42.4%	88.8%	89.6%	91.6%	95.6%	93.8%	94.4%	95.4%	95.4%

**Q:** Do you think more non-hourly billing will be a permanent trend going forward?

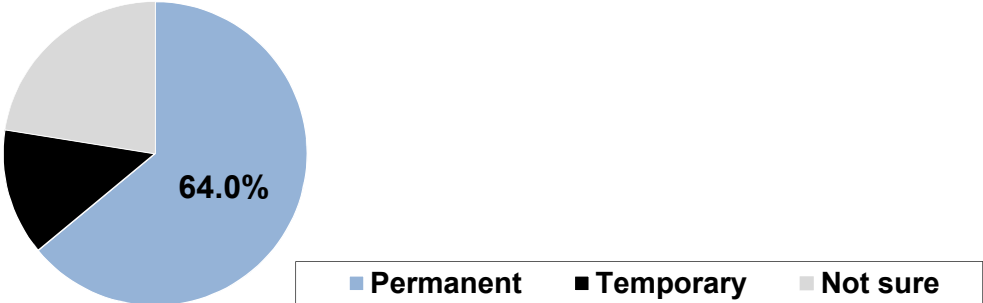


	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>PERMANENT</b>	27.9%	78.7%	74.9%	80.0%	79.5%	81.9%	81.3%	78.3%	78.8%



Pricing: Trends

**Q:** Do you think smaller annual billing rate increases will be a permanent trend going forward?



	2009	2010	2011	2012	2013	2014	2015	2016	2017
PERMANENT	NA	NA	57.1%	61.7%	67.9%	67.7%	59.5%	65.6%	64.0%

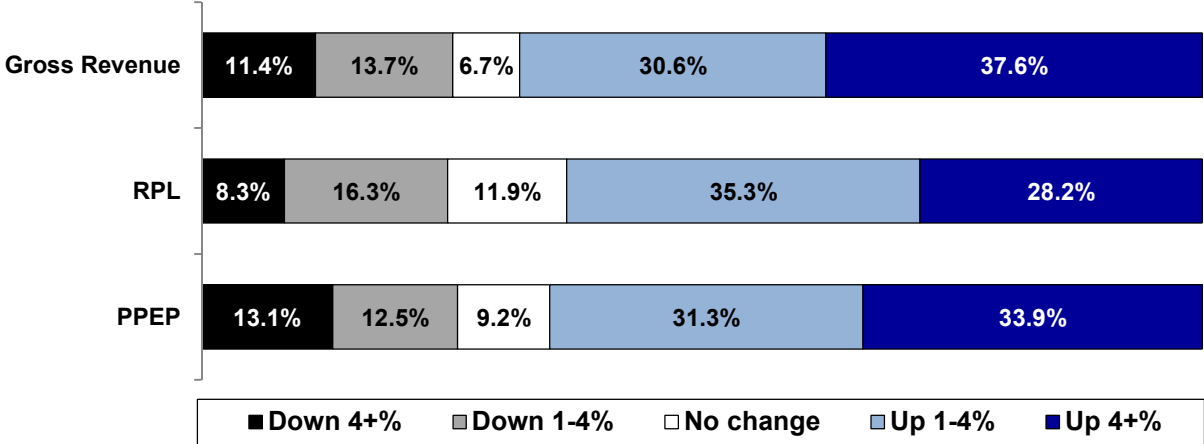
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Financial Performance  
**LAW FIRMS IN TRANSITION 2017**

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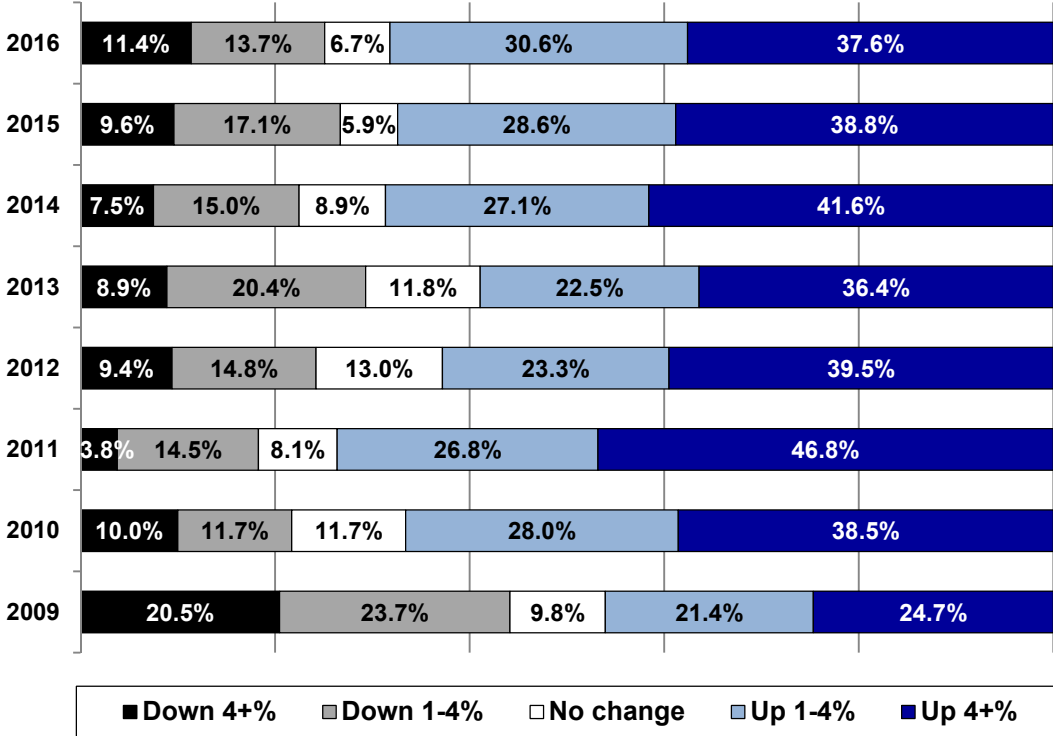
# Financial Performance: 2016

**Q:** How did your law firm perform in 2016 compared to 2015?



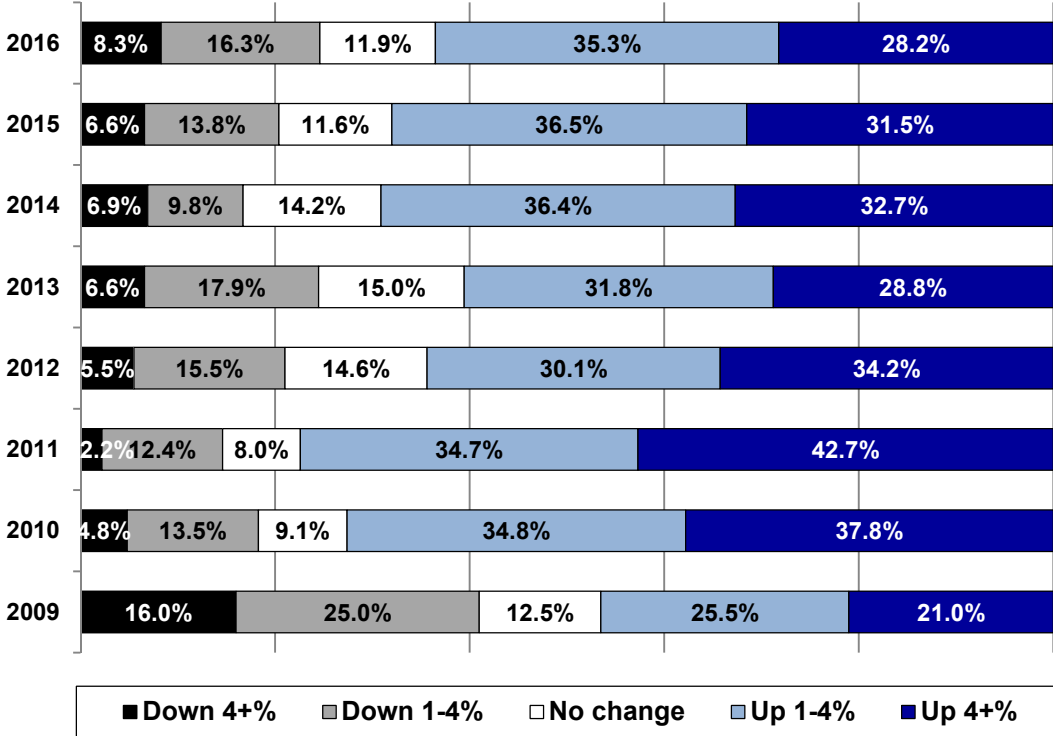
Gross Revenue: Trend 2009 - 2016

Comparison by year:



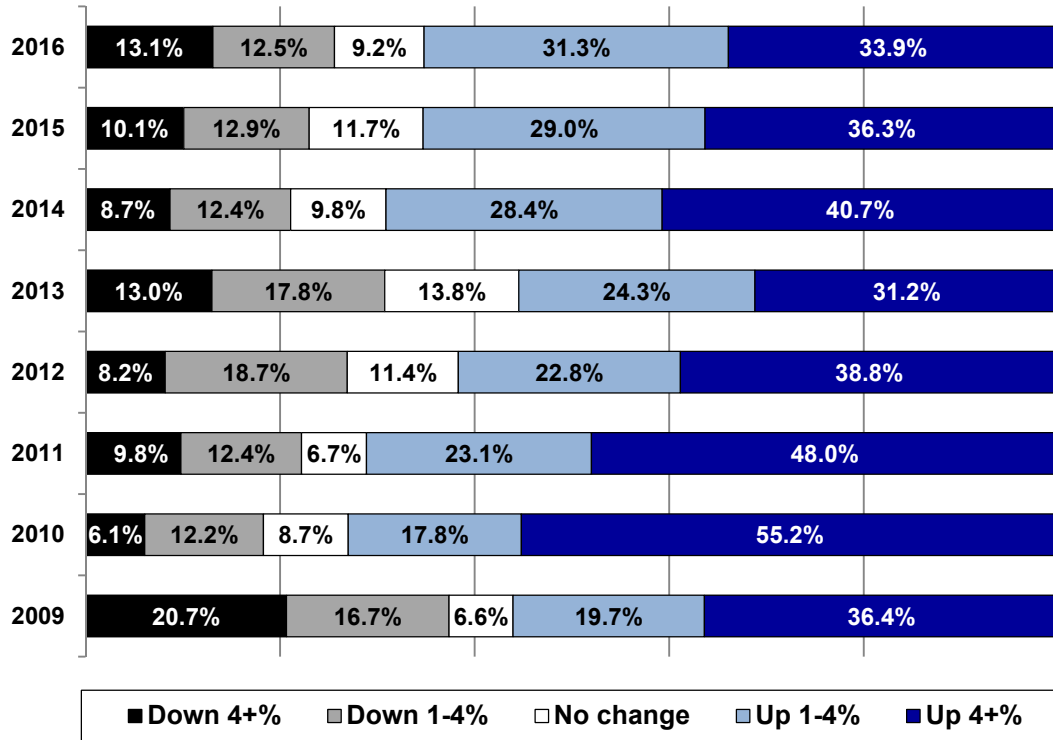
Revenue Per Lawyer: Trend 2009 - 2016

Comparison by year:



## Profits Per Equity Partner: Trend 2009 - 2016

Comparison by year:





## Financial Performance: Five Year Trends

---

**Comparison of five years of survey results** for economic performance in the prior year. Figures indicate the percentage of responses in each category (not the percentage change in performance).

Gross revenue	Down	No change	Up
2016	25.1%	6.7%	68.2%
2015	26.7%	5.9%	67.4%
2014	22.5%	8.9%	68.7%
2013	29.3%	11.8%	58.9%
2012	24.2%	13.0%	62.8%

RPL	Down	No change	Up
2016	24.6%	11.9%	63.5%
2015	20.4%	11.6%	68.0%
2014	16.7%	14.2%	69.1%
2013	24.5%	15.0%	60.6%
2012	21.0%	14.6%	64.3%

PPEP	Down	No change	Up
2016	25.6%	9.2%	65.2%
2015	23.0%	11.7%	65.3%
2014	21.1%	9.8%	69.1%
2013	30.8%	13.8%	55.5%
2012	26.9%	11.4%	61.6%

## Financial Performance: Firm Size Trends

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**Comparison by firm size** for economic performance in the prior year. Figures indicate the percentage of responses in each category (not the percentage change in performance).

Gross revenue	Down	No change	Up
Under 250 lawyers	27.1%	6.9%	66.1%
250 lawyers or more	19.0%	6.0%	75.0%

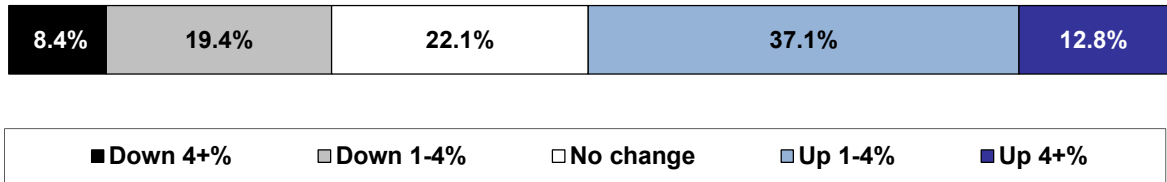
Revenue per lawyer	Down	No change	Up
Under 250 lawyers	25.9%	12.5%	61.5%
250 lawyers or more	20.8%	9.8%	69.5%

Profits per partner	Down	No change	Up
Under 250 lawyers	26.0%	10.3%	63.6%
250 lawyers or more	24.0%	6.0%	69.8%

## Financial Performance: 2016 Overhead Costs

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**Q:** How did your law firm perform in 2016 compared to 2015?



### 2016 Overhead

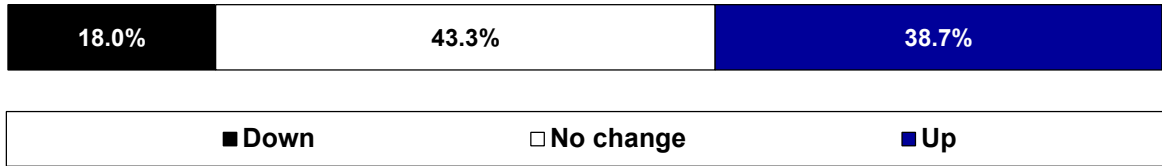
Comparison by year of five years of survey results on overhead costs. Figures indicate the percentage of responses in each category (not the percentage change in performance).

Overhead	Down	No change	Up
2016	27.8%	22.1%	50.1%
2015	32.2%	22.7%	45.1%
2014	29.8%	19.1%	51.1%
2013	25.6%	18.3%	56.1%
2012	29.8%	23.5%	46.6%

Financial Performance: 2016 Realization

**NEW**

**Q:** In 2016, was your firm’s realization against standard rates up or down from 2015?



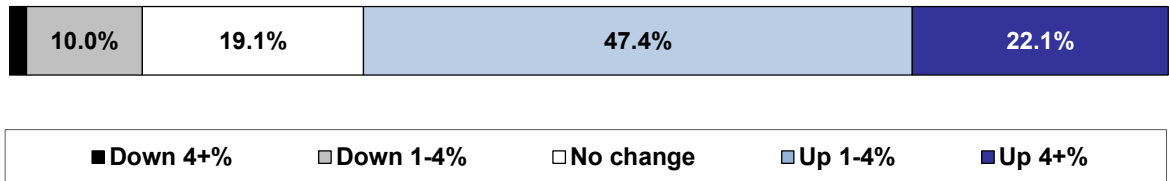
Comparison by firm size:

	Down	No change	Up
Under 250 lawyers	14.3%	46.1%	39.5%
250 lawyers or more	29.1%	34.9%	36.0%

## 2017 Revenue: Expectation

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**Q:** What are your expectations for your firm's gross revenue in 2017?



**Predicted change in 2017 gross revenue**

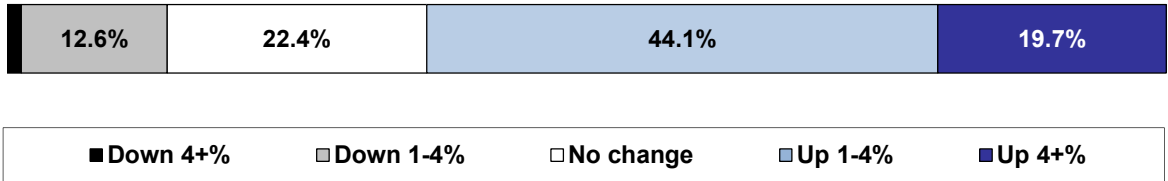
**Comparison by firm size:**

	Will be down	No change	Will be up
<b>Under 250 lawyers</b>	14.5%	18.8%	66.7%
<b>250 lawyers or more</b>	2.4%	20.0%	77.6%

2017 Profits Per Partner: Expectation

**NEW**

**Q:** What are your expectations for your firm’s profits per equity partner in 2017?



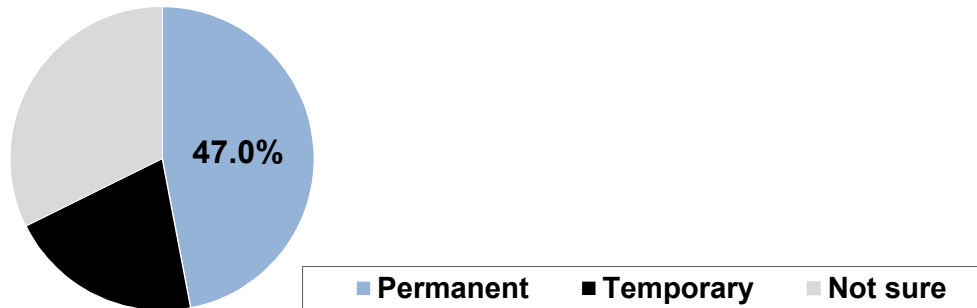
**Predicted change in 2017 PPEP**

**Comparison by firm size:**

	Will be down	No change	Will be up
<b>Under 250 lawyers</b>	16.5%	22.7%	60.8%
<b>250 lawyers or more</b>	5.9%	21.2%	73.0%

## Financial Performance: Trends

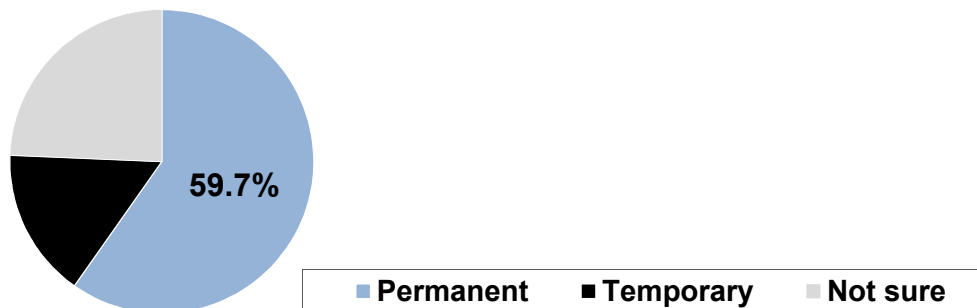
**Q:** Do you think a slowdown in growth of profits per partner will be a permanent trend going forward?



	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>PERMANENT</b>	13.2%	26.6%	15.6%	47.7%	55.6%	58.3%	44.8%	47.4%	47.0%

*In 2009, 2010 and 2011, the question asked about "lower profits per partners."*

**Q:** Do you think decreased realization rates will be a permanent trend going forward?



	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>PERMANENT</b>	NA	NA	NA	NA	NA	NA	52.3%	62.5%	59.7%

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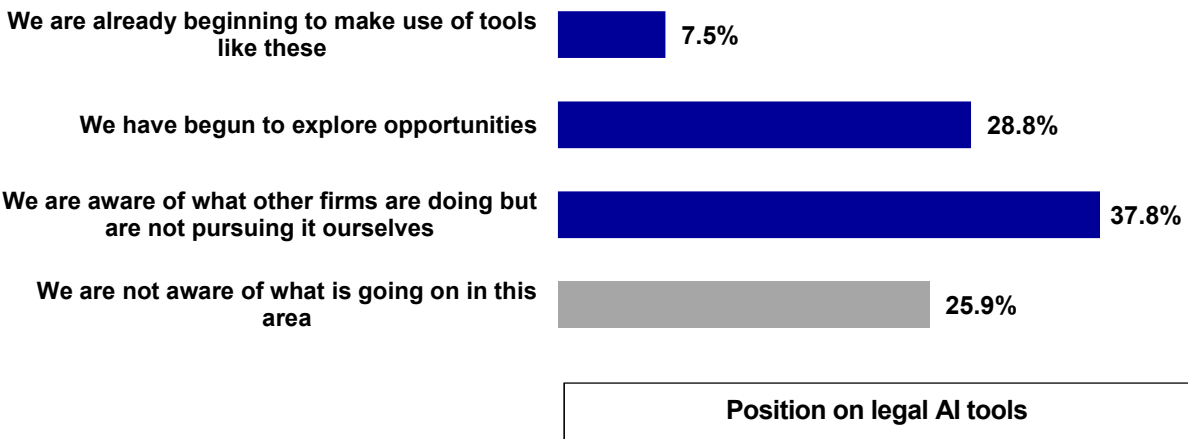
Bonus Question: Artificial Intelligence

**LAW FIRMS IN TRANSITION 2017**

Bonus Question: Artificial Intelligence

**NEW**

**Q:** Technology tools that incorporate artificial intelligence (AI) and machine learning – like Watson and Ross – are beginning to be adopted by some law firms. What is your firm’s stance on the use of legal AI tools?



Comparison by firm size:

	50-99 lawyers	100-249 lawyers	250-499 lawyers	500-999 lawyers	1,000 lawyers or more
Beginning to make use of tools like these	5.7%	5.0%	7.0%	9.4%	54.6%
Exploring opportunities	19.9%	25.0%	44.2%	59.4%	36.4%
Aware, but not pursuing ourselves	36.2%	43.3%	41.9%	28.1%	9.1%
Not aware of what is going on in this area	38.3%	26.7%	7.0%	3.1%	0.0%

Participant Demographics  
**LAW FIRMS IN TRANSITION 2017**

## 2017 Survey Participant Demographics

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In March and April 2017, Altman Weil surveyed Managing Partners and Chairs of 798 US law firms with 50 or more lawyers. We received responses from 386 firms, a 48% response rate.

<b>Firm Size*</b>	<b>All US Law Firms</b>	<b>Survey Participants</b>	<b>% Response</b>
<b>1,000 +</b>	<b>26</b>	<b>12</b>	<b>46%</b>
<b>500 – 999</b>	<b>68</b>	<b>39</b>	<b>57%</b>
<b>250 – 499</b>	<b>80</b>	<b>47</b>	<b>59%</b>
<b>100 – 249</b>	<b>225</b>	<b>134</b>	<b>60%</b>
<b>50 – 99</b>	<b>399</b>	<b>154</b>	<b>39%</b>
<b>All</b>	<b>798</b>	<b>386</b>	<b>48%</b>

The respondent group includes\*\*:

- 50% of 2016 NLJ 350 law firms
- 50% of 2016 AmLaw 200 law firms

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\* The exact number of lawyers in a law firm changes frequently. The universe of law firms surveyed is based on published directories and league tables available in spring 2017. Survey participants reported their own lawyer headcounts.

\*\* Some firms participated anonymously and therefore could not be assigned to NLJ or AmLaw categories.