

**2016**  
**Law Firms in Transition**  
**An Altman Weil Flash Survey**



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

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## LAW FIRMS IN TRANSITION 2016

Are law firms still in transition in 2016? We think so, although the pace of change can seem modest. Despite pockets of true innovation, most firms are choosing to proceed with lawyerly caution in the midst of a market that is being reinvented around them.

Now in its eighth year, Altman Weil's *Law Firms in Transition Survey* continues to document market forces that are reshaping the competitive legal landscape, identify ways in which law firms have responded (or are lagging in their response), and prescribe how law firm leaders can find competitive advantages in a redefined marketplace.

### Key findings from the 2016 survey include:

- **Unreliable demand:** Market demand for legal services has failed to return to pre-recession levels in a majority of US law firms. Many firm leaders remain concerned about how to grow profitability in a market characterized by stagnant or declining demand, intense competition from old and new sources, commoditization, and price pressures.
- **Surplus of lawyers:** Broad overcapacity is creating an ongoing drag on law firm profitability. Overcapacity and underutilization are prevalent among equity and non-equity partners, especially in larger firms. Compensation adjustments are being used in most firms to deal with underperforming partners, and chronic underperformers are being counseled out of their firms.
- **Inefficient delivery of legal services:** Although nearly all firms identified the need to improve the efficiency of legal service delivery as a permanent trend, more than half have not significantly changed their approach to achieve greater efficiencies.
- **Proactivity as a competitive advantage:** We see a 7-year trend of compelling success enjoyed by firms that take a proactive approach to alternative fee arrangements. We think this is a good indicator that proactive change in other areas could be equally effective in accelerating law firm performance relative to competitors.

- **Resistance to change:** The pace of external change being experienced by law firms is not expected to slow in the foreseeable future. The slower pace of internal change in many firms is attributable not to lack of awareness or will among law firm leaders but to low awareness and high resistance among their partners.

## Financial Performance and Outlook

Just over two-thirds of law firms reported gross revenue and revenue per lawyer increases in 2015. Profits per equity partner (PPP) were up in 65% of firms. Twenty-three percent of firms saw PPP decrease in 2015 and almost half of those firms were down sharply (4 percent or more).

Many firm leaders are not optimistic about the ability to maintain an upward trajectory on profitability. Nearly half (47%) of leaders believe a slowdown in profit per partner growth is a permanent trend in the profession.

Law firms' financial trajectories are no longer consistent or guaranteed. We know a significant number of firms move in and out of the 'plus column' from year to year, buffeted by a variety of market forces. We also know that a drop in profitability numbers, especially in consecutive years, can trigger key partner departures and create immediate vulnerabilities.

## Demand

Only 38% of law firm leaders say demand for services has returned to pre-recession levels in their firms. Another 12.5% expect demand to return in 2016 or 2017, leaving nearly half of all firms that think pre-recession demand is at least three to five years away – if it returns at all.

Most firm leaders (62%) think the erosion of overall demand for work done by law firms is a permanent trend. A combination of market forces have combined to put pressure on law firms' traditional flow of work from clients, including more price competition, seen as a permanent trend by 95% of law firm leaders, commoditization of legal work (88%), replacement of human resources by technology (85%), and competition from non-traditional service providers (82%).



The most immediate threat is coming from law firms' own clients. Sixty-eight percent of firms report they have already lost business to corporate law departments insourcing more work, and another 24% perceive this phenomenon as a potential threat. Clients' use of technology that reduces the need for lawyers and paralegals is considered a current threat in 21% of firms and a possible future threat in another 53% of law firms. Larger firms were much more likely to be affected by these competitive threats than smaller firms.

Individual law firms may or may not be in transition, but clearly the market is changing around them. Firms are faced with an evolving competitive landscape and shrinking or shifting demand. Any firm that is not actively planning to meet these challenges ignores them at its peril.

### **Lawyer Staffing, Overcapacity and Growth**

Firms are having trouble keeping their lawyers utilized, with half of all firms (52%) reporting their equity partners are not sufficiently busy. Overcapacity and underutilization are worst among non-equity partners: 62% of firms report their non-equities are not sufficiently busy, including 80% of firms with 250 or more lawyers.

Widespread overcapacity is holding down profitability in 60% of all firms and in 76% of larger firms.

Law firm leaders are split on the strategic value of growth – only 53% of them said growth in lawyer headcount is required for their firm's success, and 60% see fewer equity partners as a permanent trend. Only half of all firms expect to have more equity partners five years from now than they have today.

Law firms are trying to address these issues in a number of ways.

Lateral acquisitions are seen as quick way to buy market share in a low-growth environment, and 85% of law firms report they added lawyers last year who brought new business to the firm. However, 47% of firms lost lawyers who left and took business with them in the same time period.

A majority of firms are practicing basic labor arbitrage – shifting work to less costly lawyers. More than half of all law firms are utilizing part-time lawyers (59%) and

contract lawyers (56%) to meet demand as needed. Three quarters of firms with 250 or more lawyers are using part-time and contract lawyers. Only 9% of firms are currently outsourcing legal work, but 52% of firm leaders believe that is a permanent trend in the profession.

The most obvious solution to the overcapacity problem is to cut underperformers. Fifty-four percent of firms report that they dropped lawyers who didn't have enough work in 2015, and 73% of firms are removing chronically underperforming partners. Almost half of firms (48%) are taking the interim step of de-equitizing full partners, moving them out of the profit-sharing class.

Law firms are acutely aware of their own staffing imbalances and are making efforts to address them, but in too many firms personal, political and cultural obstacles are hindering pragmatic economic decisions. Non-equity partners present the most obvious target for law firm right-sizing, as that class has been allowed to grow larger than current economics and likely future demand can justify.

Law firms simply cannot maximize their effectiveness until they deal with the issue of overcapacity head-on.

### **Efficiency and Pricing**

Despite the fact that 93% of law firm leaders think a focus on improved practice efficiency is a permanent trend in the legal market, fewer than half of all law firms (44%) have significantly changed their strategic approach to efficiency – seemingly a large strategic disconnect.

The only efficiency tactics that break the 50% mark among all law firms are knowledge management (54%) and use of technology tools to replace some human resources (52%). Techniques that really challenge the way work has been done traditionally, like legal project management or reengineering of work processes, are less likely to have been adopted, especially in smaller firms.

Only one third of law firms are making strategic changes in their approach to pricing – a number that has remained basically unchanged since we started asking the question in 2013. There's a stark distinction between firms with 250 or more lawyers

and smaller firms here. Fifty-seven percent of larger firms are making strategic changes in pricing approach, while only 26% of smaller firms are doing so.

The one pricing tactic that has been adopted by a majority of large and small firms is developing data on the cost of services sold. Sixty-seven percent of all firms and 91% of large firms are doing this fundamental analysis, which should enable them to structure more customized fee proposals. Sixty-four percent of large firms have added a Pricing Director or staff equivalent, compared to only 12% of smaller firms.

Discounts – the least strategic approach to pricing change – are widespread. A median of 21% to 30% of all law firm fees came from discounted rates in 2015. In larger firms, discounted fees accounted for a median of 31% to 40% of total fees.

Efficiency and pricing are areas that firms can control to meet the changing marketplace and manage challenges and opportunities. In a profession with a deeply entrenched tradition of hourly billing, those firms that find ways to meet clients' changing value demands through better pricing and efficiency measures are better positioned to compete.

### **Proactive Firms Are Winning**

A large majority of firms (88%) report they are initiating conversations with clients about pricing and budgets, and many are surely talking about alternative fee arrangements. In fact, nearly all firms (97%) bill at least some of their work on a basis other than rates times hours.

Among those engaged in AFAs, far more firms are likely to take a reactive approach in response to client requests (72% of firms) than to proactively initiate alternative fee arrangements (28%). Trend data show that the financial results of the two approaches are significantly different and diverge more each year.

When asked to compare the profitability of non-hourly work and hourly work, 84% of proactive firms find their non-hourly projects to be at least as profitable as their hourly projects. This is the case in only 51% of reactive firms. Narrowing the focus, 40% of proactive firms report their non-hourly projects are more profitable than their hourly projects, compared to only 10% of reactive firms. The lesson is that firms that make a rigorous effort to understand and manage a new or evolving market tactic

like alternative fees generally succeed in doing so, and enjoy increasing benefits over time.

Why aren't more firms proactive? The greatest obstacles we've observed in our work with law firms are not technical (software, systems, and skills) but cultural and political (resistance from partners).

### **Why Aren't Law Firms Doing More to Adapt?**

The survey sheds light on why we have not seen more dramatic changes in law firms' behavior despite widespread agreement among firm leaders that they face a host of legitimate threats and challenges that will only increase going forward.

Why the disconnect?

When asked why their firms aren't doing more to change the way they deliver legal services, 59% of firm leaders say clients aren't asking for it and 56% say they aren't feeling enough economic pain to motivate more significant change. Many partners are inclined to ask, "Why rock the boat?"

The biggest impediment to change, identified by 64% of law firm leaders, is that partners resist most change efforts. This factor jumped 20 points from last year's survey to become the most frequently identified impediment. Only 4% of law firm leaders rated their partners as highly adaptable to change (i.e., rated 9 or 10 on a 0 to 10 scale). Leaders understand the market situation, but bringing their partners along is not easy.

Part of the problem is simple lack of awareness among rank and file partners. A majority of leaders (54%) say their firms aren't doing more to change the way they deliver legal services because most partners are unaware of what they might do differently. When asked to assess partners' overall awareness of the challenges their firms face in the current legal market, only 4% of leaders rated their partners as highly aware. We find these statistics alarming.

Partners' high autonomy is another factor. In a third of law firms, leaders believe their partners – if forced to choose – would sacrifice some compensation to protect their current level of autonomy. In other words, they would actually pay money to be

left alone. Partners in smaller firms are considered much more likely to be protective of their individual autonomy. No surprise, then, that we continue to see larger firms outpacing smaller firms in their implementation of change efforts.

Law firm leaders remain generally confident in their firms' adaptive capacity, with 77% expressing moderate or high levels of confidence that their firms are fully prepared to keep pace with the challenges of the legal marketplace. But keeping pace is one thing; outpacing and outcompeting other firms is another.

If the strategy is simply to keep up with the pack, it misses the point that most of the pack is itself lagging and just a small increase in pace can distance a firm from its undifferentiated competitors. A firm can never get ahead by merely aspiring to keep pace with sluggish competitors. Vigorous pursuit of opportunities has always paved the way for competitive success.

### **Recommendations for Law Firm Leaders**

In leading the firm:

*Be a leader.* Not just a consensus builder or caretaker or steward. You were elected to set the tone and steer the ship, so do it. If no one is behind you, it might be because you haven't stepped forward into the leadership role you agreed to take on.

*Appoint real leaders.* No one leads in isolation. Put champions in your leadership seats who understand the direction the market is going and are willing to work with partners and clients to plan and execute market-friendly solutions in the areas of pricing, staffing, efficiency, and the like. Your best leaders may not be the biggest rainmakers or most senior people. Have the courage and business sense to put your most capable leaders in the most important leadership roles, including practice leadership. Good leaders make the people around them better. If yours aren't doing that, consider restaffing the leadership team.

*Deal with overcapacity.* In practice areas where you will continue to have more lawyers than work and will eventually have to downsize, do it now. Lowering individuals' compensation doesn't address the long-term problem. Employing too many chronic underperformers creates a number of avoidable consequences,

including a drain on profitability, blocking up-and-comers, morale issues, and more. Leadership in this area calls for managing attorney headcount more assertively and matching supply to demand.

*Drive profitability through your practice groups.* Only half of all law firms presently require their practice leaders to manage their groups for profitability, despite 78% of them having the information readily available to do so. In some firms, the ability to manage for profitability at the practice group level may be constrained by the caliber of the practice leaders or political considerations rather than the availability of reliable data. Sophisticated software is usually not necessary to manage people, practices, and matters for greater profitability, just the willingness to do it and a culture that permits greater levels of transparency and candor regarding the underlying data.

*Go see your firm's clients.* There is no magic formula that will satisfy every client. Each client has its own circumstances, personalities, motivations, wants, and needs. But don't wait for them to tell you what they're looking for – go find out. Ask about their goals, decision processes, how they select and evaluate outside counsel, what they're getting from other law firms that they like, and what they'd love to see from their lawyers if they could get it. Use communication, empathy, and service excellence to differentiate your firm by deeply understanding your clients. This doesn't cost anything, can be done by small firms as well as large, and can be extraordinarily useful.

*Use non-hourly billing to your advantage.* In the present environment, where the use of AFAs will only increase, where other firms are using AFAs as both a competitive advantage and a means to greater profitability, and where price competition and smaller annual billing rate increases are considered permanent trends, we suggest that a reactive stance in this area is inadequate. Proactive firms are setting the tone by analyzing previous matters, weeding out inefficiencies, nailing down reasonable cost estimates, and coming up with new win-win pricing proposals for clients. Ask why your firm isn't doing the same.

To increase awareness, engagement and action:

*Explain why change is needed.* Simply sharing the latest trends information is not sufficient. Your partners need to understand why the changes you recommend are

imperative. What makes the information legitimate? Why is it important? Why is it relevant to the firm, their clients, and to them personally? Why and how will doing what you recommend be better for them? Why will not doing it be wrong or bad for them? Help them internalize the challenges and take ownership of solutions.

*Ask your partners to think through the issues.* Retreats provide an excellent forum for your partners to meet in small groups and devise firm- or practice-level strategies that are responsive to client needs and likely to generate competitive advantages in the near term. The slow pace of change in the profession translates into continued opportunities to get out in front of your competitors. Structured exercises in which your partners analyze threats and opportunities and develop rational action plans will stimulate good thinking and help overcome resistance.

*Work with those who will work with you.* You may not be able to get every partner to agree to create process maps for repetitive matters, shake up staffing models to increase efficiency, and reprice the work. But some will. Rather than pushing against a large, immovable partnership group, choose instead to create well-defined, low risk, short-term projects led by willing colleagues. Share your successes and enlist others to participate.

*Share this survey.* Use the *2016 Law Firms in Transition Survey* and other resources to increase your partners' awareness of important trends. This year we've added a special summary page at the end of each section that highlights key findings. These pages can help you structure formal and informal presentations and conversations with your partners. In addition, survey participants are invited to request a custom report comparing their firm's responses to their peer group of similarly sized firms. We think these enhancements make the survey easier to digest and share with colleagues. We encourage you to do so.

## SURVEY METHODOLOGY

Conducted in March and April 2016, the *Law Firms in Transition Survey* polled Managing Partners and Chairs at 800 US law firms with 50 or more lawyers. Completed surveys were received from 356 firms (45%), including 49% of the 350 largest US law firms.

A complimentary copy of the full survey can be downloaded at [www.altmanweil.com/LFiT2016](http://www.altmanweil.com/LFiT2016).

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

May 2016  
Altman Weil, Inc.





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**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.

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**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."

### 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).

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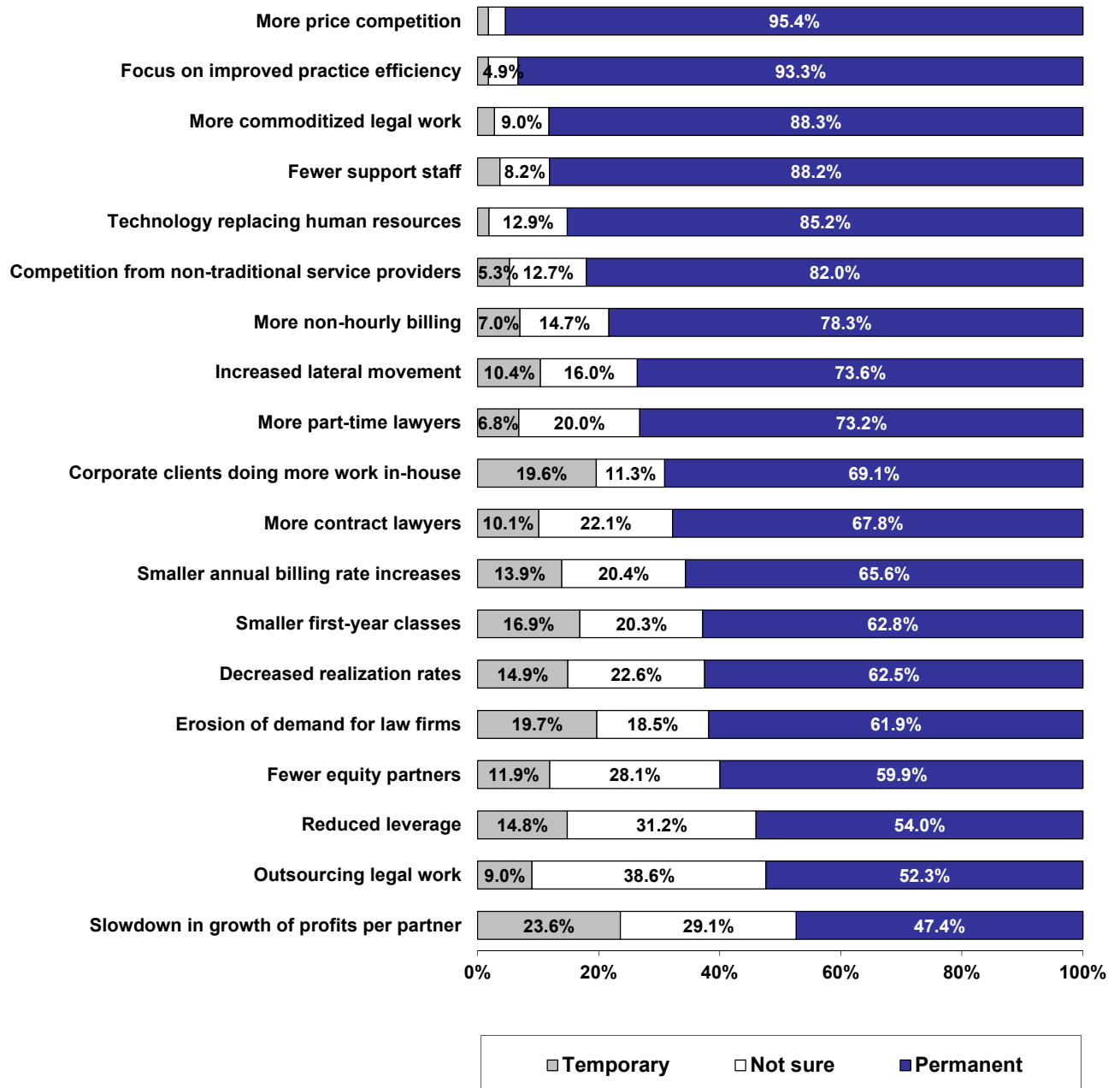
Market Forces

**LAW FIRMS IN TRANSITION 2016**

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## Law Firms in Transition: 2016 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:

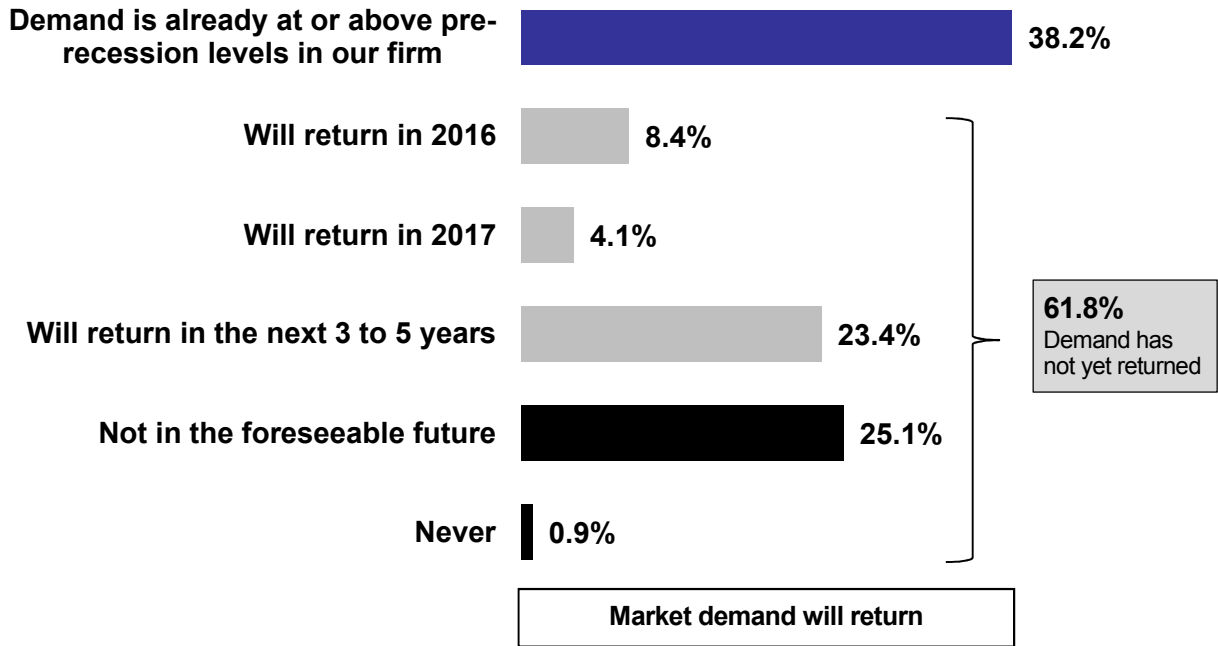
	NOT SURE	DECREASE	SAME	INCREASE
Under 250 lawyers	1.2%	0.4%	32.2%	66.1%
250 lawyers or more	2.3%	0.0%	20.9%	76.7%

Comparison by year:

	NOT SURE	DECREASE	SAME	INCREASE
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?

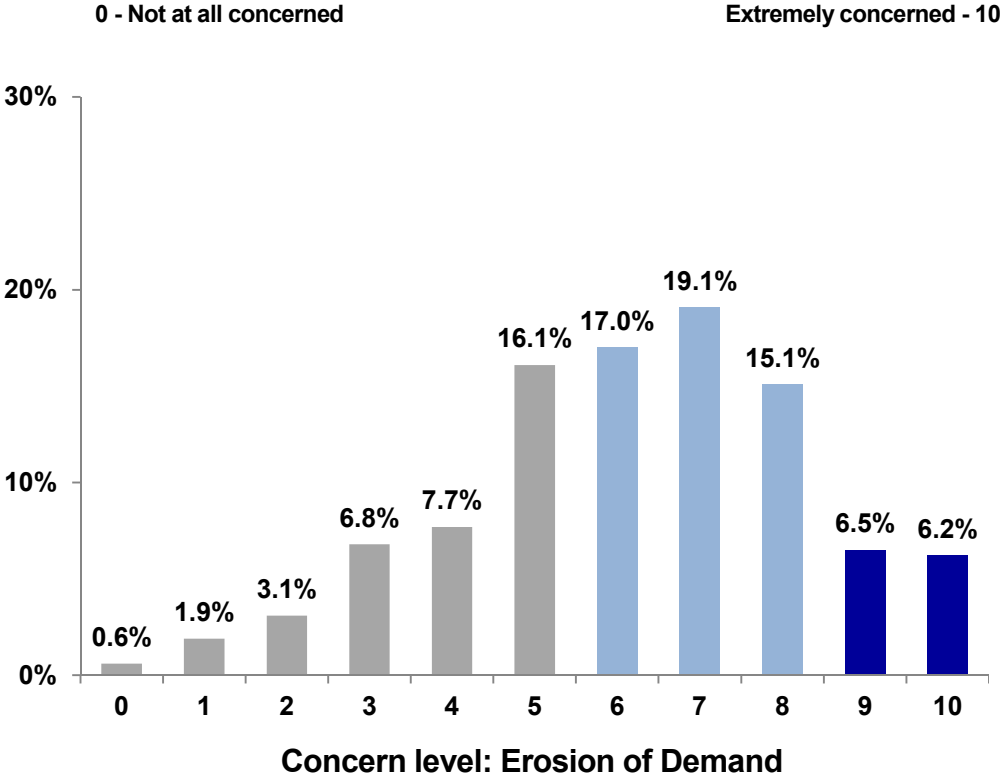


Comparison by firm size:

	Already back	In 2016	In 2017	In 3-5 years	Not in foreseeable future	Never
Under 250 lawyers	37.7%	10.9%	4.7%	24.1%	21.8%	0.8%
250 lawyers or more	39.3%	1.1%	2.2%	21.3%	34.8%	1.1%

Erosion of Demand: Concern Level

**Q:** How concerned are you about your law firm’s preparedness to deal with erosion of demand?



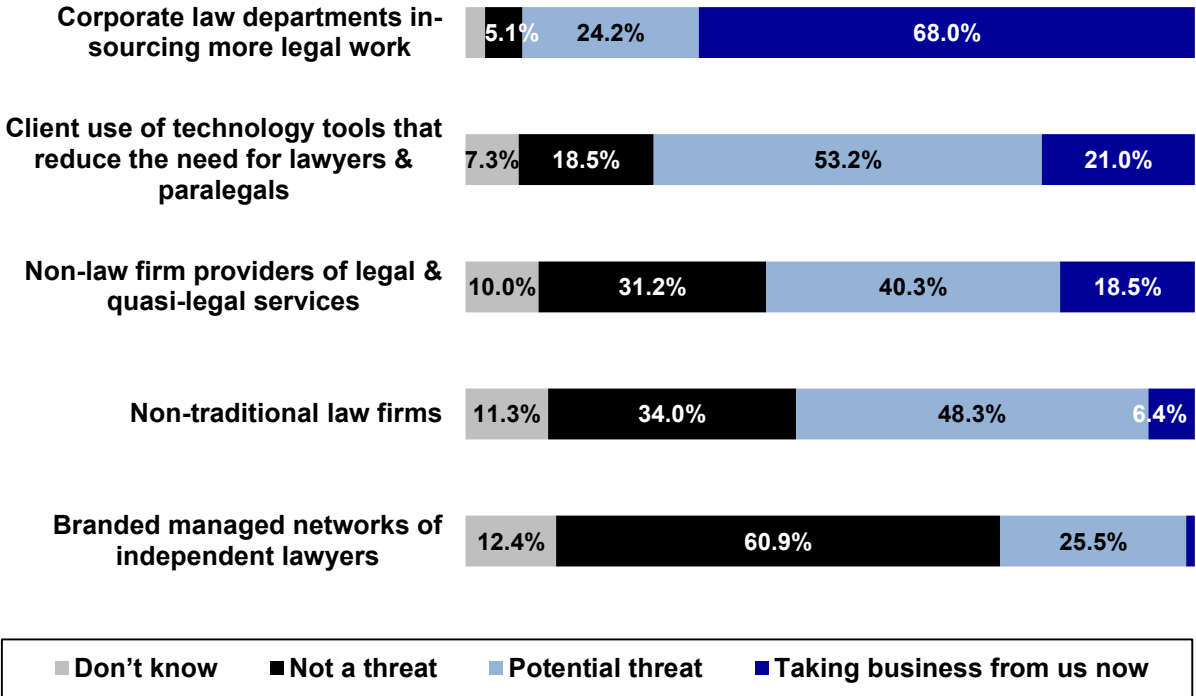
	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	36.2%					51.2%			12.7%		

**Median rating: 6**



## 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

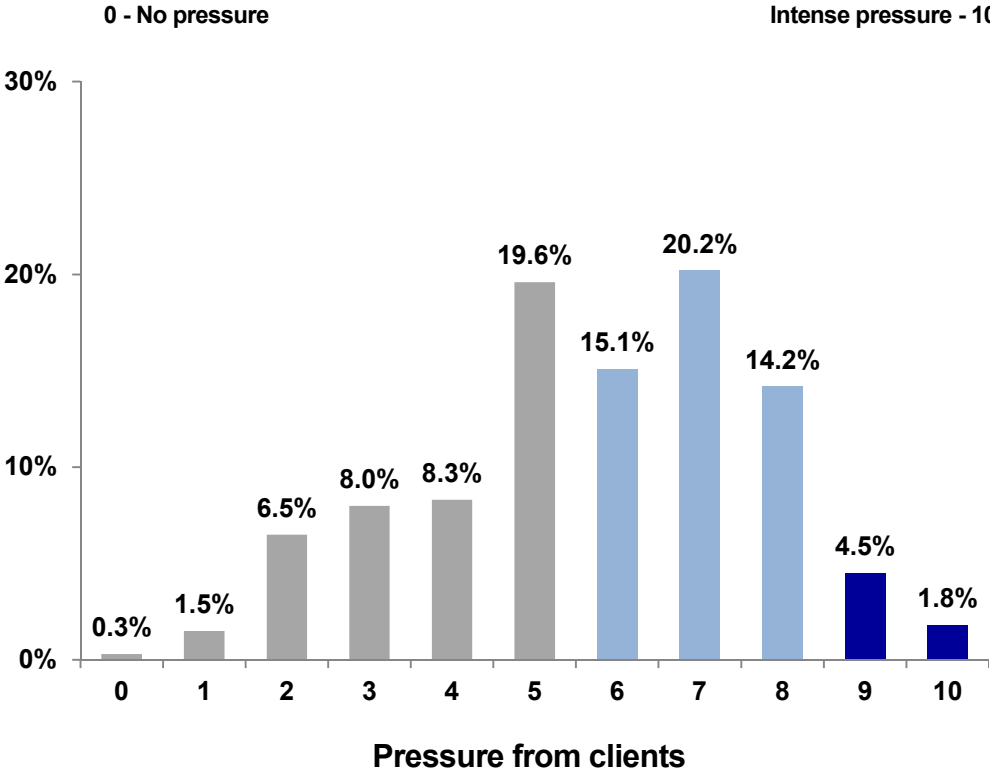
**Q:** Aside from your traditional law firm competitors, is your firm losing any business to other providers of legal services?

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	3.3%	7.0%	27.5%	<b>62.3%</b>
250 lawyers or more	1.1%	0.0%	14.9%	<b>83.9%</b>
<b>CLIENT USE OF TECHNOLOGY</b>				
Under 250 lawyers	8.3%	21.1%	52.9%	<b>17.8%</b>
250 lawyers or more	4.6%	11.5%	54.0%	<b>29.9%</b>
<b>NON-LAW FIRM PROVIDERS</b>				
Under 250 lawyers	11.1%	38.3%	32.9%	<b>17.7%</b>
250 lawyers or more	6.9%	11.5%	60.9%	<b>20.7%</b>
<b>NON-TRADITIONAL LAW FIRMS</b>				
Under 250 lawyers	13.2%	37.4%	43.6%	<b>5.8%</b>
250 lawyers or more	5.8%	24.4%	61.6%	<b>8.1%</b>
<b>BRANDED MANAGED NETWORKS OF INDEPENDENT LAWYERS</b>				
Under 250 lawyers	12.8%	64.2%	21.8%	<b>1.2%</b>
250 lawyers or more	11.5%	51.7%	35.6%	<b>1.1%</b>

Market Forces: Client Pressure

**Q:** 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)?



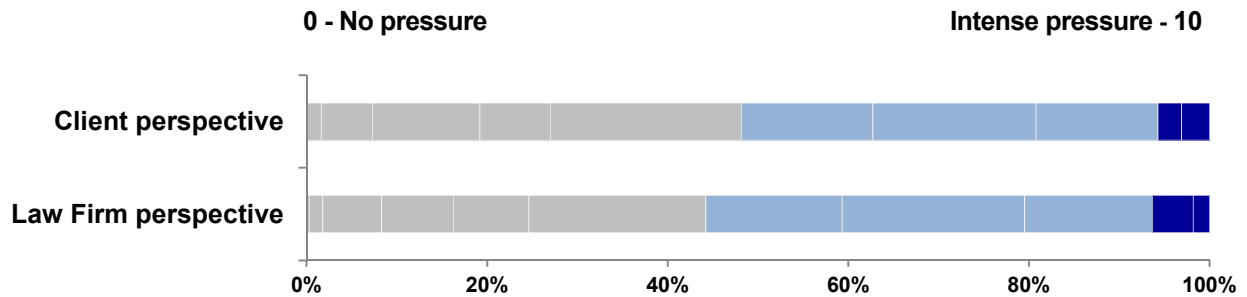
	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	44.2%					49.5%			6.3%		

Median rating: 6

## Client Pressure: The Client Perspective

In October 2015, 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 2015 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	48.2%					46.1%			5.7%	
Law Firms	44.2%					49.5%			6.3%	

### Median rating by year:

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



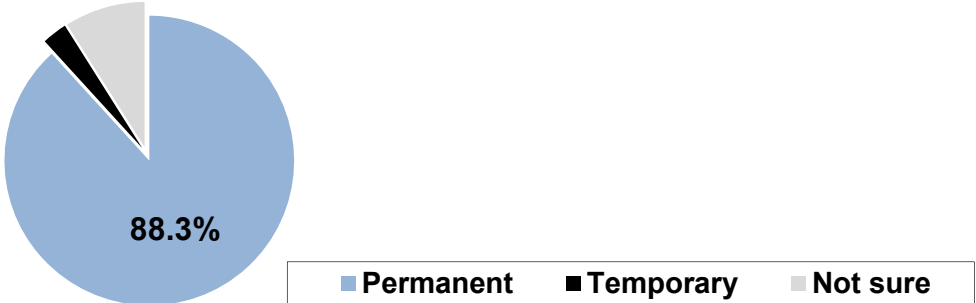
### Efforts to understand clients

#### Comparison by firm size:

	Under 250 lawyers	250 lawyers or more
Conversations about pricing / budgets	85.3%	95.5%
Participation in client industry groups and events	71.0%	78.7%
Conversations about project staffing	69.4%	82.0%
Management visits to key clients	57.6%	85.4%
Conversations about matter management efficiency	57.1%	73.0%
Formal client interview program	37.6%	70.8%
Industry research and issue spotting (at firm expense)	39.6%	59.6%
Legal issue spotting/preventative law (at firm expense)	35.9%	51.7%
Post-matter reviews	22.9%	47.2%
Formal client survey program	21.6%	41.6%

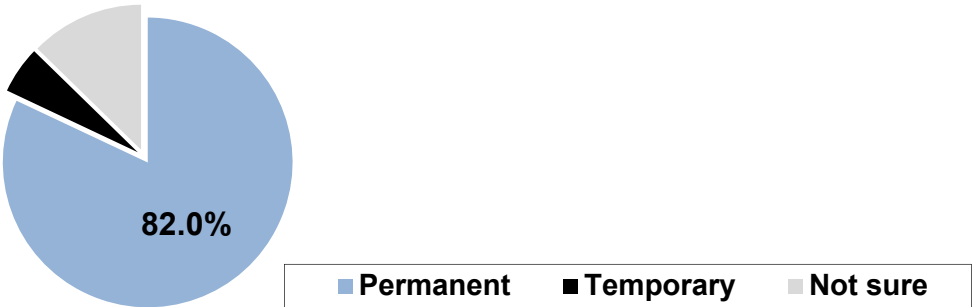
Market Forces: Trends

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



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

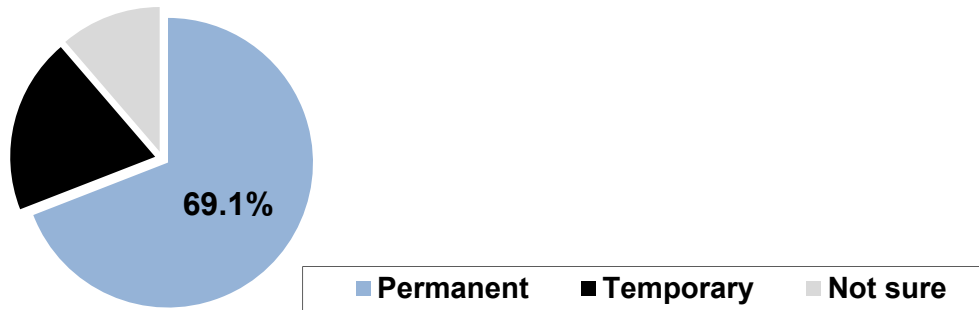
**Q:** Do you think competition from non-traditional (including non-lawyer) service providers will be a permanent trend going forward?



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

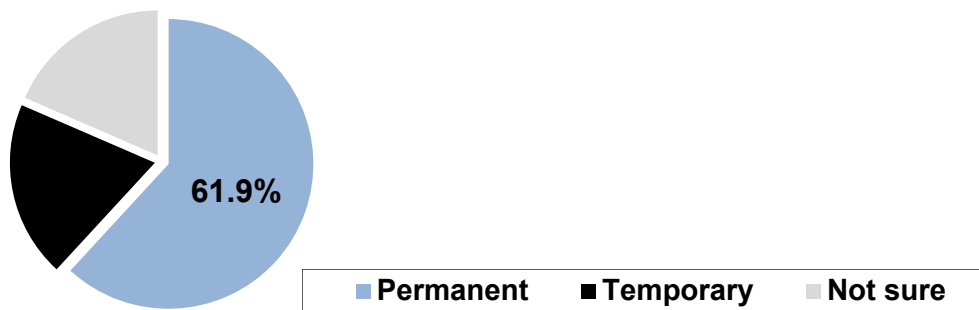
Market Forces: Trends

**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
<b>PERMANENT</b>	NA	NA	NA	NA	NA	NA	NA	69.1%

**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
<b>PERMANENT</b>	NA	NA	NA	NA	NA	NA	NA	61.9%

## Top-Line Takeaways on Market Forces

---

### FIRM FACTS:

<b>%</b>	<b>of law firms report...</b>	<b>page:</b>
<b>62%</b>	Demand has not yet returned to pre-recession levels in their law firms.	<b>3</b>
<b>68%</b>	They are losing business to corporate law departments that are in-sourcing more legal work.	<b>5</b>
<b>21%</b>	They are losing business due to clients' use of technology tools that reduce the need for lawyers and paralegals.	<b>5</b>
<b>19%</b>	They are losing business to non-law firm providers of legal and quasi-legal services.	<b>5</b>

### LEADERSHIP OPINIONS:

<b>%</b>	<b>of law firm leaders think...</b>	<b>page:</b>
<b>56%</b>	Clients are putting moderate or high pressure on law firms to change the legal service delivery model.	<b>7</b>
<b>69%</b>	The pace of change in the profession is still increasing.	<b>2</b>
<b>62%</b>	Erosion of demand is a permanent market change.	<b>11</b>
<b>69%</b>	Corporate clients doing more work in-house is a permanent trend.	<b>11</b>
<b>88%</b>	More commoditized legal work is a permanent trend.	<b>10</b>
<b>82%</b>	Competition from non-traditional service providers is a permanent trend.	<b>10</b>



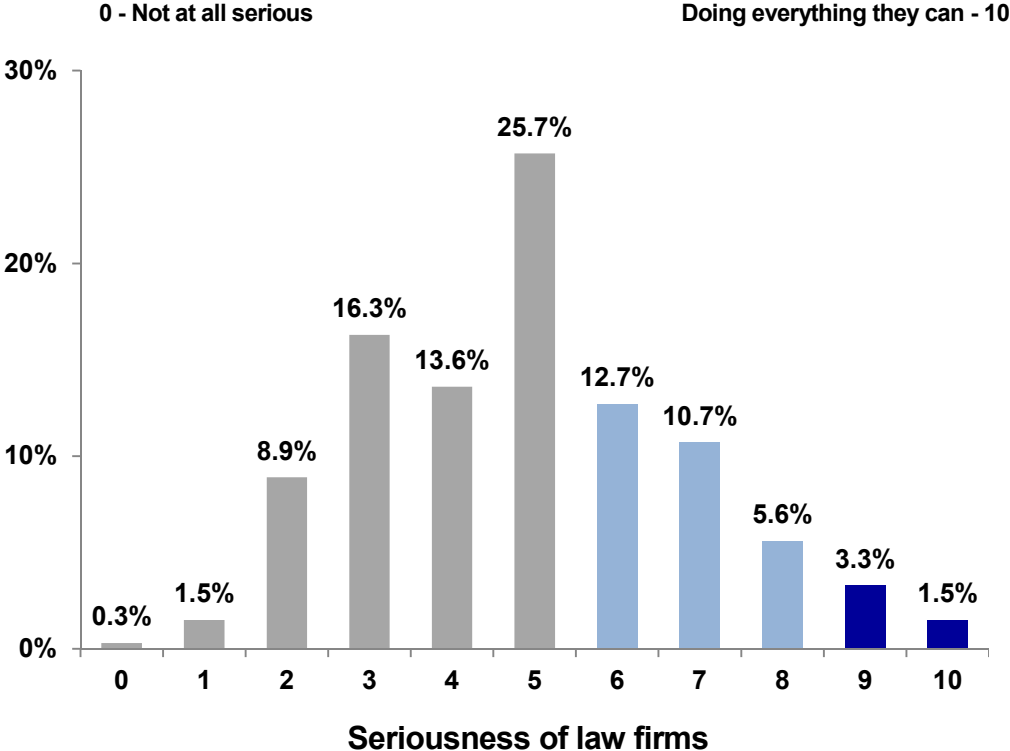
Leading Change

**LAW FIRMS IN TRANSITION 2016**

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Leading Change: Seriousness of Change Efforts

**Q:** 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)?



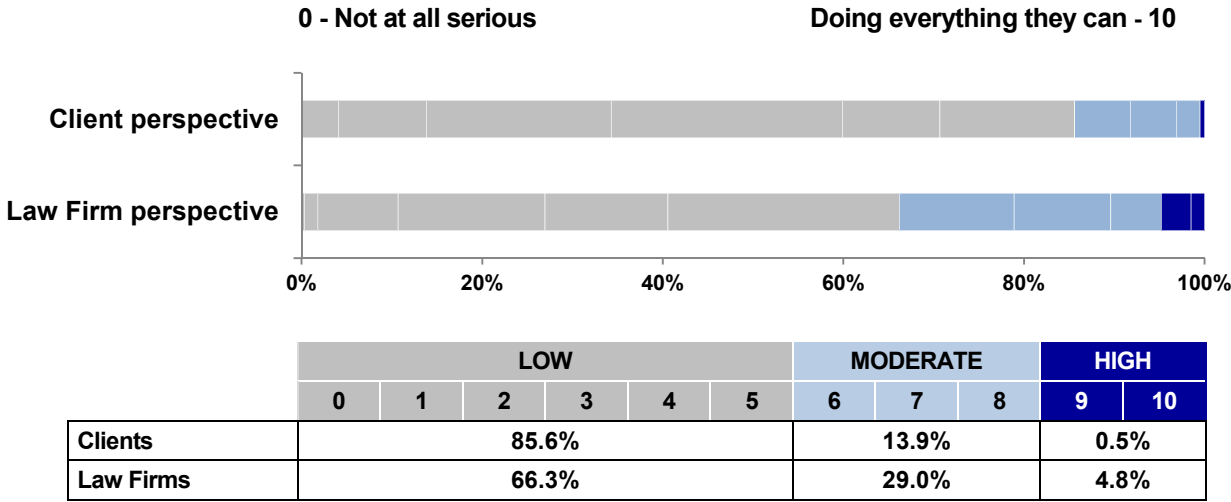
	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	66.3%					29.0%			4.8%		

**Median rating: 5**

Seriousness of Change Efforts: The Client Perspective

In October 2015, 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 2015 how serious are law firms about changing their legal service delivery model to provide greater value to clients (as opposed to simply reducing rates)?

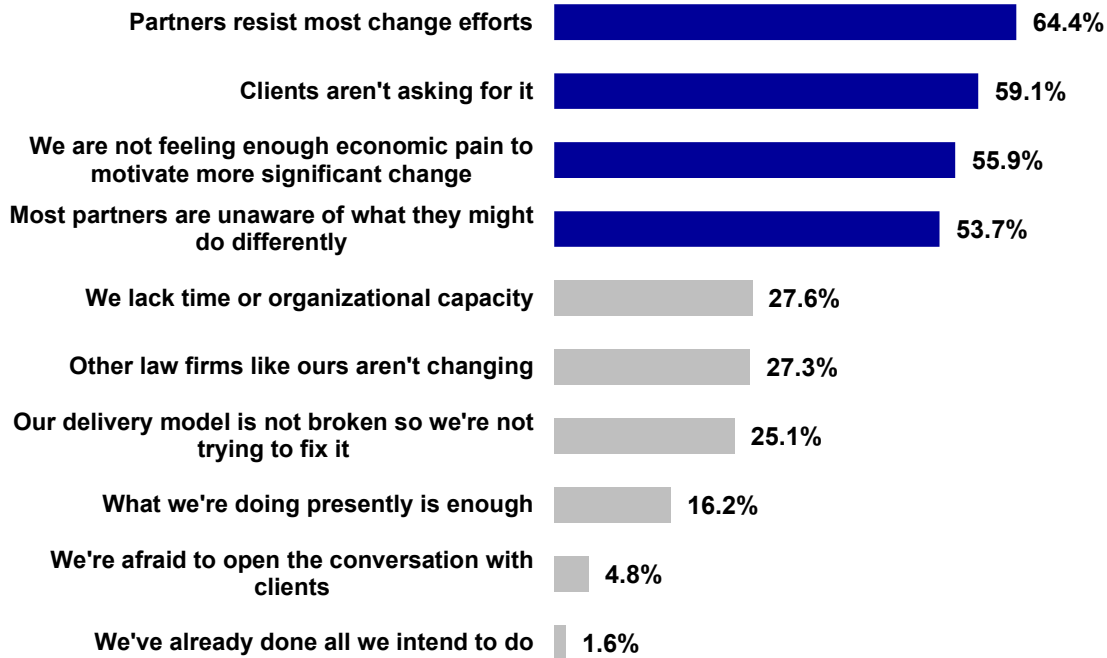


Median rating by year:

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

## 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.



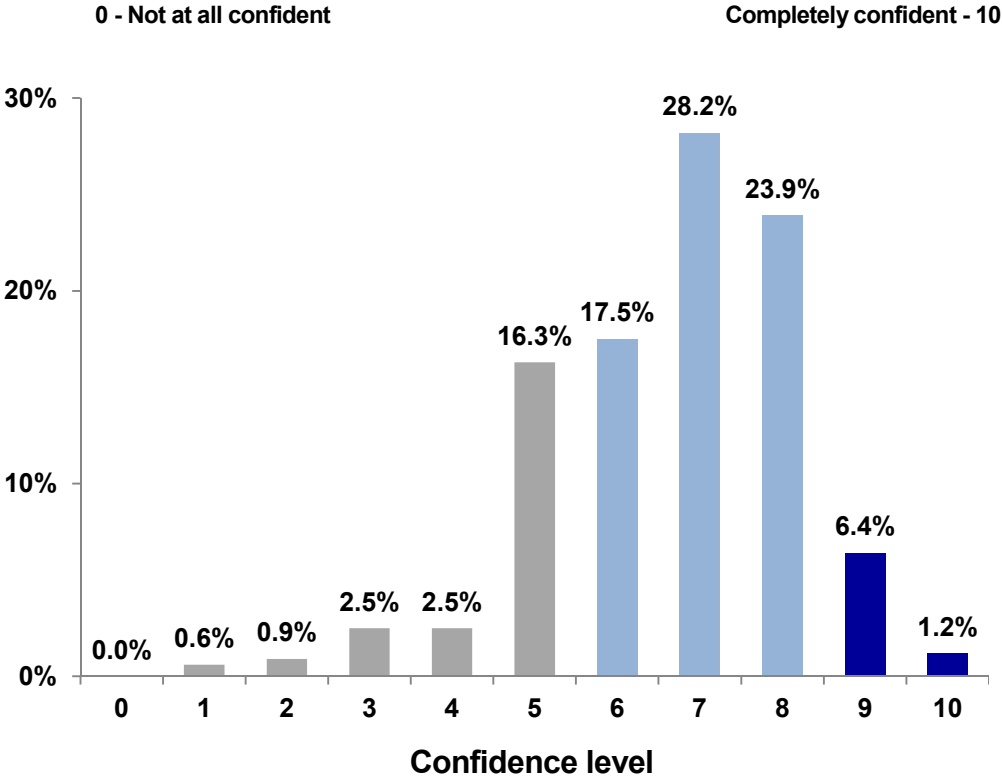
Why not do more to change?

### Top three responses: Comparison by year

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

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?

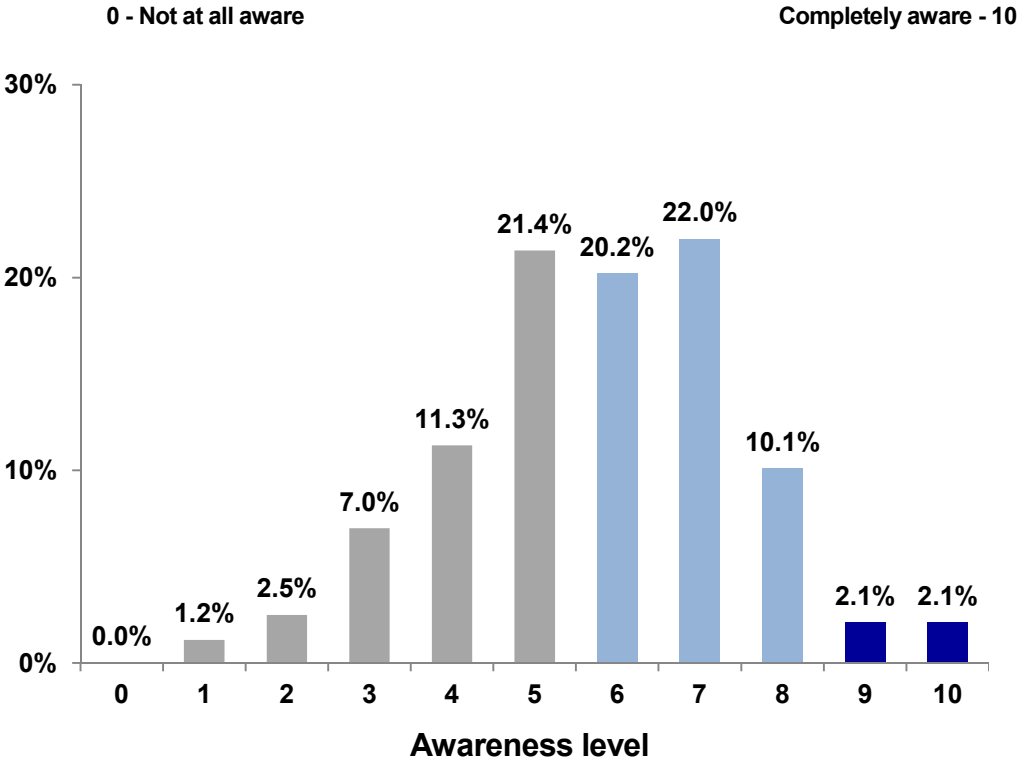


	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	22.8%					69.6%			7.6%		

Median rating: 7

Leading Change: Partner Awareness

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

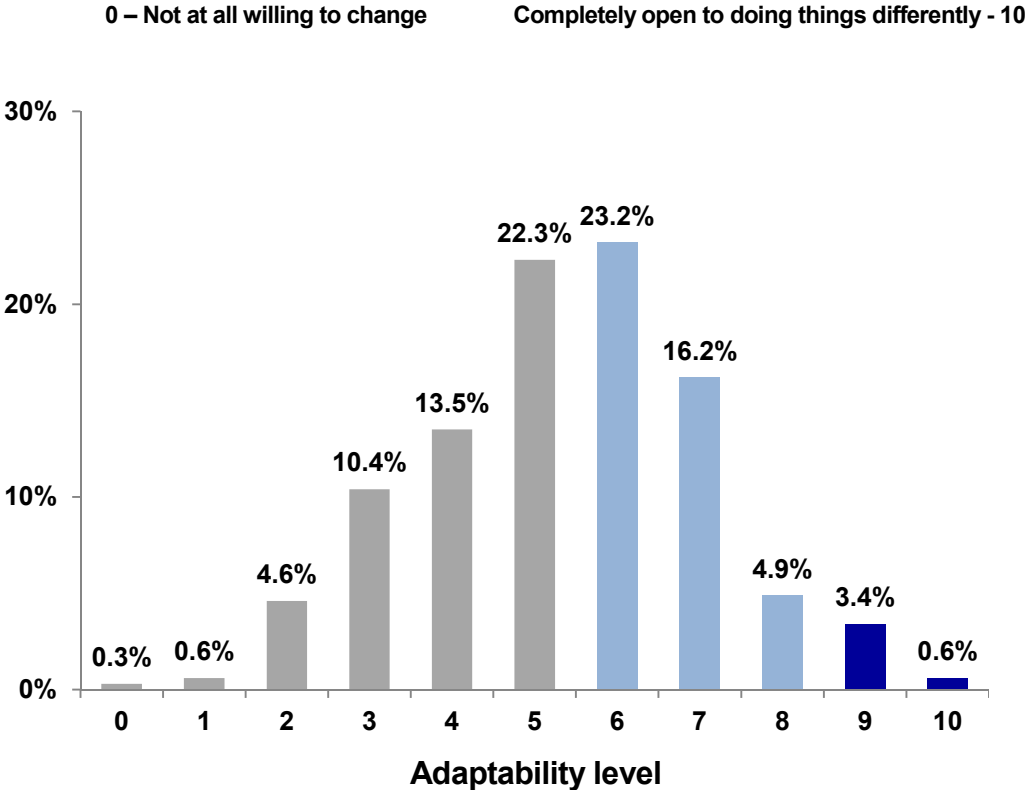


	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	43.4%					52.3%			4.2%		

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	51.7%					44.3%			4.0%		

**Median rating: 5**



## Leading Change: Trends

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Comparison of firm leader confidence by year:

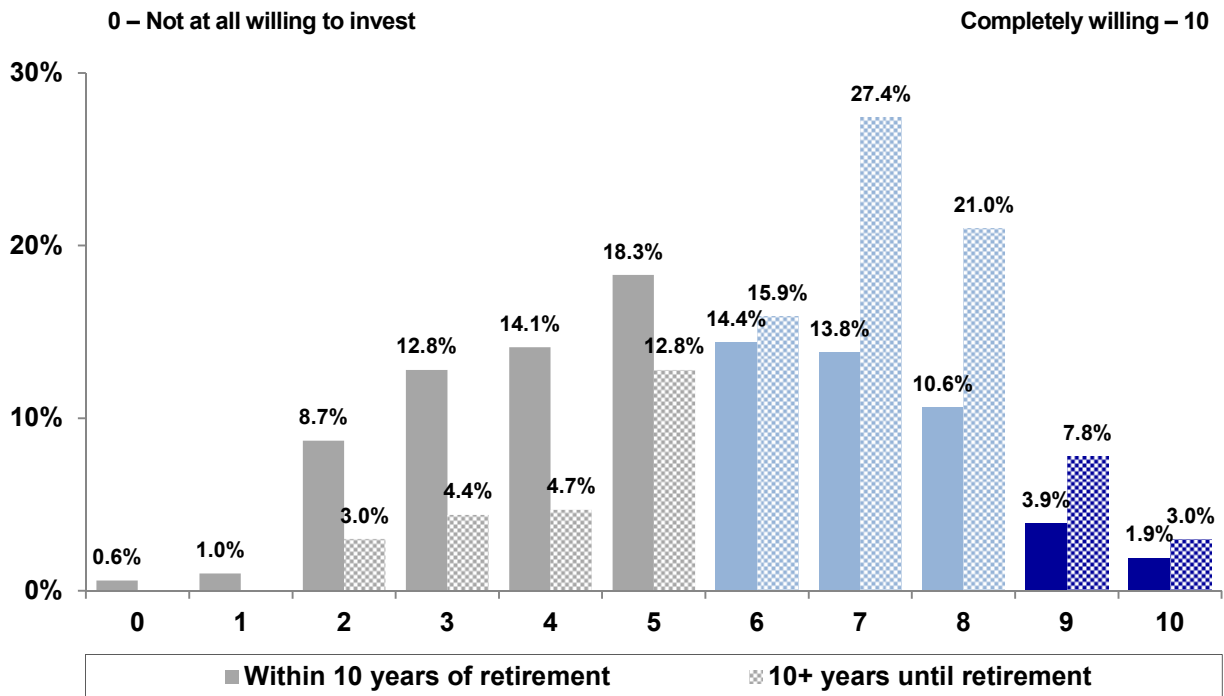
	LOW	MODERATE	HIGH
2016	22.8%	69.6%	7.6%
2015	22.8%	68.2%	9.1%
2014	21.6%	65.3%	13.2%
2013	21.0%	66.0%	12.9%
2012	11.3%	74.3%	14.2%
2011	7.8%	68.3%	23.9%

Comparison of 2016 change preparedness factors in the legal profession:

	LOW	MODERATE	HIGH
Confidence of firm leader	22.8%	69.6%	7.6%
Awareness of partners	43.4%	52.3%	4.2%
Adaptability of partners	51.7%	44.3%	4.0%

## Leading Change: Long-Term Investments

**Q:** How would you rate your partners' willingness to make long-term investments in the firm that will take five years or more to pay off? Rate partners within ten years of retirement and partners with more than ten years until retirement.



Partners' willingness to make long-term investments

RATING	LOW					MODERATE			HIGH	
	0	1	2	3	4	5	6	7	8	9
WITHIN 10 YEARS	55.5%					38.8%			5.8%	
10+ YEARS	24.9%					64.3%			10.8%	

<b>Median rating:</b>	
Within 10 years:	<b>5</b>
10+ years:	<b>7</b>

## Leading Change: Strategic Groundwork

**Q:** Is your firm regularly and actively engaged in any of the following activities?

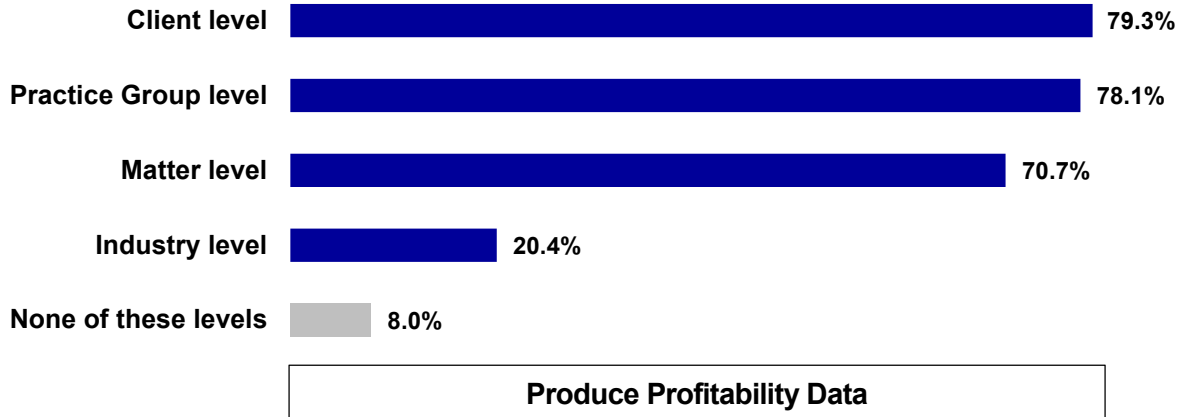


### Comparison by firm size:

	Under 250 lawyers	250 lawyers or more
Filling leadership roles with forward-looking lawyers	89.6%	95.2%
Formal strategic planning	83.0%	83.1%
Ongoing efforts to educate partners on market trends	79.7%	84.3%
Seeking client input of what they want and value	60.5%	86.4%
Creating special projects to test innovative ideas/methods	43.7%	74.7%
Requiring Practice Leaders to manage for profitability	48.5%	56.0%

## Change Management: Profitability Data

**Q:** Does your law firm produce profitability data at any of the following levels?



### Comparison by firm size:

	Client level	PG level	Matter level	Industry level	None of these levels
<b>Under 250 lawyers</b>	73.3%	74.6%	65.4%	16.7%	10.4%
<b>250 lawyers or more</b>	96.4%	88.1%	85.7%	31.0%	1.2%

### Comparison by year:

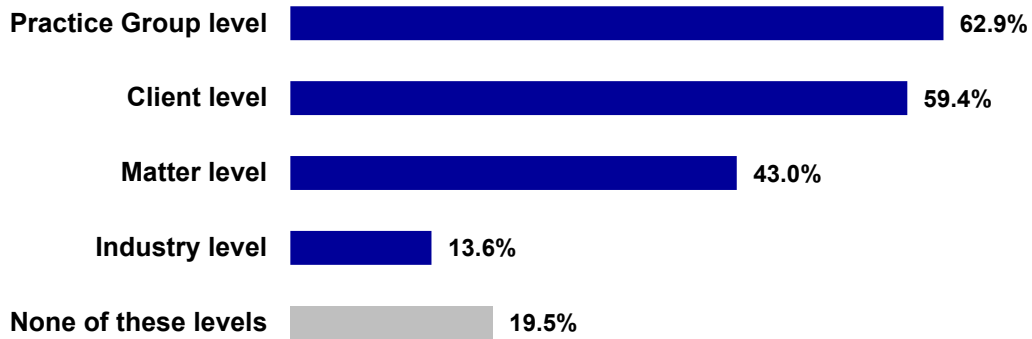
	Client level	PG level	Matter level	Industry level	None of these levels
<b>2016</b>	79.3%	78.1%	70.7%	20.4%	8.0%
<b>2012</b>	70.4%	67.8%	52.1%	NA	NA

*This question was not asked in 2013, 2014 or 2015.*

## Change Management: Profitability Decisions

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**Q:** Does your law firm use profitability data in management decisions at any of the following levels?



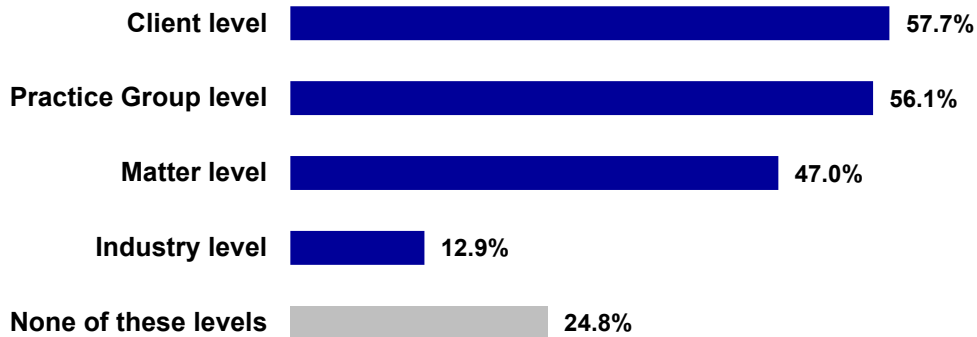
**Use Profitability Data in Management Decisions**

Comparison by firm size:

	PG level	Client level	Matter level	Industry level	None of these levels
<b>Under 250 lawyers</b>	60.4%	52.1%	39.2%	12.5%	22.5%
<b>250 lawyers or more</b>	69.9%	80.7%	54.2%	16.9%	10.8%

## Change Management: Sharing Profitability Data with Partners

**Q:** Does your law firm share profitability data with partners directly involved at any of the following levels?



Share Profitability Data with Partners Involved

Comparison by firm size:

	Client level	PG level	Matter level	Industry level	None of these levels
<b>Under 250 lawyers</b>	50.2%	52.3%	42.2%	11.0%	29.1%
<b>250 lawyers or more</b>	79.3%	67.1%	61.0%	18.3%	12.2%

## Top-Line Takeaways on Leading Change

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### FIRM FACTS:

<b>%</b>	<b>of law firms report...</b>	<b>page:</b>
<b>64%</b>	Their partners resist most efforts to change the firm's service delivery model.	<b>15</b>
<b>59%</b>	Their clients are not asking for change in the way the firm delivers legal services.	<b>15</b>
<b>56%</b>	They're not feeling enough economic pain to change the way they deliver legal services.	<b>15</b>
<b>81%</b>	They are making ongoing efforts to educate partners on market trends.	<b>21</b>
<b>52%</b>	They are creating special projects or experiments to test innovative ideas or methods.	<b>21</b>

### LEADERSHIP OPINIONS:

<b>%</b>	<b>of law firm leaders think...</b>	<b>page:</b>
<b>34%</b>	Profession-wide, law firms are moderately or highly serious about changing the legal service delivery model.	<b>13</b>
<b>8%</b>	They are highly confident in their firm's ability to keep pace with the challenges of the new legal marketplace.	<b>16</b>
<b>4%</b>	Their partners are highly aware of the challenges of the new legal marketplace.	<b>17</b>
<b>4%</b>	Their partners are highly adaptable to change.	<b>18</b>

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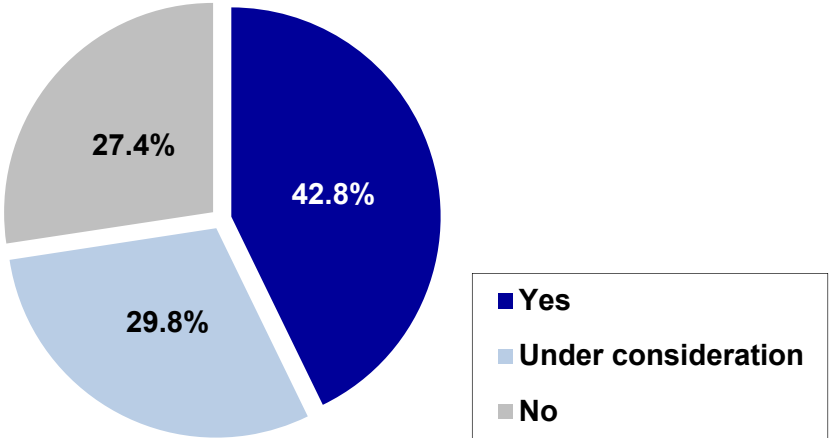
Lawyer Staffing Strategies  
**LAW FIRMS IN TRANSITION 2016**

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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	38.4%	29.4%	32.2%
250 lawyers or more	55.2%	31.0%	13.8%

## Alternative Staffing Strategies

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



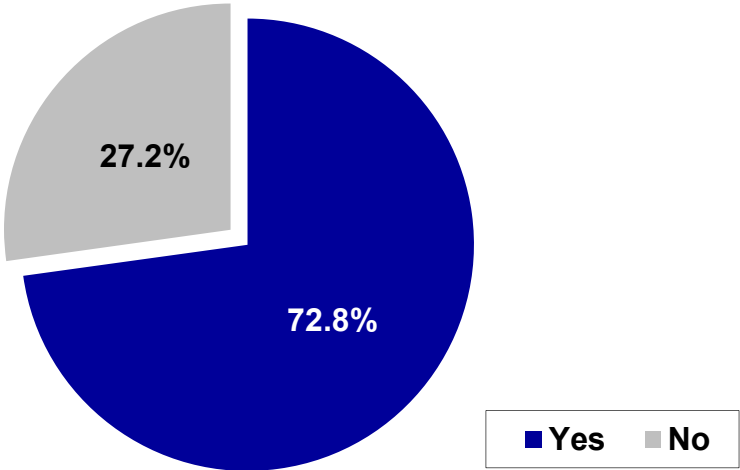
### Comparison by firm size:

	Under 250 lawyers	250 lawyers or more
Using part-time lawyers	52.7%	75.3%
Using contract lawyers	49.4%	75.3%
Using staff lawyers	33.7%	78.8%
Outsourcing non-lawyer functions	21.8%	30.6%
Creating a low-cost service center for back office	5.8%	21.2%
Outsourcing legal work	6.6%	15.3%
None of the above	23.5%	4.7%

## 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?



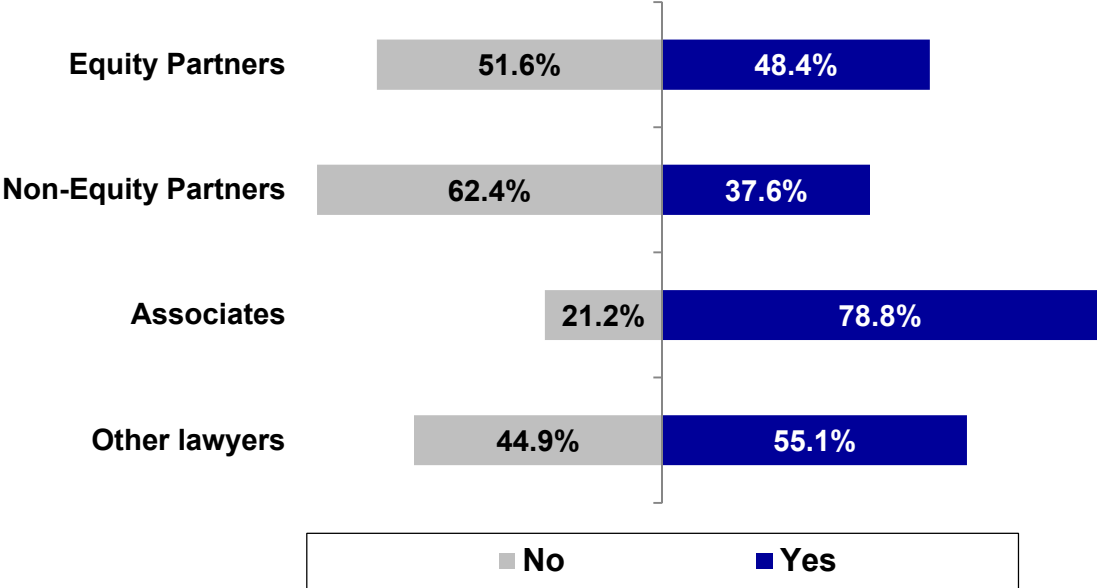
Comparison by firm size:

	Yes	No
Under 250 lawyers	69.4%	30.6%
250 lawyers or more	82.0%	18.0%

### Lawyer Staffing: Capacity

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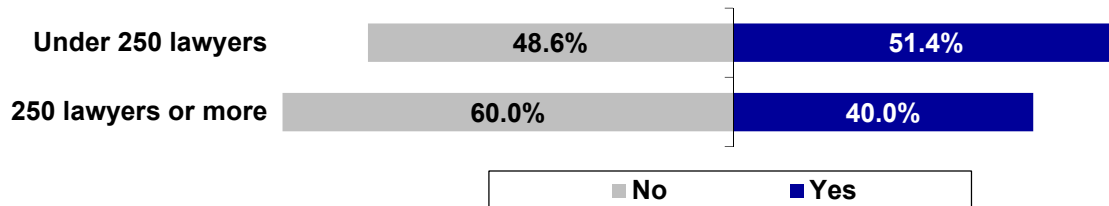
**Q:** Are each of the following lawyer classes in your firm sufficiently busy?



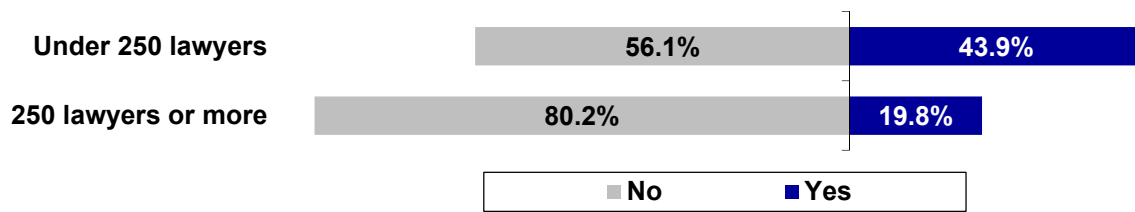
## Lawyer Staffing: Capacity

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

### EQUITY PARTNERS – BY FIRM SIZE



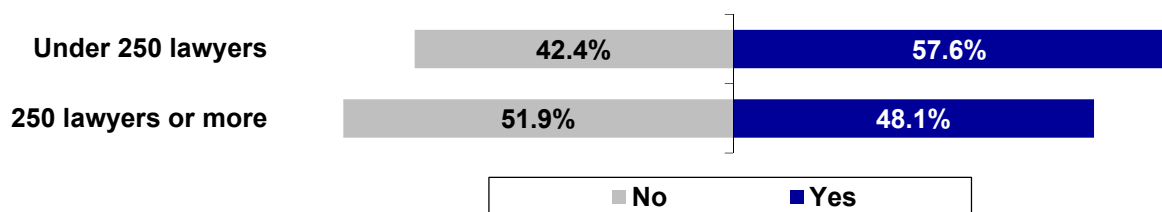
### NON-EQUITY PARTNERS – BY FIRM SIZE



### ASSOCIATES – BY FIRM SIZE



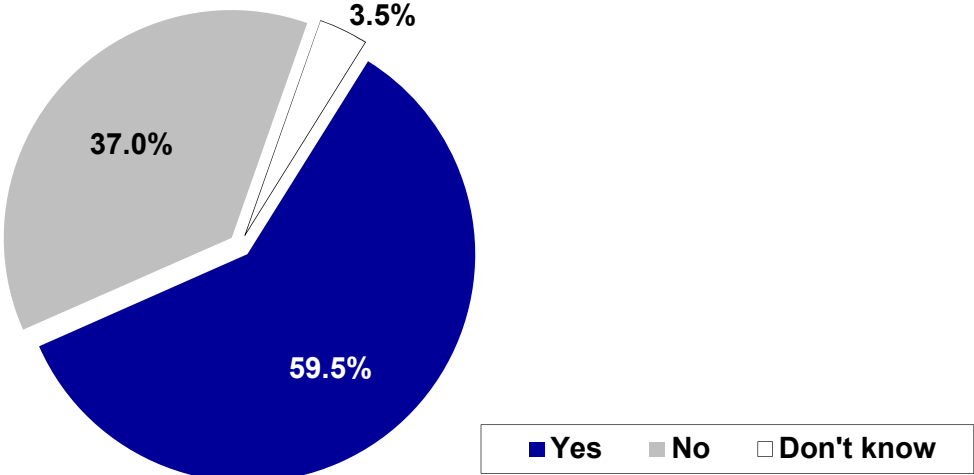
### OTHER LAWYERS – BY FIRM SIZE



Lawyer Staffing: Overcapacity

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



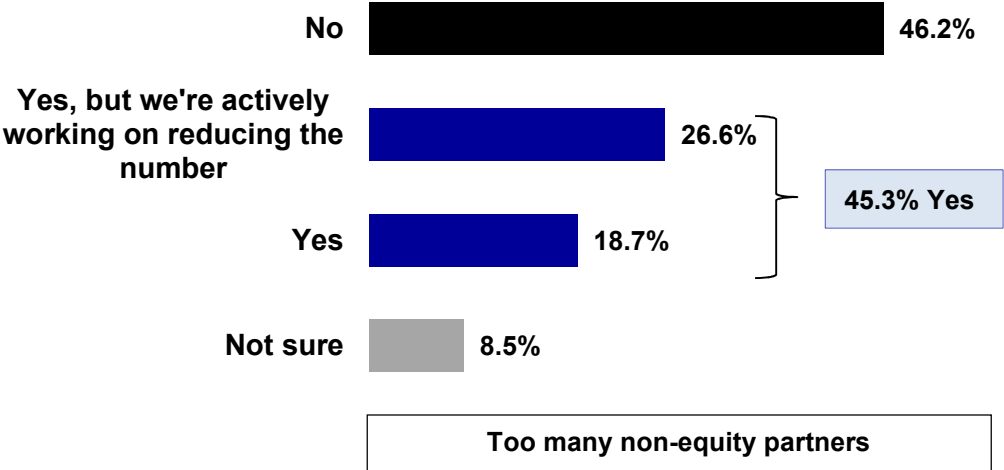
Comparison by firm size:

	Yes	No	Don't know
Under 250 lawyers	53.9%	41.8%	4.3%
250 lawyers or more	75.6%	23.3%	1.1%



Partner Strategy: Non-Equity Partners

**Q:** In your opinion, does your firm currently have too many non-equity partners?



Comparison by firm size:

	No	Yes, but working on it	Yes	Not sure
Under 250 lawyers	53.6%	21.0%	15.9%	9.5%
250 lawyers or more	25.6%	42.2%	26.7%	5.6%

## Partner Strategy: Non-Equity Partners

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**Q:** In your opinion, does your firm currently have too many non-equity partners?

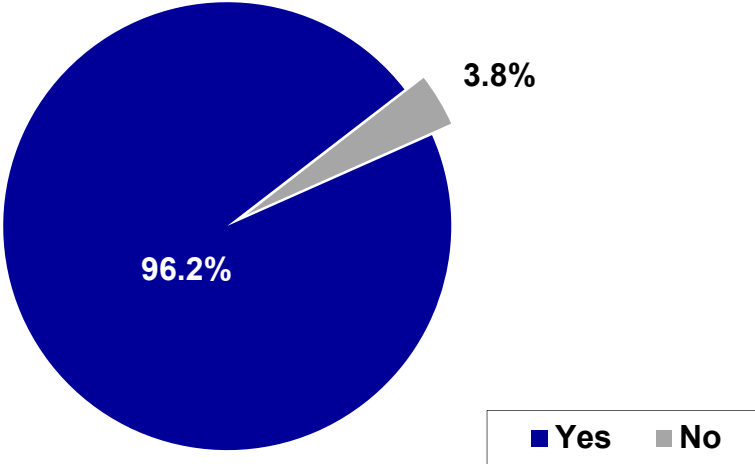
### Sample Comments

- Yes. High priced, underperforming, excellent lawyers. A dilemma that is hard to manage given our culture.
- Probably yes, but these are mostly in the senior partner ranks where there is an active effort to address issues.
- At any given time, we will have some lawyers with excess capacity. We manage this on an ongoing basis, but it is not of epidemic proportions.
- We have implemented a more robust review process for promotion to non-equity partner from associate that has reduced the size of the incoming classes by over half. We still probably have too many but we have limited the growth of the problem.
- We are now only admitting non-equity partners who we believe will grow into equity partners; otherwise, they become Of Counsel or are terminated.
- We are seeing less and less desire to become equity and we take the measures necessary to insure non-equity are the best at what they do and attempt to insure they are having a rewarding and gratifying career.
- The role and value of non-equity partners is in flux. They fill needs now, but their value in the future is uncertain.
- Our issue is that we have too many underproductive partners. Some are equity and some are non-equity.
- Our non-equity ranks generally perform well. Overcapacity issue is more acute at the equity level.
- Most of our non-equity partners are good younger lawyers who are developing their books. As they succeed, they will make equity. It has been a functional and productive role for us.

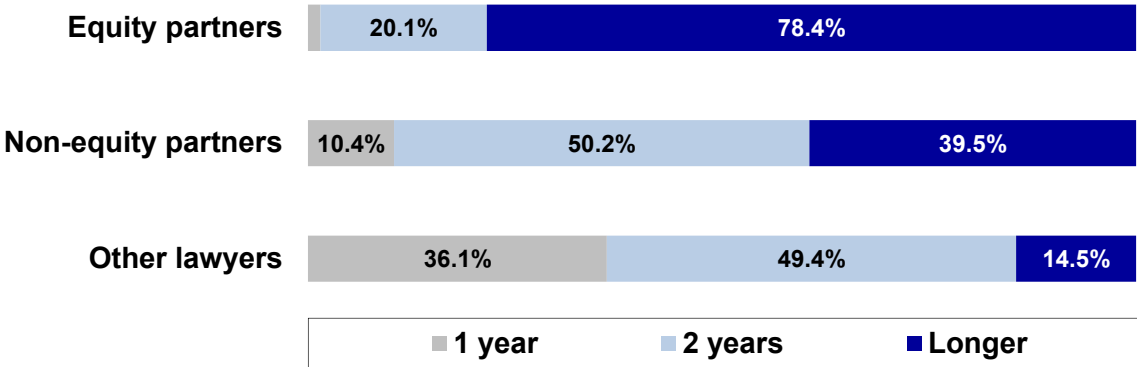
## Lawyer Strategy: Under-performance

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

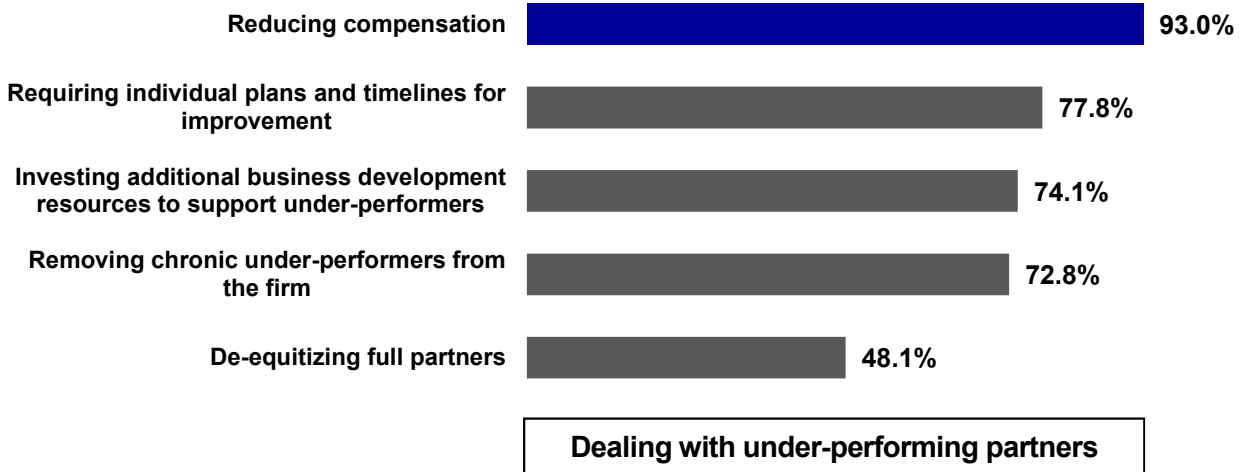


**Q:** Typically how long will your law firm support lawyers who are not sufficiently busy before counseling them out of the firm?



## Lawyer Strategy: Under-performance

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

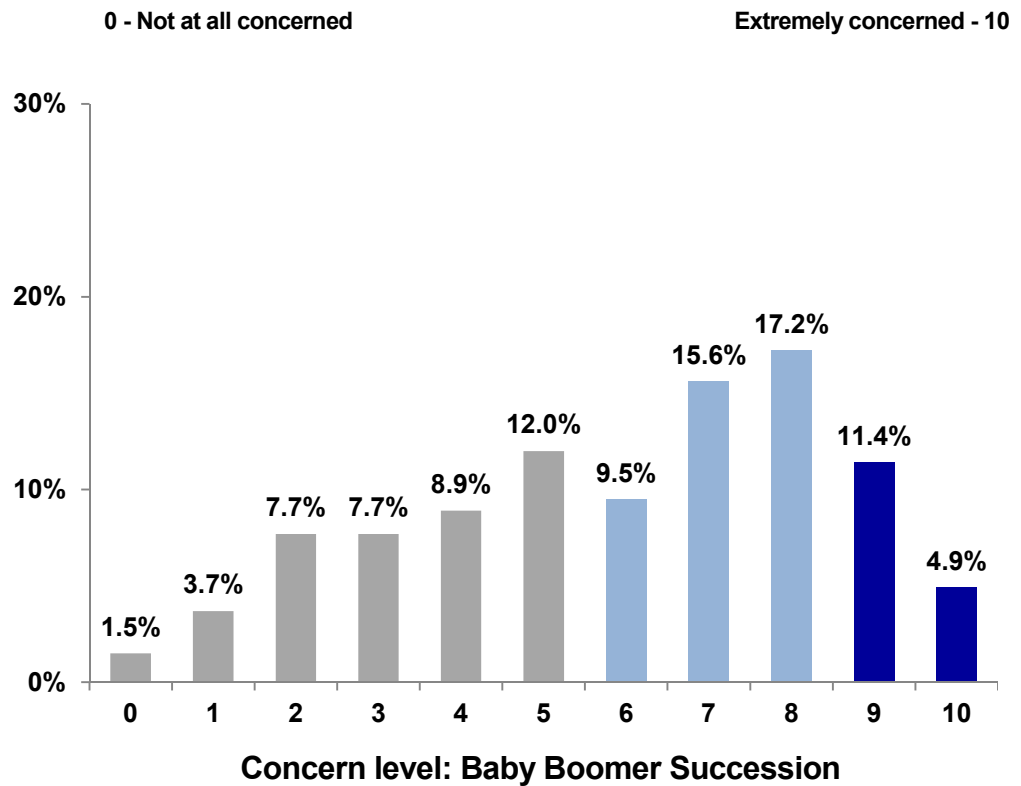


### Comparison by firm size:

	Under 250 lawyers	250 lawyers or more
Reducing compensation	91.3%	97.7%
Requiring individual plans and timelines	74.5%	87.2%
Investing additional business development resources	75.4%	70.2%
Removing chronic under-performers from the firm	64.6%	95.4%
De-equitizing full partners	42.7%	63.9%

## Retirement/Succession of Baby Boomers: Concern Level

**Q:** How concerned are you about your law firm’s preparedness to deal with retirement and succession of Baby Boomers?

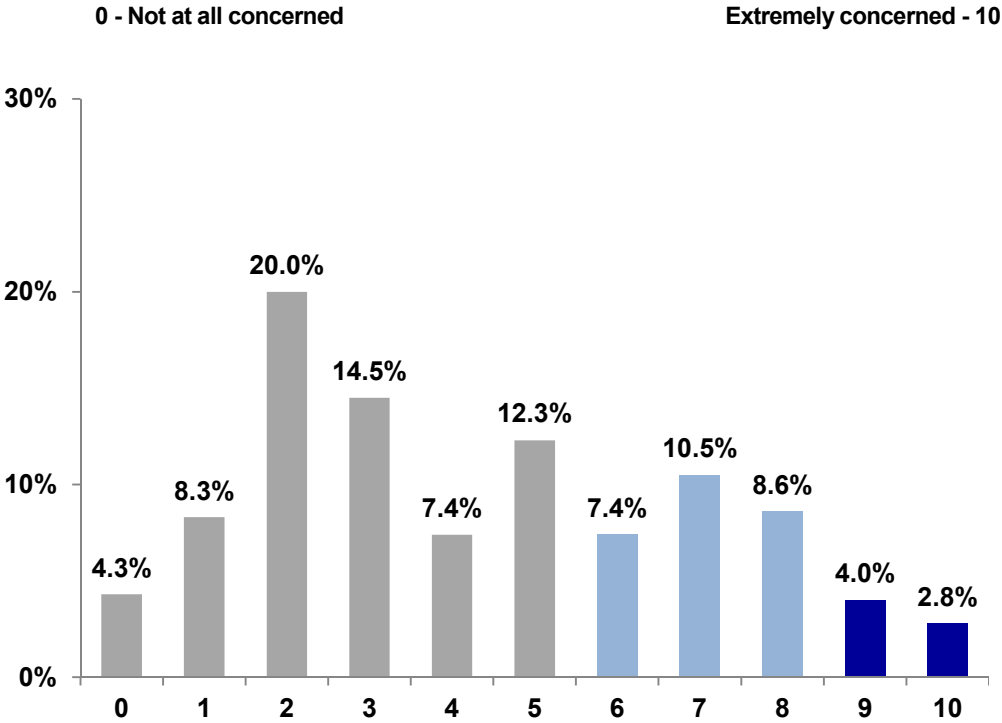


	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	41.5%					42.3%			16.3%		

**Median rating: 6**

Acquisition and Integration of Laterals: Concern Level

**Q:** How concerned are you about your law firm’s preparedness to deal with acquisition and integration of laterals?



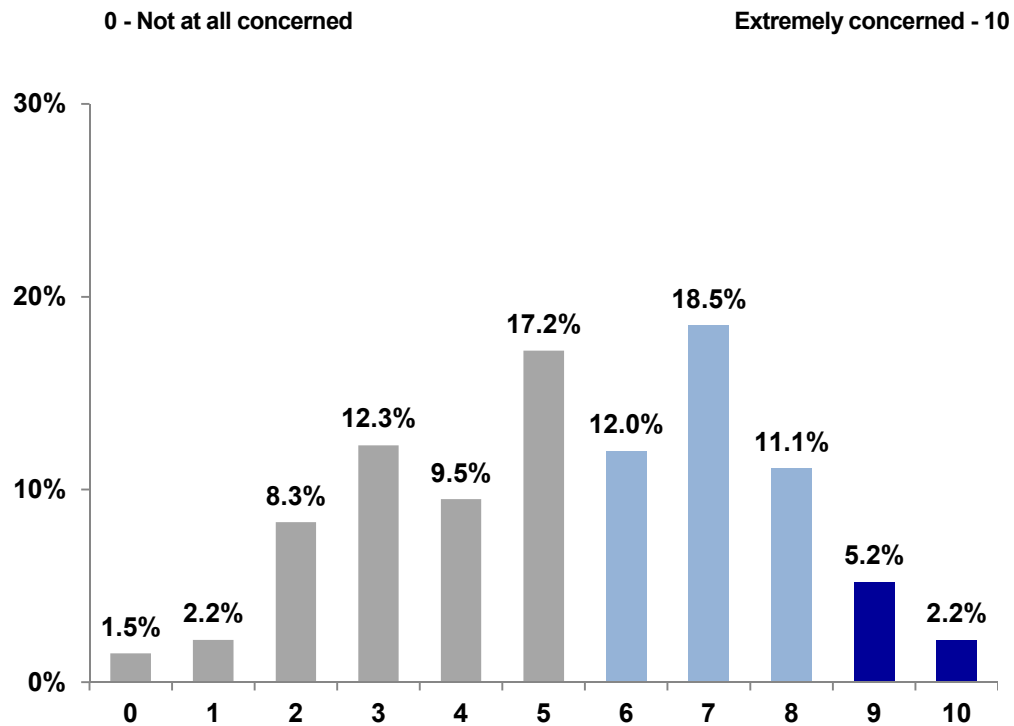
Concern level: Lateral Acquisition & Integration

	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	66.8%					26.5%			6.8%		

Median rating: 4

## Profitable Use & Development of Associates: Concern Level

**Q:** How concerned are you about your law firm’s preparedness to deal with profitable use and development of associates?



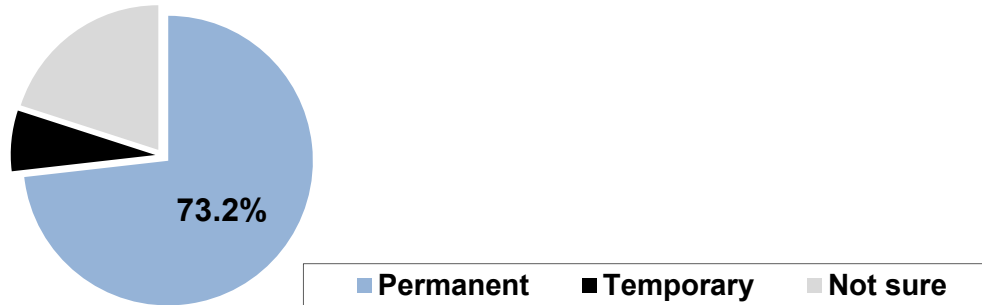
Concern level: Profitable Use / Development of Associates

	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	51.0%					41.6%			7.4%		

Median rating: 5

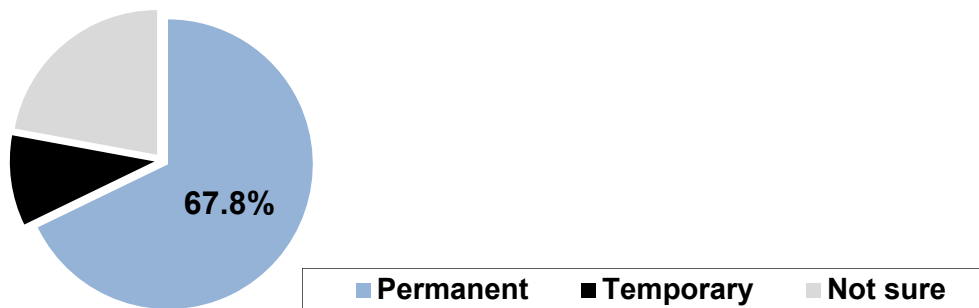
## Lawyer Staffing: Trends

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



	2009	2010	2011	2012	2013	2014	2015	2016
PERMANENT	NA	NA	NA	NA	70.5%	74.1%	73.1%	73.2%

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



	2009	2010	2011	2012	2013	2014	2015	2016
PERMANENT	28.3%	52.3%	59.6%	66.2%	74.6%	71.5%	72.4%	67.8%



Lawyer Staffing: Trends

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



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

## Top-Line Takeaways on Lawyer Staffing

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### FIRM FACTS:

<b>%</b>	<b>of law firms report...</b>	<b>page:</b>
<b>43%</b>	They have significantly changed their strategic approach to lawyer staffing.	<b>26</b>
<b>52%</b>	Their Equity Partners are not sufficiently busy.	<b>29</b>
<b>62%</b>	Their Non-Equity Partners are not sufficiently busy.	<b>29</b>
<b>60%</b>	Overcapacity is diluting overall profitability in their law firm.	<b>31</b>
<b>73%</b>	They are removing chronic underperformers from the firm.	<b>35</b>

### LEADERSHIP OPINIONS:

<b>%</b>	<b>of law firm leaders think...</b>	<b>page:</b>
<b>45%</b>	Their firm has too many Non-Equity Partners.	<b>32</b>
<b>73%</b>	More part-time lawyers is a permanent trend in the profession.	<b>39</b>
<b>68%</b>	More contract lawyers is a permanent trend in the profession.	<b>39</b>
<b>52%</b>	Outsourcing legal work is a permanent trend in the profession.	<b>40</b>

Law Firm Headcount & Growth

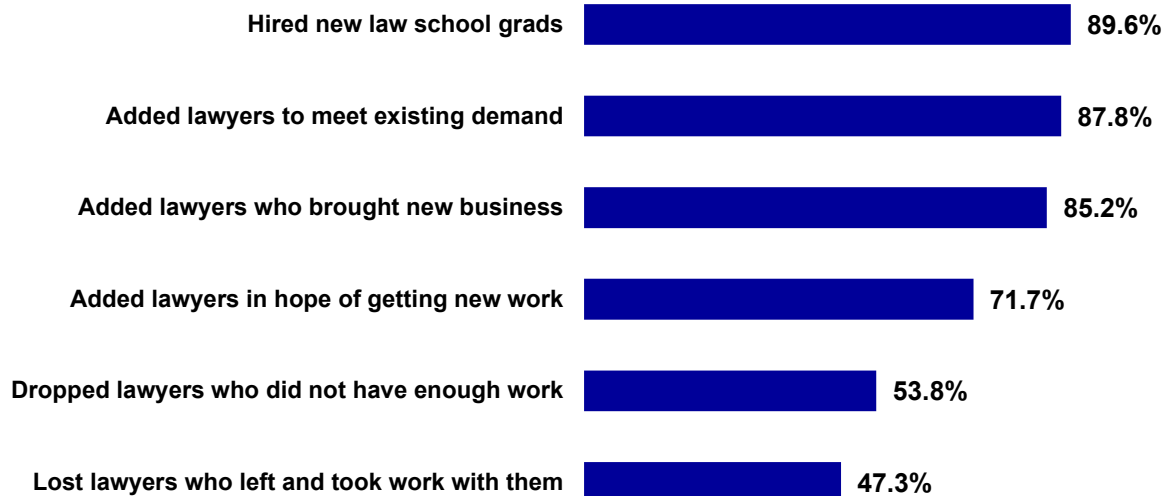
**LAW FIRMS IN TRANSITION 2016**

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## Law Firm Growth 2015

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**Q:** Did your firm add or lose lawyers for any of the following reasons in 2015?



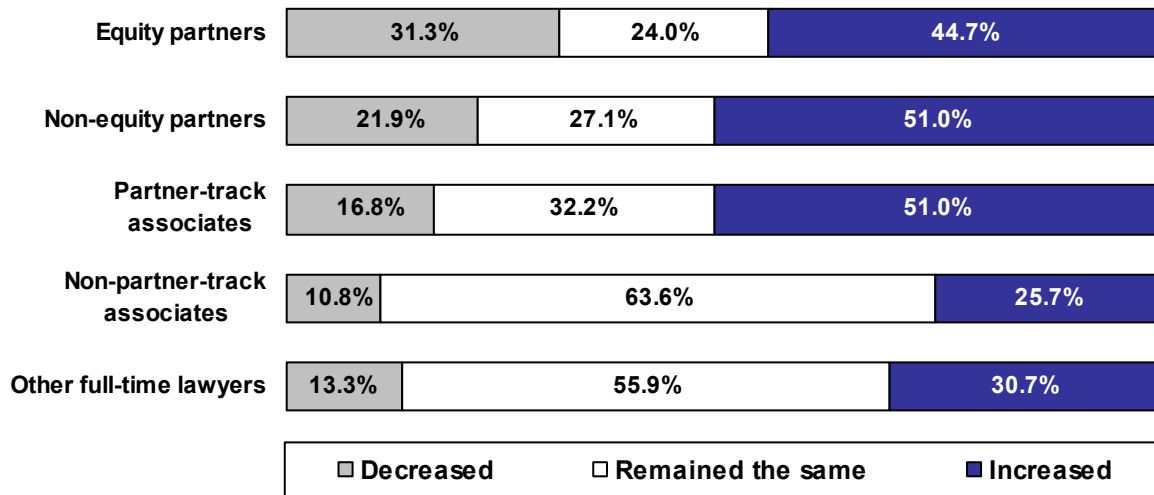
**Add or lose lawyers in 2015**

### Comparison

	Under 250 lawyers	250 lawyers or more
Hired new law school grads	86.7%	97.8%
Added lawyers to meet existing demand	86.6%	91.6%
Added lawyers who brought new business	80.7%	97.8%
Added lawyers in hope of getting new work	66.9%	85.4%
Dropped lawyers who did not have enough work	46.2%	75.0%
Lost lawyers who left and took work with them	42.1%	61.9%

## Lawyer Headcount 2015: Net Change

**Q:** What was your firm's approximate net change in lawyer headcount in each of the following categories in 2015?

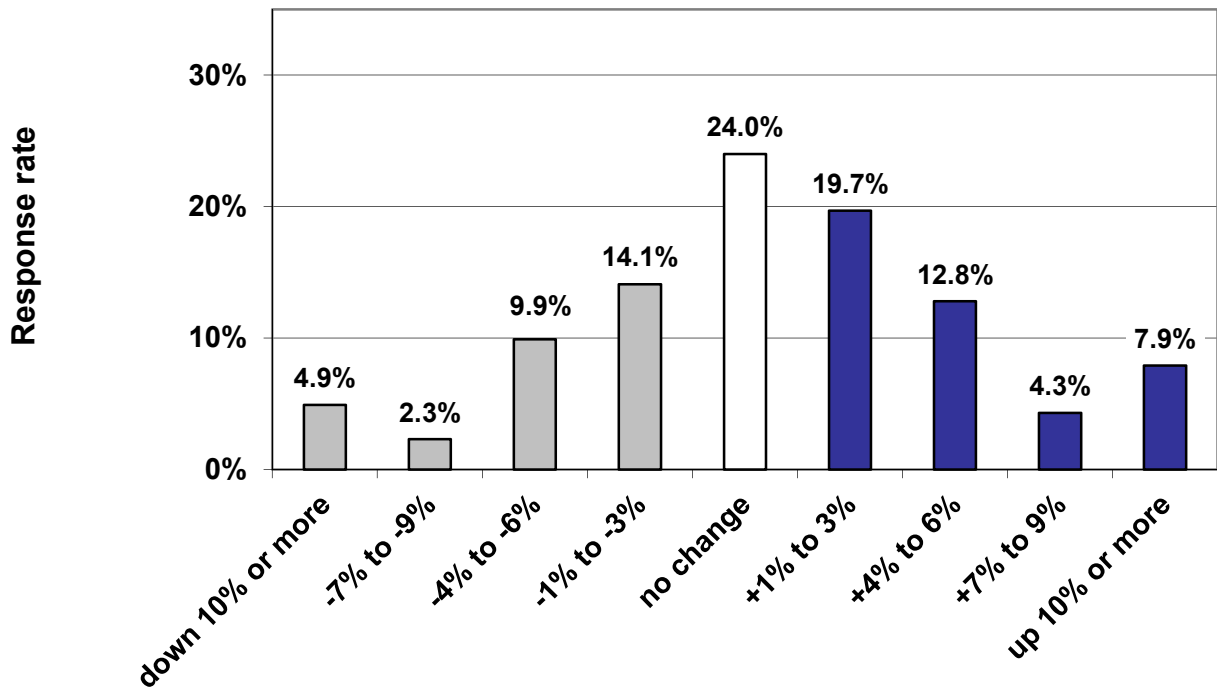


### Comparison of median net change in headcount by year:

	2012	2013	2014	2015
Equity partners	+1%	No change	No change	No change
Non-equity partners	+3%	+2%	+1%	+1%
Partner-track associates	+2%	+1%	No change	+1%
Non-partner-track associates	No change	No change	No change	No change
Other full-time lawyers	No change	No change	No change	No change

## Lawyer Headcount 2015: Equity Partners

### DETAIL: EQUITY PARTNERS

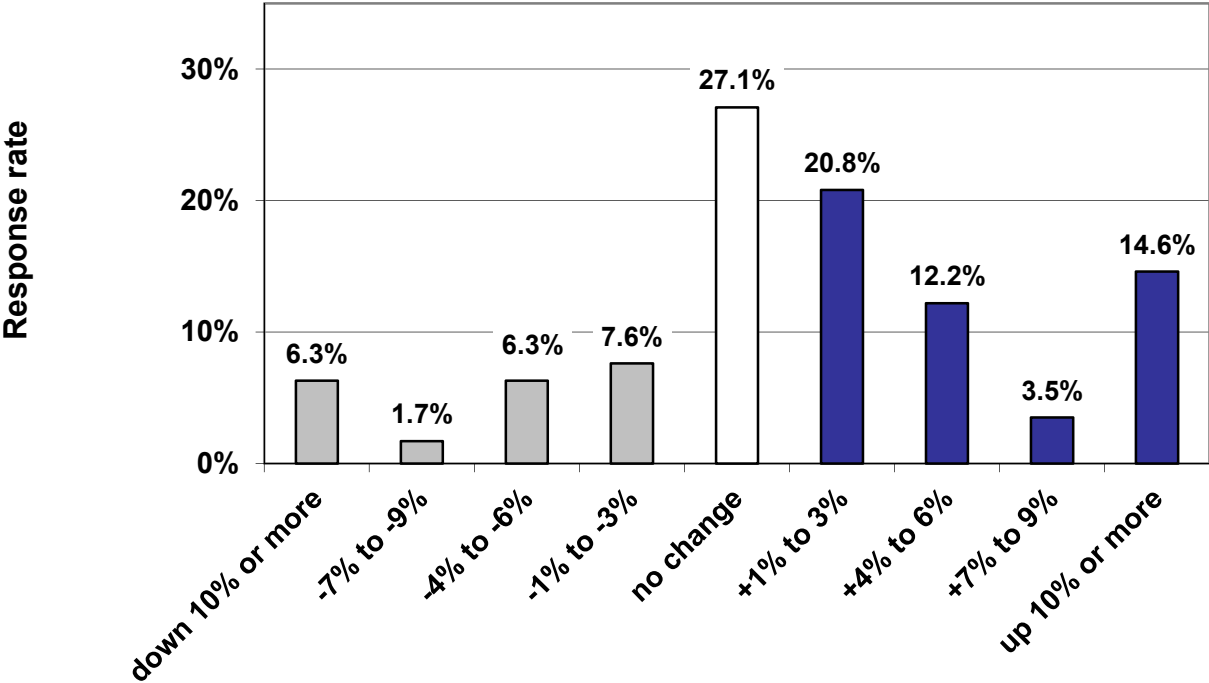


2015 Net Change in Equity Partner Headcount

**Median change: No change**

Lawyer Headcount 2015: Non-Equity Partners

**DETAIL: NON-EQUITY PARTNERS**



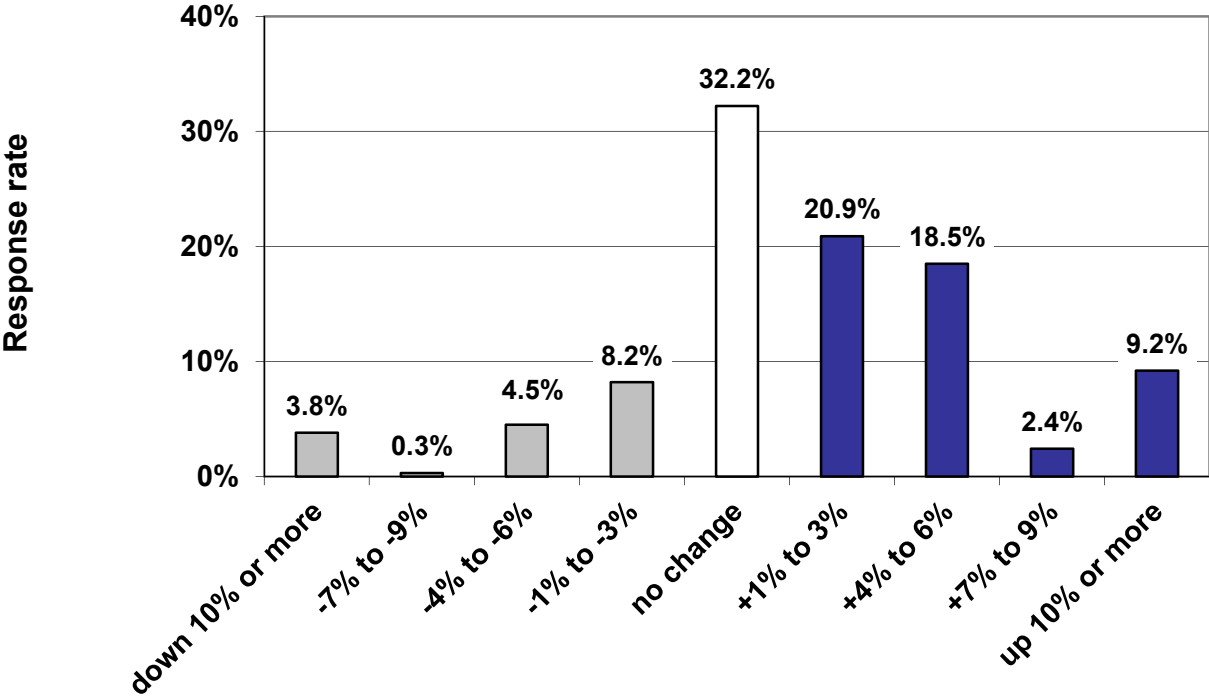
2015 Net Change in Non-Equity Partner Headcount

**Median change: +1%**



Lawyer Headcount 2015: Partner-Track Associates

**DETAIL: PARTNER-TRACK ASSOCIATES**

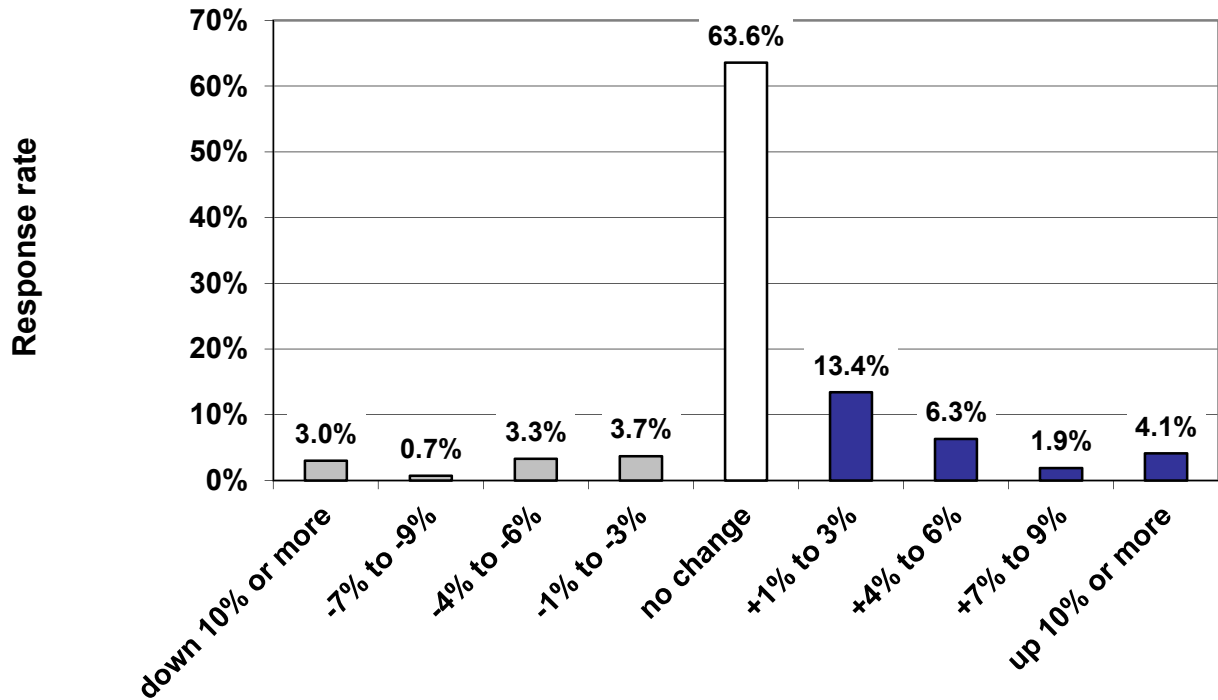


2015 Net Change in Partner-Track Associate Headcount

**Median change: +1%**

## Lawyer Headcount 2015: Non-Partner Track Associates

### DETAIL: NON-PARTNER-TRACK ASSOCIATES

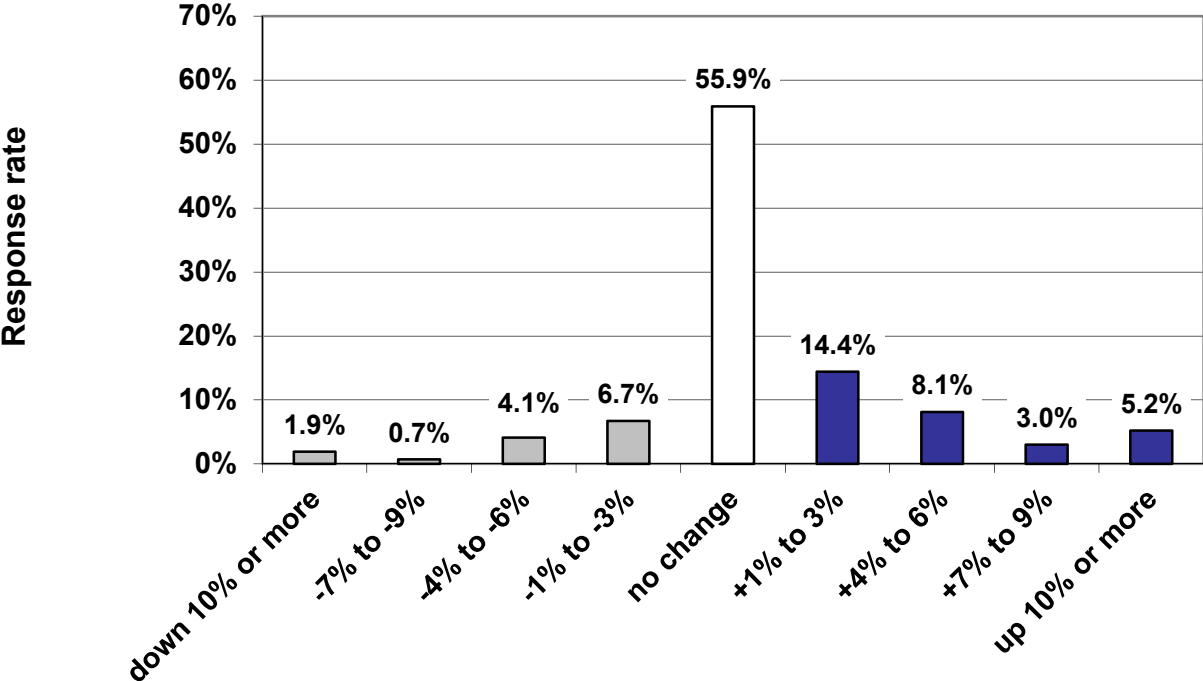


2015 Net Change in Non-Partner-Track Associate Headcount

Median change: No change

# Lawyer Headcount 2015: Other Full-Time Lawyers

## DETAIL: OTHER FULL-TIME LAWYERS



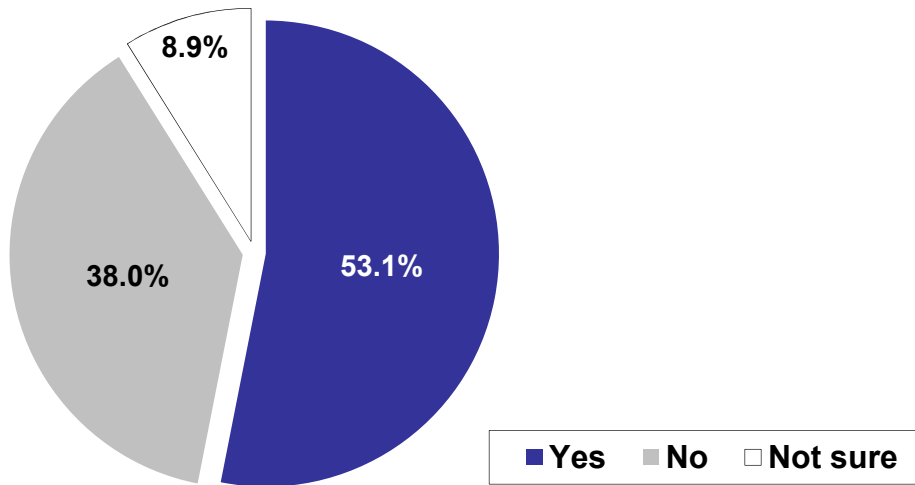
2015 Net Change in Other Full-Time Lawyer Headcount

Median change: No change

## 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

---

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

### Sample Comments – Yes

- To be successful, we should be acquiring more work from existing clients and adding new clients. If we're doing that, we will need to add attorneys.
- Growth is necessary, if business and revenue are to expand. The right combination of lawyers might be able to achieve the same thing, without growth, but I believe this is a tougher objective to achieve.
- In our practice area retaining and increasing market share is critical. One way to do this is by adding laterals with business.
- The need for an increasing number of specialists and depth in key practice areas makes growth an important driver of the ability to continue to provide our sophisticated clients with a high level of service.
- We need growth to improve depth and skills, support technology investments, and maximize return on overhead investments.
- Yes, if growth is a result of client demand.
- Yes, with respect to growth in strategic practice areas and industry sectors. Other nonstrategic areas will shrink in terms of lawyer headcount
- Yes, in order to handle the volume of work and to ensure a pipeline of future partners to succeed the retiring boomers.
- Addition of younger lawyers (leverage) very important.
- As a necessary evil. We do not want to get bigger. But we need to add talent to newer offices and depth to key practice areas.

### Sample Comments – Not Sure

- Not purely for the sake of growth, but because there is a compelling geographic, financial, practice opportunity (ies).
- It generally is a requirement only if new lawyers (or newly hired lawyers) bring business with them or have work to do.
- I think that mix is more important than absolute headcount growth.
- I think we can succeed if we grow, or if we don't grow. The success will just be different.

## Law Firm Growth Imperative

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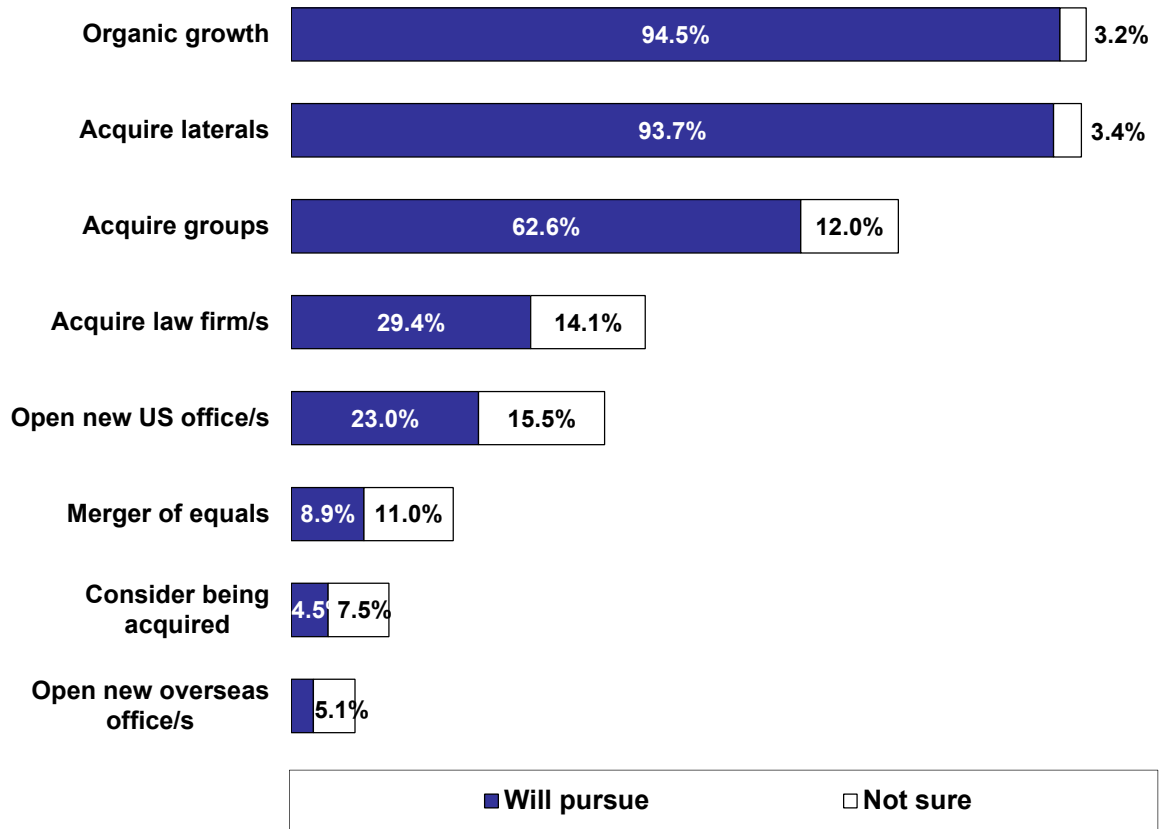
**Q:** Do you believe growth (in terms of lawyer headcount) is a requirement for your law firm's continued success?

### Sample Comments – No

- Adding bodies in and of itself is not a requirement - and is likely a detriment - to our firm's continued success. Adding and, more importantly, keeping, profitable lawyers/practices is the fundamental requirement.
- Growth is not a goal. Profitability is a goal. Greater depth is a goal. Responding to good opportunities in the market is a goal. But if we do the right things, growth will follow as a natural result.
- If "growth" is limited as noted to increases in headcount, the answer is "no." The addition of lawyers with profitable portable business is a requirement for success.
- Growth in timekeeper headcount is a requirement, and while we also expect to increase lawyer headcount as well, total timekeeper headcount growth is our focus, not just lawyer headcount.
- If we can increase margin while meeting our clients demands we won't add net headcount.
- Growth is only good if it is required to execute a firm's strategy.

## Law Firm Growth Strategy: 2016 Plans

**Q:** What growth options, if any, will your law firm pursue in 2016?



## Law Firm Growth Strategy: Trends

---

### Top 2016 growth options by firm size:

	<b>Under 250 lawyers</b>	<b>250 lawyers or more</b>
<b>Organic growth</b>	93.4%	97.8%
<b>Acquire laterals</b>	92.0%	98.9%
<b>Acquire groups</b>	53.5%	88.6%
<b>Open new US offices/s</b>	20.6%	29.9%
<b>Acquire law firms</b>	24.7%	42.7%

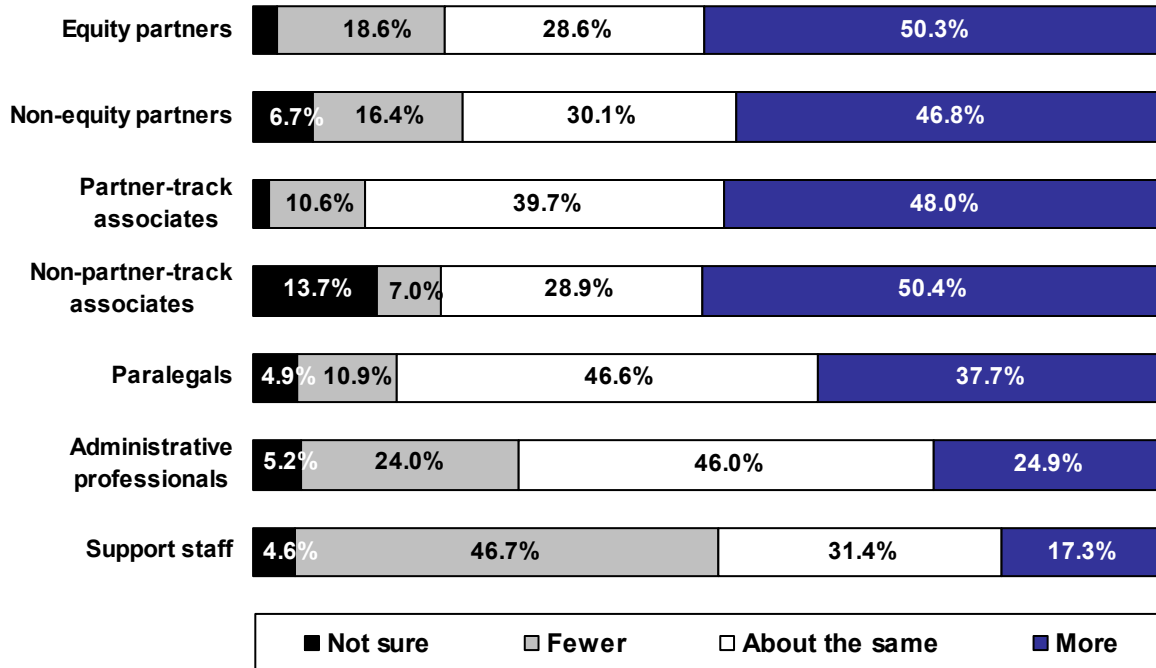
### Top growth options by year:

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



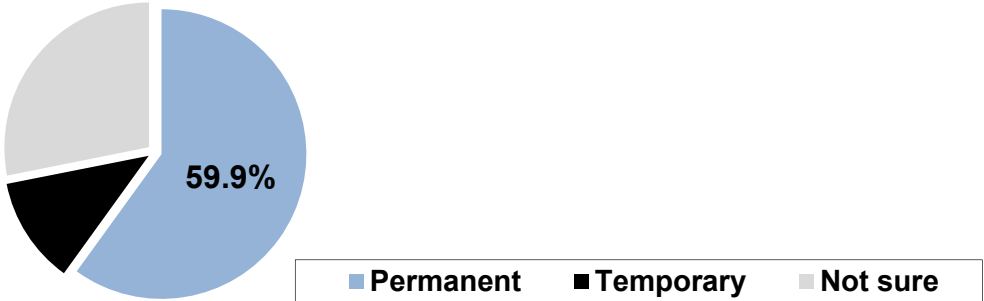
## Law Firm Growth: Five Year Outlook

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



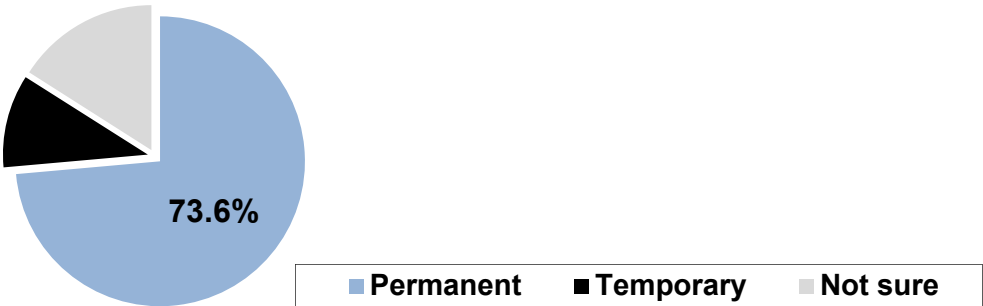
Partnership: Trends

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



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

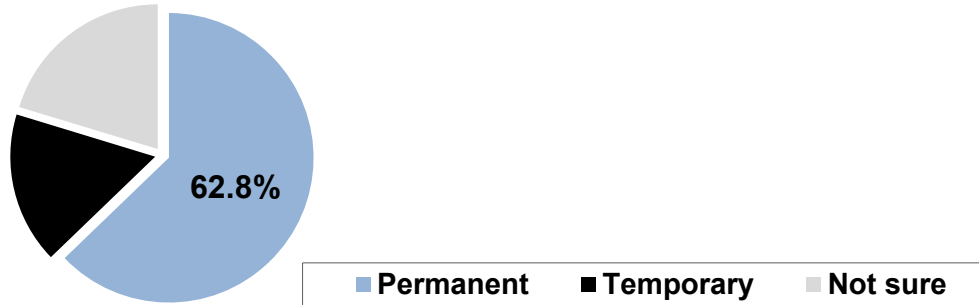
**Q:** Do you think increased lateral movement will be a permanent trend going forward?



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

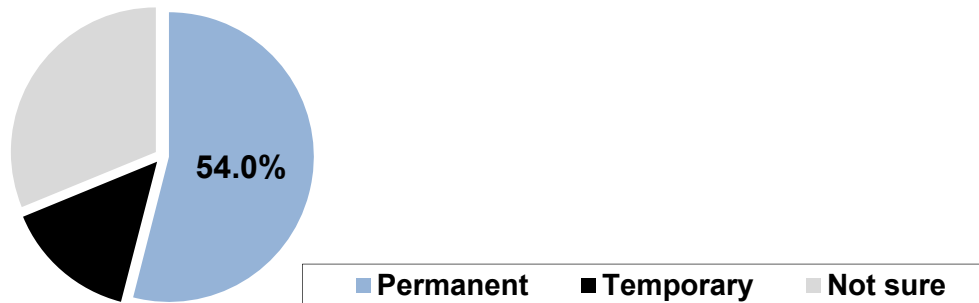
## Associates: Trends

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



	2009	2010	2011	2012	2013	2014	2015	2016
PERMANENT	11.4%	41.8%	39.6%	55.4%	62.2%	60.3%	60.6%	62.8%

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



	2009	2010	2011	2012	2013	2014	2015	2016
PERMANENT	12.1%	42.0%	44.6%	57.7%	56.7%	65.4%	55.7%	54.0%

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
PERMANENT	NA	NA	88.3%	80.5%	89.7%	88.6%	83.1%	88.2%

## Top-Line Takeaways on Headcount and Growth

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### FIRM FACTS:

<b>%</b>	<b>of law firms report...</b>	<b>page:</b>
<b>85%</b>	They added lawyers who brought new business to the firm.	<b>42</b>
<b>54%</b>	They dropped lawyers who didn't have enough work.	<b>42</b>
<b>47%</b>	They lost lawyers who left the firm and took work with them.	<b>42</b>
<b>31%</b>	They decreased their net number of equity partners in 2015.	<b>43</b>
<b>22%</b>	They decreased their net number of non-equity partners in 2015.	<b>43</b>

### LEADERSHIP OPINIONS:

<b>%</b>	<b>of law firm leaders think...</b>	<b>page:</b>
<b>53%</b>	Growth in lawyer headcount is a requirement for their firm's success.	<b>49</b>
<b>50%</b>	Five years from now, their firm will have more equity partners.	<b>54</b>
<b>47%</b>	Five years from now, their firm will have more non-equity partners.	<b>54</b>
<b>60%</b>	Fewer equity partners is a permanent trend in the profession.	<b>55</b>

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Efficiency of Legal Service Delivery

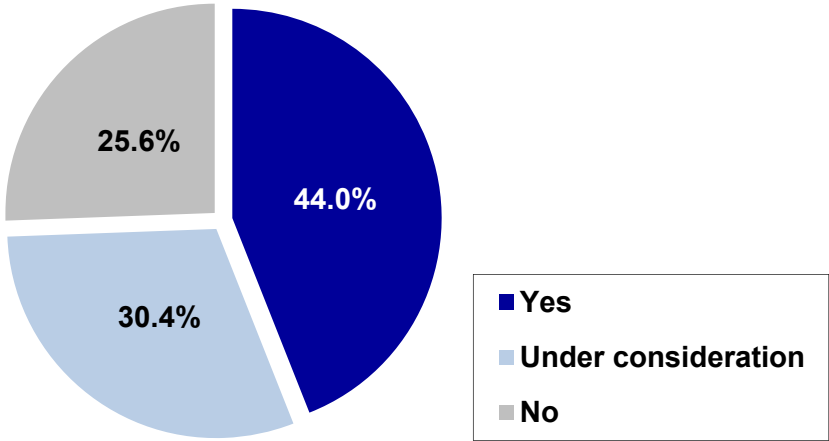
**LAW FIRMS IN TRANSITION 2016**

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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	38.8%	30.2%	31.0%
250 lawyers or more	58.6%	31.0%	10.3%

Comparison by year:

	Yes	Under consideration	No
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

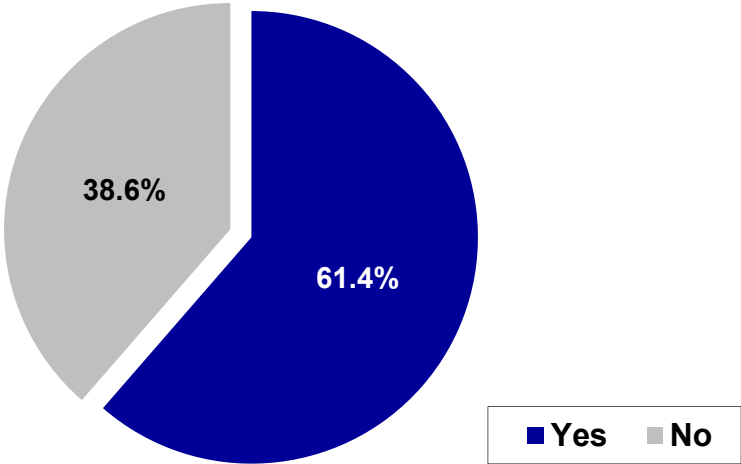
### Comparison by firm size:

	Under 250 lawyers	250 lawyers or more
Knowledge management	48.2%	69.8%
Using technology tools to replace human resources	51.4%	53.5%
Rewarding efficiency/profitability in comp decisions	42.0%	61.6%
Shifting work to contract/temporary lawyers	33.5%	73.3%
Project management training	30.6%	65.1%
Shifting work from lawyers to paraprofessionals	36.3%	41.9%
Reengineering work processes	26.5%	39.5%
Using non-law-firm vendors	15.5%	24.4%
None of the above	7.8%	0.0%

## 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?

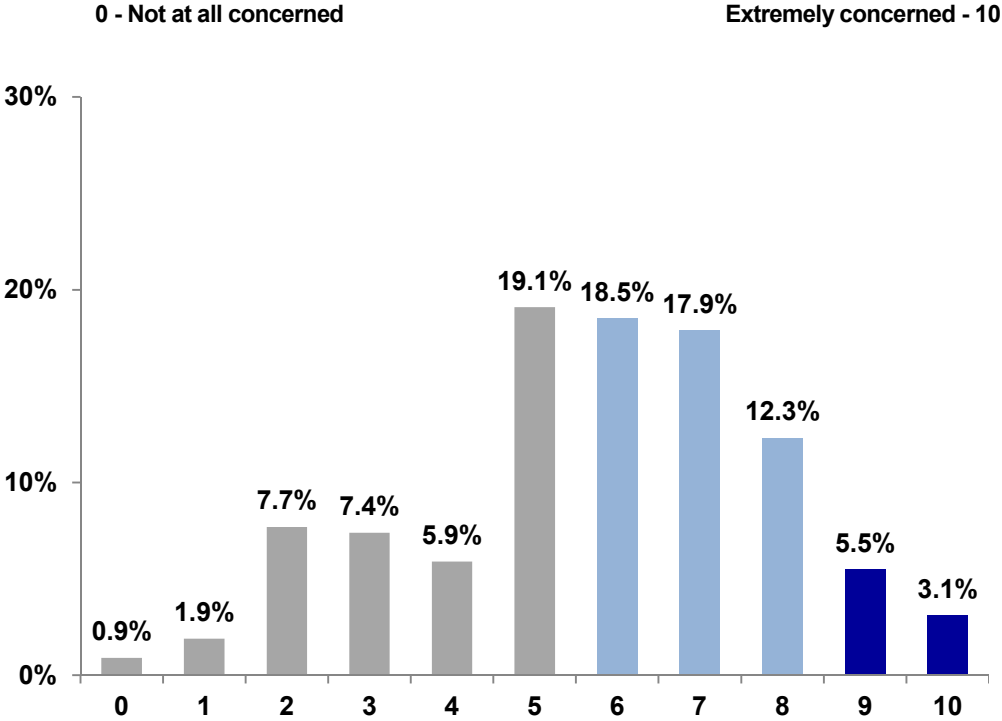


Comparison by firm size:

	Yes	No
Under 250 lawyers	57.1%	42.9%
250 lawyers or more	73.0%	27.0%

Improvements in Practice Efficiency: Concern Level

**Q:** How concerned are you about your law firm’s preparedness to deal with systematic improvements in practice efficiency?



Concern level: Improvement in Practice Efficiency

	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	42.9%					48.7%			8.6%		

Median rating: 6

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
<b>PERMANENT</b>	NA	NA	93.5%	95.8%	95.6%	93.8%	92.6%	93.3%

**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
<b>PERMANENT</b>	NA	NA	NA	NA	NA	84.8%	84.3%	85.2%

## Top-Line Takeaways on Practice Efficiency

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### FIRM FACTS:

<b>%</b>	<b>of law firms report...</b>	<b>page:</b>
<b>44%</b>	They have significantly changed their strategic approach to efficiency of legal service delivery.	<b>59</b>
<b>54%</b>	They use knowledge management to increase efficiency of service delivery.	<b>60</b>
<b>47%</b>	They reward efficiency and profitability in compensation decisions.	<b>60</b>
<b>40%</b>	They offer Legal Project Management training.	<b>60</b>

### LEADERSHIP OPINIONS:

<b>%</b>	<b>of law firm leaders think...</b>	<b>page:</b>
<b>57%</b>	They have moderate or high concern about their firm's preparedness to make improvements in practice efficiency.	<b>62</b>
<b>93%</b>	A focus on improved practice efficiency is a permanent trend.	<b>63</b>
<b>85%</b>	Using technology to replace some human resources is a permanent trend.	<b>63</b>

Pricing Strategies

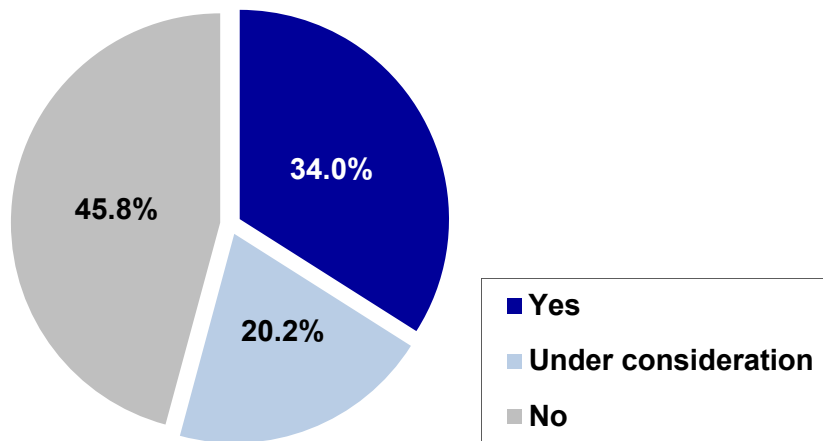
**LAW FIRMS IN TRANSITION 2016**

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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:

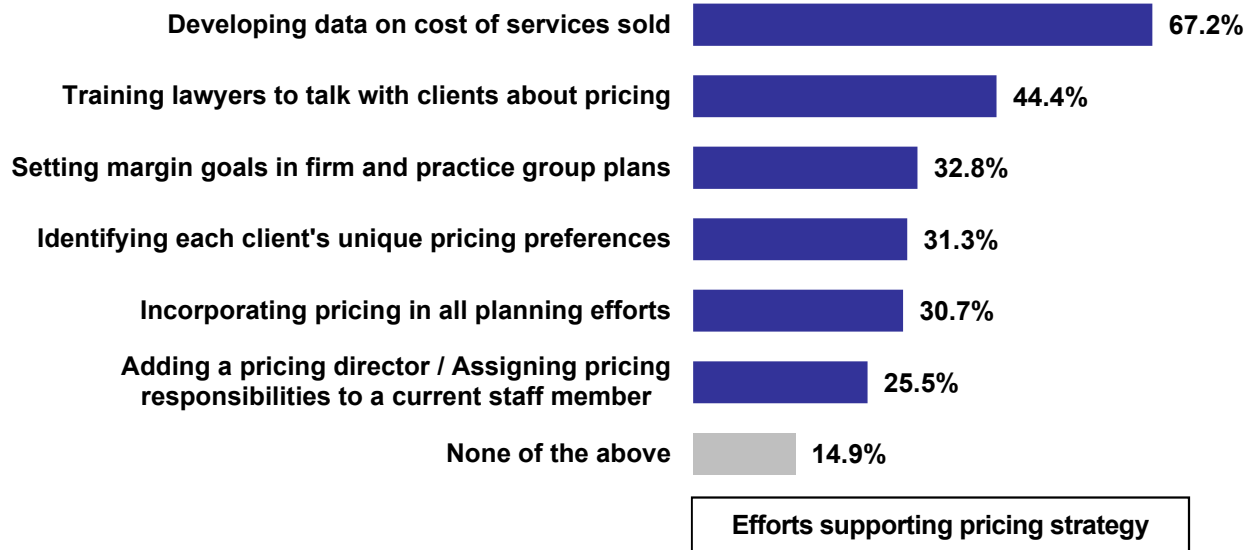
	Yes	Under consideration	No
Under 250 lawyers	25.8%	22.1%	52.0%
250 lawyers or more	56.8%	14.8%	28.4%

### Comparison by year:

	Yes	Under consideration	No
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?



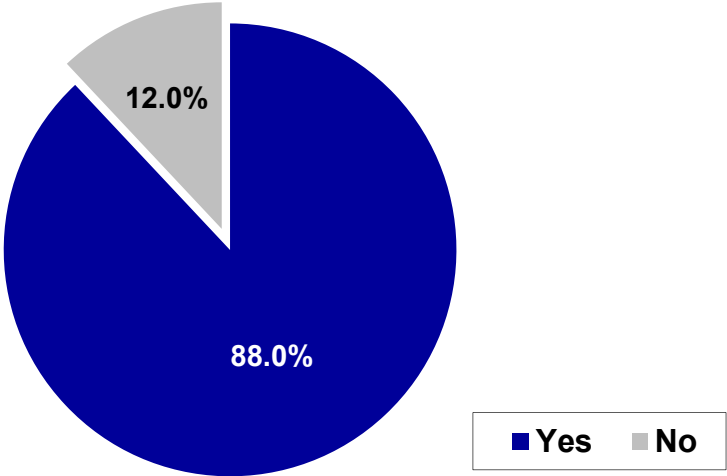
### Comparison by firm size:

	Under 250 lawyers	250 lawyers or more
Developing data on cost of services sold	59.0%	90.6%
Training lawyers to talk with clients about pricing	35.2%	70.6%
Setting margin goals in firm and practice group plans	27.9%	47.1%
Identifying each client's unique pricing preferences	27.5%	42.4%
Incorporating pricing in all planning efforts	24.2%	49.4%
Adding Pricing Director / Staff member	12.3%	63.5%
None of the above	19.3%	2.4%

## Pricing / Budgets: Talking with Clients

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

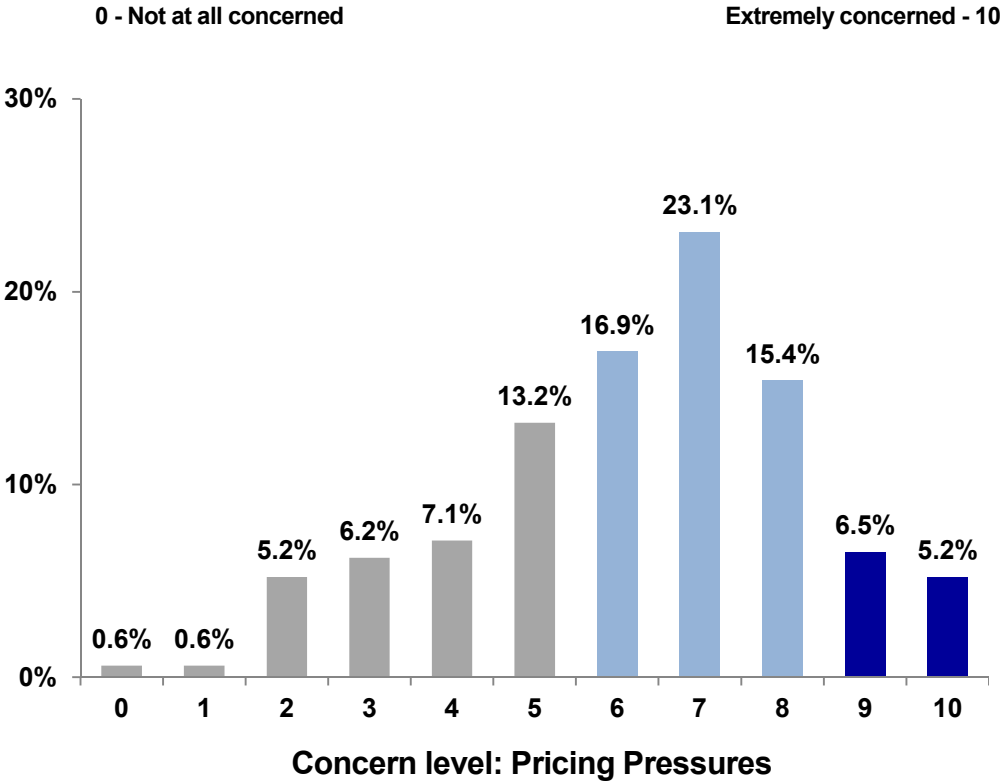


Comparison by firm size:

	Yes	No
Under 250 lawyers	85.3%	14.7%
250 lawyers or more	95.5%	4.5%

Pricing Pressure: Concern Level

**Q:** How concerned are you about your law firm’s preparedness to deal with pricing pressures?

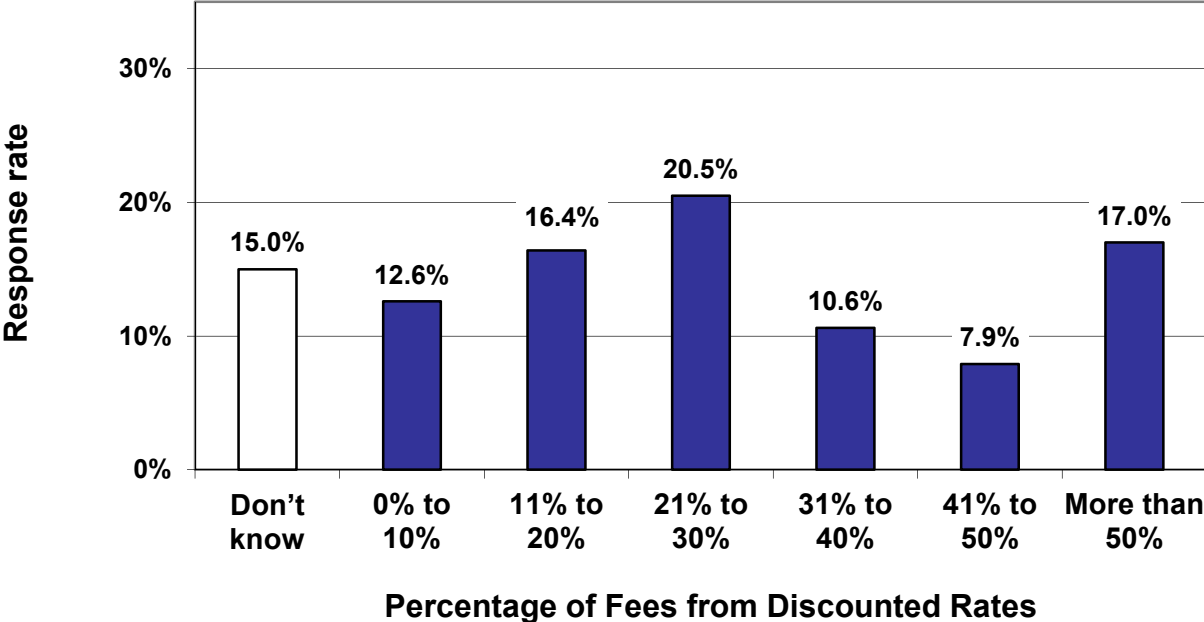


	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	32.9%					55.4%			11.7%		

**Median rating: 7**

Pricing: Discounts

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



**Median: 21% to 30%**

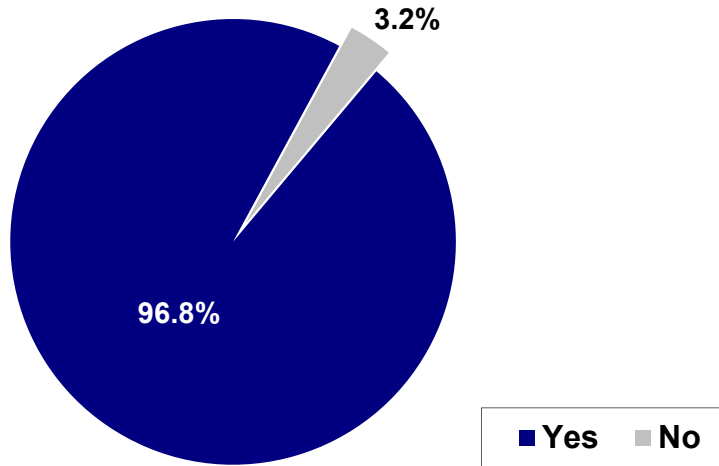
Comparison of median results by firm size:

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

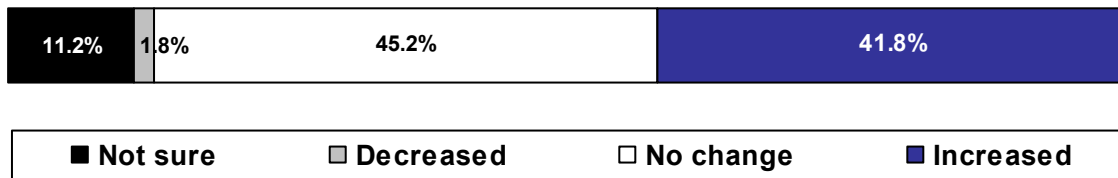
## Alternative Fees: 2015 Usage

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



**Q:** In 2015, did your firm increase its amount of non-hourly based billing (measured by percentage of revenue)?



## Alternative Fees: Usage Trends

---

### Comparison by firm size:

Change in the amount of non-hourly billing in the prior year (measured as a percentage of revenue)

	NOT SURE	DECREASED	NO CHANGE	INCREASED
<b>Under 250 lawyers</b>	12.3%	2.5%	49.0%	36.2%
<b>250 lawyers or more</b>	8.0%	0.0%	34.5%	57.5%

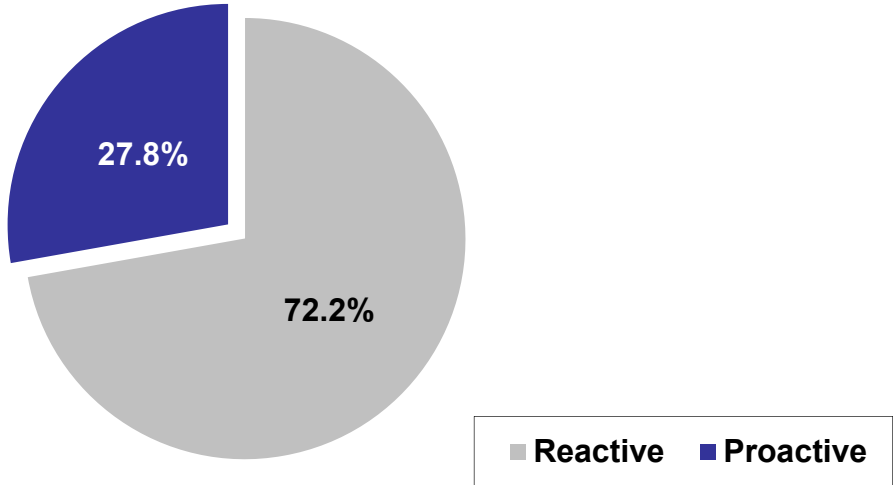
### Comparison by year:

Change in the amount of non-hourly billing in the prior year (measured as a percentage of revenue)

	NOT SURE	DECREASED	NO CHANGE	INCREASED
<b>2016</b>	11.2%	1.8%	45.2%	41.8%
<b>2015</b>	13.0%	3.0%	41.5%	42.6%
<b>2014</b>	9.0%	5.2%	37.1%	48.7%
<b>2013</b>	5.5%	2.7%	45.2%	46.6%
<b>2012</b>	5.7%	1.4%	45.5%	47.4%
<b>2011</b>	10.4%	1.8%	29.9%	57.9%

## 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)?



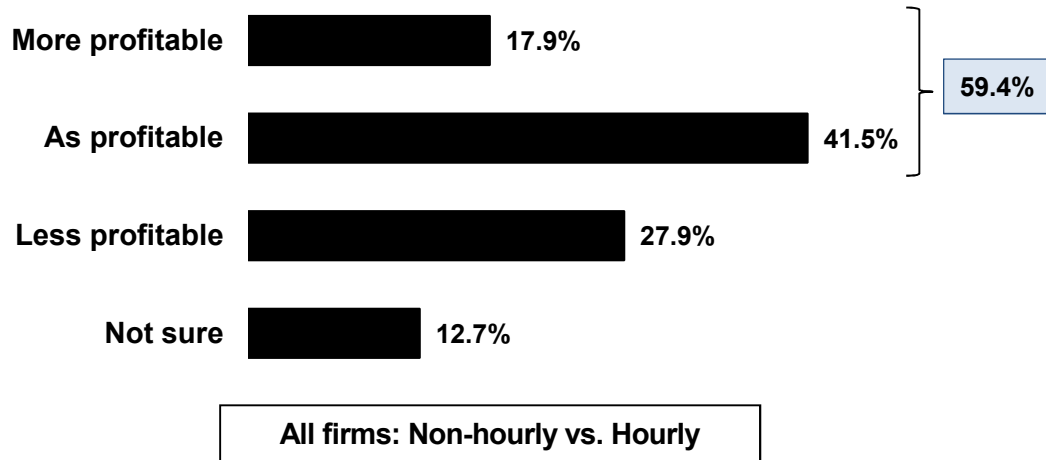
Comparison by year:

	PROACTIVE	REACTIVE
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%

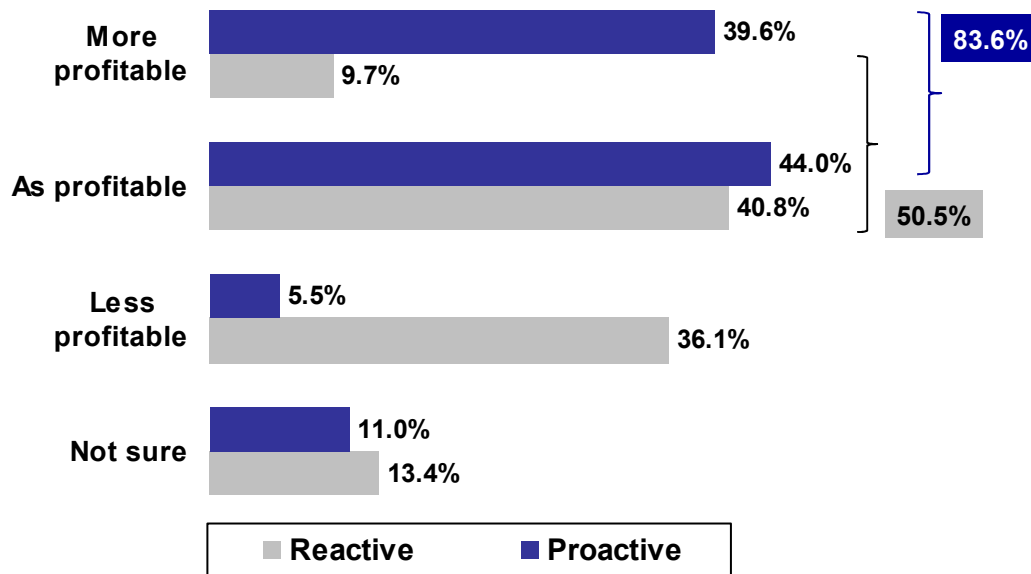


## Alternative Fees: Profitability vs. Hourly Fees

**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>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>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%

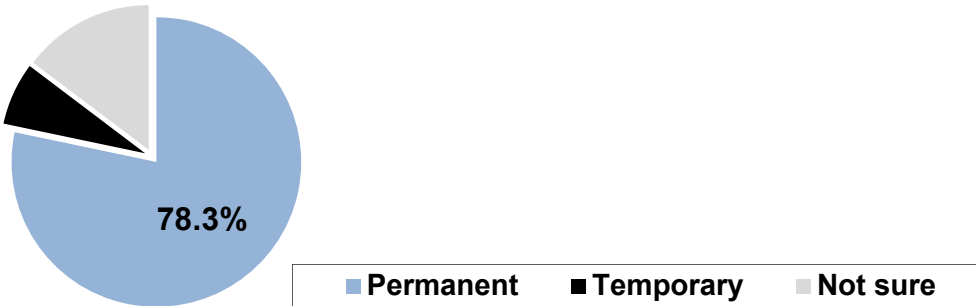
Pricing: Trends

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



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

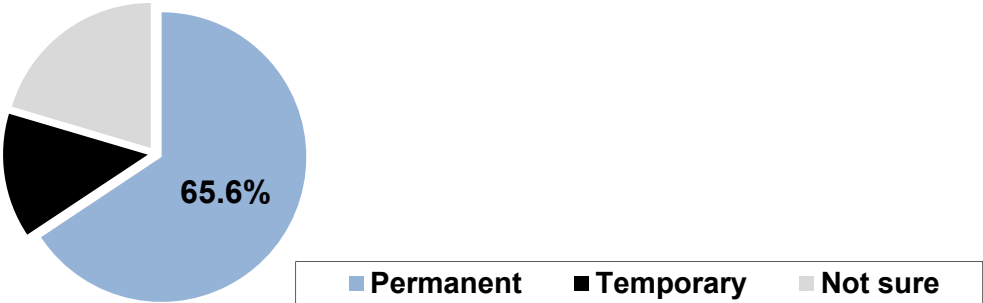
**Q:** Do you think more non-hourly billing will be a permanent trend going forward?



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

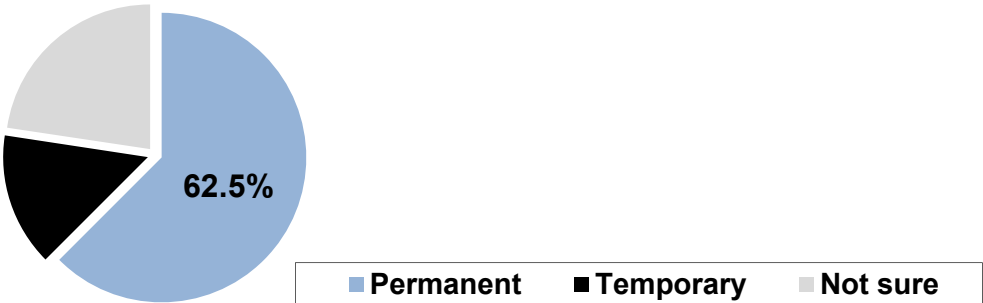
Pricing: Trends

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



	2009	2010	2011	2012	2013	2014	2015	2016
<b>PERMANENT</b>	NA	NA	57.1%	61.7%	67.9%	67.7%	59.5%	65.6%

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



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

## Top-Line Takeaways on Pricing

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### FIRM FACTS:

<b>%</b>	<b>of law firms report...</b>	<b>page:</b>
<b>34%</b>	They have significantly changed their strategic approach to pricing.	<b>65</b>
<b>67%</b>	They are developing data on cost of services sold to support the firm's pricing strategy.	<b>66</b>
<b>97%</b>	They use some non-hourly based billing.	<b>70</b>
<b>42%</b>	They increased (as a percentage of revenue) the amount of non-hourly based billing they did last year.	<b>70</b>
<b>28%</b>	They are proactive in offering clients alternative fee arrangements.	<b>72</b>
<b>84%</b>	<u>When they are proactive</u> about alternative fees, their projects are as profitable or more profitable than hourly-rate projects.	<b>73</b>

### LEADERSHIP OPINIONS:

<b>%</b>	<b>of law firm leaders think...</b>	<b>page:</b>
<b>67%</b>	They have moderate or high concern about their firm's preparedness to deal with pricing pressures.	<b>68</b>
<b>95%</b>	More price competition is a permanent trend.	<b>75</b>
<b>78%</b>	More non-hourly billing is a permanent trend.	<b>75</b>
<b>66%</b>	Smaller annual billing rate increases is a permanent trend.	<b>76</b>

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Financial Performance  
**LAW FIRMS IN TRANSITION 2016**

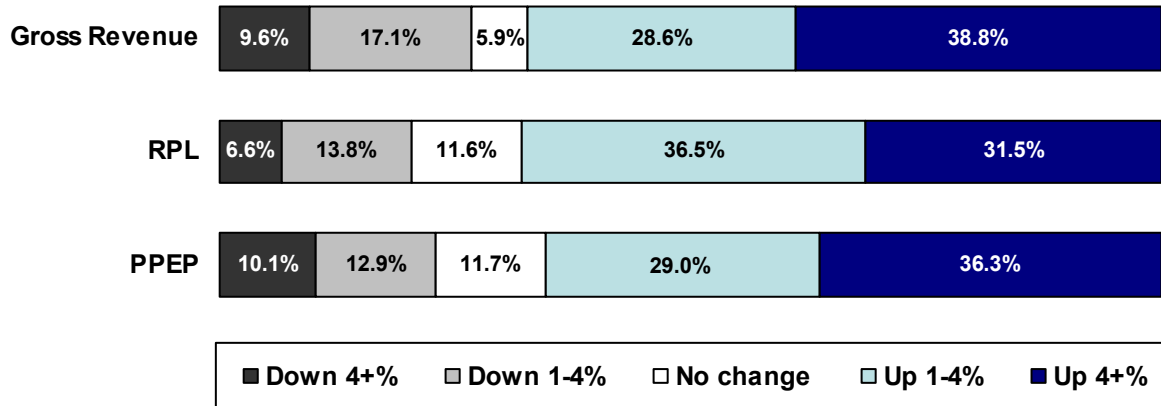
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## Financial Performance: 2015

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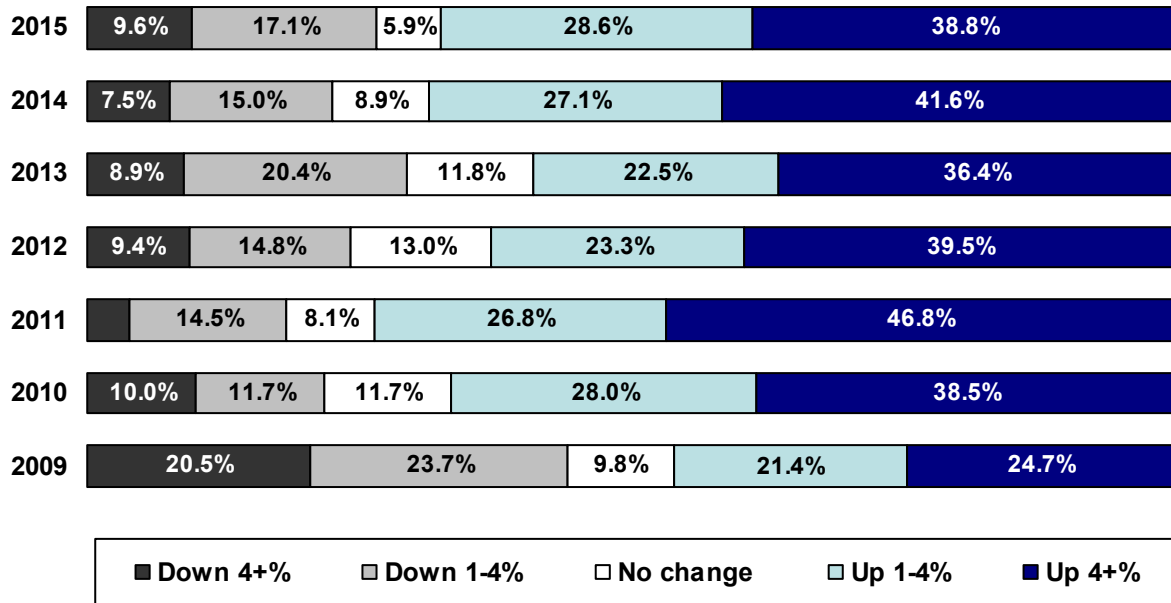
**Q:** How did your law firm perform in 2015 compared to 2014?



## Gross Revenue: Trend 2009 - 2015

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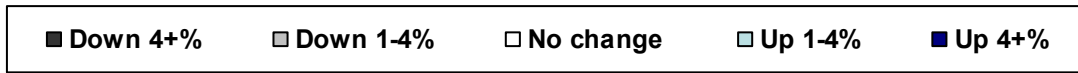
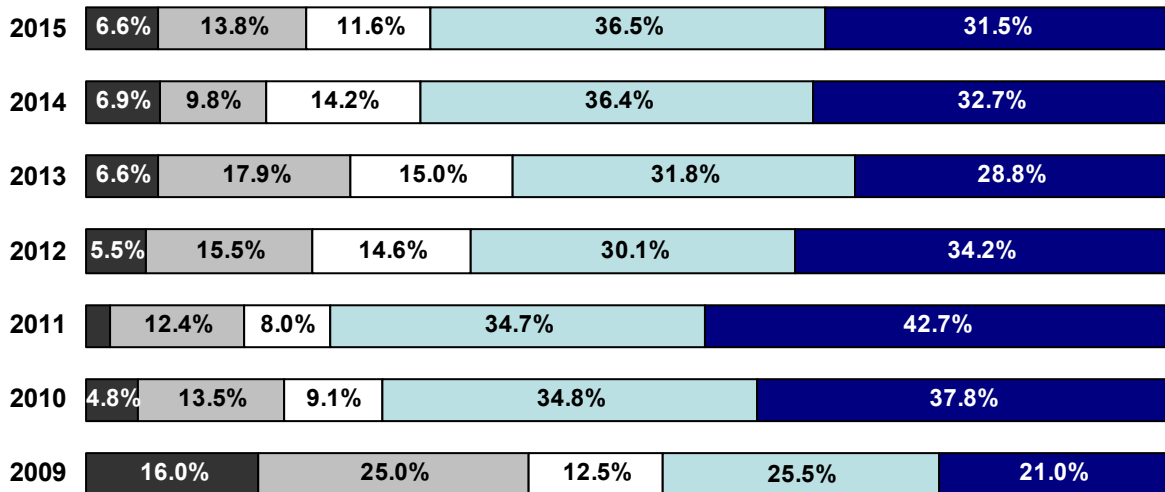
Comparison by year:



## Revenue Per Lawyer: Trend 2009 - 2015

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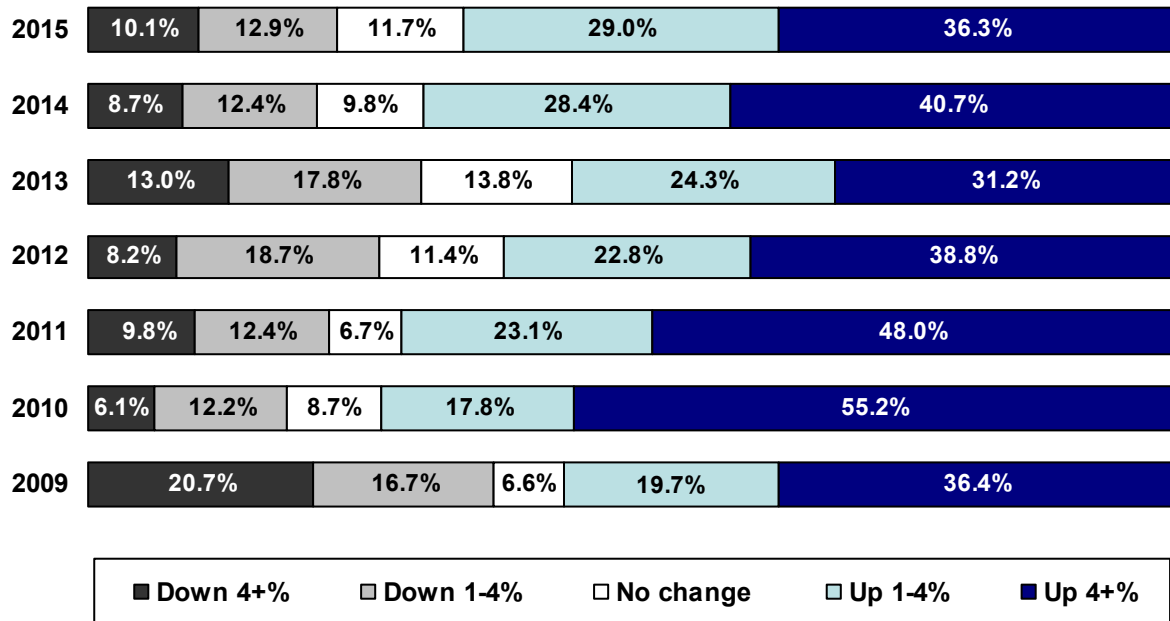
Comparison by year:



## Profits Per Equity Partner: Trend 2009 - 2015

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Comparison by year:



## Financial Performance: Five Year Trends

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**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
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%
2011	18.3%	8.1%	73.6%

RPL	Down	No change	Up
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%
2011	14.6%	8.0%	77.4%

PPEP	Down	No change	Up
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%
2011	22.2%	6.7%	71.1%

## 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).

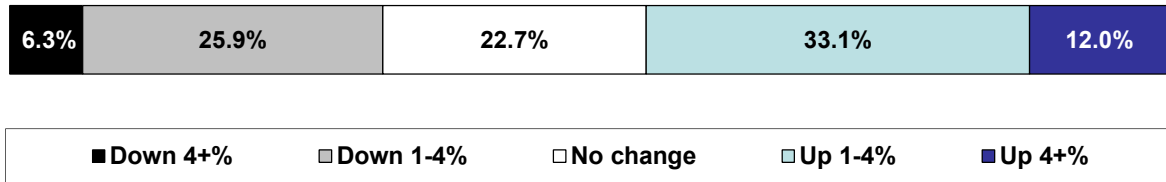
Gross revenue	Down	No change	Up
Under 250 lawyers	28.6%	6.3%	65.2%
250 lawyers or more	21.5%	4.8%	73.8%

Revenue per lawyer	Down	No change	Up
Under 250 lawyers	21.2%	11.9%	66.8%
250 lawyers or more	18.1%	10.8%	71.1%

Profits per partner	Down	No change	Up
Under 250 lawyers	24.8%	11.5%	63.6%
250 lawyers or more	18.0%	12.0%	69.9%

## Financial Performance: 2015 Overhead Costs

**Q:** How did your law firm perform in 2015 compared to 2014?



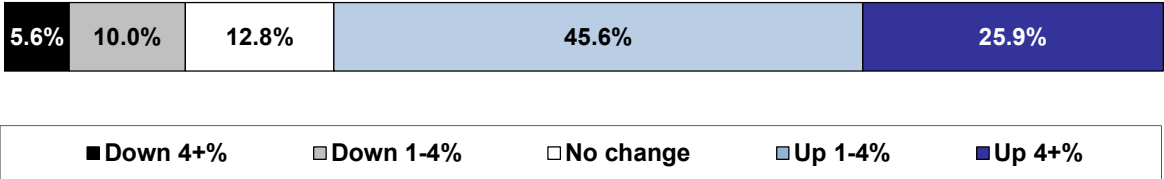
### 2015 Overhead

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
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%
2011	20.1%	21.0%	58.9%

2016 Gross Revenue: Expectation

**Q:** Overall do you expect your firm’s gross revenue in 2016 to be up or down?



Predicted change in 2016 gross revenue

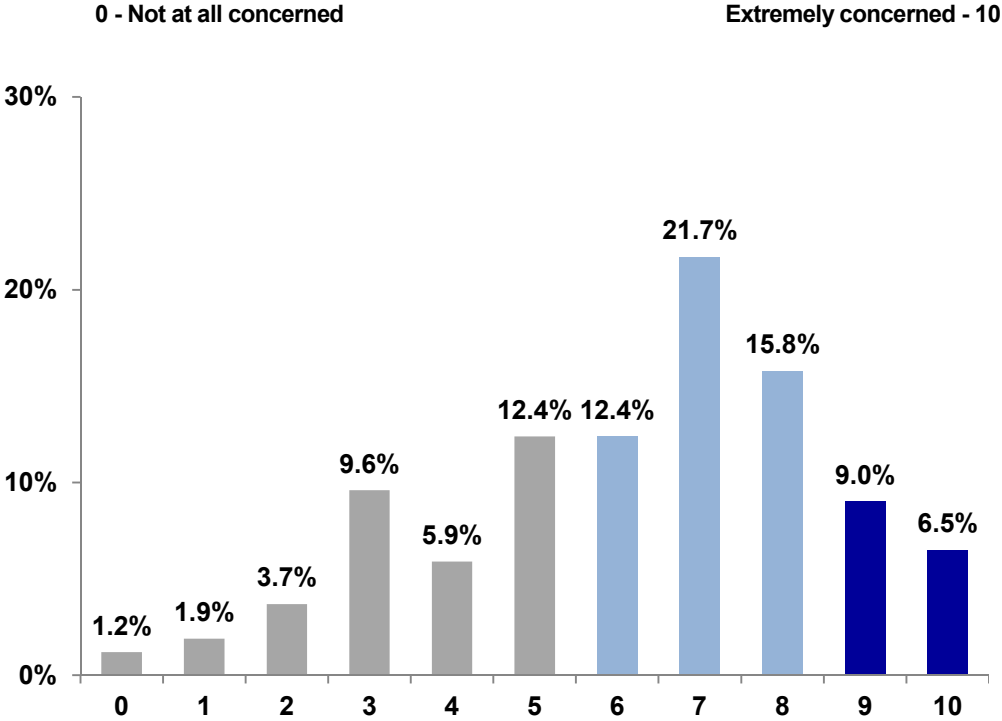
Comparison by firm size:

	Will be down	No change	Will be up
Under 250 lawyers	19.0%	13.5%	67.5%
250 lawyers or more	6.0%	10.8%	83.1%



Growth in Profitability: Concern Level

**Q:** How concerned are you about your law firm’s preparedness to deal with continuing growth in profitability?

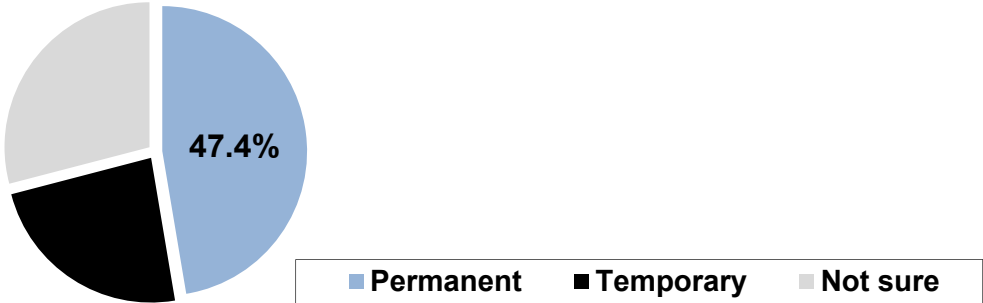


	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	34.7%					49.9%			15.5%		

**Median rating: 7**

Profitability: 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
PERMANENT	13.2%	26.6%	15.6%	47.7%	55.6%	58.3%	44.8%	47.4%

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

## Top-Line Takeaways on Financial Performance

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### FIRM FACTS:

<b>%</b>	<b>of law firms report...</b>	<b>page:</b>
<b>67%</b>	Gross revenue increased in their firm in 2015.	<b>78</b>
<b>68%</b>	Revenue per lawyer increased in their firm in 2015.	<b>78</b>
<b>65%</b>	Profits per equity partner increased in their firm in 2015.	<b>78</b>
<b>45%</b>	Overhead costs were up in their firm in 2015.	<b>84</b>

### LEADERSHIP OPINIONS:

<b>%</b>	<b>of law firm leaders think...</b>	<b>page:</b>
<b>72%</b>	They expect gross revenue to increase in their firm in 2016.	<b>85</b>
<b>65%</b>	They have moderate or high concern about their firm's preparedness to deal with continuing growth in profitability.	<b>86</b>
<b>47%</b>	A slowdown in growth of profits per partner is a permanent trend in the profession.	<b>87</b>

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Bonus Question: Autonomy vs. Compensation

**LAW FIRMS IN TRANSITION 2016**

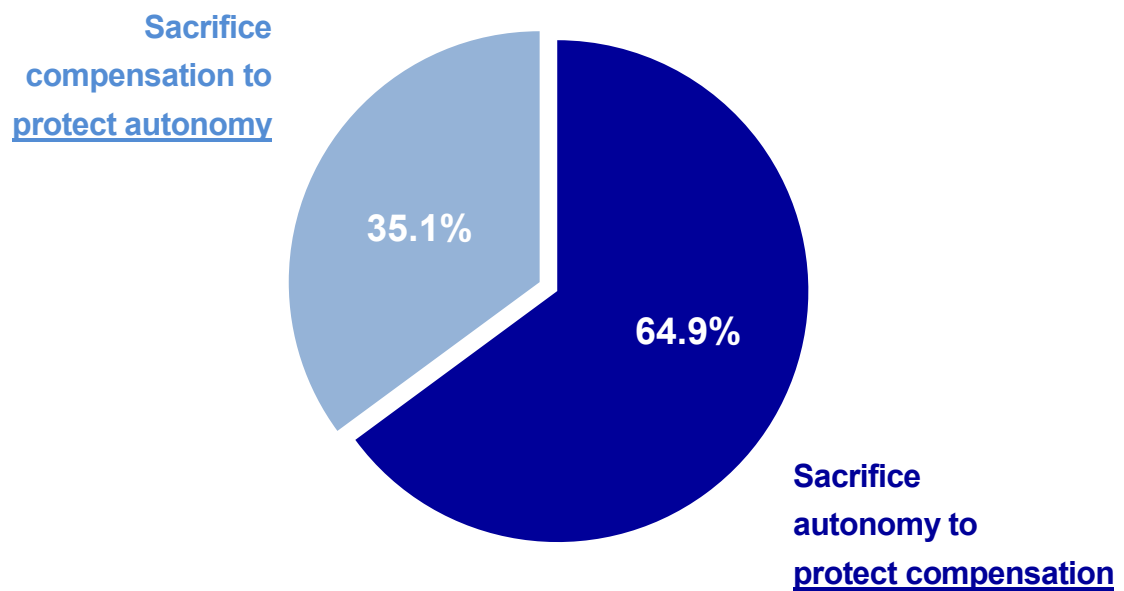
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## Bonus Question: Autonomy vs. Compensation

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**Q:** Two primary elements of law firm partnership that most partners value are the autonomy to manage their own practices, and the compensation they receive. If they had to choose, do you think most of your partners would rather:

- Sacrifice some compensation to protect their current level of autonomy, or
- Sacrifice some autonomy to protect their current level of compensation



	Protect autonomy	Protect compensation
50-99 lawyers	43.3%	56.7%
100-249 lawyers	34.5%	65.5%
250-499 lawyers	23.7%	76.3%
500-999 lawyers	28.6%	71.4%
1,000+ lawyers	0%	100%

## Bonus Question: Autonomy vs. Compensation

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### Sample Comments

#### SACRIFICE AUTONOMY / PROTECT COMPENSATION

- Partners care more about money than they admit.
- There is a definite difference between the Boomers and Gen X Partners on this issue. The Gen Xers would choose money almost over anything else.
- With growth and more centralization of work that is happening already.

#### SACRIFICE COMPENSATION / PROTECT AUTONOMY

- For most of the Firm's attorneys, they appreciate the autonomy the Firm provides in the practice and is one of the reasons a number of laterals joined the Firm.
- I don't think they would knowingly select this option, necessarily. But based on behavior, I don't think they'd give up the autonomy in the long run, even if it could be demonstrated that there is a more profitable model.

#### DIDN'T CHOOSE

- In our firm, a partner does not have to make that choice. Their compensation and autonomy are both dramatically increased from what they had at traditional BigLaw.
- Neither. Lawyers do not compromise.



Participant Demographics  
**LAW FIRMS IN TRANSITION 2016**

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## 2016 Survey Participant Demographics

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In March and April 2016, Altman Weil surveyed Managing Partners and Chairs of 800 US law firms with 50 or more lawyers. We received responses from 356 firms, a 45% response rate.

Firm Size*	All US Law Firms	Survey Participants	% Response
1,000 +	25	11	44%
500 – 999	64	36	56%
250 – 499	86	43	50%
100 – 249	229	130	57%
50 – 99	396	136	34%
All	800	356	45%

The respondent group includes\*\*:

- 49% of 2015 NLJ 350 law firms
- 48% of 2015 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 2016. Survey participants reported their own lawyer headcounts.

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

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