

2018
Law Firms in Transition
An Altman Weil Flash Survey



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Law Firms in Transition 2018

Now in its tenth year, with half the universe of US law firms with 50 or more lawyers participating, the *Law Firms in Transition Survey* has become a unique resource for insight on law firm strategy and the opinions of firm leaders. The annual survey has tracked a continual shift in awareness, acceptance – and some persistent resistance – to legal market change. As market perceptions among law firm leaders have evolved over the last decade, we have seen new operational tactics emerge and take hold in some firms resulting in real improvements in profitability and long-term sustainability.

A decade of change: 2009-2018

In 2009, US law firms were confronting the effects of the Great Recession and facing market dynamics they had never faced before. Corporate client purchasing strategies changed quickly and significantly. Clients were pulling back on large amounts of legal work, canceling projects, railing about egregious inefficiencies in law firm service delivery, and demanding and receiving enormous discounts on hourly rates. Lawyers who had consistently billed 2,000 hours a year saw their work all but dry up. Senior partners, watching their retirement accounts plummet, dug in their heels and resolved not to retire.

Law firms reacted by laying off thousands of (mostly younger) lawyers and staff and withdrew their offers to new graduates. Cost-cutting became the norm and major expenses were deferred. Many firms hunkered down and went into survival mode. Pundits, law firm leaders and, yes, some consultants issued hyperbolic proclamations that law practice would never be the same.

Altman Weil's *Law Firms in Transition Survey* was born out of the confusion and anxiety of that time. Our objective was to assess the nature and disruptive influence of the recession and its aftermath, gather hard data on what law firms were doing in

THE 2018 SURVEY

WE POLLED:

Managing Partners and Chairs at 801 US law firms with 50 or more lawyers.

PARTICIPATION:

398 firms (50%) including 45% of the 500 largest US law firms and 52% 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 2018.

response to new challenges and opportunities, and determine which responses were achieving the best outcomes. We sought to provide clear, credible information that would facilitate law firm planning and operational decision making.

Ten years on, we think law firms face a different kind of threat. The recession was a 'known' event (albeit severe) to be endured and managed – as law firms had done in prior economic downturns. The threat in 2018 is broader and more nuanced, arising primarily from the sweeping force of technology evolution over the last two decades that has resulted in the commoditization and commercialization of more and more legal services. This new threat wasn't caused by the recession, but the recession was clearly an accelerant.

Naturally, law firms have focused on their financial health and performance in the aftermath of the recession. Although few have recovered to pre-recession levels, most have achieved a reasonable level of 'comfort' on the rising tide of general economic recovery.

We think this creates a false sense of security and a mis-direction of focus in many law firms. In reacting to the last crisis, they fail to recognize the next. Most law firms continue to plan for short-term, incremental improvements in performance, while deferring or slow-walking more forward-looking actions to address long-term, systemic threats.

*In 69% of law firms,
partners resist most change efforts.*

– 2018 Law Firms in Transition

Managing the transition

Clearly, there was no extinction event that made law firms irrelevant after the recession. However, there was a hastening of the pace of transition into new operating modes. Most law firms have been able to manage their transitions to achieve at least moderate performance gains or to maintain acceptable performance by just keeping on.

Few firms have taken full advantage of the disruption as an opportunity and run with it to distinguish themselves from competitors. Being a thought leader and early

adopter of new methodologies and technologies is a clear differentiator that few law firms have embraced.

Can law firms sustain their current position – of moderate, reactive change – over the long term? Or will external market forces beyond their control ultimately compel a tipping point? After ten years, this is still an open question in the minds of too many law firm leaders, and for most partners.

*Equity partners are not busy enough
in 51% of all law firms.*

– 2018 Law Firms in Transition

Real and persistent threats to the status quo

Clients want greater cost effectiveness and value – and they are in a position to insist. This is not new, but the recession accelerated the demand for greater efficiency and lower overall costs. Clients are clamoring for more cost-effective legal services and technology-driven process improvements. A host of alternative service providers have created a new set of lower-priced competitors for many law firms. If a firm does not provide reliably high-quality outcomes and client service at predictable, agreeable prices, there are other providers that will.

The overall demand for legal services (billable hours) has decreased in the aggregate since the recession, and all of the dynamics that affect hours available to traditional law firms clearly indicate a continuing downward trend. Commoditization, new technology tools, and 'non-traditional' competitors are all permanent changes to a post-recession market. Demand for law firm services will not return to pre-recession levels – ever.

As a result, there are too many lawyers in many law firms. Average billable hours have shrunk by hundreds of hours per attorney since before the recession and are unlikely to rebound unless the oversupply of lawyers decreases significantly. More work is going in-house, being redirected to non-law firm providers and being redefined or eliminated through the application of technology.

59% of law firms are not feeling enough economic pain to motivate more significant change.

– 2018 Law Firms in Transition

Is urgent change really necessary?

Balanced against these external threats is a fundamental truth - *law firms still make a lot of money*. Overall, law firm partners continue to enjoy very healthy incomes. Revenue, profit and income growth may have slowed in many firms – but remain at historically high levels. This reality often impedes any serious interest in change among partners who would normally be expected to drive it.

An improving economy has made law firms think they can raise rates more aggressively again to drive profit growth. But this kind of thinking may create a false sense of security. There is a short-term threat posed by the next inevitable downturn – which will put pressure on firms that are already less resilient than they should be. But more importantly, there is also a long-term threat to overall sustainability that cannot be ignored.

Long-term sustainability

If firms are doing reasonably well economically by making limited course corrections, why should they embark on a long-term innovation and change mission?

We believe that even though the future is unclear, there are some fundamental truths that must be acknowledged:

1. Law firms are no longer operating in a closed system in which virtually all legal service providers play by the same rules. There are outside players with outside money and a commercial mindset who are offering viable legal service alternatives to clients. They are established; they are growing; and they are not going away.
2. New, smart technology is a pervasive force for change that extends into every facet of our lives. It is a force that is literally changing everything – at a staggering pace – and the legal market will not be immune.
3. Change moves in only one direction. There is no going back.

Longer-term challenges demand longer planning time frames. Too often law firms are myopic when thinking about changes in the way they do things. For firms to be successful in the future (not just survive), they must have an effective business model that looks beyond short-term financial returns to support and advance long-term sustainability.

Such a business model will incorporate effective allocation of key human and technology resources and flexible, scalable operational processes that deliver both profitability and potent client value. Although most firms acquiesce to client demands, those firms that anticipate demands and bring innovation to their clients will be highly sustainable.

There are clear signals that some law firms are making a shift to new business models that will serve them well in the future and improve their sustainability. Those that do not recognize the urgent need to begin the change process may ultimately be unable to catch up.

We strongly recommend acting with urgency on each of these things:

Look outward and plan for change

Refocus strategy externally. Too many law firm plans focus on fixing internal issues, rather than on clients and markets. This is a mistake. Ask if executing your plans will lead to more efficient delivery of services and add value for clients. How will you become more transparent, forward-looking and client-facing? Are you selling what clients want to buy? How will you sell more, and to whom?

Strategic thinking must evolve and become more forward-looking to deliver offerings that resonate with clients and enable law firm sustainability.

*Only 38% of law firms are actively engaged in experiments
to test innovative ideas or methods.*

– 2018 Law Firms in Transition

Incorporate innovation into every strategic plan including practice group plans. Require practice leaders to think through how they might experiment with new

approaches to staffing, pricing and efficiency. Conduct selected experiments with an eye toward learning and building on what works. Experimentation is imperative.

Innovation can be confusing and is often misunderstood. Put simply, pursuing innovation is simply finding ways to do things better that are valued by clients and have ready application in the marketplace. To be truly effective at innovation, you must budget time and money for it, support and embrace experimentation with alternative methods and systems of delivering service and accept that failures are a necessary part of the learning process. It is okay to try to minimize risks, but escaping risk entirely is impossible.

Technology can and often will be a part of innovation, both to improve the efficiency of current processes and to develop new and better approaches to legal service delivery. But don't neglect other things such as new labor models and new pricing methodologies in your innovation efforts.

*Overcapacity is diluting profitability
in 58% of all law firms.*

– 2018 Law Firms in Transition

Pay close attention to the firm's greatest asset – human capital

Deal with overcapacity and under-performance by decreasing the number of chronically unproductive lawyers in your firm by 50% over the next two years. Until you take this on, your firm will face a major ongoing drag on profitability that is an impediment to sustainability. The hard reality is that too many lawyers are doing work they are significantly overqualified to do, and clients do not want to pay for that.

Extend the analysis to practice areas as well as individuals. Hard decisions must be made regarding allocation of firm resources (including management attention) to the strongest and best-positioned parts of the firm. Remove chronic weaknesses and build on strengths.

Actively manage senior lawyer transitions. Almost 40% of firms surveyed attribute chronic lawyer under-performance to partners who are 'coasting into retirement.' The absence of rigorous management of lawyer and client transitions is a huge, ongoing problem in the legal profession as Baby Boomers extend their careers ever longer.

We've seen firms lose their next generation of owners while waiting for the seniors to transition out.

Own what it means to be an owner in your firm. Spell out the expectations for equity partners and adhere to those standards strictly, fairly and consistently over time – across all offices and practice areas. With the growing number of non-equity owners and clear data showing ongoing underproductivity, firms simply cannot allow more people into the equity tier who do not add anything beyond being a good lawyer. By doing this, you will take the first step toward a re-envisioned staffing model driven by innovation, automation and external market change.

*50% of law firms do not believe they project
a distinct, compelling value that differentiates them from competitors.*

– 2018 Law Firms in Transition

Define your value proposition and communicate it

Pursue real differentiation. Why should clients hire you? In a flat-demand market, where there is not enough work to go around, you must have a compelling answer. The ability to differentiate your firm from similar competing firms is fundamental.

Law firms can differentiate in one or more of the following areas: practice range, industry expertise, geographic footprint, best-in-class quality, cost/price value, service delivery and client relationship management. Any firm or practice group can decide to differentiate themselves in one or more of these ways. Today, service delivery (efficiency) and cost/price (the client value proposition) are clearly what clients are focused on. Achievement of true differentiation typically requires change, doing some things differently, pursuing innovation aggressively and putting client needs first.

Every firm must define and demonstrate what makes it different and better than competitors. Firms that can develop a clear, easily-communicated, client-facing brand or message built upon one or more true differentiators will enjoy powerful competitive advantage. Client response will tell you whether you have it right.

Audit marketing and business development activities based on what clients want, not what you want. Simply increasing the volume of business development activity will

not guarantee increases in billable hours and top-line income. Certainly, more – and more innovative – business development is a rational response to decreasing demand, but those efforts must be married to firm, practice groups and individual lawyer strategies.

Once you have developed a client-facing strategy incorporating a definition of your differentiating value, you will have a much more compelling message to take to the market. This will be significantly more effective in attracting and retaining clients than just increasing the volume of traditional marketing efforts. You will have a better story to tell.

*69% of firms believe the pace of change is increasing.
This number has been 60% or higher each year since 2012.*

– 2018 Law Firms in Transition

Pick up the pace.

Without a crisis, it's hard to create a sense of urgency. But waiting for a crisis is never a good strategy, as then any actions you take will come too late. Law firm leaders need to engage their influential partners now in the thoughtful consideration of current market change and likely future outcomes. Those partners need to care about the future of the firm – or, at the very least, get out of the way.

What should law firm leaders do? It's not possible to get everyone to commit to innovative strategic thinking and execution at once. There will be early adopters who see opportunities and pursue them, late adopters who will believe it when they see it, and others who may never get on board. The challenge for leaders is to enlist a small cohort to start the innovation process with urgency and pace and begin to educate and bring others into the fold as rapidly as possible. Leaders should focus daily on supporting the continued efforts of early adopters by providing encouragement, resources, time, and staff support. Make it part of your leadership mission.

2018 Survey Highlights

This section highlights key findings from Altman Weil's *2018 Law Firms in Transition Survey*.

Market Forces

Overwhelming majorities of law firm leaders believe more price competition, commoditization of legal work, new forms of competition and smart technologies are permanent changes to the legal market, continuing a multi-year trend (see page 1). But in the face of that daunting landscape, there are signs of optimism:

- Only 51% of firm leaders expect smaller annual billing rate increases to be a permanent trend, down from 64% last year.
- Only 39% of firm leaders expect slower profit per partner growth to be a permanent trend, down from 47% last year.

The pace of change in the profession is expected to remain brisk. This year, for the first time, not a single respondent expected the pace of change in the profession to decrease. See page 2.

Demand growth remained slow and was unequally distributed, with only 40% of law firms reporting positive demand growth in each of the last three years (page 3) – a far cry from the pre-recession years marked by strong demand, robust annual rate increases and reliable growth in partner incomes. The fact that most firms failed to put together three consecutive years of demand growth or revenue per lawyer increases is a vivid illustration that the market has become less stable and much more challenging.

Revenue per lawyer gains that were driven by substantial rate increases may cause continued erosion of demand, absent corresponding increases in value delivered:

- Corporate clients doing more work in-house and continued erosion of demand are seen by 65% of firm leaders as permanent trends (page 1).
- Corporate law departments continue to redirect work from outside counsel to in-house staff, with 70% of law firms reporting they have lost business for that reason (page 4).

Differentiated firms significantly outperformed non-differentiated firms (see analysis in Appendix 2), but only half of law firms think they project a distinct and compelling value that differentiates them from other similar law firms. The 50/50 split was consistent across all size ranges except the very largest firms, which are differentiated by size (pages 6-10). In the present environment, we think it is imperative that law firms be able to clearly distinguish themselves from competitors in ways that matter to clients. We think defining and communicating meaningful differentiators is a must for every firm and practice group to avoid the forces of competition, commoditization and substitution.

Leading Change

A consistent theme over the past ten years has been law firms' general unwillingness to lead clients rather than merely responding to client requests. Corporate clients continue to give law firms low marks in terms of firms' seriousness about changing their legal service delivery models to provide greater value to clients (page 13).

Why aren't law firms doing more to change the way they deliver services? Mainly because partners resist change – 69% of firms cited this reason, up sharply from 44% three years ago (page 15).

Innovation in law firms appears to be declining as partner resistance increases. This year, fewer firms said they are actively engaged in creating special projects or experiments to test innovative ideas or methods. About six in ten firms are including innovation initiatives in firm strategic plans or budgeting time and/or money in support of innovative projects. The larger the law firm, the more likely they are engaging in structured innovation, probably because they have more incentive to do so (to acquire and retain large corporate clients and maintain desired margins) and more resources to dedicate to the effort. See pages 16-20.

Curiously, law firm leaders' confidence that their firms are fully prepared to keep pace with the challenges of the new legal marketplace has steadily declined, from a high of 24% expressing high levels of confidence in 2011 to a low of 5.6% expressing the same level of confidence this year. We think that as firm leaders have tried to implement various programs and initiatives over the course of this decade, they have found it much more problematic than they anticipated and become more circumspect. As the proportion of firm leaders expressing high

confidence declined, the number expressing low confidence increased sharply from 8% to 33%. See pages 21-24.

Productivity

Amid slow demand growth, the survey indicates continued high levels of overcapacity and underperformance. Partners are underutilized in most law firms and nearly half of all firms failed to meet their total annual billable hours target for 2017. Not surprisingly, firms that said their partners were sufficiently busy were much more likely to report strong profitability gains in 2017. See pages 25-29.

Most firms (90%) are trying to deal with underperformers by reducing their compensation (page 31) – a strategy that often fails to deal with root causes. Removing chronic underperformers has resulted in significant performance gains in 84% of firms that have done so, compared to 39% effectiveness in firms that reduced underperformers' compensation (page 33).

Law Firm Profitability

Again this year, firms that use profitability data for management decision making outperformed firms that do not, in terms of profit per equity partner gains (page 37). Still only half of law firms are using profitability data as a practice group management tool (page 36).

Most firms have made greater investments in business development in hopes of improving profitability (page 39). Unfortunately, those investments have delivered significant improvements in performance in only 37% of the firms (page 40).

There is much to celebrate, however. In our second year of tracking the effectiveness (not just incidence) of ten profitability tactics, we find that more firms reported significant improvement as the result of each tactic, compared to last year (page 41). We will continue to gather and report on the effectiveness of firms' activities going forward and expect continued positive movement in these trends.

Lawyer Staffing Strategies

Notwithstanding widespread overcapacity, most firms are back in growth mode, with 60% of firms saying growth in lawyer headcount is a requirement for their firms'

continued success and 60% reporting actual growth in lawyer headcount last year (page 43).

Six in ten firms said they staff for average annual demand (59%) rather than for peak demand (10%) or an expectation of growing demand (13%). Only 14% of firms said they staff for average demand with contract lawyers or other temporary lawyers available to cover peak periods – a flexible approach that we think is wise, depending on the nature of the work and availability of talent. See page 44.

Overall, 58% of firms are using part-time lawyers and 55% are using contract lawyers to at least some degree, with usage much more prevalent in larger firms (page 45). Alternative staffing of this type has delivered performance gains in a majority of firms that have tried it. The effectiveness rate increased from 2017 to 2018 for each of seven staffing tactics employed by law firms nationwide. See pages 45-48.

Efficiency of Legal Service Delivery

Nearly unanimously, law firm leaders see a need to focus on improved practice efficiency – a more assertive effort to realign pricing, staffing and efficiency with client expectations (page 1). So far, only 19% of firms are systematically reengineering their work processes (page 53), but doing so has already resulted in significant performance improvements in 43% of those firms (pages 54-55).

Firms that have committed to “ongoing project management training and support” reported significant improvements in firm performance as a result of their sustained investments (page 58). Short-term or episodic investments were not shown to deliver anywhere near the same results.

Whatever efficiency gains are realized, firms should be diligent about sharing or replicating the improvements to benefit other clients. Most firms do so at least sometimes, but only 13% of firms do so routinely (page 59).

More than half of all firms are now rewarding efficiency and profitability in compensation decisions (page 53) – which we commend and endorse.

Pricing Strategies

We continue to see heavy discounting and commoditization (page 68):

- 62% of firms reported discounting their rates on at least 21% of fee revenues.
- 21% of firms reported discounting their rates on at least 50% of fee revenues.

Discounted, capped, or alternative fees should be routinely linked to changes in how the associated work is staffed and delivered. Only 42% of firms reported such a linkage – but those that did were more likely to report profit per equity partner gains (pages 70-71).

Most firms are developing data on their “cost of services sold,” but relatively few (29%) have seen it translate into significant improvements in firm performance (pages 62-64). We see this as a huge missed opportunity.

Financial Performance

Revenue per lawyer and profit per equity partner are important indicators of firm health and are highly correlated. Firms that said their revenue per lawyer was up in each of the last three years were dramatically more likely (84% vs. 44%) to report increased profit per equity partner in 2017 (page 81).

Profession-wide, we continue to see a cohort of firms thriving, a similarly sized cohort languishing, and larger firms outperforming smaller firms on all three measures of financial performance:

- 38% of firms reported gross revenue increases of +4% or more in 2017 – 32% reported gross revenue was flat or down (page 75).
- 29% of firms reported revenue per lawyer increases of +4% or more in 2017 – 35% said RPL was flat or down (page 76).
- 35% of firms reported profit per equity partner increases of +4% or more in 2017 – 39% said PPEP was flat or down (page 77).

Realization against standard rates was up in 2017 in 38% of firms, flat in 45% and down in 17%, with no material difference between larger and smaller firms (page 83).

Bonus Question: Non-Lawyer Ownership

Each year, we ask a special bonus question on a forward-looking topic. This year, we find that few law firm leaders think non-lawyer ownership and capital investment in law firms would be a plus for their firm (17% think so), the firm's clients (30%), US citizens generally (25%) or the US legal profession (24%). Selected comments are presented on page 86.

Appendices

The appendices include interesting correlations that we'll keep an eye on going forward.

Appendix 1 shows similarities and differences between smaller and larger firms as to their responses to the changing legal landscape. Larger firms are doing more of just about everything and were much more likely than smaller firms to report PPEP gains in 2017 over 2016.

Appendix 2 introduces the premise that (1) larger firms, (2) innovative firms and (3) differentiated firms outperform smaller, non-innovative and non-differentiated firms in terms of financial performance and effectiveness of change efforts.

- Appendix 2A shows that larger firms are not only doing more to pursue changes in the areas of pricing, staffing and efficiency – they are more successful at what they do.
- Appendix 2B shows that innovative firms – those that said they are actively testing innovative ideas and methods – outperformed non-innovative firms on both client demand and productivity measures. Innovative firms are more likely than non-innovators to be pursuing each of 20 change tactics and their efforts have been more effective in 16 of 20 categories.
- Appendix 2C shows that differentiated firms are almost twice as likely as non-innovative firms to have experienced consistently increasing demand over the last three years and their change efforts have been much more effective.
- Appendix 2D attempts to quantify the variation in overall effectiveness due to firm size (lowest variation), innovation (higher) and differentiation (highest).

Appendix 3 shows the ten-year data series for each of 20 market trends that have been tracked by the Law Firms in Transition Survey since its inception in 2009.

Survey Methodology

Conducted in March and April 2018, the *Law Firms in Transition Survey* polled Managing Partners and Chairs at 801 US law firms with 50 or more lawyers. Completed surveys were received from 398 firms (50%), including 45% of the 500 largest US law firms and 52% of the AmLaw 200.

A complimentary copy of the full survey can be downloaded at www.altmanweil.com/LFiT2018.

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

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Altman Weil, Inc.

 Altman Weil, Inc.

About the Authors

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About Altman Weil, Inc.

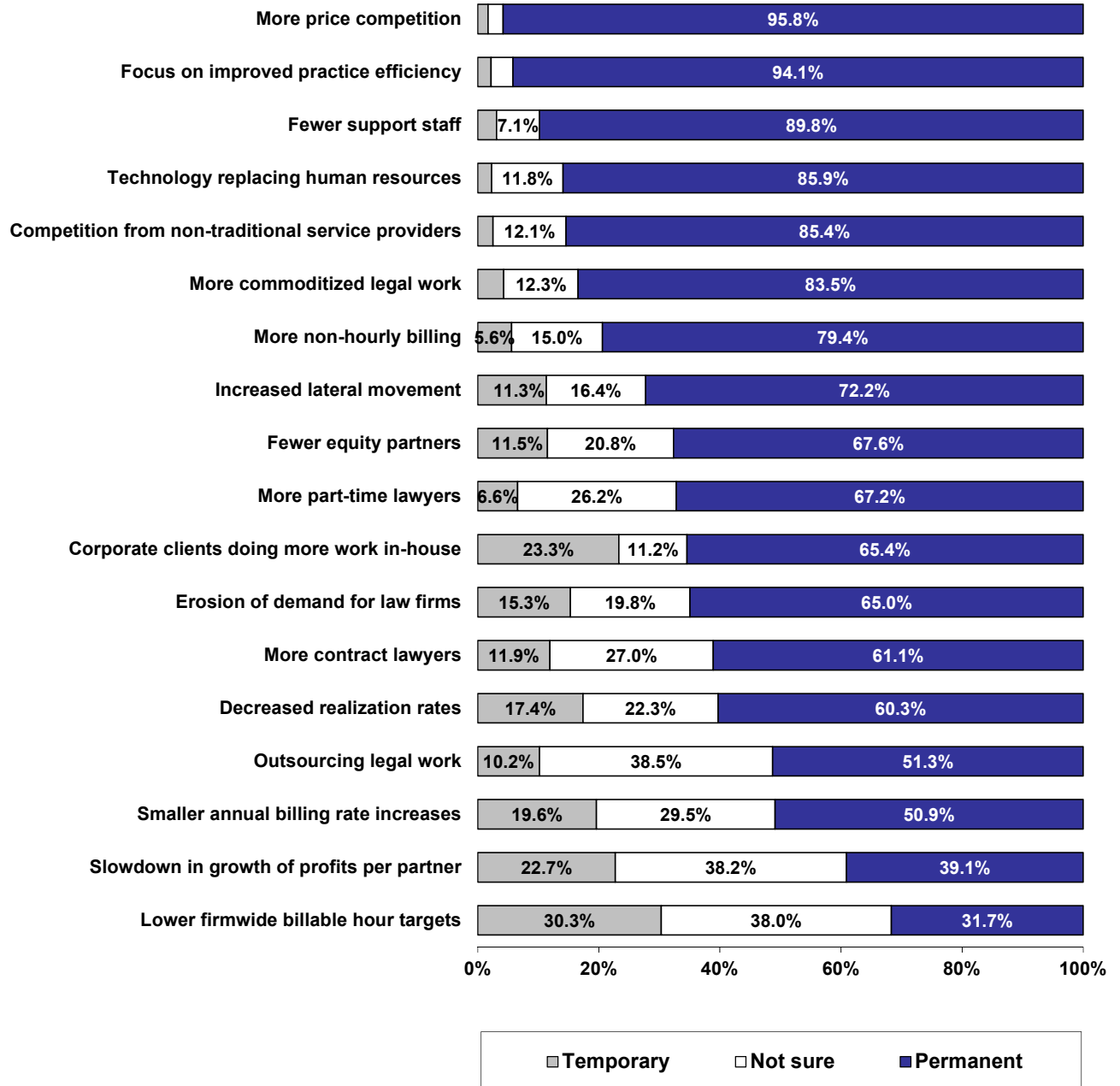
Founded in 1970, Altman Weil, Inc. is dedicated exclusively to the legal profession. It provides management consulting services to law firms, law departments and legal vendors worldwide. The firm is independently owned by its professional consultants, who have backgrounds in law, industry, finance, marketing,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

Market Forces

LAW FIRMS IN TRANSITION 2018

Law Firms in Transition: 2018 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

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	3.8%	0.0%	28.6%	67.6%
250 lawyers or more	3.2%	0.0%	23.7%	73.1%

Comparison by year:

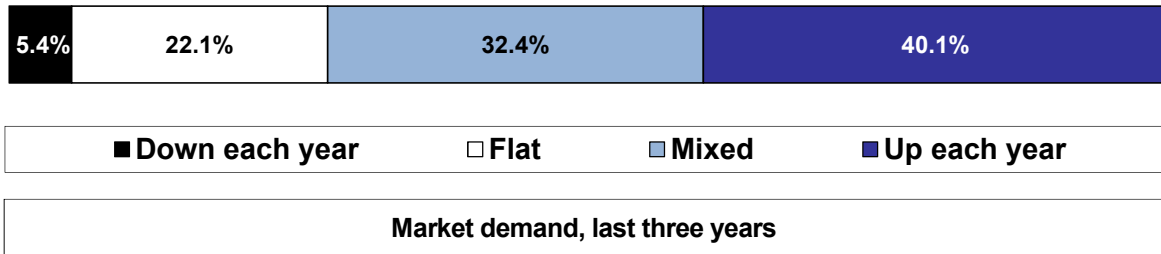
	NOT SURE	DECREASE	SAME	INCREASE
2018	3.7%	0.0%	27.3%	69.0%
2017	0.9%	0.6%	26.5%	72.1%
2016	1.5%	0.3%	29.3%	68.9%
2015	2.5%	1.4%	23.8%	72.4%
2014	2.1%	1.4%	29.9%	66.7%
2013	0.0%	0.9%	32.4%	66.7%
2012	2.4%	1.4%	36.1%	60.1%

Market Forces: Demand

NEW

Q: Over the last three years, how has demand for your law firm's services changed each year?

Only 40% of law firms reported growth in demand in each of the last three years.

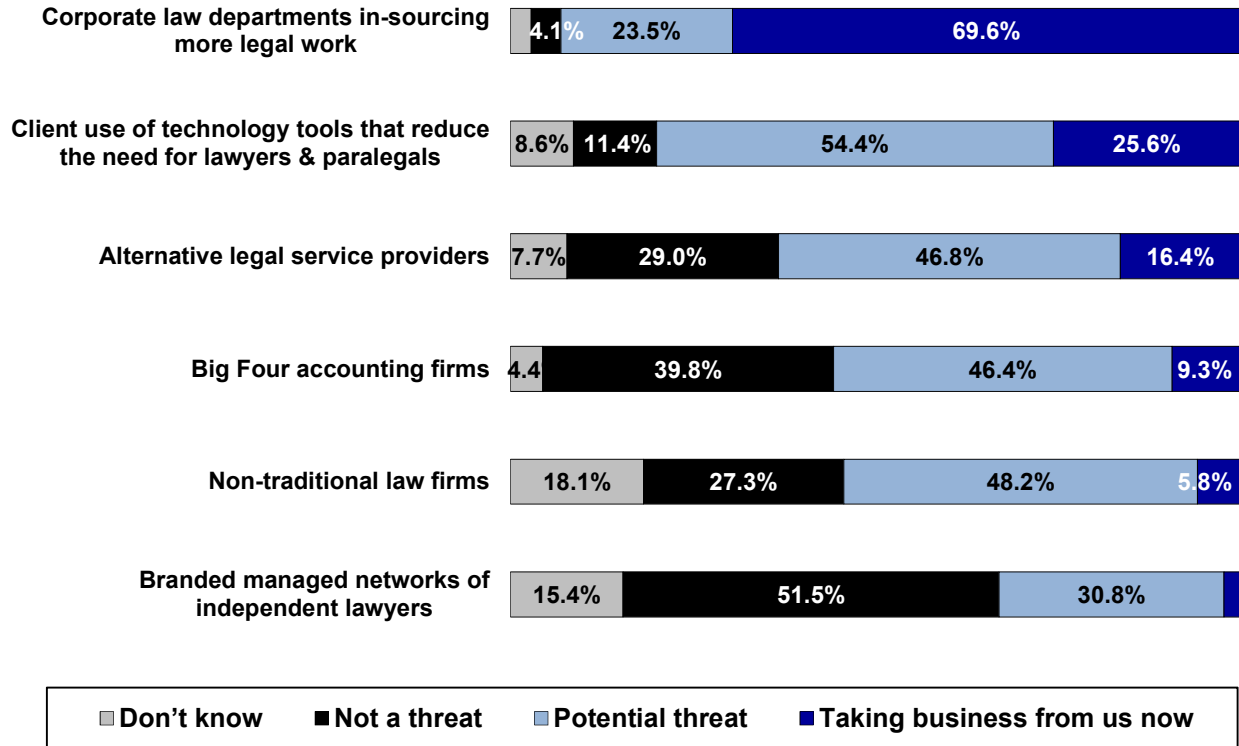


Comparison by firm size:

	Down each year	Flat each year	Mixed	Up each year
Under 250 lawyers	3.9%	21.4%	33.1%	41.6%
250 lawyers or more	9.3%	24.1%	30.6%	36.1%

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?



Alternative legal service providers: "Non-law firm providers of legal and quasi legal services."

Non-traditional law firms: "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?

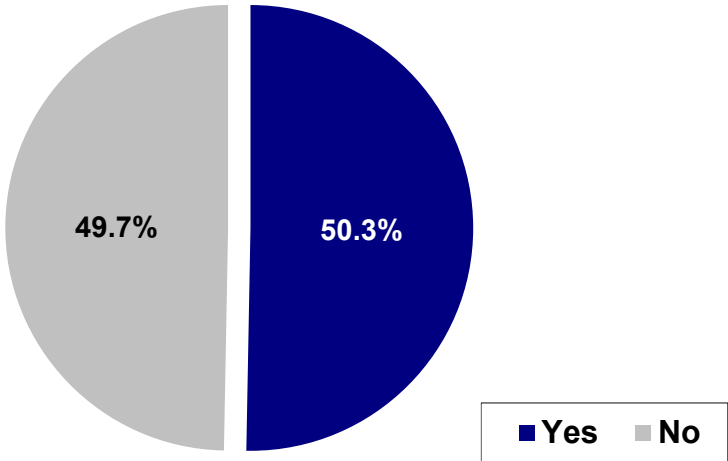
Comparison by firm size:

	Don't know	Not a threat	Potential threat	Taking work from us now
LAW DEPARTMENT IN-SOURCING				
Under 250 lawyers	3.0%	5.6%	24.8%	66.5%
250 lawyers or more	2.1%	0.0%	19.8%	78.1%
CLIENT USE OF TECHNOLOGY				
Under 250 lawyers	9.4%	14.0%	53.2%	23.4%
250 lawyers or more	6.3%	4.2%	57.9%	31.6%
ALTERNATIVE LEGAL SERVICE PROVIDERS				
Under 250 lawyers	7.8%	33.5%	44.6%	14.1%
250 lawyers or more	7.3%	16.7%	53.1%	22.9%
BIG FOUR ACCOUNTING FIRMS				
Under 250 lawyers	4.1%	47.8%	39.6%	8.6%
250 lawyers or more	5.2%	17.7%	65.6%	11.5%
NON-TRADITIONAL LAW FIRMS				
Under 250 lawyers	17.4%	30.6%	46.0%	6.0%
250 lawyers or more	20.2%	20.2%	54.3%	5.3%
BRANDED MANAGED NETWORKS OF INDEPENDENT LAWYERS				
Under 250 lawyers	15.2%	51.9%	31.1%	1.9%
250 lawyers or more	16.1%	50.5%	30.1%	3.2%

Market Forces: Competitive Differentiation

NEW

Q: Many law firms look the same to prospective clients – they do not project a distinct and compelling value that differentiates them from other similar firms. In your most candid assessment, do you believe your law firm is clearly and specifically differentiated from competitor law firms?



Comparison by firm size:

	YES	NO
50-99 lawyers	48.7%	51.3%
100-249 lawyers	50.4%	49.6%
250-499 lawyers	48.9%	51.1%
500-999 lawyers	47.1%	52.9%
1,000+ lawyers	78.6%	21.4%

Market Forces: Competitive Differentiation

NEW

Q: In your most candid assessment, do you believe your law firm is clearly and specifically differentiated from competitor law firms? *If yes, please describe what you've done.*

SELECTED COMMENTS

Practice Focus

- As a boutique that practices IP law exclusively, we are able to provide a level of expertise to our clients not available from general firm IP "practice groups."
- We take more cases to trial than any other in the state. We also get good results.
- We specialize in quick, cost-effective evictions. This has earned us many loyal clients over the last few decades. Building that relationship with our clients has earned their trust, so they turn to us for our additional (business and litigation) services as well.
- Two of our practice areas have distinctive value propositions.
- Yes, on a limited basis. For some work, we are seen as very expert and leaders in the field (for example, elder law and some business clients). For most clients, I think we are seen as the same as other firms.

Industry / Sector Focus

- We are known for our strengths in representing technology companies.
- We are unique in our focus on a public sector and non-profit clients in labor, employment, and education law. We don't try to do anything else.
- We focus on the middle market energy industry.

Geographic Focus

- Our competitors are regional firms and we are not. We have been in business for over 60 years in our state and we differentiate ourselves through local knowledge and local relationships. We handle client issues in our state and we do not try to handle issues outside of our state.
- We have a fairly unique posture as a Texas-only firm, and a firm that has very broad coverage with respect to practice areas and geographically in Texas.

Market Forces: Competitive Differentiation

NEW

Q: In your most candid assessment, do you believe your law firm is clearly and specifically differentiated from competitor law firms? *If yes, please describe what you've done.*

SELECTED COMMENTS (continued)**Pricing**

- Quality of the lawyers at rates that are about 20% less than our geographical peers and 75% less than our national firm peers.
- Our ability to discuss and embrace alternative fee arrangements.
- Standardized rates and billing practices in multiple states.

Efficiency

- For clients that are interested or we can get interested, we have highly innovative experience and tools with LPM, KM, contract staffing, extranets, etc.
- We are implementing project management in our matters and starting to share that value-add to our clients; we invest in technology to continue to build on efficiencies.
- Our teams are lean. We routinely apply LPM techniques.

Client Service

- We work to provide a better experience than clients (or anyone) can get from any other law firm. This starts at the way in which we offer non-hourly fee deals on every matter and continues with processes that culminate in an end of matter review from the client on how we did. I think our clients see it as a different experience.
- Unlike our competitors, we provide clients with more data about our performance and also actively participate in legislative issues that benefit our clients at no expense to them.
- Service based on continuous interaction on a personal level with clients.

Innovation

- Our ownership of multiple subsidiaries is unique among competitors and serves to provide new business opportunities and to drive new service offerings to clients.
- In an environment that holds fast to its past traditions and the way things were, we choose to look forward and try to see the way things will be, and then evolve to what we see.

Market Forces: Competitive Differentiation

NEW

Q: In your most candid assessment, do you believe your law firm is clearly and specifically differentiated from competitor law firms? *If yes, please describe what you've done.*

SELECTED COMMENTS (continued)

Firm Culture

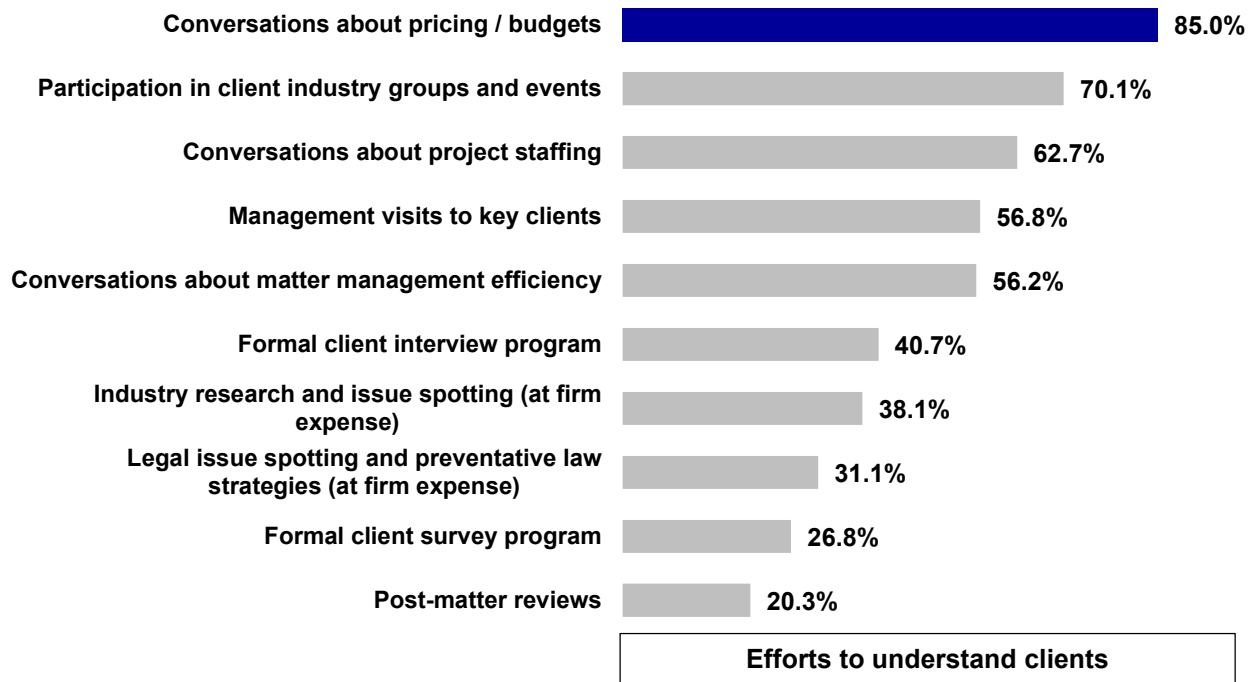
- Collaborative, truly entrepreneurial culture that clients feel and see. Very user friendly.
- Different perception in the market. Our principal competitor is viewed as a stuffy, traditional firm; we are viewed as the non-stuffy, more progressive, less traditional firm.
- In an industry that pushes the boundaries of expected chargeable hours and rates, we have instead looked to establish a sustainable model, where people can live their lives and have great clients and make enough money.

We're Working on It

- We are taking a hard look at this and trying to identify these compelling values and also make sure our clients and prospective clients appreciate these compelling values.
- We are very early in this process, but this has been a central focus of our strategic plan this year.

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.



Comparison by firm size:

	Under 250 lawyers	250 lawyers or more
Conversations about pricing / budgets	83.7%	88.5%
Participation in client industry groups and events	70.9%	67.7%
Conversations about project staffing	59.7%	70.8%
Management visits to key clients	50.0%	75.0%
Conversations about matter management efficiency	52.7%	65.6%
Formal client interview program	33.7%	59.4%
Industry research and issue spotting (at firm expense)	32.2%	54.2%
Legal issue spotting/preventative law (at firm expense)	27.9%	39.6%
Formal client survey program	23.6%	35.4%
Post-matter reviews	17.4%	28.1%

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
PERMANENT	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
PERMANENT	NA	NA	69.8%	72.6%	78.6%	82.3%	82.8%	82.0%	79.3%

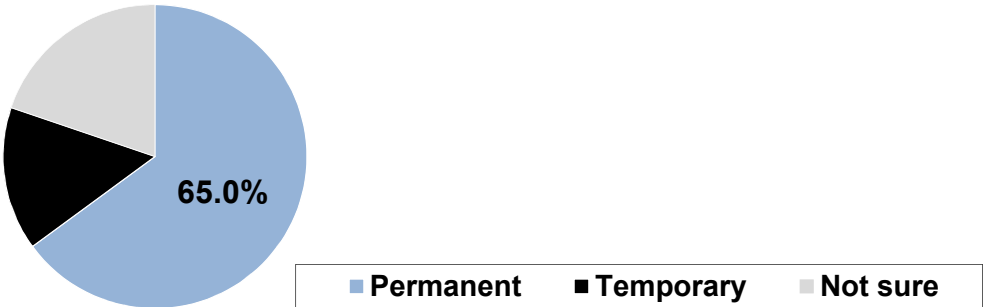
Market Forces: Trends

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
PERMANENT	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?



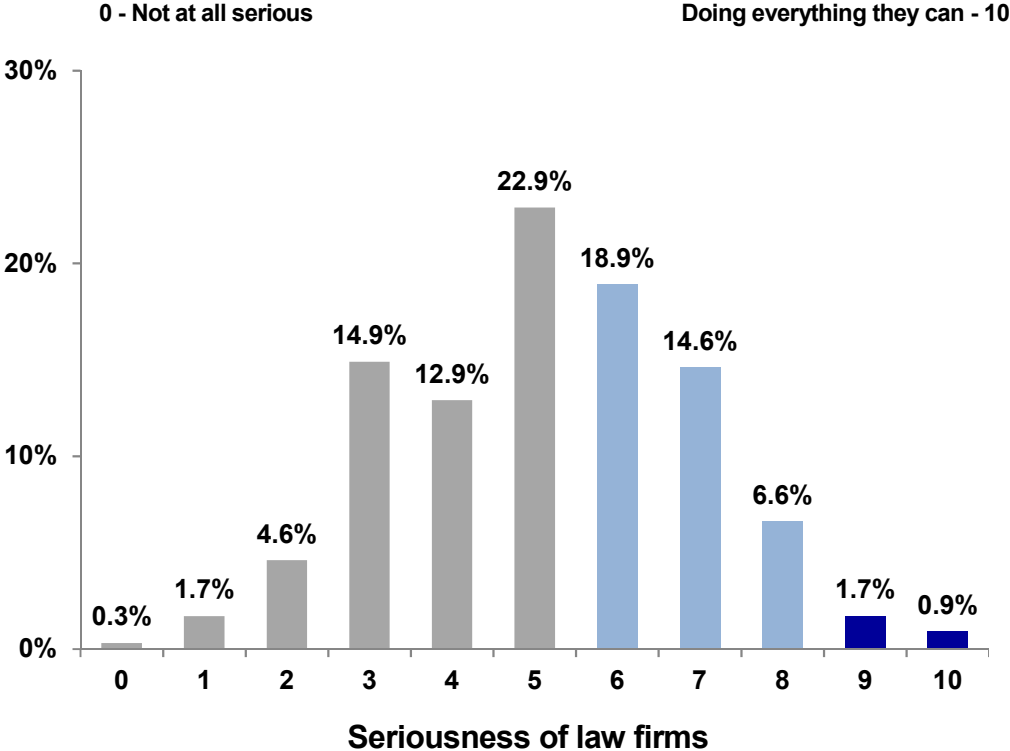
	2009	2010	2011	2012	2013	2014	2015	2016	2017
PERMANENT	NA	NA	NA	NA	NA	NA	NA	61.9%	65.8%

Leading Change

LAW FIRMS IN TRANSITION 2018

Leading Change: Seriousness of Change Efforts

Q: In your opinion, in 2018 how serious are law firms about changing their legal service delivery model to provide greater value to clients (as opposed to simply reducing rates)?



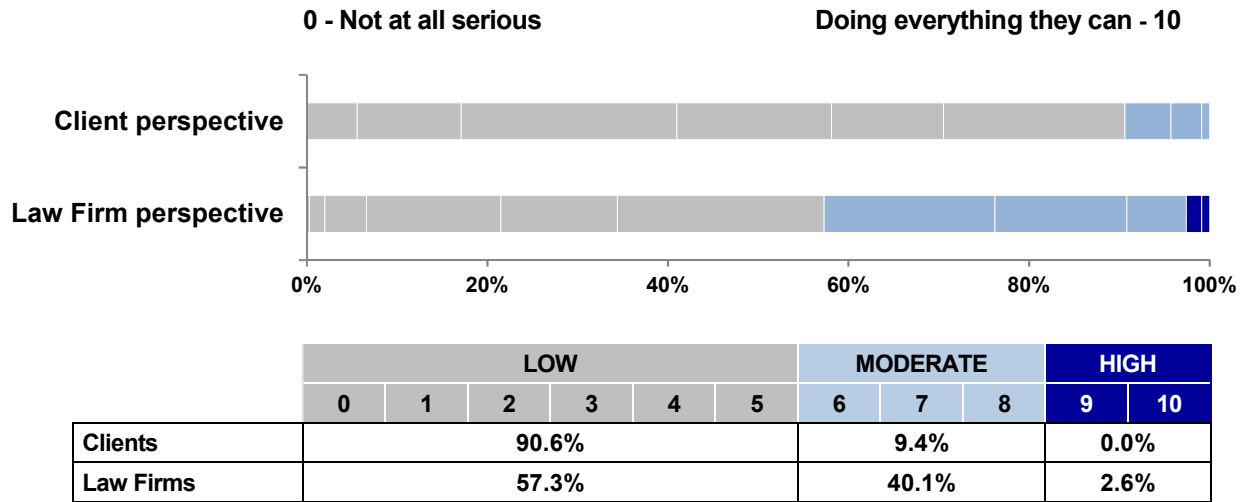
	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	57.3%					40.1%			2.6%		

Median rating: 5

Seriousness of Change Efforts: The Client Perspective

In October 2017, 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 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)?

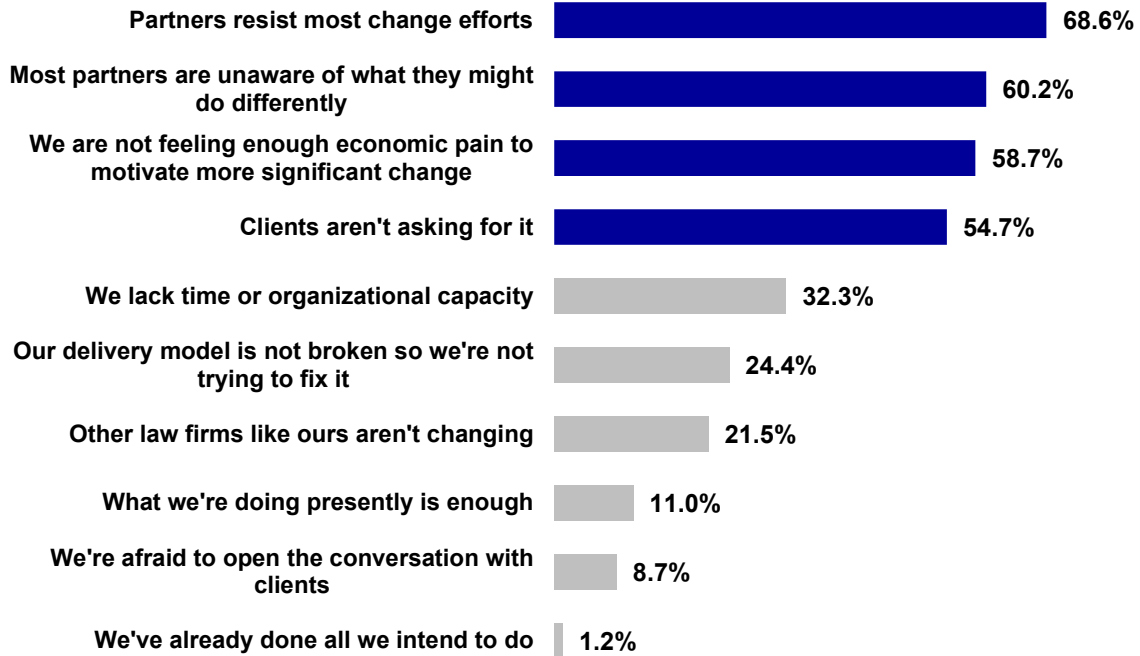


Median rating by year:

	2013	2014	2015	2016	2017	2018
Clients	3	3	3	3	3	3
Law Firms	5	5	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 doing more to change?

Top four responses: Comparison by year

	Partners resist most change efforts		Not feeling enough economic pain		Clients aren't asking for it		Most partners unaware of what to do differently	
	% Firms	Rank	% Firms	Rank	% Firms	Rank	% Firms	Rank
2018	68.6%	1st	58.7%	3rd	54.7%	4th	60.2%	2nd
2017	65.0%	1st	60.5%	2nd	58.7%	3rd	56.0%	4th
2016	64.4%	1st	55.9%	3rd	59.1%	2nd	53.7%	4th
2015	44.4%	3rd	45.8%	2nd	62.7%	1st	NA	NA

Innovation: Strategy & Tactics

NEW

Q: Has your firm done any of the following to make innovation an integral part of firm strategy? Select all that apply.



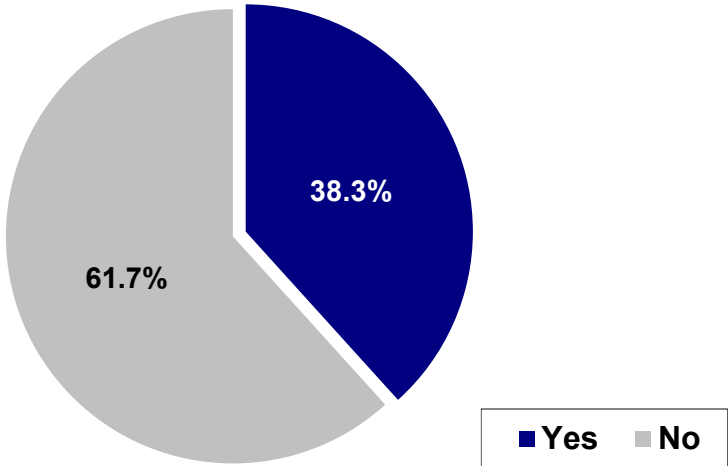
Efforts to make innovation part of firm strategy

Comparison by firm size:

	Under 250 lawyers	250 lawyers or more
Included innovation initiatives in firm strategic plan	58.6%	68.8%
Budgeted time/funds for innovative projects/experiments	55.2%	75.3%
Included innovation initiatives in practice group plans	40.8%	44.2%
Established a standing committee on innovation / R&D	26.4%	48.1%
Partnered with a tech company to better serve clients	15.5%	24.7%
Partnered with a client on innovation efforts	12.1%	26.0%
Hired Innovation Director / Assigned to staff member	10.9%	26.0%

Leading Change: Innovation

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	23.3%	76.7%
100-249 lawyers	40.7%	59.3%
250-499 lawyers	51.2%	48.8%
500-999 lawyers	63.6%	36.4%
1,000+ lawyers	84.6%	15.4%

Leading Change: Innovation

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.*

SELECTED COMMENTS

Technology / Data Analytics

- Developing client technology solutions designed by us but for their use. Developing software internally to increase our delivery efficiency and for possible sale in the future.
- We formed a design lab to develop software applications to automate legal documents in various industry sectors and for compliance with GDPR requirements.
- Working with in-house IT (and client personnel) to develop and automate required tasks for certain matter engagements; investing in Matter Management/Budget technology.
- We are very focused on competitive intelligence and leveraging data from across our systems so that the result is better efficiency through technology.
- Developing legal services through the use of mobility apps.
- Developed online tools to be used by clients to create documents.

New Ventures

- Expanded our group of in-house software developers who have created a number of customized technology solutions for specific clients and practice areas and spun off a subsidiary entity to productize and market several of those solutions.
- We are working with a computer company to establish a new billing system that is focused on tasks and values to the client based on the type of case.
- Acquired an LPO to do M&A due diligence at lower cost.
- Worked with outside vendors on client service standards and knowledge management.
- Jointly developing practice modules to integrate with practice management software.
- Partnered with law schools on project management and pricing studies.
- Looking to sell some of our project management innovation to broader legal market.
- We have several unique initiatives that generally involve training, seminars and webinars for clients and prospective clients for which we are paid. Some of these programs are joint ventures with industry trade groups or other affinity groups and we are on our own for other initiatives. These initiatives generate material income to the firm, expose the firm to prospective clients, provide training and speaking opportunities for younger attorneys (and non-attorney consultants) and create stimulating work for our professionals. A win, win, win.

Leading Change: Innovation

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.*

SELECTED COMMENTS (continued)

Innovation Programs / Groups

- Created an Office of Innovation; hired a Chief Technology Innovation Officer.
- Innovation summit with clients.
- Developing pilot/test projects in each practice group.
- We use pilot efforts for many of our initiatives, such as in technology, in Knowledge Management, and in value billing.
- Created internal working group as a clearinghouse for learning about these ideas (including those we are trying with clients) and to refine them for broader offering.
- AI study group.

Clients

- We are doing a client mapping project, trying to gauge a typical client experience in every practice area, to help us improve our service offerings and performance.
- We provide client portals that allow our clients to access continually updated time and billing data.
- Collaborating with clients on several initiatives to the benefit of their legal team, but not involving the delivery of legal work.
- Developed risk sharing programs with clients.

Staffing

- Working on Dynamic Workforce plan, which would transform the business so that lawyers and staff are working remotely with non-dedicated office space and support staff, hence reducing fixed overhead, freeing up commute time for work or family life and creating funds (from fixed assets savings) to invest in new technologies and resources to drive the law firm of the future.
- Shift to non-lawyer professionals with fixed fees to compete.
- Hiring "On Ramp" candidates who are re-entering the legal work force.
- Experimenting with staff attorneys in different roles.

Leading Change: Innovation

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.*

SELECTED COMMENTS (continued)

Efficiency

- We have a group consisting of five sub-groups that are each testing new ways to bundle/package our services in nontraditional ways (whether in delivery or pricing or nature of the “product” itself).
- Small task force charges with evaluating AI products that improve efficiency of certain legal tasks, particularly due diligence.
- Transition to semi-paperless in certain practice areas.
- Use LPM for better matter management.
- Knowledge management.

Pricing

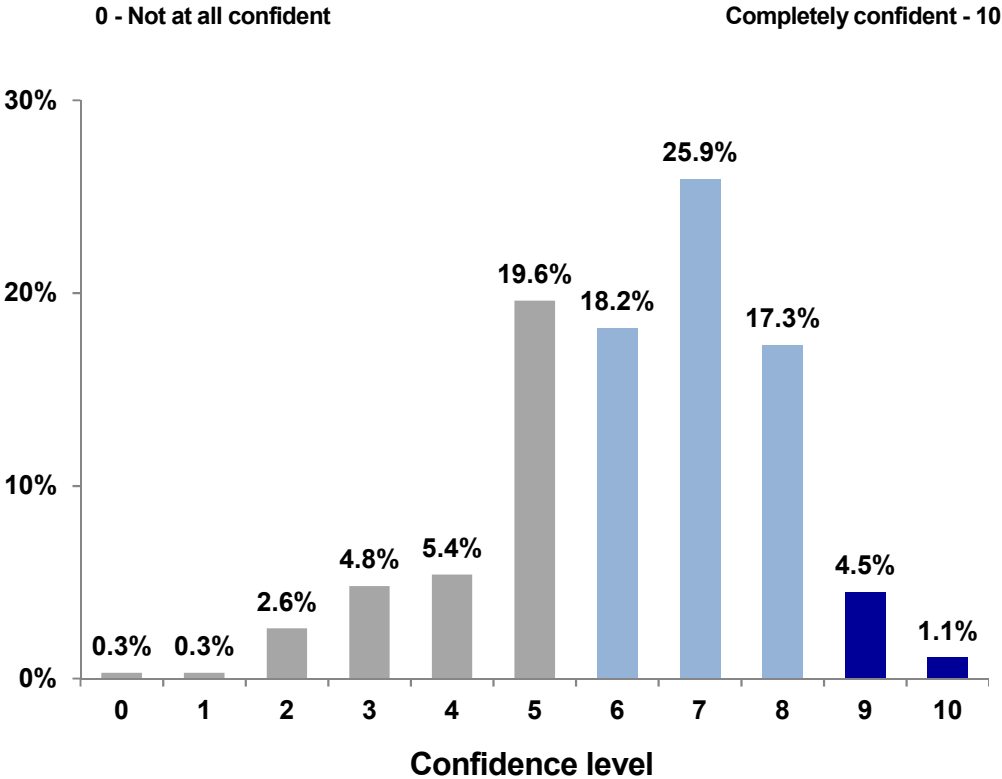
- Shooting to do a majority of our legal work on an AFA/non-billable hour basis by 2019.
- Standardization of matter budget process.

Emerging Practice Areas

- A dozen or so attorneys and staff members working on a legal service offering based on an up and coming industry sector.
- Emerging Practice Areas Team.

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?

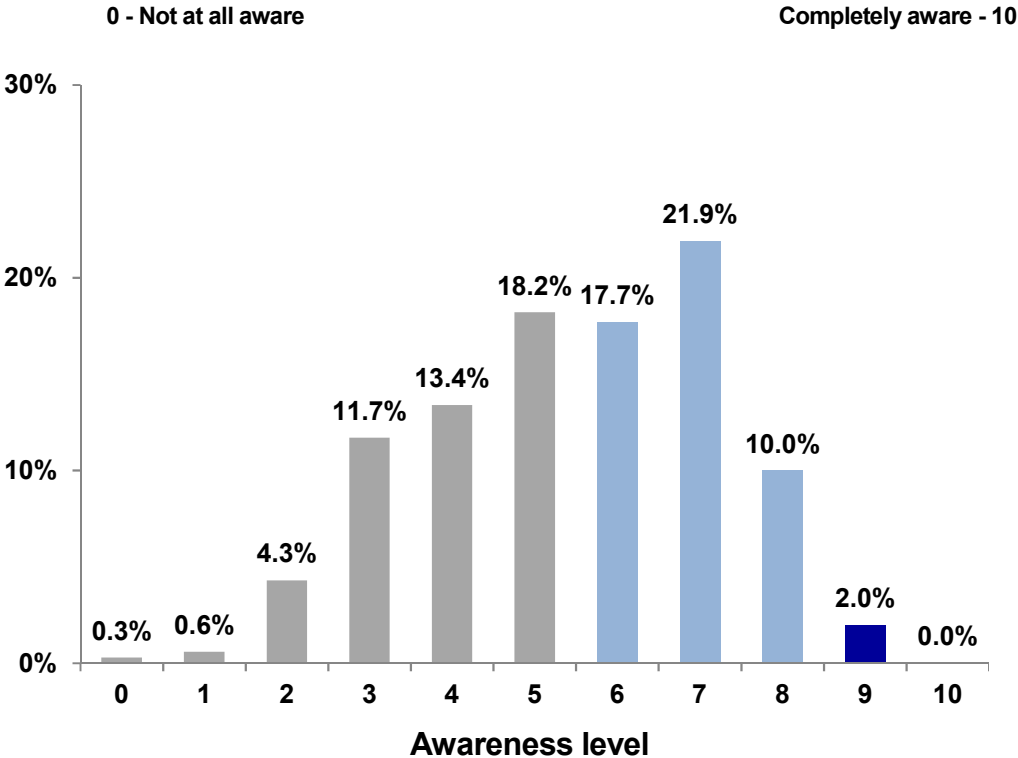


	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	33.0%					61.4%			5.6%		

Median rating: 6

Leading Change: Partner Awareness

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

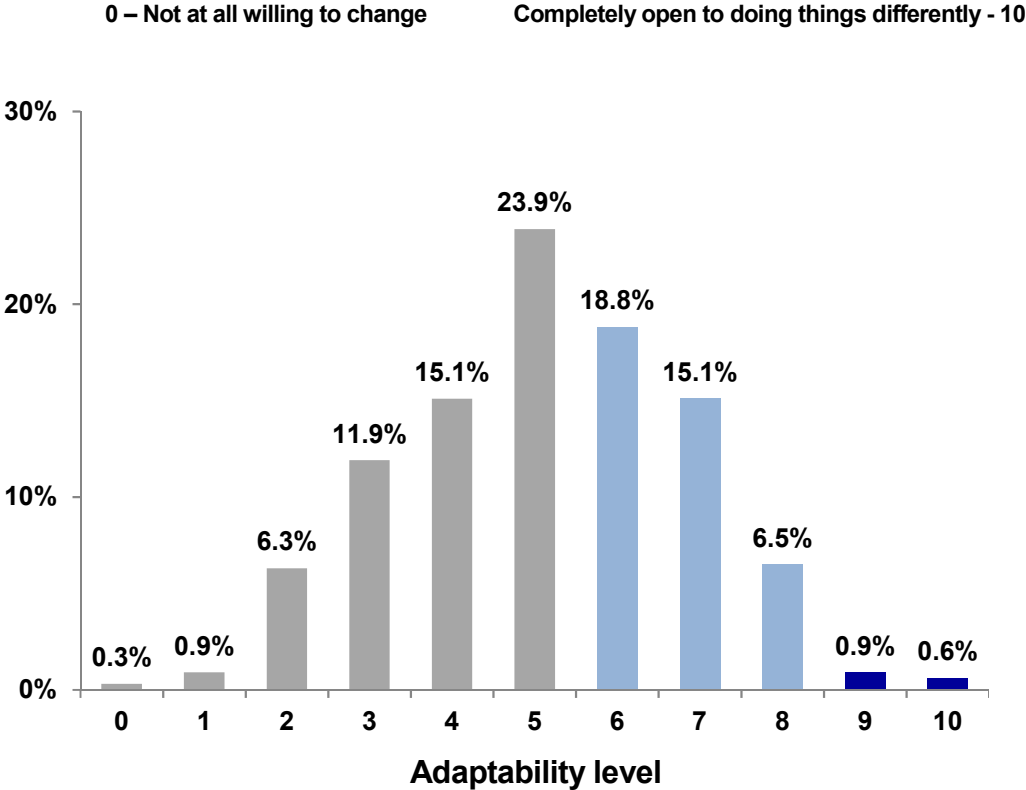


	LOW					MODERATE			HIGH		
RATING	0	1	2	3	4	5	6	7	8	9	10
RESPONSE	48.5%					49.6%			2.0%		

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	58.4%					40.4%			1.5%		

Median rating: 5

Leading Change: Trends

Comparison of firm leader confidence by year:

	LOW	MODERATE	HIGH
2018	33.0%	61.4%	5.6%
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 2018 change preparedness factors in the legal profession:

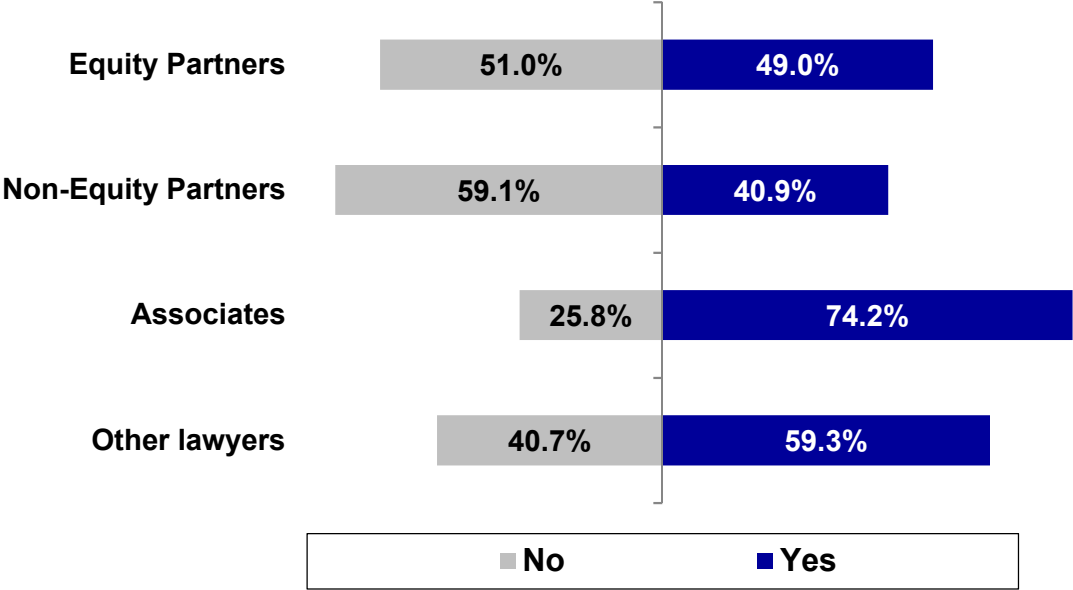
	LOW	MODERATE	HIGH
Confidence of firm leader	33.0%	61.4%	5.6%
Awareness of partners	48.5%	49.6%	2.0%
Adaptability of partners	58.4%	40.4%	1.5%

Productivity

LAW FIRMS IN TRANSITION 2018

Productivity: Lawyer Staffing Levels

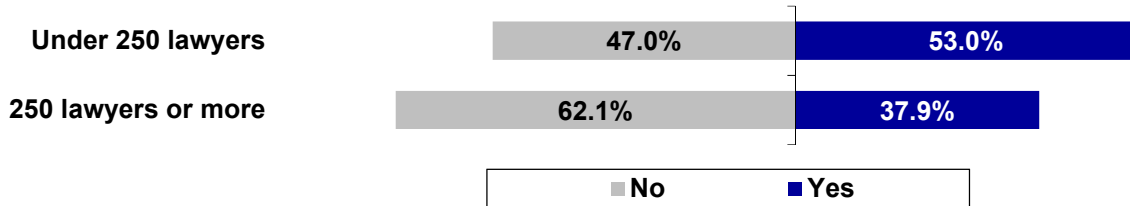
Q: Are each of the following lawyer classes in your firm sufficiently busy?



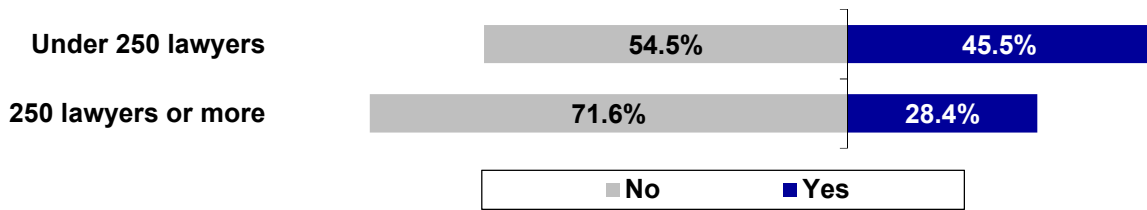
Productivity: Lawyer Staffing Levels

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

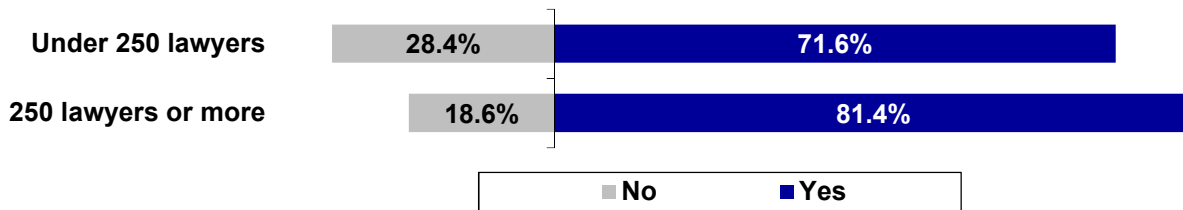
EQUITY PARTNERS – BY FIRM SIZE



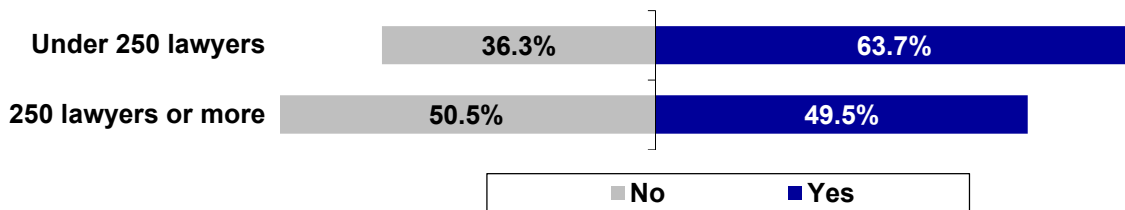
NON-EQUITY PARTNERS – BY FIRM SIZE



ASSOCIATES – BY FIRM SIZE



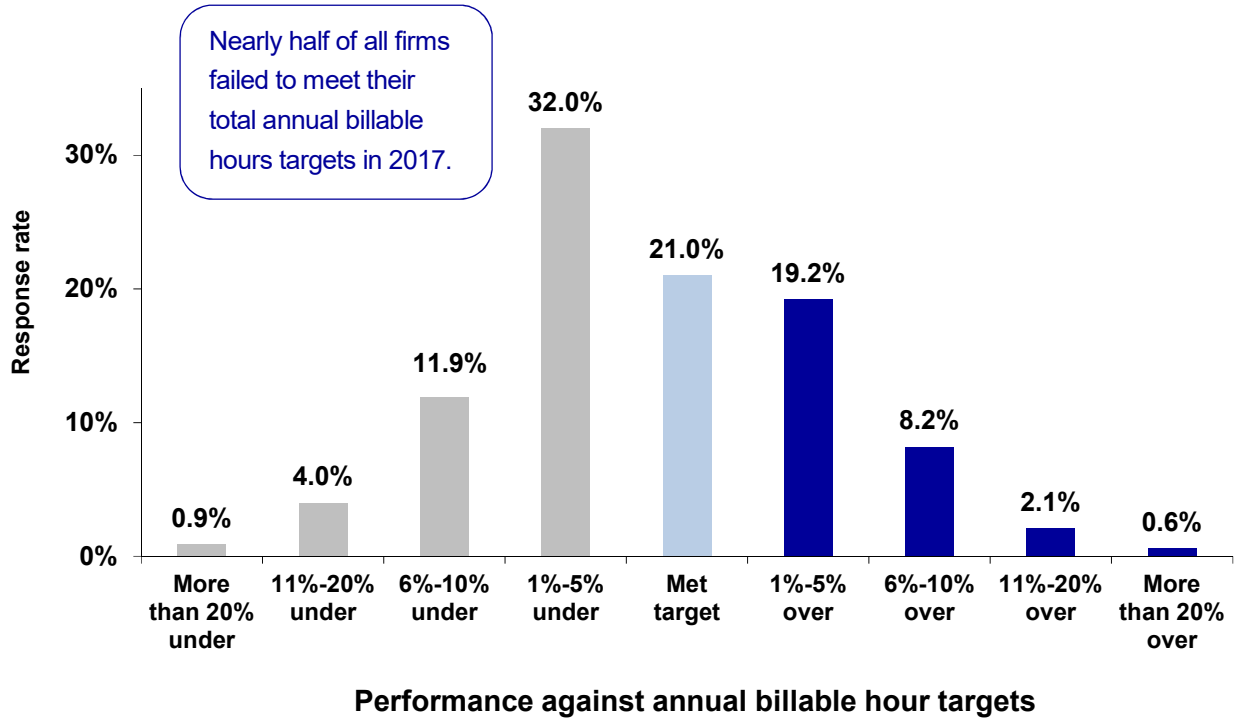
OTHER LAWYERS – BY FIRM SIZE



Productivity: 2017 Annual Billable Hour Targets

NEW

Q: In 2017, how did your firm perform against its target for total annual billable hours?

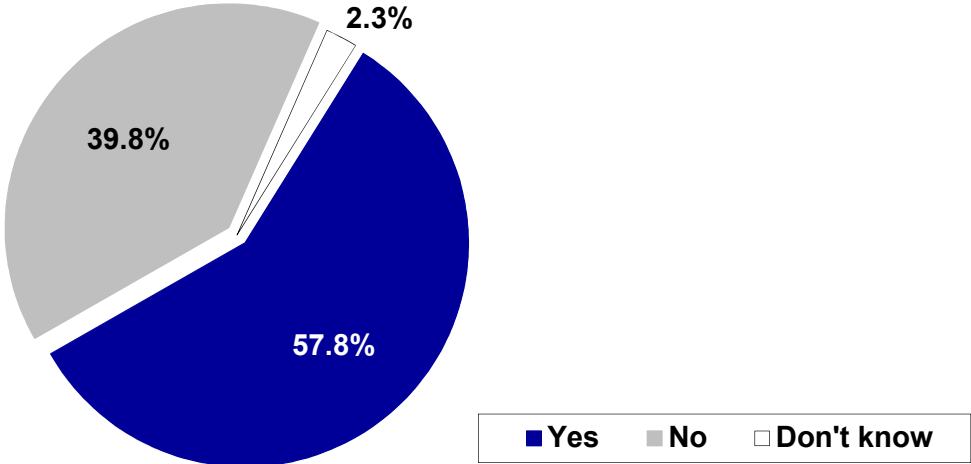


Comparison by firm size:

	UNDER	MET TARGET	OVER
Under 250 lawyers	49.8%	20.6%	29.7%
250 lawyers or more	46.0%	22.4%	31.8%

Overcapacity and Profitability

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



Comparison by firm size:

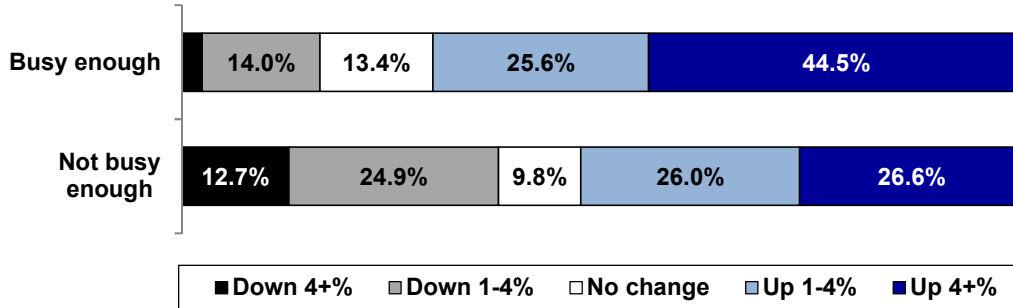
	Yes	No	Don't know
Under 250 lawyers	55.7%	42.6%	1.8%
250 lawyers or more	63.6%	32.7%	3.7%

Overcapacity and Profitability

CORRELATION

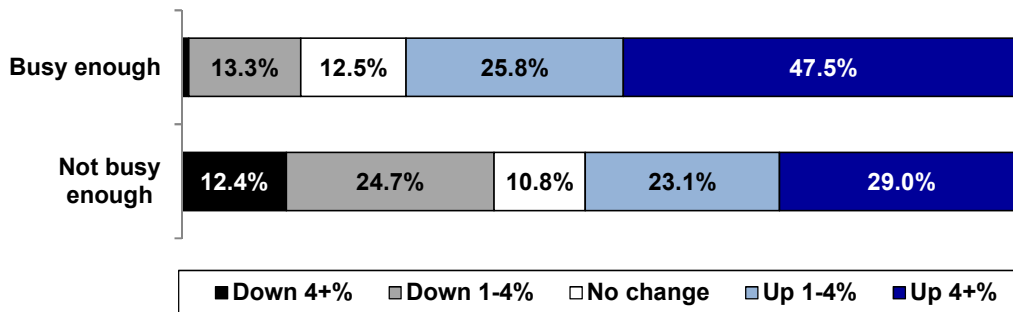
To what degree does overcapacity correlate with increased profitability? We compared reported changes in a firm's Profits per Equity Partner (PPEP) in 2017 between firms reporting their lawyers are sufficiently busy and firms in which they are not busy enough.

EQUITY PARTNERS



% of firms reporting PPEP UP
70.1%
52.6%
Δ 17.5%

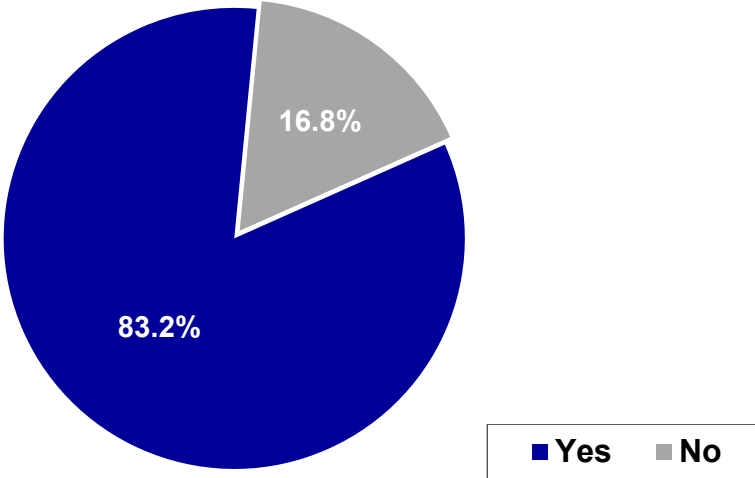
NON- EQUITY PARTNERS



% of firms reporting PPEP UP
73.3%
52.1%
Δ 21.2%

Under-Performing Lawyers

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

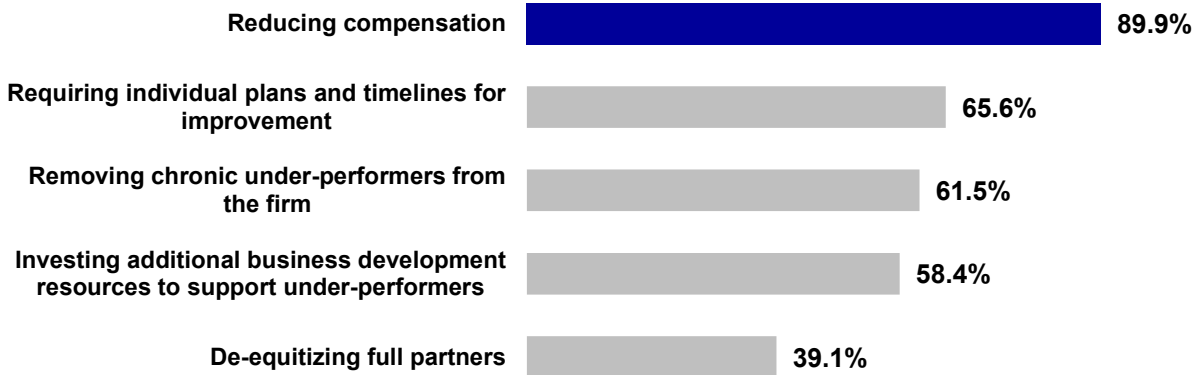


Q: What are the main reasons for chronic under-performance in your law firm?
(Select all that apply.)



Under-Performance: Strategy & Tactics

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



Dealing with under-performing lawyers

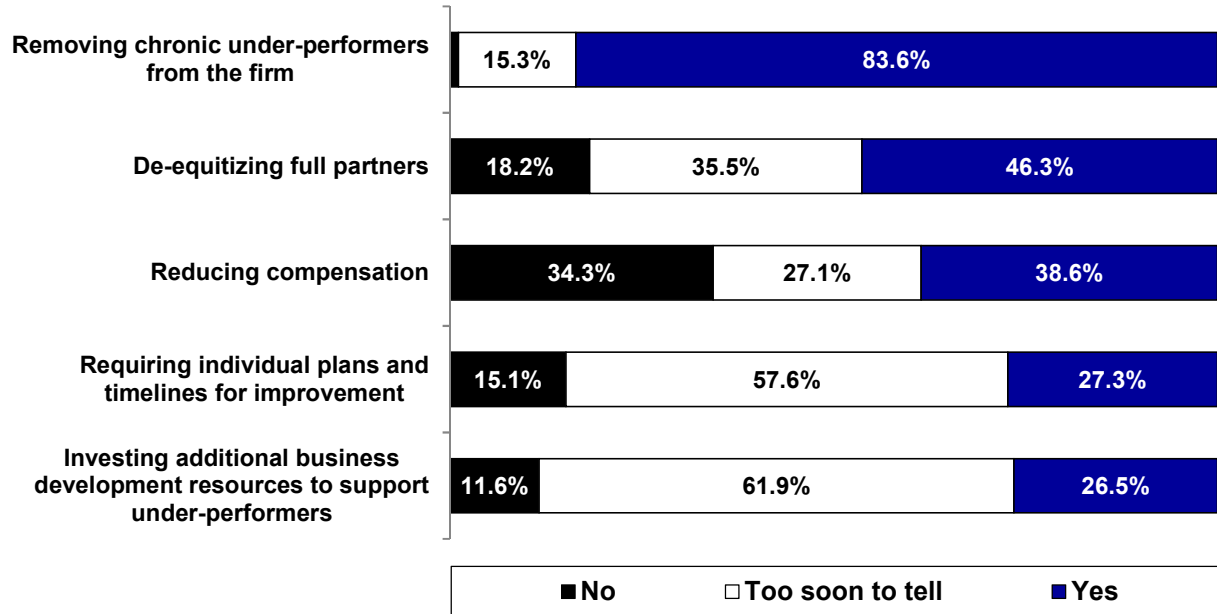
Comparison by firm size:

	Under 250 lawyers	250 lawyers or more
Reducing compensation	87.5%	96.5%
Requiring individual plans and timelines	62.1%	75.3%
Removing chronic under-performers from the firm	53.4%	83.5%
Investing additional business development resources	58.2%	58.8%
De-equitizing full partners	31.9%	58.8%

Under-Performance: What Works

NEW

Q: For each of those things you've done to deal with chronically under-performing lawyers, has the action resulted in significant improvement in the firm's under-performance problem?

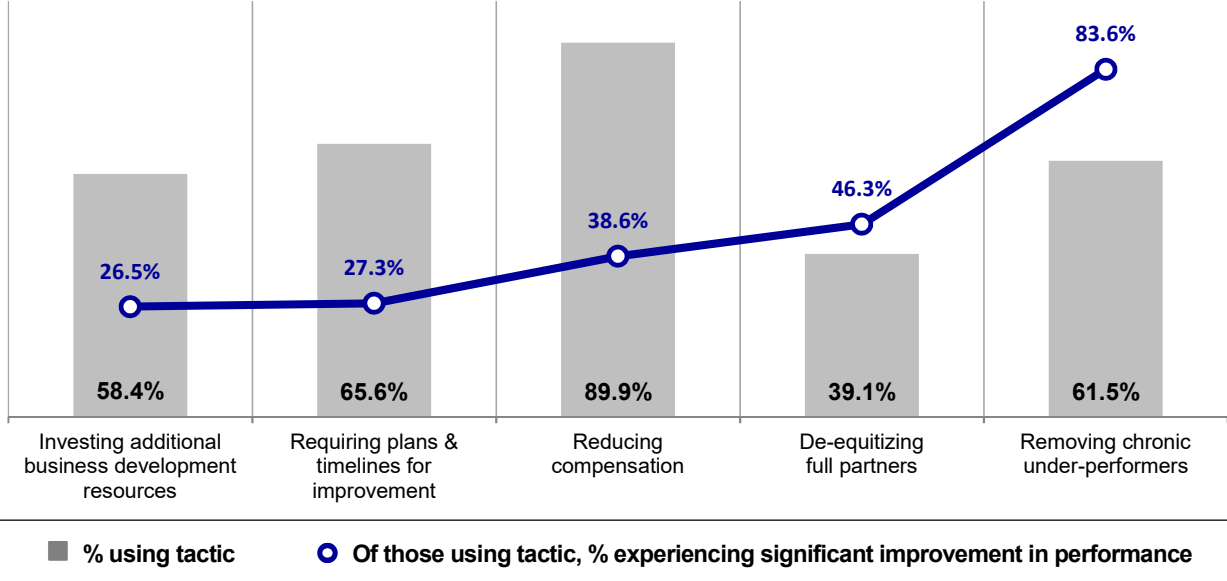


Under-Performance: What Works

NEW

This chart combines findings from the two prior questions. Each bar shows the percentage of law firms using the tactic. Data points on the line show the percentage of those firms using each tactic that report it has delivered a significant improvement in performance.

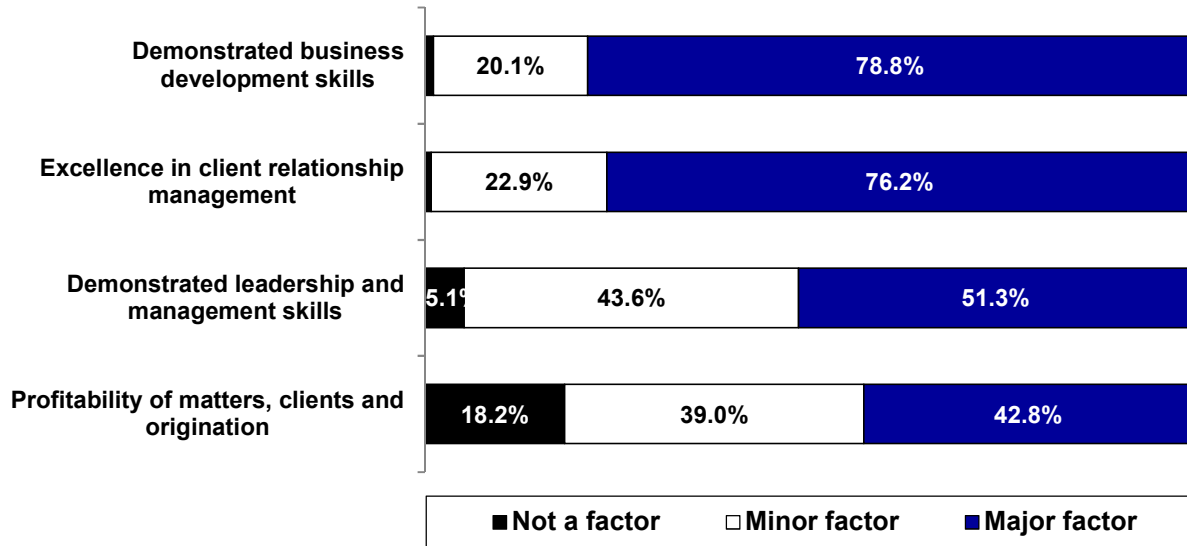
Comparison of Use and Results:



Partnership Admission Standards

NEW

Q: Aside from the traditional partnership admission standards of origination and working attorney fees, does your firm consider any of the following criteria for admission to equity partnership?



Percentage rating each as a "Major Factor" - by firm size:

	Under 250 lawyers	250 lawyers or more
Demonstrated business development skills	75.2%	89.1%
Excellence in client relationship management	73.2%	84.8%
Demonstrated leadership and management skills	47.9%	60.9%
Profitability of matters, clients and origination	43.1%	41.8%

Productivity: Trends

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



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

NEW

Q: Do you think lower firmwide billable hour targets will be a permanent trend going forward?

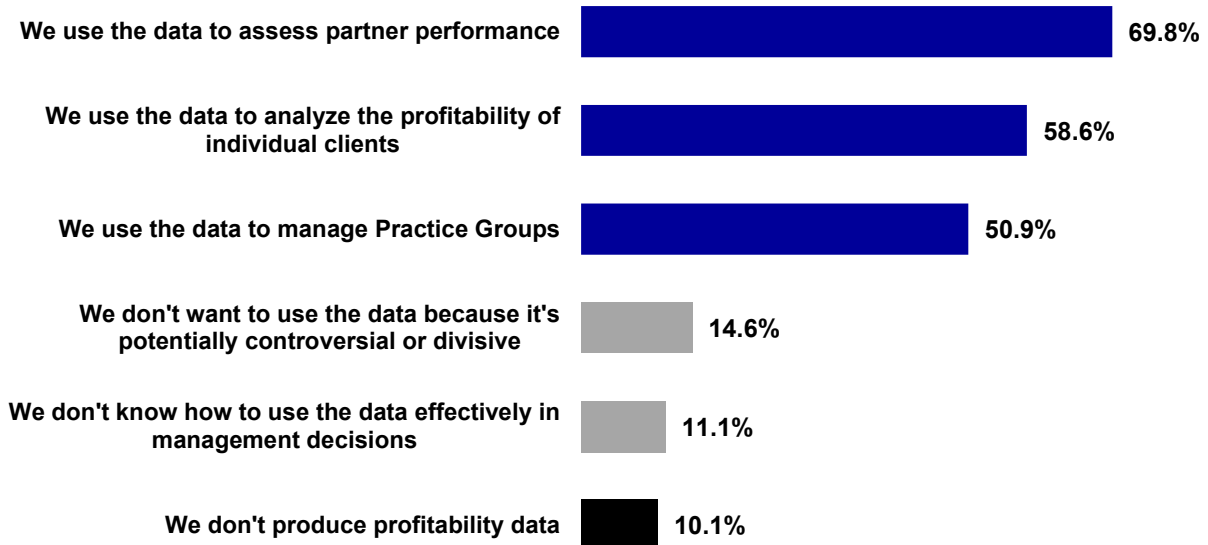


Law Firm Profitability

LAW FIRMS IN TRANSITION 2018

Profitability Data as Management Tool

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:

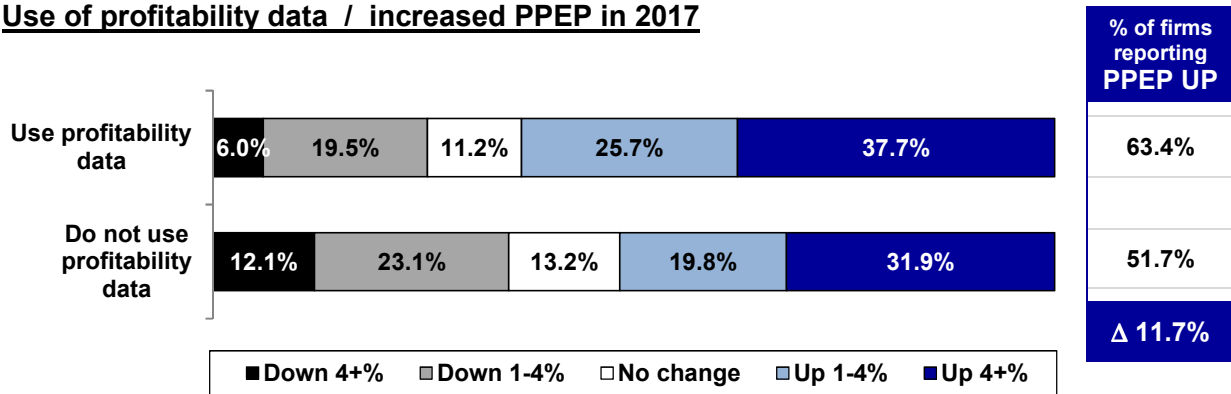
	Under 250 lawyers	250 lawyers or more
Use to assess partner performance	67.0%	77.2%
Use to analyze profitability of individual clients	50.4%	81.2%
Use to manage Practice Groups	44.2%	69.3%
Don't use because potentially controversial or divisive	16.7%	8.9%
Don't know how to use effectively in management	13.0%	5.9%
Don't produce profitability data	13.4%	1.0%

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 2017 between firms that use profitability data and those that do not*.

Use of profitability data / increased PPEP in 2017



*Responses were aggregated as follows:

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

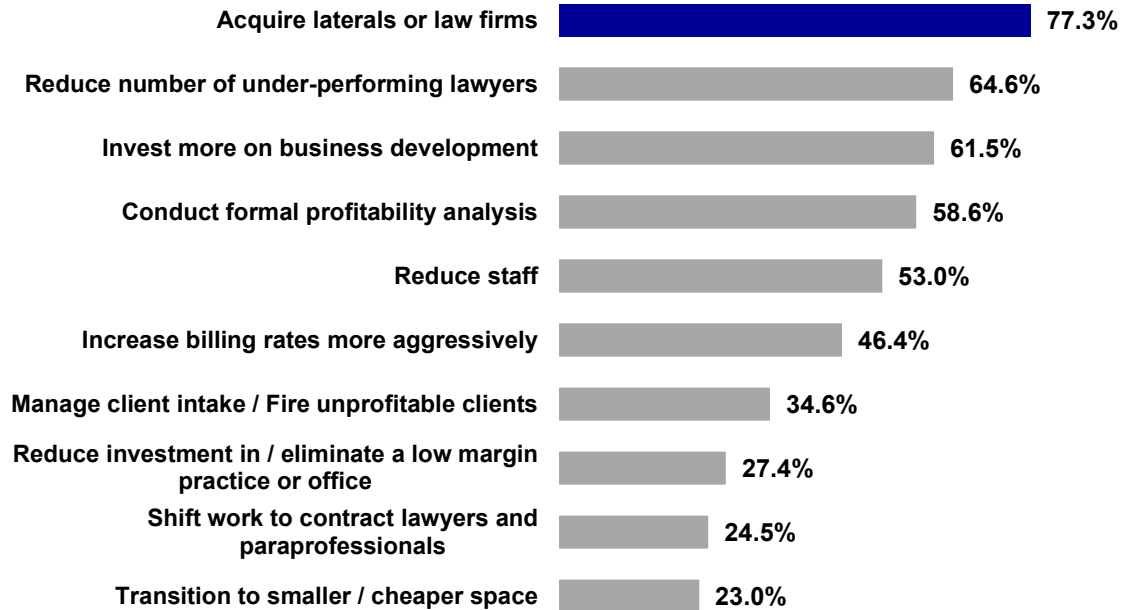
- We use profitability data to manage practice groups.
- We use profitability data to assess partner performance.
- We use profitability data to analyze the profitability of individual clients.

‘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

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



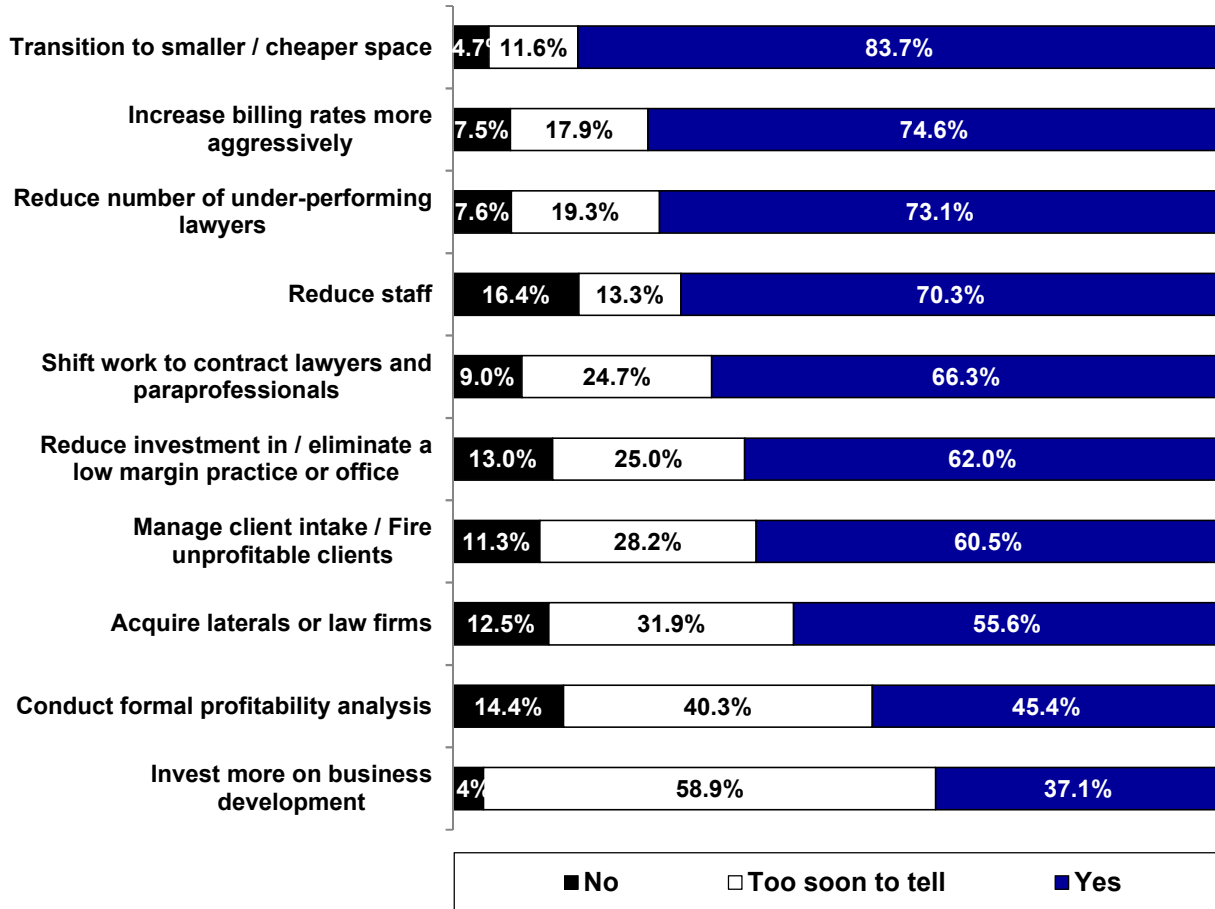
Efforts to improve firm profitability

Comparison by firm size:

	Under 250 lawyers	250 lawyers or more
Acquire laterals or law firms	76.5%	79.4%
Reduce number of under-performing lawyers	59.9%	77.5%
Invest more on business development	61.0%	62.7%
Conduct formal profitability analysis	52.0%	76.5%
Reduce staff	53.4%	52.0%
Increase billing rates more aggressively	41.5%	59.8%
Manage client intake / Fire unprofitable clients	31.0%	44.1%
Reduce investment/eliminate low margin practice or office	22.7%	40.2%
Shift work to contract lawyers and paraprofessionals	16.6%	46.1%
Transition to smaller / cheaper space	19.1%	33.3%

Profitability Tactics: What Works

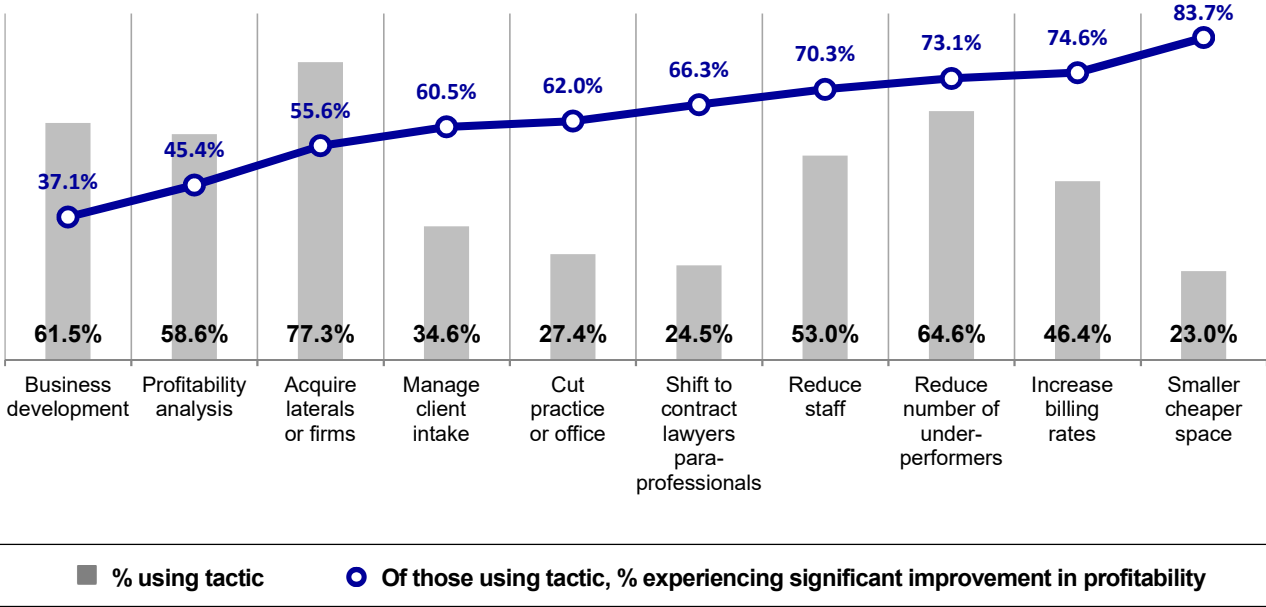
Q: For each of those things you've done to improve your firm's profitability, has the action resulted in a significant improvement in profitability?



Profitability Tactics: What Works

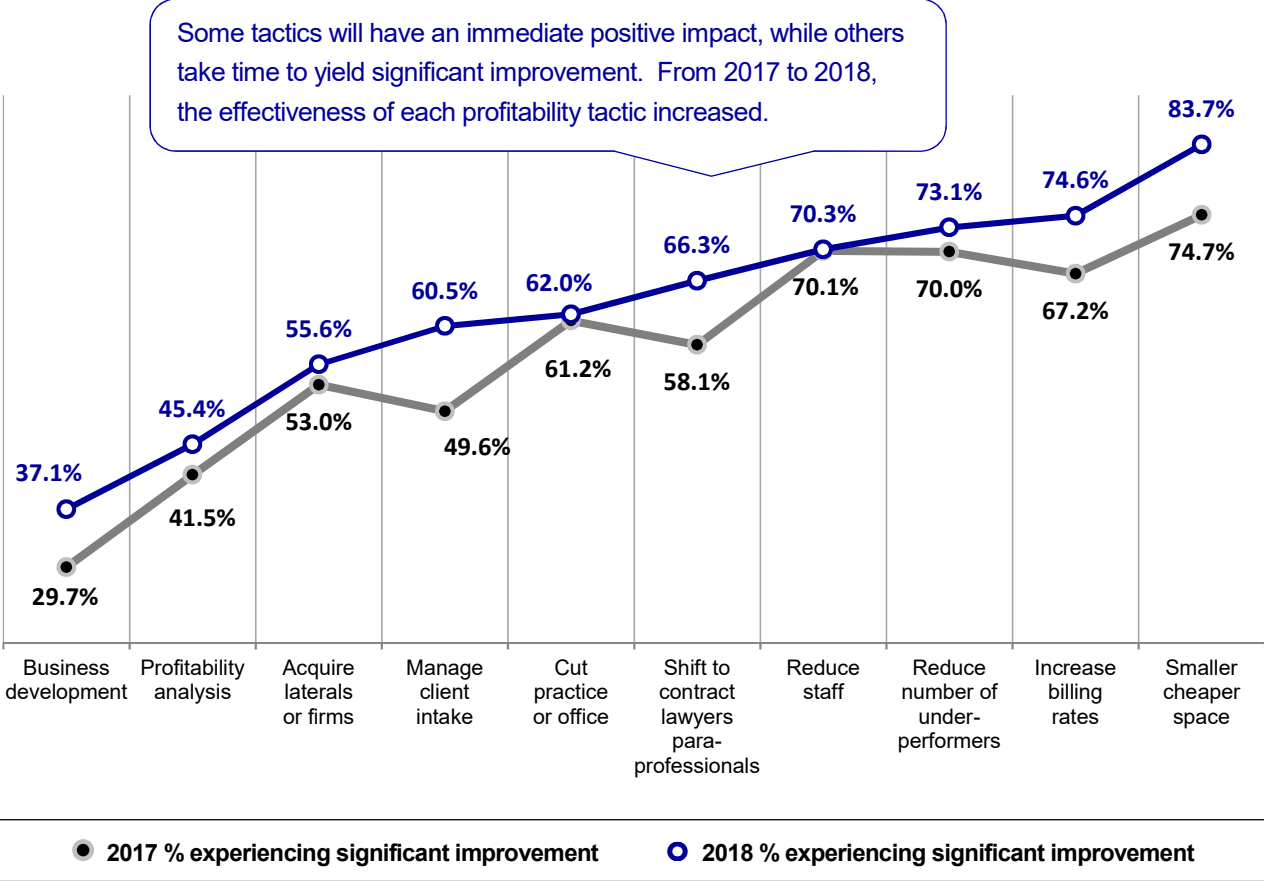
This chart combines findings from the two prior questions. Each bar shows the percentage of law firms using the tactic. Data points on the line show the percentage of those firms using each tactic that report it has delivered a significant improvement in performance.

Comparison of Use and Results:



Profitability Tactics: Effectiveness Trend

Comparison of each effort's effectiveness: 2017 to 2018



Profitability: Trends

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



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

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

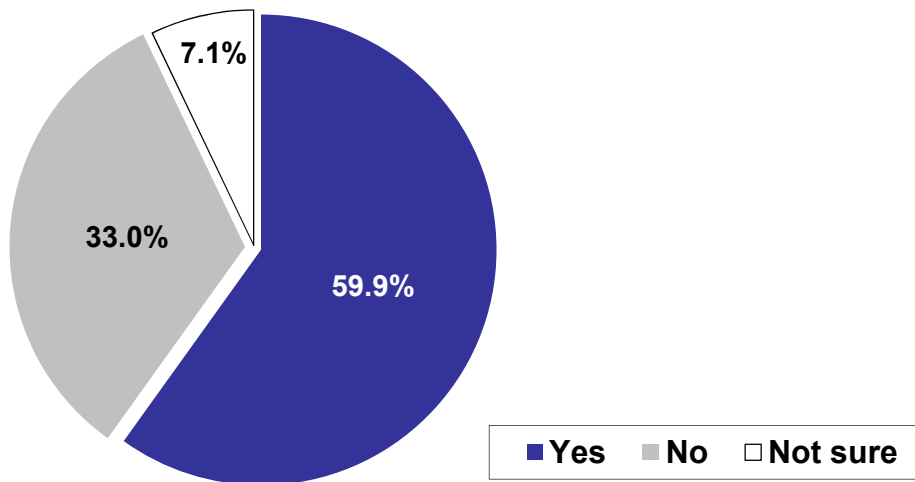


	2009	2010	2011	2012	2013	2014	2015	2016	2017
PERMANENT	NA	NA	88.3%	80.5%	89.7%	88.6%	83.1%	88.2%	88.8%

Lawyer Staffing Strategies
LAW FIRMS IN TRANSITION 2018

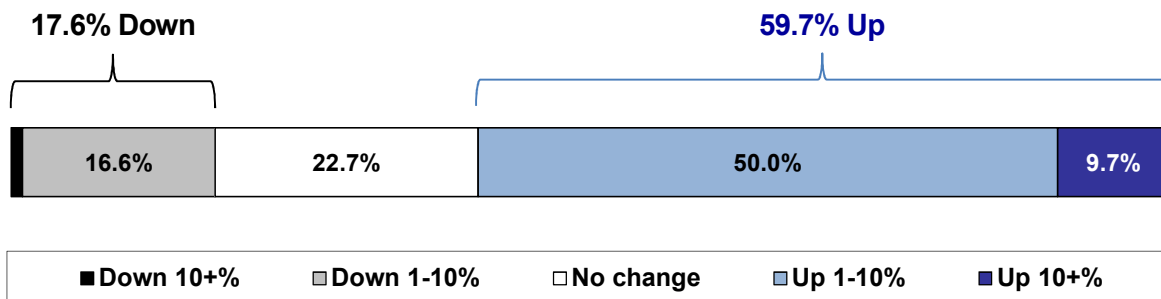
Staffing Strategy: Growth

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



NEW

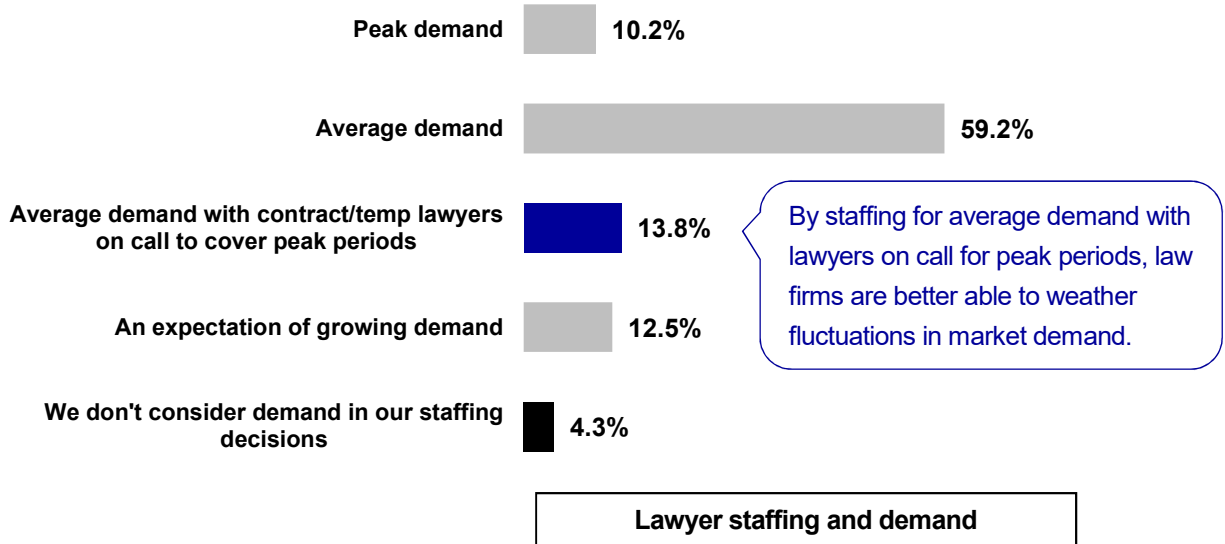
Q: Approximately how much did your firm's lawyer headcount change in 2017?



Lawyer Staffing and Demand

NEW

Q: In considering the number of full-time lawyers in your firm, are you staffed for peak annual demand, for average annual demand, or using some other standard?



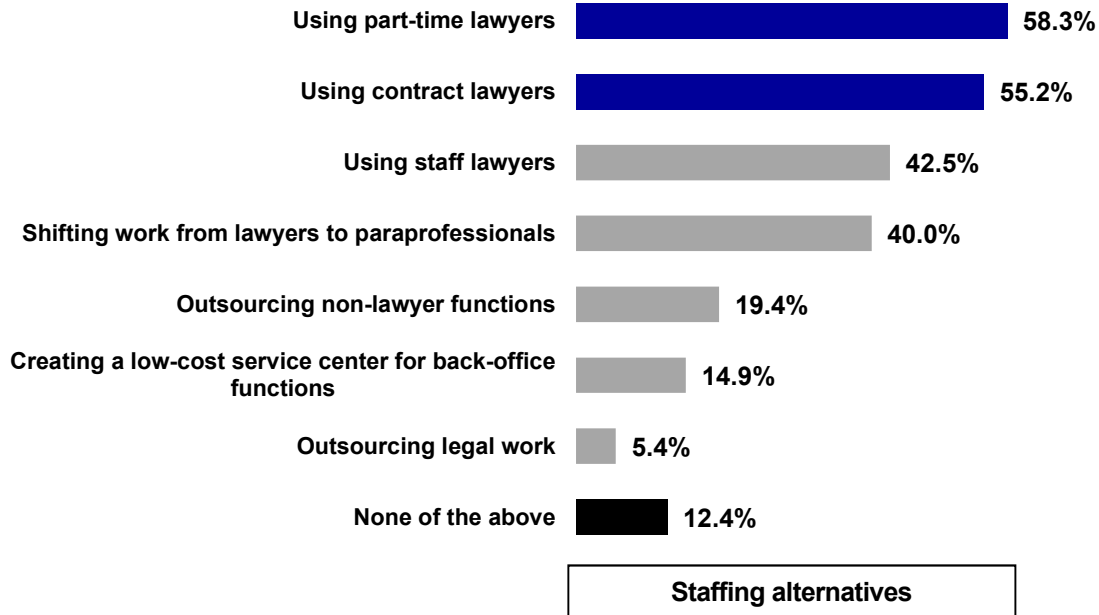
Lawyer staffing and demand

Comparison by firm size:

	No linkage	Expectation of more demand	Average w/ lawyers on call	Average demand	Peak demand
Under 250 lawyers	4.6%	13.0%	9.2%	62.3%	10.9%
250 lawyers or more	3.7%	11.1%	25.9%	50.9%	8.3%

Alternative Staffing Strategies

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

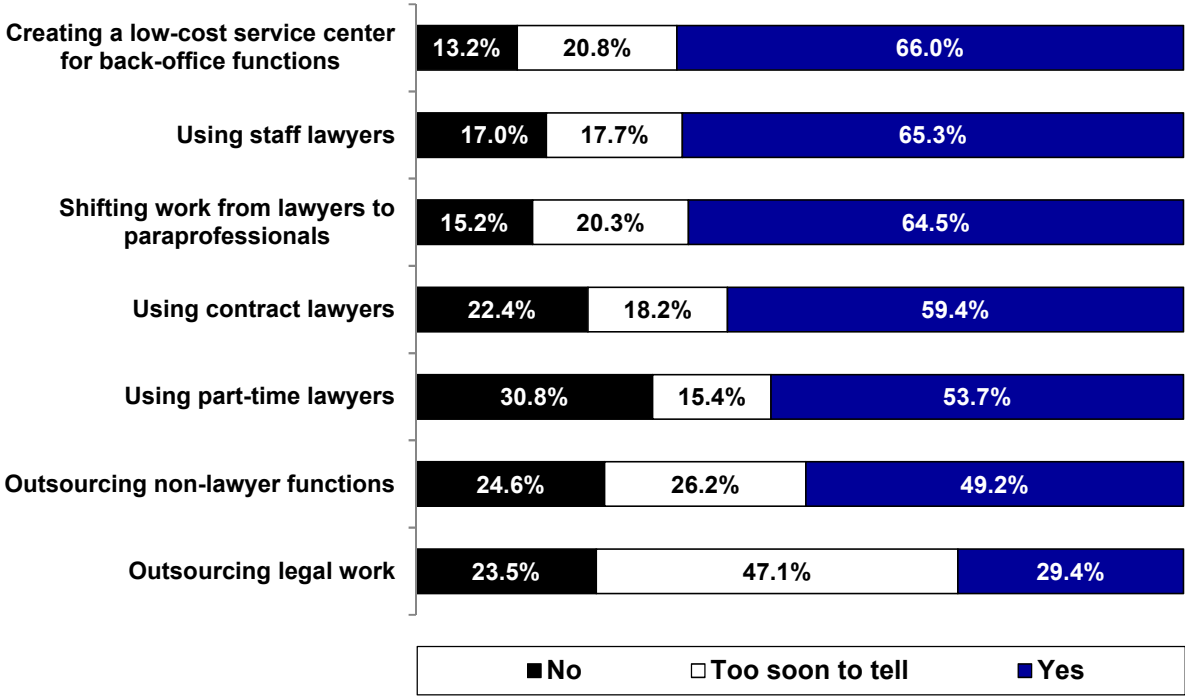


Comparison by firm size:

	Under 250 lawyers	250 lawyers or more
Using part-time lawyers	51.5%	77.4%
Using contract lawyers	46.9%	78.5%
Using staff lawyers	32.1%	72.0%
Shifting work from lawyers to paraprofessionals	42.0%	34.4%
Outsourcing non-lawyer functions	16.4%	28.0%
Creating a low-cost service center for back office	9.5%	30.1%
Outsourcing legal work	5.3%	5.4%
None of the above	14.1%	7.5%

Alternative Staffing: What Works

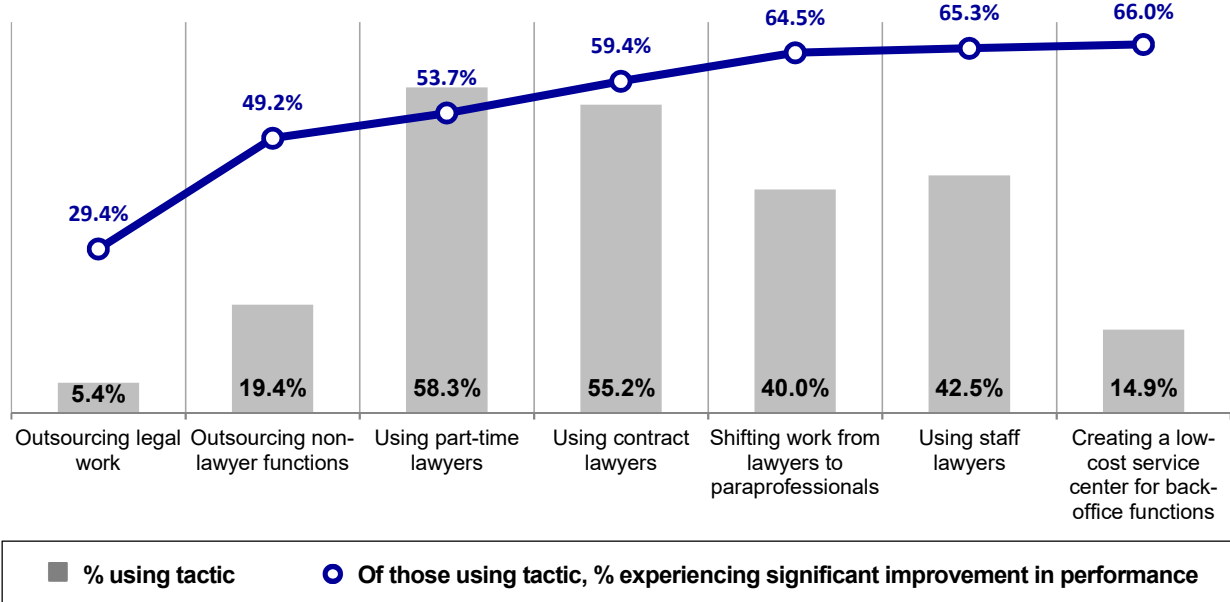
Q: For each of the alternative staffing tactics your firm is pursuing, has it resulted in a significant improvement in firm performance?



Alternative Staffing: What Works

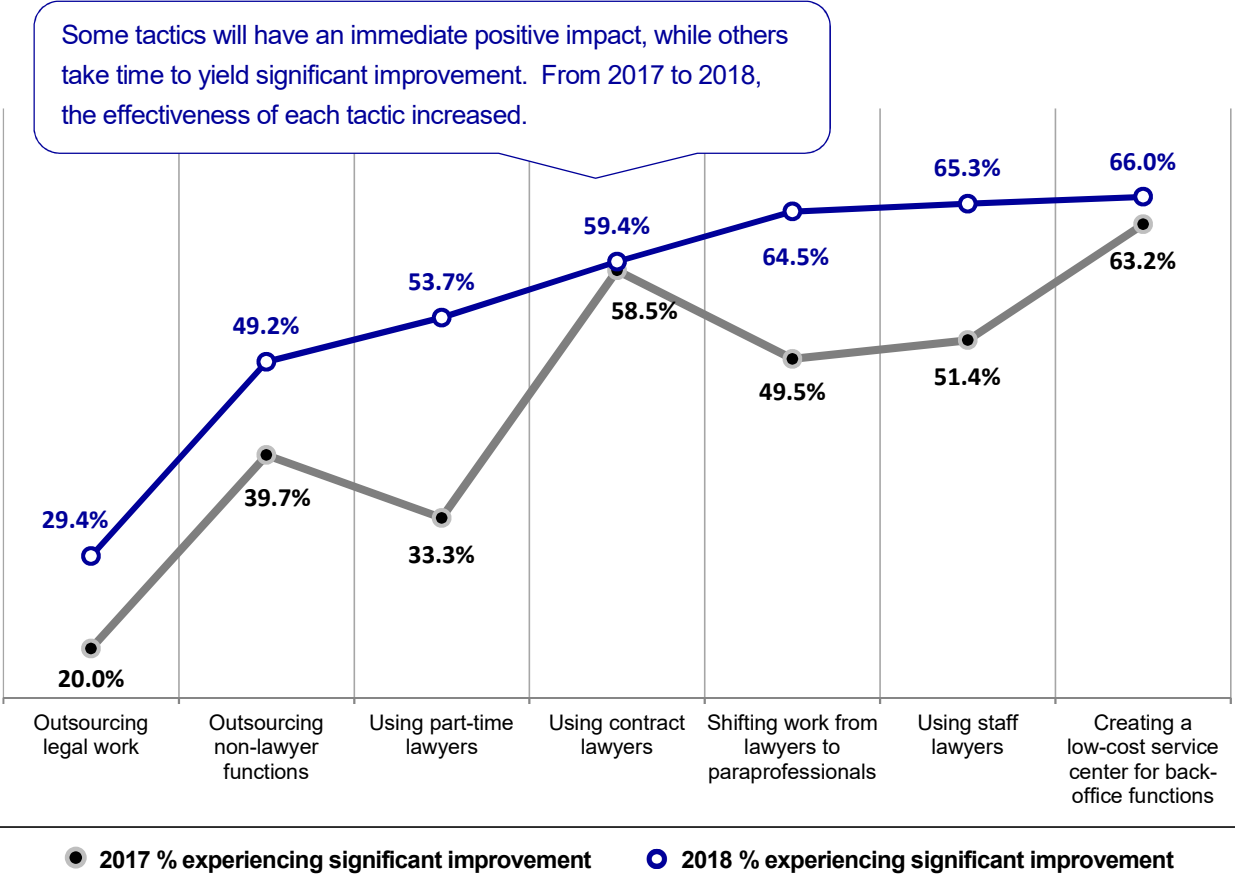
This chart combines findings from the two prior questions. Each bar shows the percentage of law firms using the tactic. Data points on the line show the percentage of those firms using each tactic that report it has delivered a significant improvement in performance.

Comparison of Use and Results:



Alternative Staffing: Effectiveness Trend

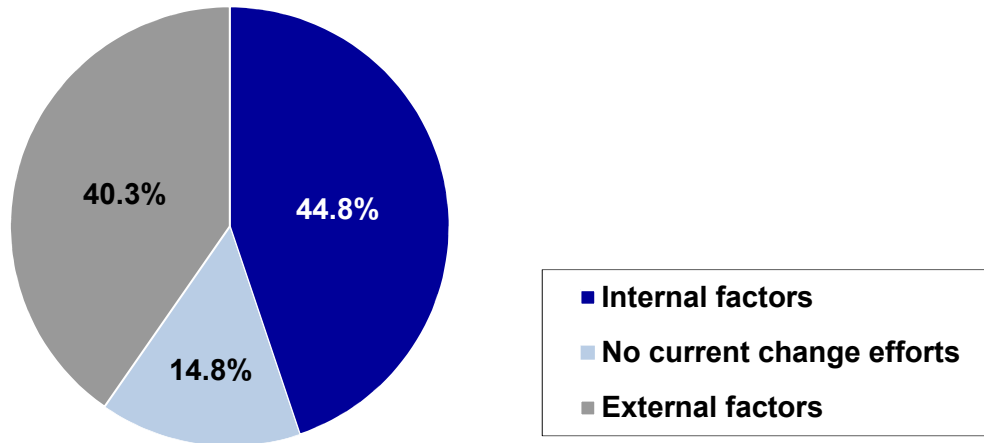
Comparison of each effort's effectiveness: 2017 to 2018



"Shifting work from lawyers to paraprofessionals" appeared in the 2017 Survey in the 'Efficiency' category.

Lawyer Staffing Strategy: Drivers of Change

Q. Are your efforts to change lawyer staffing strategy driven primarily by internal factors (e.g., improved profitability) or external factors (e.g., client or market pressure)?



Comparison by firm size:

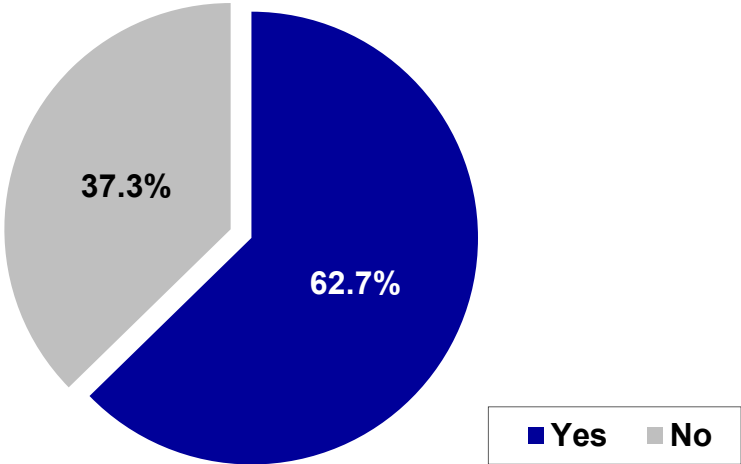
	Internal	No current change efforts	External
Under 250 lawyers	43.7%	17.5%	38.8%
250 lawyers or more	47.9%	7.4%	44.7%

Comparison by year:

	Internal	No current change efforts	External
2018	44.8%	14.8%	40.3%
2014	44.8%	17.9%	37.2%

Project Staffing: Talking with Clients

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

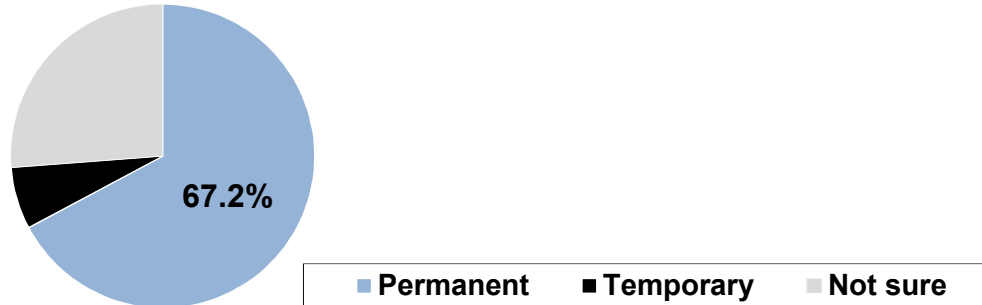


Comparison by firm size:

	Yes	No
Under 250 lawyers	59.7%	40.3%
250 lawyers or more	70.8%	29.2%

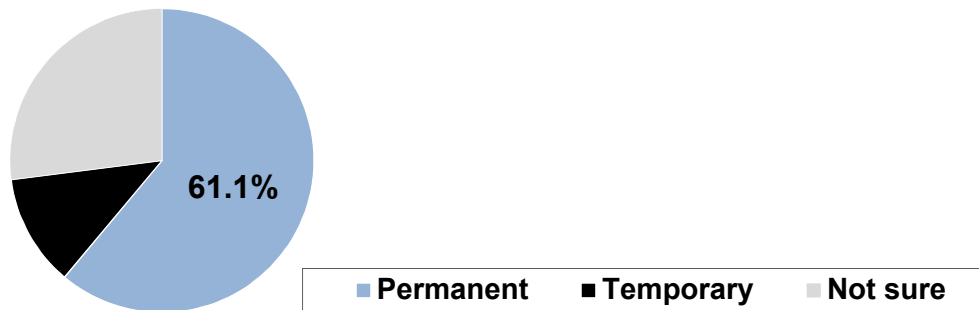
Lawyer Staffing: Trends

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



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

Lawyer Staffing: Trends

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



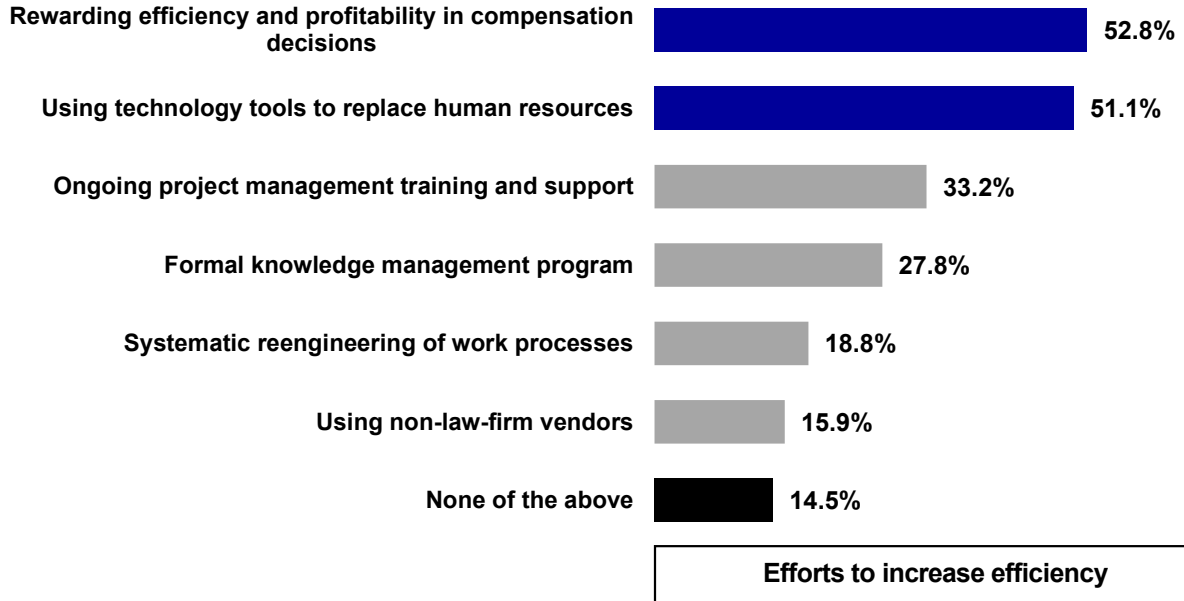
	2009	2010	2011	2012	2013	2014	2015	2016	2017
PERMANENT	11.5%	27.6%	41.1%	45.5%	46.4%	50.7%	52.3%	52.3%	53.8%

Efficiency of Legal Service Delivery

LAW FIRMS IN TRANSITION 2018

Efforts to Increase Efficiency

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

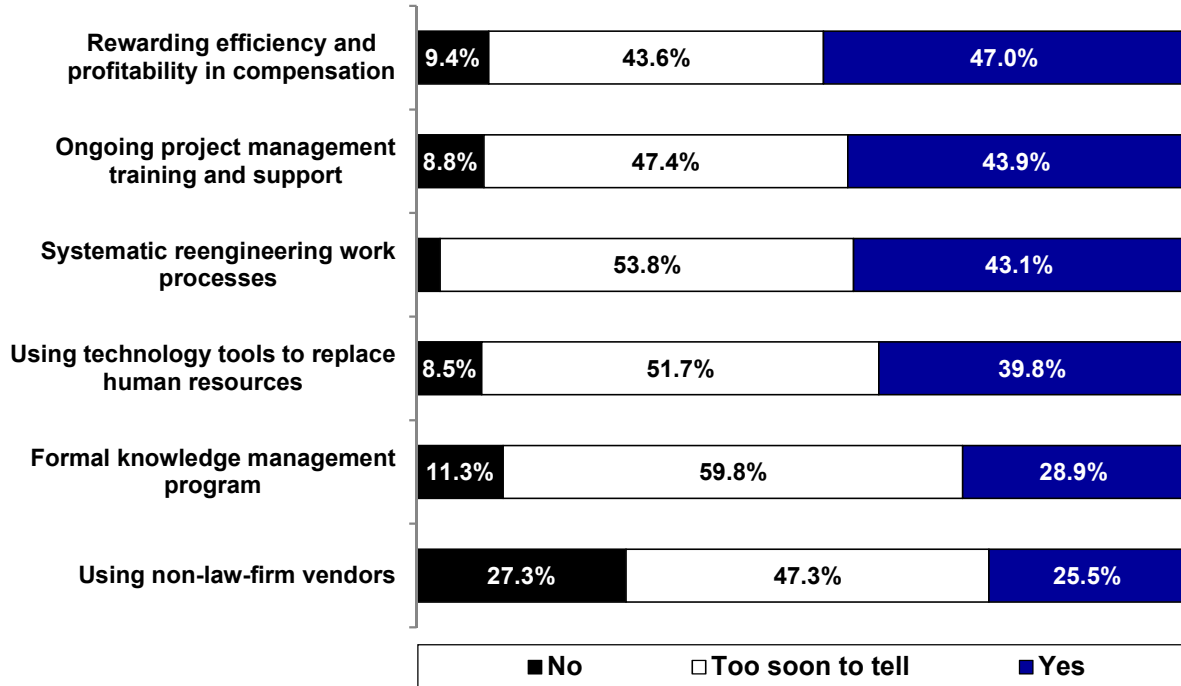


Comparison by firm size:

	Under 250 lawyers	250 lawyers or more
Rewarding efficiency/profitability in comp decisions	49.6%	61.7%
Using technology tools to replace human resources	48.8%	57.4%
Ongoing project management training and support	24.0%	58.5%
Formal knowledge management program	20.2%	48.9%
Systematic reengineering work processes	17.8%	21.3%
Using non-law-firm vendors	14.3%	20.2%
None of the above	17.8%	5.3%

Efficiency Tactics: What Works

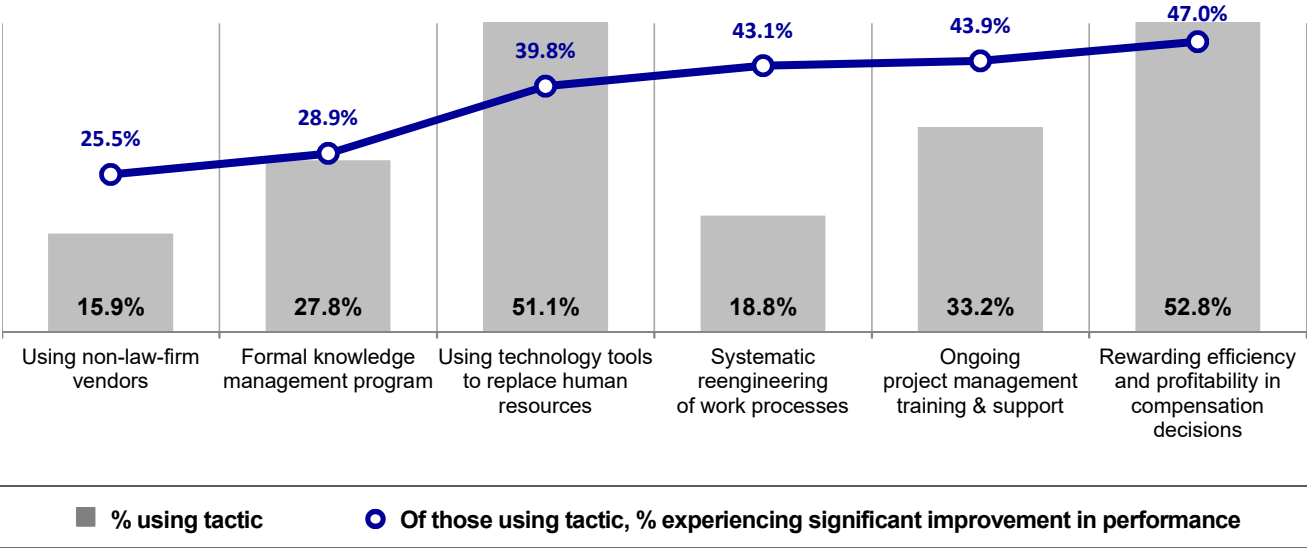
Q: For each of the legal service efficiency tactics your firm is pursuing, has it resulted in a significant improvement in firm performance?



Efficiency Tactics: What Works

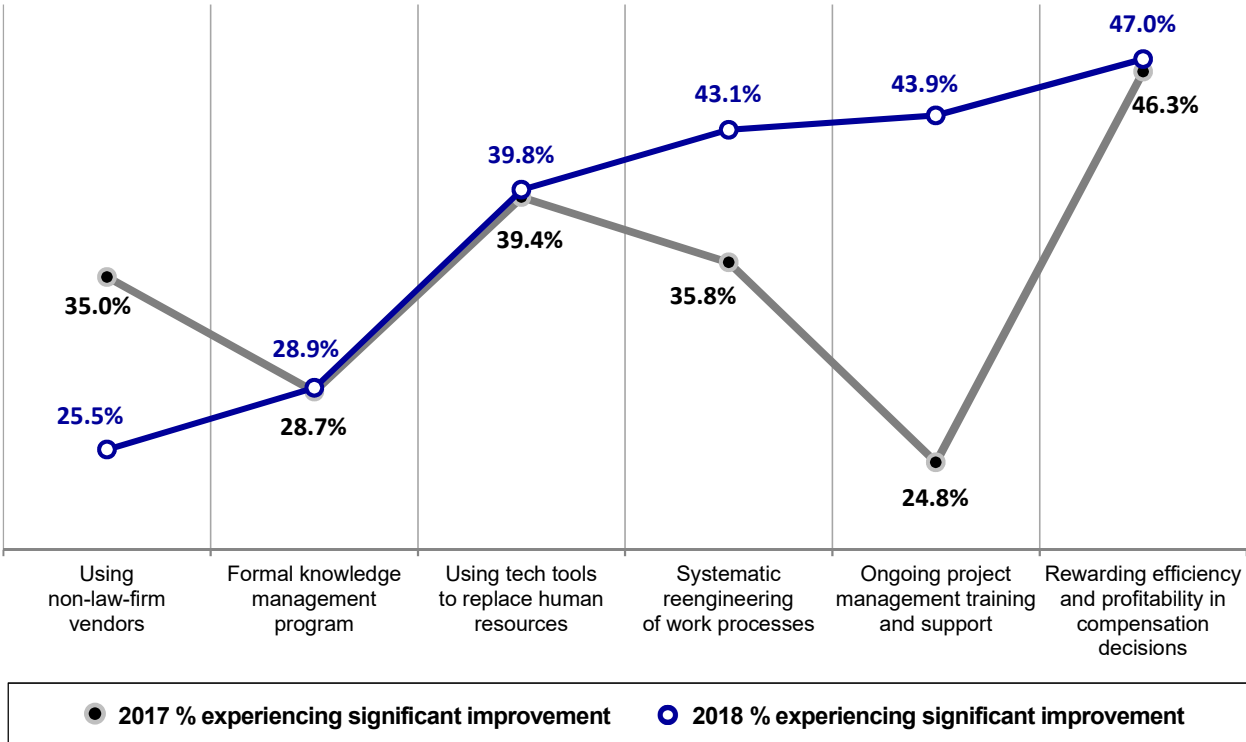
This chart combines findings from the two prior questions. Each bar shows the percentage of law firms using the tactic. Data points on the line show the percentage of those firms using each tactic that report it has delivered a significant improvement in performance.

Comparison of Use and Results:



Efficiency Tactics: Effectiveness Trend

Comparison of each effort's effectiveness: 2017 to 2018

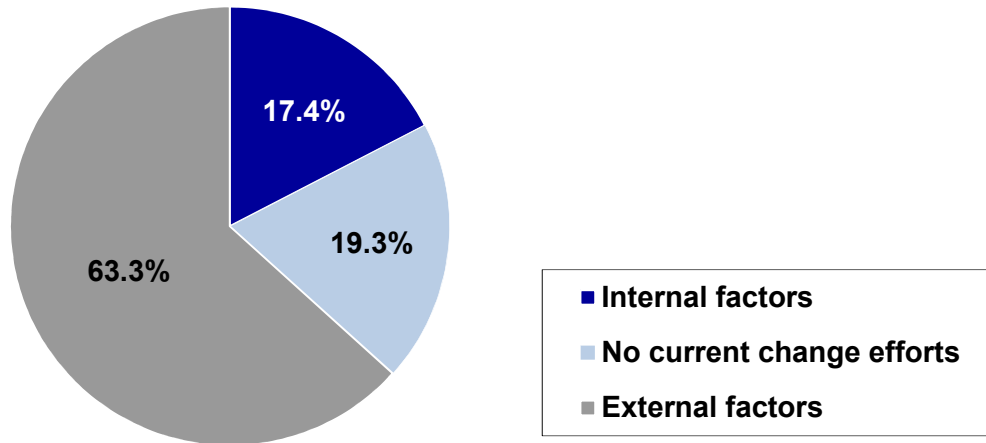


Tactic descriptors changed from 2017 to 2018 as follows:

- "Formal knowledge management program" (2018) - changed from "Knowledge management" (2017).
- "Ongoing project management training and support" (2018) - changed from "Project management training" (2017).
- "Systematic reengineering of work processes" (2018) - changed from "Reengineering work processes" (2017).

Legal Service Delivery: Drivers of Change

Q: Are your efforts to change legal service delivery driven primarily by internal factors (e.g., improved profitability) or external factors (e.g. client or market pressure)?



Comparison by firm size:

	Internal	No current change efforts	External
Under 250 lawyers	15.2%	23.2%	61.6%
250 lawyers or more	23.4%	8.5%	68.1%

Comparison by year:

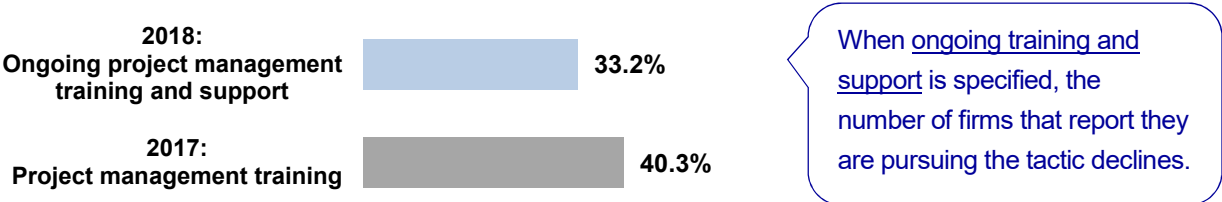
	Internal	No current change efforts	External
2018	17.4%	19.3%	63.3%
2014	33.2%	17.0%	49.8%

Legal Project Management

NEW

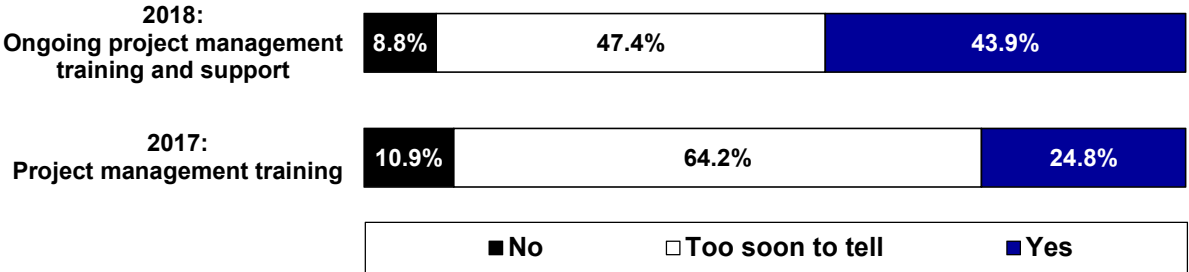
In 2018, we changed the question language for the Efficiency tactic for legal project management from "Project management training" to "Ongoing project management training and support" to reflect a higher threshold of commitment to this kind of process improvement. This change yielded two interesting results.

Is your firm doing the following to increase efficiency of legal service delivery?



If yes, has it resulted in a significant improvement in firm performance?

Among those firms meeting the higher threshold of ongoing training and support, effectiveness nearly doubles.

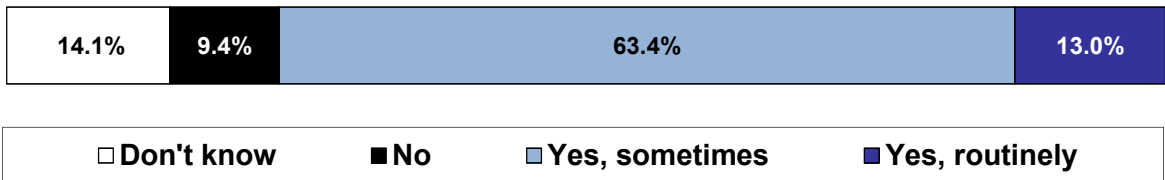


Service Delivery Improvements

NEW

Q: If your law firm develops a new tactic to improve efficiency of service delivery for one client, do you proactively offer the same improvement to other clients who would benefit from it?

Although 76% of firms report sharing or replicating service delivery improvements at least some of the time, making it a routine practice could be a significant differentiator in the eyes of clients.

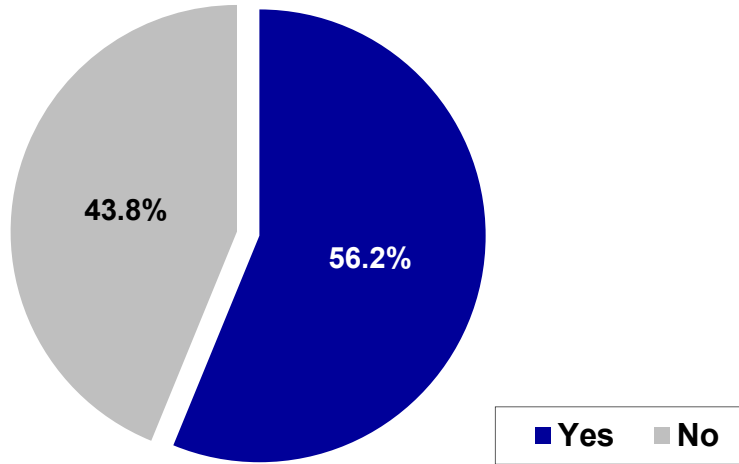


Comparison by firm size:

	Don't know	No	Yes, sometimes	Yes, routinely
Under 250 lawyers	16.3%	11.0%	59.5%	13.3%
250 lawyers or more	8.2%	5.2%	74.2%	12.4%

Matter Management Efficiency: Talking with Clients

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	52.7%	47.3%
250 lawyers or more	65.6%	34.4%

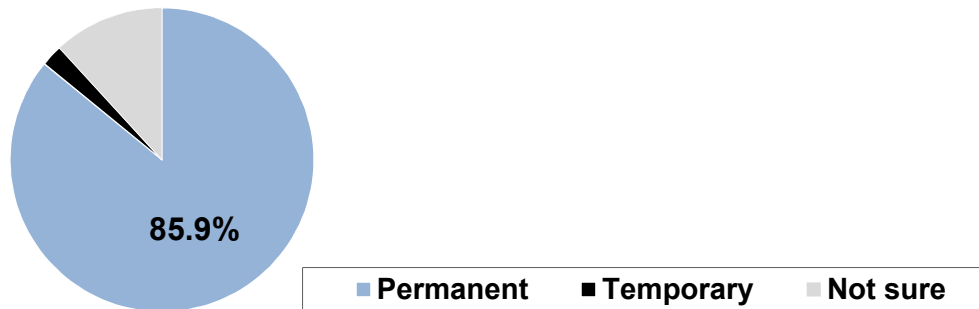
Efficiency of Legal Service Delivery: Trends

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
PERMANENT	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?



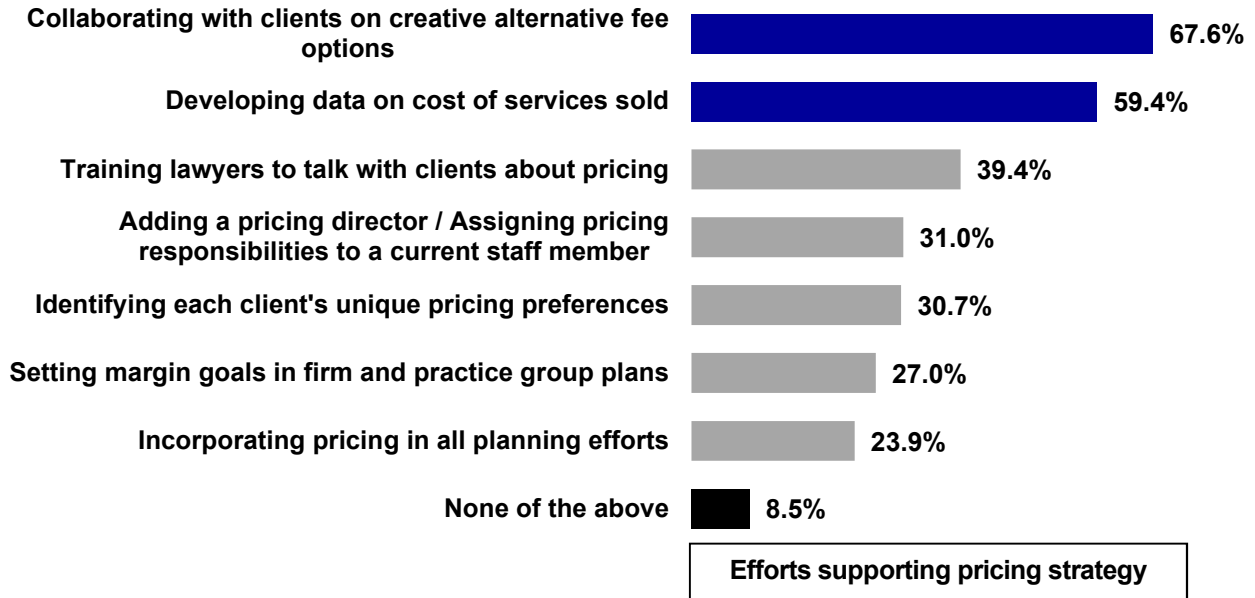
	2009	2010	2011	2012	2013	2014	2015	2016	2017
PERMANENT	NA	NA	NA	NA	NA	84.8%	84.3%	85.2%	84.4%

Pricing Strategies

LAW FIRMS IN TRANSITION 2018

Efforts to Support Pricing Strategy

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

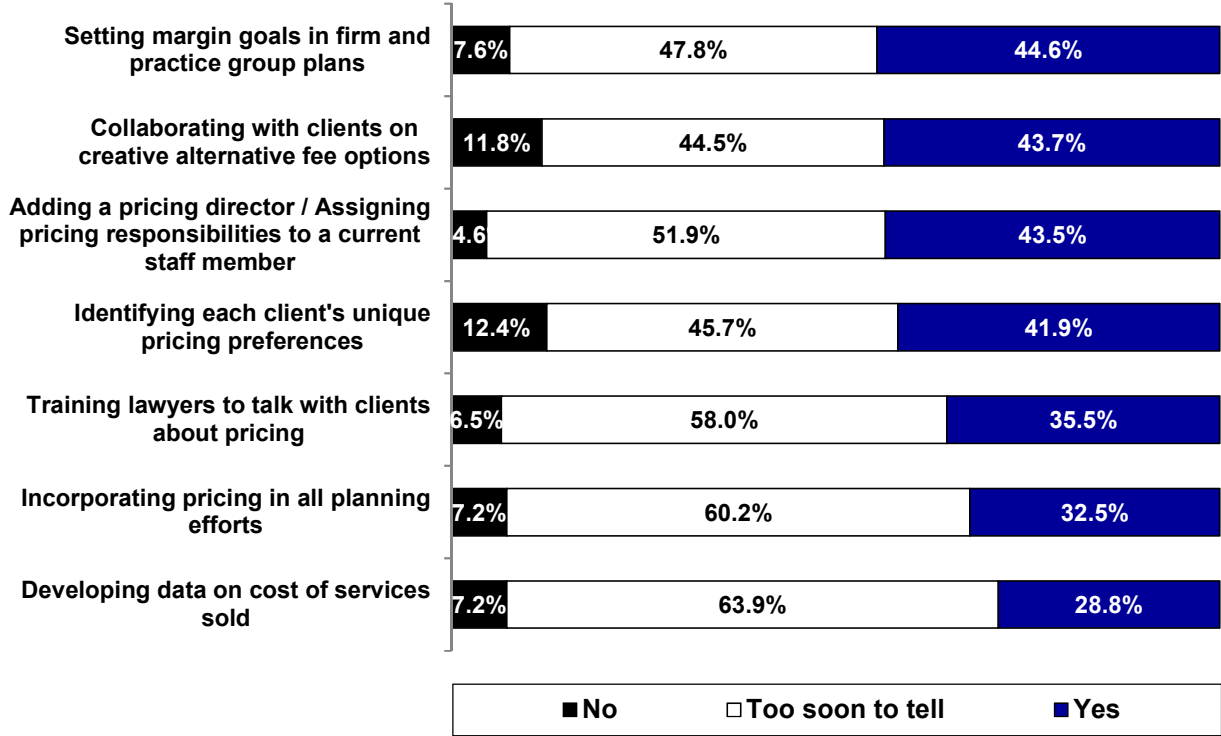


Comparison by firm size:

	Under 250 lawyers	250 lawyers or more
Collaborating with clients on creative fee options	64.4%	76.6%
Developing data on cost of services sold	49.8%	86.2%
Training lawyers to talk with clients about pricing	33.0%	57.4%
Adding Pricing Director / Staff member	15.7%	73.4%
Identifying each client's unique pricing preferences	26.8%	41.5%
Setting margin goals in firm and practice group plans	22.2%	40.4%
Incorporating pricing in all planning efforts	18.0%	40.4%
None of the above	11.5%	0.0%

Pricing Tactics: What Works

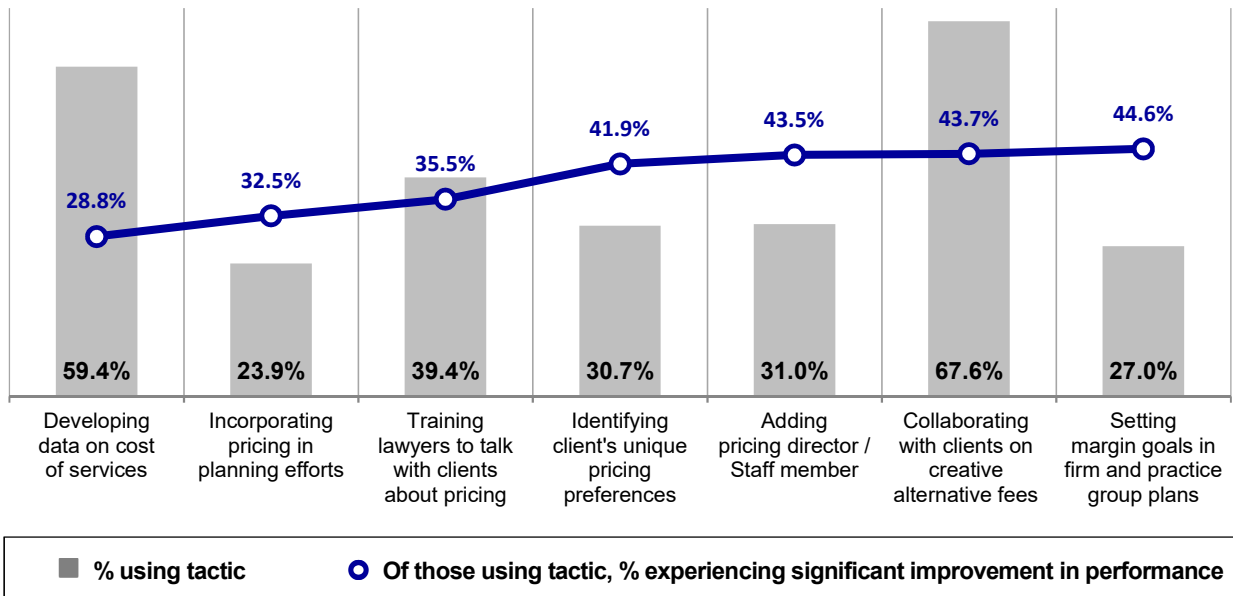
Q: For each of the pricing tactics your firm is pursuing, has it resulted in a significant improvement in firm performance?



Pricing Tactics: What Works

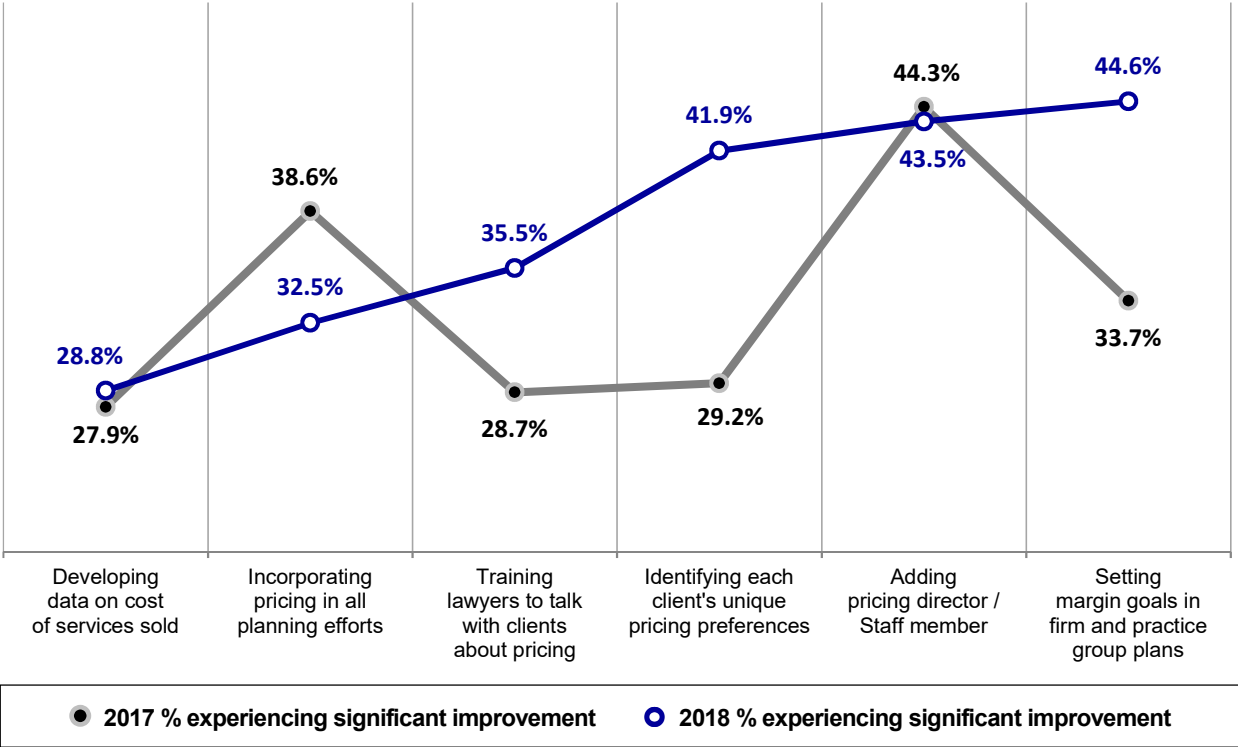
This chart combines findings from the two prior questions. Each bar shows the percentage of law firms using the tactic. Data points on the line show the percentage of those firms using each tactic that report it has delivered a significant improvement in performance.

Comparison of Use and Results:



Pricing Tactics: Effectiveness Trend

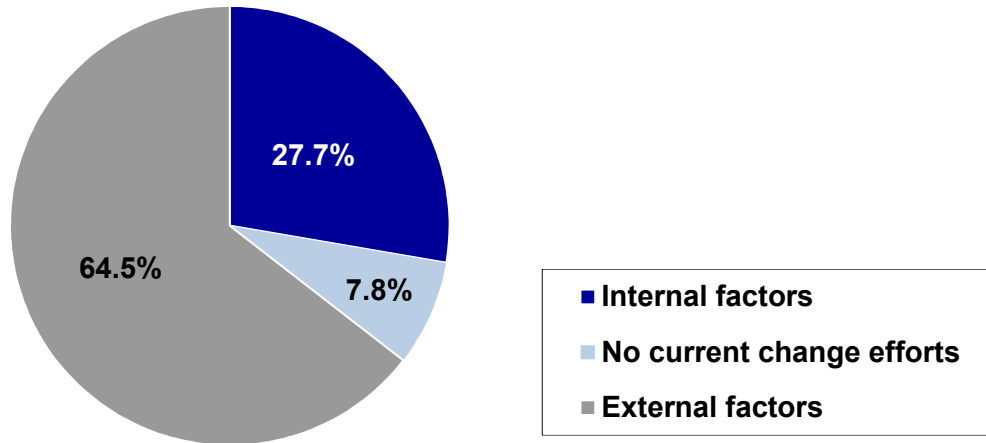
Comparison of each effort's effectiveness: 2017 to 2018



Pricing tactic "Collaborating with clients on creative alternative fee options" appeared for the first time in the 2018 Survey so there is no 2017 to 2018 comparison.

Pricing Strategy: Drivers of Change

Q: Are your efforts to change pricing strategy driven primarily by internal factors (e.g., improved profitability) or external factors (e.g. client or market pressure)?



Comparison by firm size:

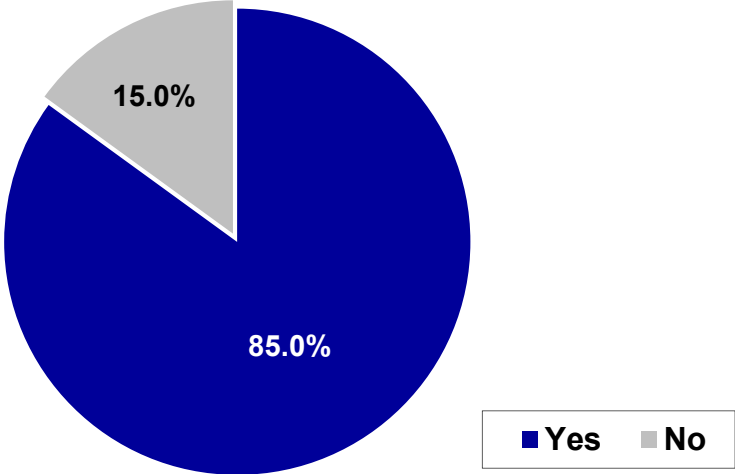
	Internal	No current change efforts	External
Under 250 lawyers	28.4%	9.8%	61.7%
250 lawyers or more	25.5%	2.1%	72.3%

Comparison by year:

	Internal	No current change efforts	External
2018	27.7%	7.8%	64.5%
2014	24.1%	16.2%	59.7%

Pricing / Budgets: Talking with Clients

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

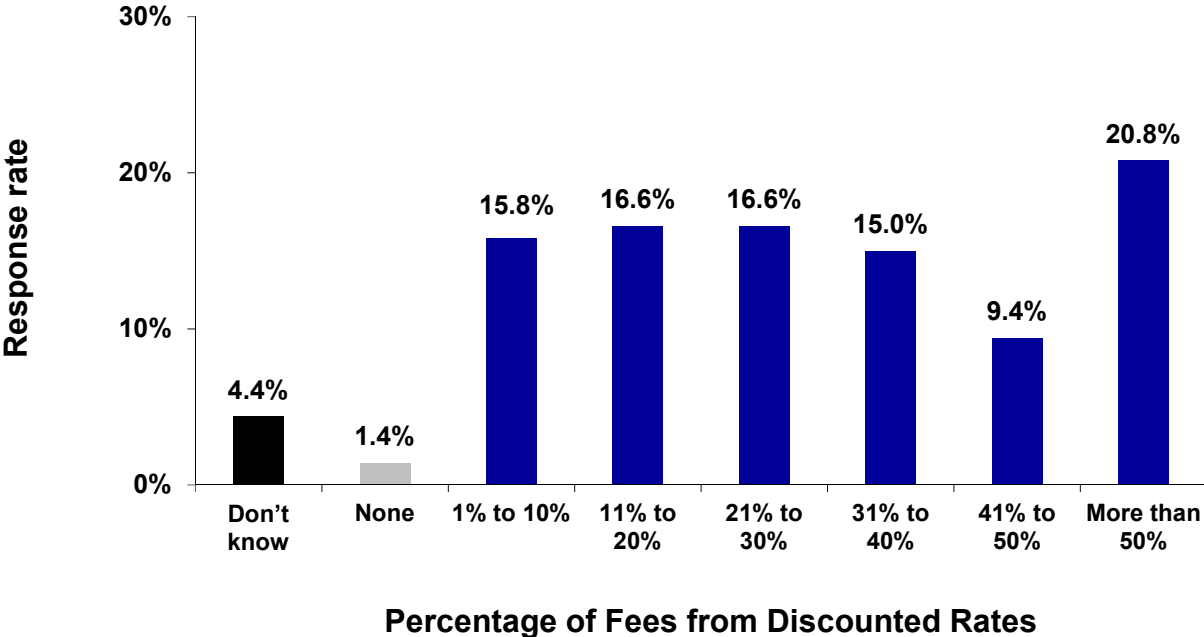


Comparison by firm size:

	Yes	No
Under 250 lawyers	83.7%	16.3%
250 lawyers or more	88.5%	11.5%

Pricing: Discounts

Q: Please estimate approximately what percentage of your firm’s legal fees come from discounted hourly rates.



Median: 21% to 30%

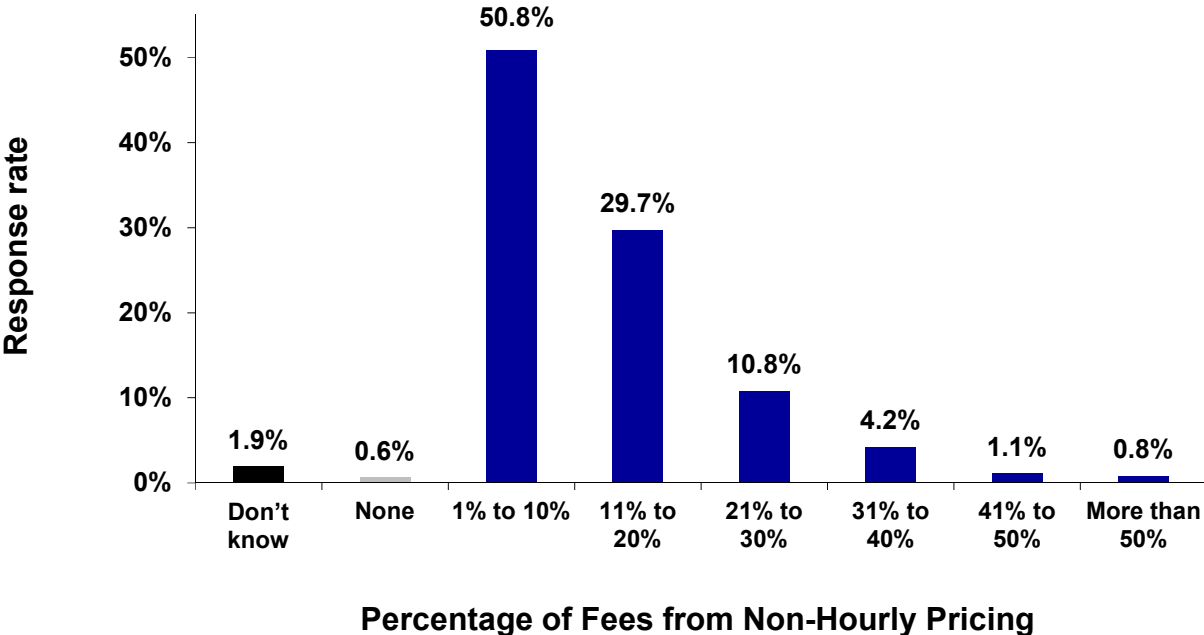
Comparison of median results by firm size:

	MEDIAN
Under 250 lawyers	21% to 30%
250 lawyers or more	41% to 50%

Pricing: Alternative Fees

NEW

Q: Please estimate approximately what percentage of your firm’s legal fees come from non-hourly-based pricing.



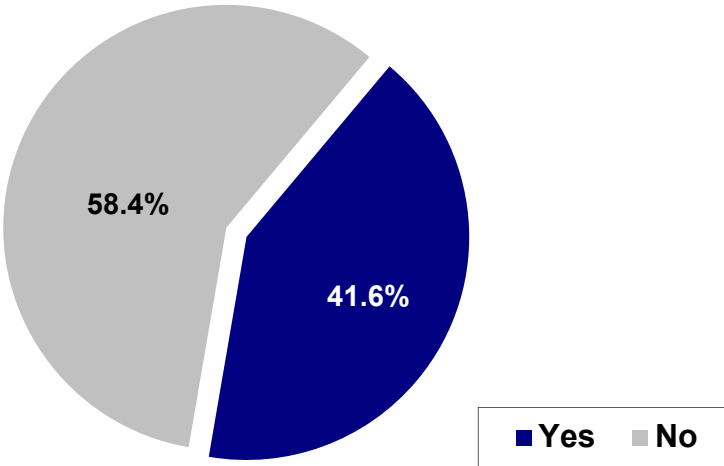
Median: 1% to 10%

Comparison of median results by firm size:

	MEDIAN
Under 250 lawyers	1% to 10%
250 lawyers or more	11% to 20%

Pricing: Alternative Fees Linked to Alternative Staffing

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:

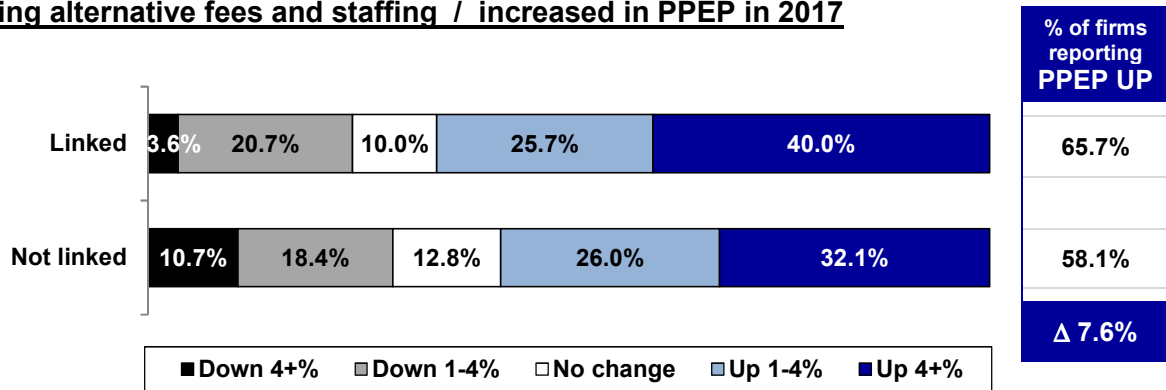
	Yes	No
Under 250 lawyers	36.1%	63.9%
250 lawyers or more	57.3%	42.7%

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 2017 between firms that do, and do not, link the two.

Linking alternative fees and staffing / increased in PPEP in 2017



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
PERMANENT	42.4%	88.8%	89.6%	91.6%	95.6%	93.8%	94.4%	95.4%	95.4%

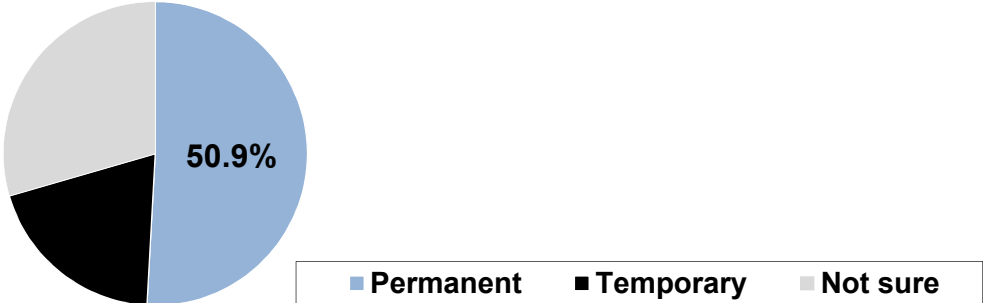
Q: Do you think more non-hourly billing will be a permanent trend going forward?



	2009	2010	2011	2012	2013	2014	2015	2016	2017
PERMANENT	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?

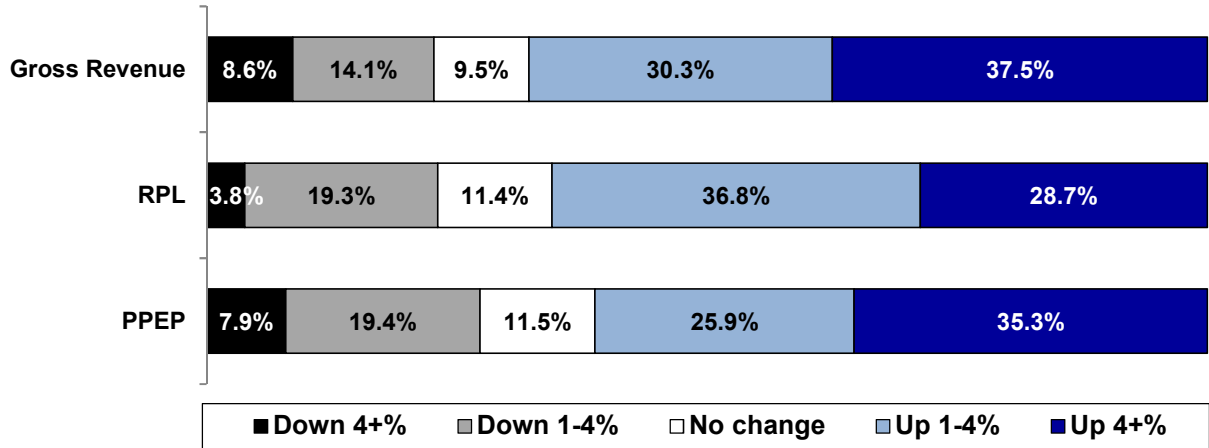


	2009	2010	2011	2012	2013	2014	2015	2016	2017
PERMANENT	NA	NA	57.1%	61.7%	67.9%	67.7%	59.5%	65.6%	64.0%

Financial Performance
LAW FIRMS IN TRANSITION 2018

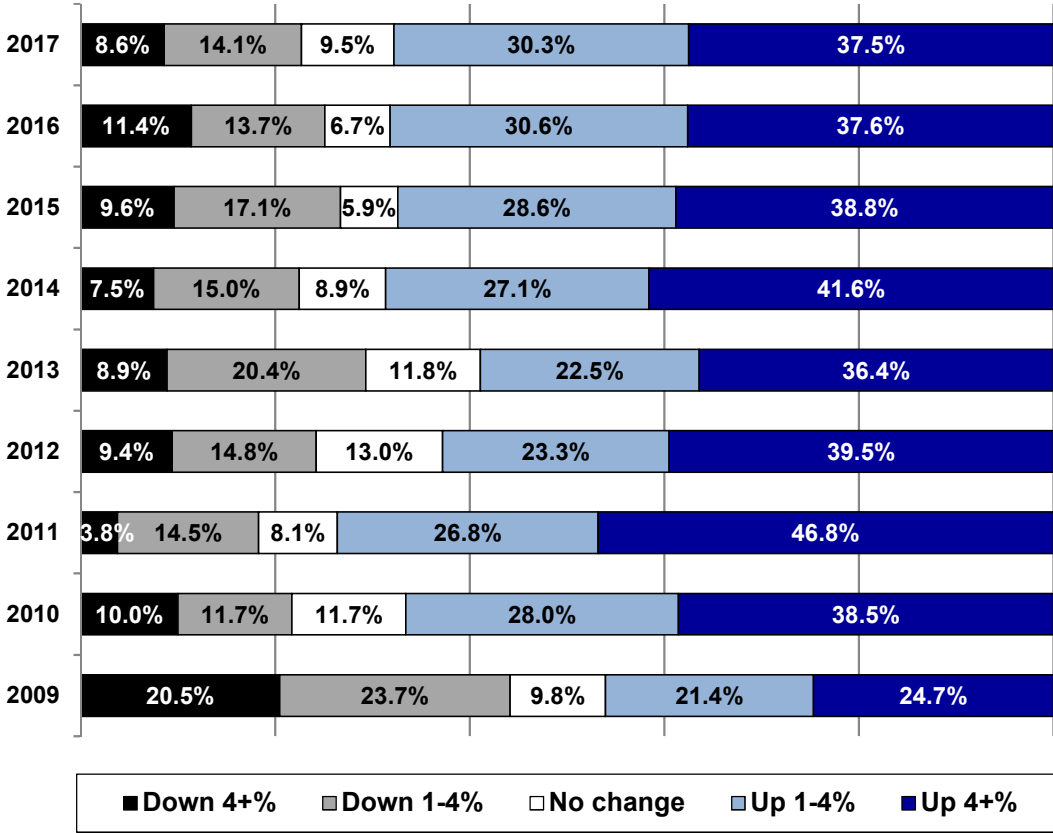
Financial Performance: 2017

Q: How did your law firm perform in 2017 compared to 2016?



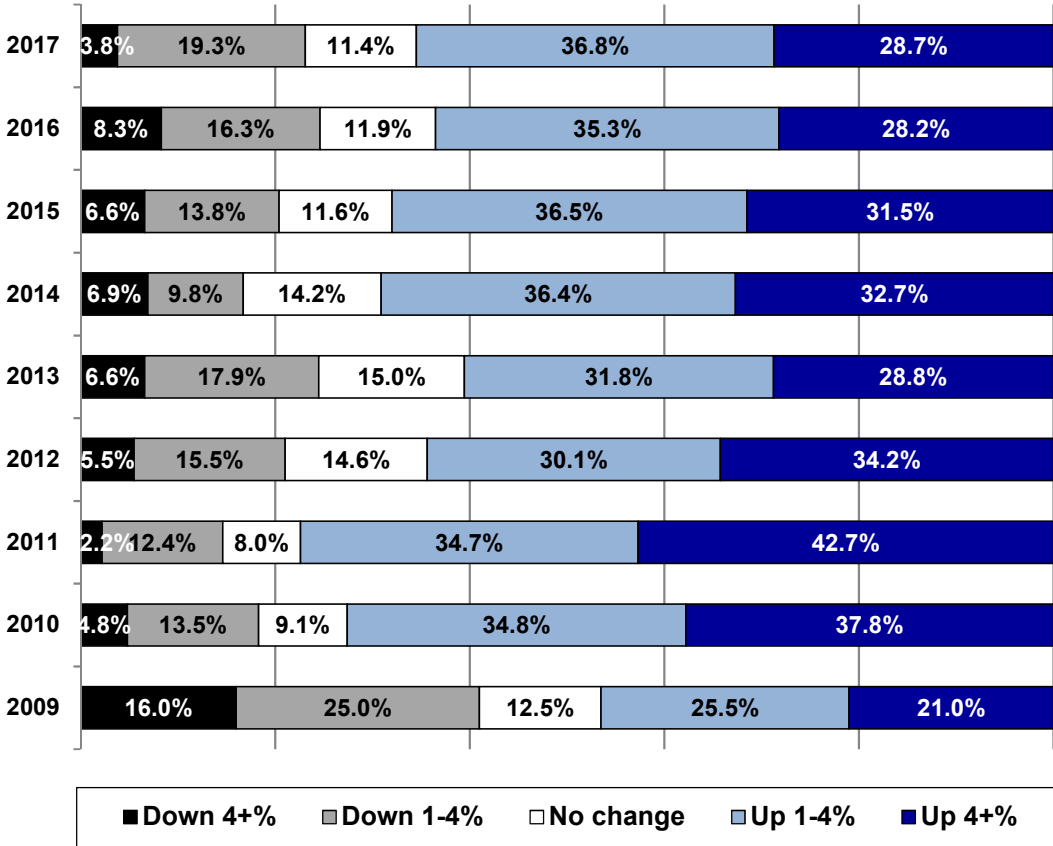
Gross Revenue: Trend 2009 - 2017

Comparison by year:



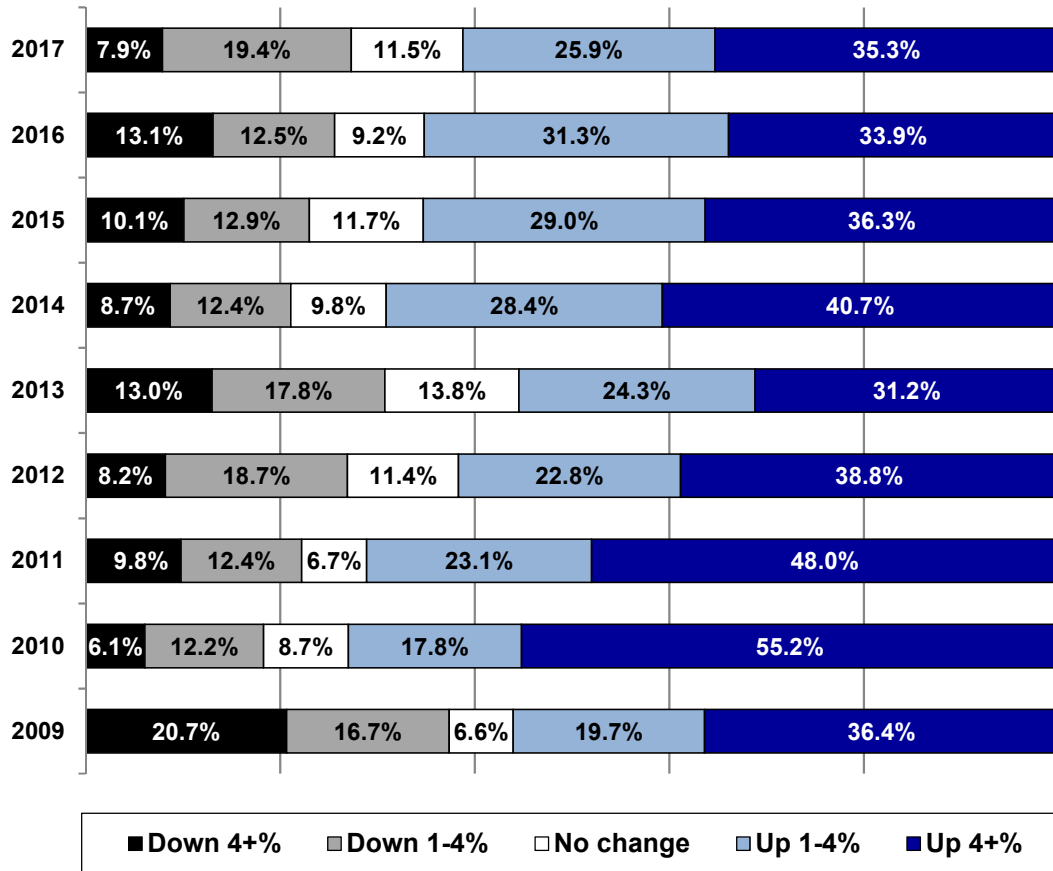
Revenue Per Lawyer: Trend 2009 - 2017

Comparison by year:



Profits Per Equity Partner: Trend 2009 - 2017

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
2017	22.7%	9.5%	67.8%
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%

RPL	Down	No change	Up
2017	23.1%	11.4%	65.5%
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%

PPEP	Down	No change	Up
2017	27.3%	11.5%	61.2%
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%

Financial Performance: Firm Size Trends

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	25.2%	9.3%	65.5%
250 lawyers or more	15.7%	10.1%	74.1%

Revenue per lawyer	Down	No change	Up
Under 250 lawyers	25.2%	11.4%	63.4%
250 lawyers or more	17.0%	11.4%	71.6%

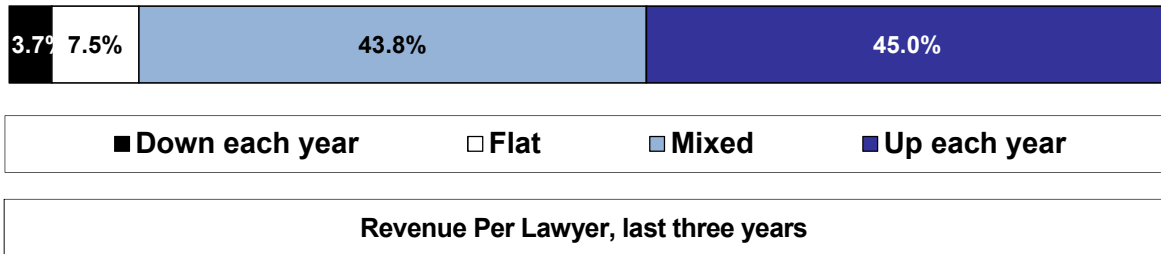
Profits per partner	Down	No change	Up
Under 250 lawyers	29.3%	13.4%	57.3%
250 lawyers or more	21.8%	5.7%	72.4%

Revenue Per Lawyer: Performance Volatility

NEW

Q: Over the last three years, how has your firm's Revenue Per Lawyer changed each year?

45% of law firms enjoyed RPL increases in each of the last three years, while an almost equal number report RPL volatility. The second graphic shows volatility has been more prevalent in smaller law firms.



Although large firms were less likely to report demand up in each of the last three years (see p. 3), they are much more likely to report RPL gains each year.

Comparison by firm size:

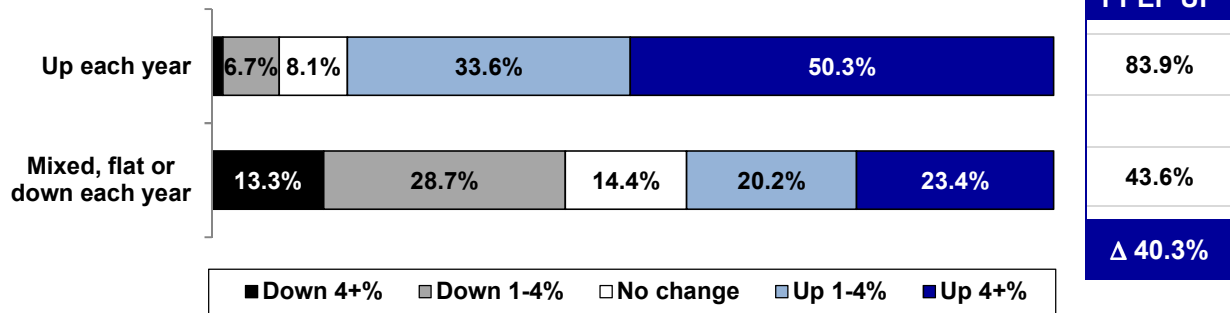
	Down each year	Flat each year	Mixed	Up each year
Under 250 lawyers	4.3%	8.6%	45.9%	41.2%
250 lawyers or more	2.2%	4.4%	37.8%	55.6%

Multi-Year Increases and Profitability

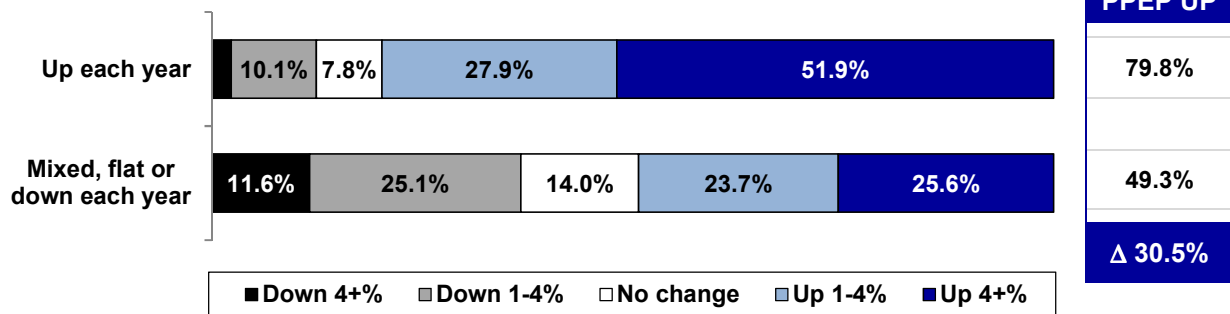
CORRELATION

45% of law firms surveyed report that their Revenue Per Lawyer has increased in each of the last 3 years. 40% of firms have enjoyed increasing demand in that same time frame. How does that degree of stability impact profitability? We compared reported changes in a firm’s Profits per Equity Partner (PPEP) in 2017 between firms that report three years of increases and firms that report mixed, flat or decreasing results over the same three-year time period.

RPL performance over 3 years / increased PPEP in 2017

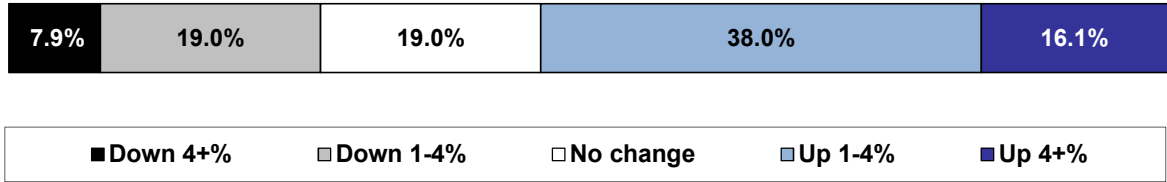


Demand over 3 years / increased PPEP in 2017



Financial Performance: 2017 Overhead Costs

Q: How did your law firm perform in 2017 compared to 2016?



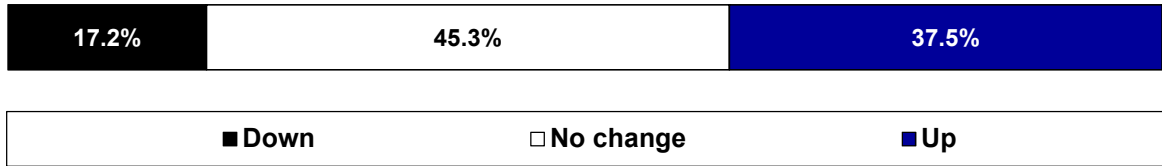
2017 Overhead

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
2017	26.9%	19.0%	54.1%
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%

Financial Performance: 2017 Realization

Q: In 2017, was your firm’s realization against standard rates up or down from 2016?



Comparison by firm size:

	Down	No change	Up
Under 250 lawyers	17.3%	44.9%	37.8%
250 lawyers or more	16.7%	46.7%	36.7%

Financial Performance: Trends

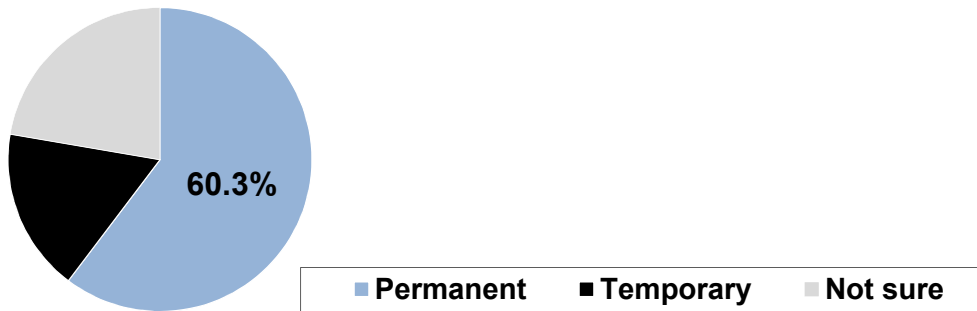
Q: Do you think a slowdown in growth of profits per partner will be a permanent trend going forward?



	2009	2010	2011	2012	2013	2014	2015	2016	2017
PERMANENT	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
PERMANENT	NA	NA	NA	NA	NA	NA	52.3%	62.5%	59.7%

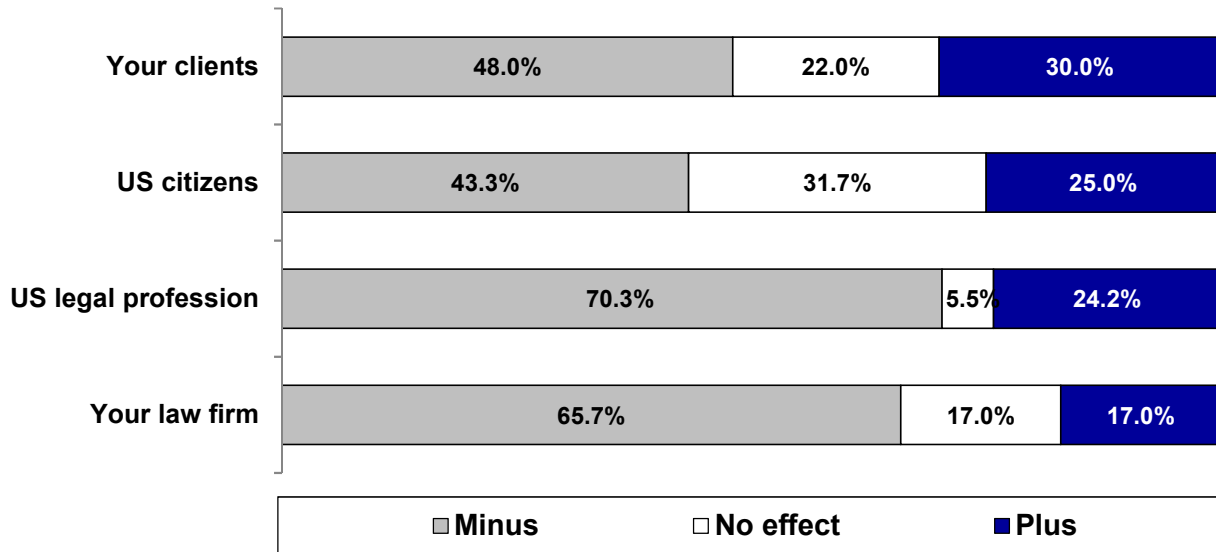
Bonus Question: Non-Lawyer Ownership

LAW FIRMS IN TRANSITION 2018

Bonus Question: Non-Lawyer Ownership

NEW

Q: In thinking about competition from well-capitalized alternative service providers, non-lawyer ownership of law firms overseas, and the growing prospect of competition from Big Four accounting firms, do you believe that non-lawyer ownership and capital investment in law firms would be a plus or minus for each of the following groups?



Percentage rating each as a "Plus" - by firm size:

	A plus for your clients	For US citizens	For US legal profession	For your law firm
50-99 lawyers	25.2%	22.2%	24.8%	13.8%
100-249 lawyers	29.5%	24.8%	20.0%	14.6%
250-499 lawyers	33.3%	26.2%	23.8%	26.2%
500-999 lawyers	43.8%	36.4%	33.3%	24.2%
1,000+ lawyers	38.5%	23.1%	30.8%	30.8%
ALL FIRMS	30.0%	25.0%	24.2%	17.0%

Non-Lawyer Ownership: Comments

NEW

Q: Do you believe that non-lawyer ownership and capital investment in law firms would be a plus or minus for each of the following groups?

SELECTED COMMENTS

Would be a Plus

- Generally, lawyers are not business professionals. With the dynamic changes in the industry, it 'could' be beneficial to have a biz savvy professional leading the charge if they had the wealth of knowledge of the law firm industry. Law firms tend to be the slowest industry to adhere to change and adaptation in technology.
- It could be very positive provided the legal standards, quality of service, and ethics weren't lost in the larger conglomerate business model.
- These changes may benefit clients seeking a firm that can deliver a "full package" of services, both legal and non-legal, but which are related.
- It would help to drive the changes we are making more quickly and provide investment dollars for innovative change.
- Law firms are starved for capital. Current ownership structures work against raising new capital. A "third rail" in many firms.

Mixed

- Non-lawyer ownership might spur firms to make necessary changes but it could lead to too great of a focus on short-term results over long-term strategic planning.
- As for our clients, mixed I think. For the major large corporate clients, it would probably benefit them and thus be a plus for our firm. For many of our other clients, however, I don't think it would benefit them or affect our work from them.
- I think these alternative service providers will take away significant work from US firms but will ultimately deliver value to our clients and the US consumer.

Would be a Minus

- Would result in an overall decrease in professionalism and would become more bottom-line oriented.
- I remain opposed to this also for all of the traditional reasons underpinning the typical prohibitions by the rules of professional conduct governing lawyers in the United States.
- Not going to happen unless they change the ethical rules and allow non-competes.

Participant Demographics
LAW FIRMS IN TRANSITION 2018

2018 Survey Participant Demographics

In March and April 2018, Altman Weil surveyed Managing Partners and Chairs of 801 US law firms with 50 or more lawyers. We received responses from 398 firms, a 49.7% response rate.

Firm Size*	All US Law Firms	Survey Participants	% Response
1,000 +	29	17	59%
500 – 999	66	41	62%
250 – 499	83	51	61%
100 – 249	217	124	57%
50 – 99	406	165	41%
All	801	398	50%

The respondent group includes**:

- 52% of 2017 AmLaw 200 law firms
- 45% of 2017 NLJ 500 law firms

* 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 2018. Survey participants reported their own lawyer headcounts.

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

Appendices

LAW FIRMS IN TRANSITION 2018

Firm Size

In assessing legal market trends, firms of all sizes have very similar perspectives. But when it comes to responding to the changing landscape, responses can vary significantly by firm size. We've identified a few questions from each section of the survey to illustrate similarities and differences.

	50-249 LAWYERS	250+ LAWYERS
MARKET FORCES		
Pace of change in the profession will increase	68%	73%
LEADING CHANGE		
Partners resist most change efforts	69%	67%
Actively engaged in experiments to test innovative ideas or methods	31%	61%
PRODUCTIVITY		
Equity Partners are sufficiently busy	53%	38%
Non-Equity Partners are sufficiently busy	46%	28%
Have chronically under-performing lawyers	83%	83%
Remove chronic under-performers from the firm	53%	84%
PROFITABILITY		
Conduct formal profitability analysis	52%	77%
Increase billing rates more aggressively to improve profitability	42%	60%
LAWYER STAFFING		
Initiate conversations with clients about project staffing	60%	71%
Use contract lawyers	47%	79%
EFFICIENCY OF SERVICE DELIVERY		
Initiate conversations with clients about matter management efficiency	53%	66%
Provide ongoing project management training and support	24%	59%
PRICING STRATEGY		
Initiate conversations with clients about pricing / budgets	84%	89%
Develop data on cost of services sold	50%	86%
Routinely link alternative fees to how work is staffed and delivered	36%	57%
FINANCIAL PERFORMANCE		
Profits per Equity Partner up from 2016 to 2017	57%	72%

Firm Size & Effectiveness of Change Tactics

For 19 out of 20 change efforts surveyed, larger firms are doing as much or more than smaller firms – often a lot more. This seems like a natural consequence of larger firms' greater resources, including time, money and professional management. Larger firms are also more effective in 13 of 20 categories, but with some evidence that smaller firms are catching up.

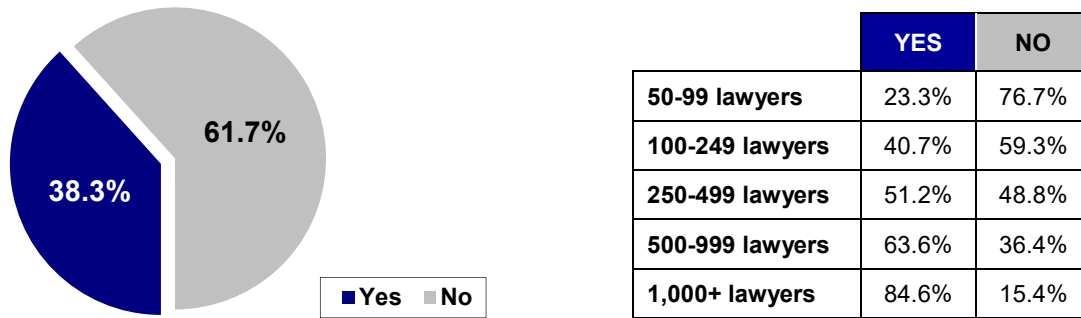
Δ = Difference in effectiveness between firms with 50 to 249 lawyers and firms with 250 or more lawyers that are pursuing change tactics in their firms.

	50-249 LAWYERS		250+ LAWYERS		
LAWYER STAFFING	Use tactic	Effective	Use tactic	Effective	Δ
Low-cost service center for back-office functions	10%	56%	30%	75%	+19
Use staff lawyers	32%	60%	72%	72%	+12
Shift work from lawyers to paraprofessionals	42%	66%	34%	60%	-6
Use contract lawyers	47%	55%	79%	67%	+12
Use part-time lawyers	52%	53%	77%	55%	+2
Outsource non-lawyer functions	16%	46%	28%	54%	+8
Outsource legal work	5%	33%	5%	20%	-13
EFFICIENCY OF SERVICE DELIVERY	Use tactic	Effective	Use tactic	Effective	Δ
Reward efficiency & profitability in comp decisions	50%	49%	62%	43%	-6
Ongoing project management training and support	24%	41%	59%	47%	+6
Systematic reengineering of work processes	18%	38%	21%	55%	+17
Use tech tools to replace human resources	49%	45%	57%	27%	-18
Formal knowledge management program	20%	25%	49%	33%	+8
Use non-law-firm vendors	14%	28%	20%	21%	-7
PRICING STRATEGY	Use tactic	Effective	Use tactic	Effective	Δ
Set margin goals in firm and practice group plans	22%	36%	40%	57%	+21
Collaborate with clients on creative alternative fees	64%	43%	77%	44%	+1
Add a pricing director / Staff member	16%	25%	73%	54%	+29
Identify each client's unique pricing preference	27%	51%	42%	25%	-26
Train lawyers to talk with clients about pricing	33%	41%	57%	26%	-15
Incorporate pricing in all planning efforts	18%	26%	40%	42%	+16
Developing data on cost of services sold	50%	24%	86%	37%	+13

Innovation

We asked firms if they were actively engaged in testing "innovative ideas and methods" and found that almost 40% are doing so. We have used those responses as a proxy to distinguish between innovative and non-innovative firms. Firm size is also directly correlated with the likelihood of innovative activities.

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



Innovative law firms

Innovative firms do moderately better on both client demand and productivity measures.

Q: Over the last three years, how has demand for your law firm's services changed each year?

	Up each year	Mixed	Flat	Down each year
Innovative	45.1%	27.3%	21.8%	5.3%
Not innovative	34.1%	37.0%	24.2%	4.7%

Q: How did your law firm perform against its target for total annual billable hours?

	Over	Met target	Under
Innovative	35.5%	20.7%	43.8%
Not innovative	26.4%	21.9%	51.7%

Innovation & Effectiveness of Change Tactics

We expected 'innovative' law firms to be doing more to change their business model – and that is clearly the case. In all 20 categories, innovative firms are equally or more likely than non-innovative firms to pursue each change tactic. When looking at the difference in effectiveness of their efforts, innovative firms outperform non-innovators in 16 of 20 categories.

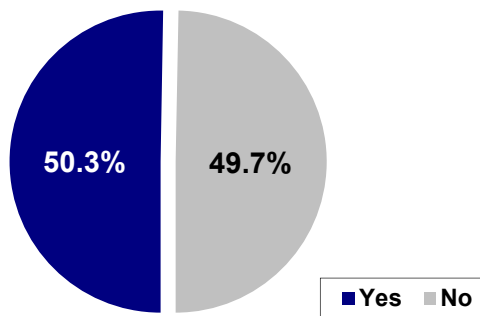
Δ = Difference in effectiveness between innovative and non-innovative law firms that are pursuing change tactics in their firms.

	NOT INNOVATIVE		INNOVATIVE		
	Use tactic	Effective	Use tactic	Effective	Δ
LAWYER STAFFING					
Low-cost service center for back-office functions	10%	55%	22%	72%	+17
Use staff lawyers	34%	70%	55%	61%	-9
Shift work from lawyers to paraprofessionals	37%	60%	45%	74%	+14
Use contract lawyers	52%	56%	61%	65%	+9
Use part-time lawyers	53%	51%	67%	58%	+7
Outsource non-lawyer functions	15%	50%	27%	52%	+2
Outsource legal work	3%	50%	8%	27%	-23
EFFICIENCY OF SERVICE DELIVERY					
Reward efficiency & profitability in comp decisions	48%	46%	59%	47%	+1
Ongoing project management training and support	21%	41%	53%	48%	+7
Systematic reengineering of work processes	10%	38%	32%	48%	+10
Use tech tools to replace human resources	42%	39%	66%	42%	+3
Formal knowledge management program	17%	22%	45%	35%	+13
Use non-law-firm vendors	13%	22%	21%	31%	+9
PRICING STRATEGY					
Set margin goals in firm and practice group plans	24%	37%	31%	50%	+13
Collaborate with clients on creative alternative fees	66%	37%	80%	51%	+14
Add a pricing director / Staff member	19%	33%	51%	49%	+16
Identify each client's unique pricing preference	26%	43%	40%	43%	0
Train lawyers to talk with clients about pricing	29%	42%	57%	32%	-10
Incorporate pricing in all planning efforts	18%	21%	31%	41%	+20
Developing data on cost of services sold	53%	21%	72%	40%	+19

Differentiation

In a new question this year, we asked law firms to candidly assess whether they "project a distinct and compelling value" that differentiates them from similar firms and that is clear to prospective clients. The results – an almost perfect 50/50 Yes/No split among all firms, with similar Yes/No distribution in four of the five size categories – creates two strong representative data sets (the 'differentiated' and the 'undifferentiated') that we can examine to understand what might make 'differentiated' firms different.

Q: In your most candid assessment, do you believe your law firm is clearly and specifically differentiated from competitor law firms?



	YES	NO
50-99 lawyers	48.7%	51.3%
100-249 lawyers	50.4%	49.6%
250-499 lawyers	48.9%	51.1%
500-999 lawyers	47.1%	52.9%
1,000+ lawyers	78.6%	21.4%

A client-facing metric

Because differentiation is defined as a difference appreciated by clients, we looked at how differentiation impacts client demand. The data shows that differentiated firms are almost twice as likely to have experienced consistently increasing demand over the last three years.

Q: Over the last three years, how has demand for your law firm's services changed each year?

	Up each year	Mixed	Flat	Down each year
Differentiated	49.5%	28.6%	18.7%	3.3%
Undifferentiated	27.8%	38.1%	27.3%	6.8%

Differentiation & Effectiveness of Change Tactics

If differentiated firms enjoy greater demand than undifferentiated firms, what's the cause? First, we asked if they were doing more to change their business model – and found that overall differentiated firms do a little more. However, by far the greater distinction is in the effectiveness of their change efforts. In 19 of 20 change tactics, differentiated firms meet or exceed undifferentiated firms – often by double digits.

Δ = Difference in effectiveness between undifferentiated and differentiated law firms that are pursuing change tactics in their firms.

LAWYER STAFFING	UNDIFFERENTIATED		DIFFERENTIATED		Δ
	Use tactic	Effective	Use tactic	Effective	
Low-cost service center for back-office functions	15%	56%	15%	77%	+21
Use staff lawyers	42%	66%	44%	66%	0
Shift work from lawyers to paraprofessionals	40%	54%	40%	75%	+21
Use contract lawyers	55%	50%	55%	70%	+20
Use part-time lawyers	60%	49%	58%	59%	+10
Outsource non-lawyer functions	22%	46%	17%	54%	+8
Outsource legal work	6%	0%	5%	63%	+63

EFFICIENCY OF SERVICE DELIVERY	UNDIFFERENTIATED		DIFFERENTIATED		Δ
	Use tactic	Effective	Use tactic	Effective	
Reward efficiency & profitability in comp decisions	53%	39%	53%	55%	+16
Ongoing project management training and support	26%	36%	40%	49%	+13
Systematic reengineering of work processes	18%	33%	19%	53%	+20
Use tech tools to replace human resources	48%	36%	54%	43%	+7
Formal knowledge management program	20%	26%	35%	31%	+5
Use non-law-firm vendors	13%	13%	19%	34%	+21

PRICING STRATEGY	UNDIFFERENTIATED		DIFFERENTIATED		Δ
	Use tactic	Effective	Use tactic	Effective	
Set margin goals in firm and practice group plans	24%	34%	31%	53%	+19
Collaborate with clients on creative alternative fees	66%	35%	70%	53%	+18
Add a pricing director / Staff member	30%	33%	32%	54%	+21
Identify each client's unique pricing preference	28%	36%	33%	47%	+11
Train lawyers to talk with clients about pricing	37%	37%	42%	35%	-2
Incorporate pricing in all planning efforts	20%	21%	27%	43%	+22
Developing data on cost of services sold	61%	26%	58%	32%	+6

What Drives Change?

In Appendices 2A, 2B and 2C, we examined how Firm Size, Innovation, and Differentiation impacted the use and effectiveness of a series of change tactics in three categories: staffing, efficiency and pricing.

In each Appendix, we divided the universe of survey participants into two groups:

App. 2A - Firm Size: Law firms with 50-249 lawyers vs. law firms with 250 or more lawyers.

App. 2B - Innovation: Firms that are testing innovative ideas and methods vs. firms that are not.

App. 2C - Differentiation: Firms that project a distinct and compelling value to clients vs. firms that do not.

For each change category (staffing, efficiency and pricing) we totaled the percentage of firms reporting use of all tactics (shown below without '%' symbols) to create a measure of aggregate activity. We did the same to measure aggregate effectiveness. Next, we calculated the difference in use and effectiveness between each of the two groups. Finally, by totaling the use and effectiveness variations, we see the relative impact of firm size, innovation and differentiation as drivers of change.

Δ = Difference in law firm use and effectiveness of change tactics.

A. FIRM SIZE	50-249 LAWYERS		250+ LAWYERS		Δ 250+ LAWYERS	
	Use tactic	Effective	Use tactic	Effective	Use tactic	Effective
Lawyer staffing	204	369	325	403	+121	+34
Efficiency of service delivery	175	226	268	226	+93	0
Pricing strategy	230	246	415	285	+185	+39
TOTALS	609	841	1,008	914	+399	+73

B. INNOVATION	NOT INNOVATIVE		INNOVATIVE		Δ INNOVATIVE	
	Use tactic	Effective	Use tactic	Effective	Use tactic	Effective
Lawyer staffing	204	392	285	409	+81	+17
Efficiency of service delivery	151	208	276	251	+125	+43
Pricing strategy	235	234	362	306	+127	+72
TOTALS	590	834	923	966	+333	+132

C. DIFFERENTIATION	UNDIFFERENTIATED		DIFFERENTIATED		Δ DIFFERENTIATED	
	Use tactic	Effective	Use tactic	Effective	Use tactic	Effective
Lawyer staffing	240	321	234	464	-6	+143
Efficiency of service delivery	178	183	220	265	+42	+82
Pricing strategy	266	222	293	317	+27	+95
TOTALS	684	726	747	1,046	+63	+320

Ten Years of Trends

Since its inception in 2009, Altman Weil's Law Firms in Transition Survey has asked law firm leaders each year if they believe a series of prevailing trends are permanent, temporary, or if they are not sure. The ten-year data series below shows the dramatic shift between 2009 and 2011 as the reality of the great recession and its aftermath became apparent, and the 'new normal' that has emerged since.

	% OF FIRM LEADERS SAYING TREND IS PERMANENT									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
More price competition	42	89	90	92	96	94	94	95	95	<u>96</u>
Focus on improved practice efficiency	na	na	94	<u>96</u>	96	94	93	93	94	94
Fewer support staff	na	na	88	81	90	89	83	88	89	<u>90</u>
Technology replacing human resources	na	na	na	na	na	85	84	85	84	<u>86</u>
Competition from non-traditional providers	na	na	70	73	79	82	83	82	79	<u>85</u>
More commoditized legal work	26	66	81	84	<u>90</u>	89	89	88	84	84
More non-hourly billing	28	79	75	80	80	<u>82</u>	81	78	79	79
Increased lateral movement	na	na	na	na	73	75	<u>75</u>	74	71	72
Fewer equity partners	23	63	68	68	72	<u>74</u>	70	60	68	68
More part-time lawyers	na	na	na	na	71	<u>74</u>	73	73	70	67
Corp. clients doing more work in-house	na	na	na	na	na	na	na	<u>69</u>	65	65
Erosion of demand for law firms	na	na	na	na	na	na	na	62	<u>66</u>	65
More contract lawyers	28	52	60	66	<u>75</u>	72	72	68	70	61
Decreased realization rates	na	na	na	na	na	na	52	<u>63</u>	60	60
Outsourcing legal work	12	28	41	46	46	51	52	52	<u>54</u>	51
Smaller annual billing rate increases	na	na	57	62	68	68	60	<u>66</u>	64	51
Slowdown in growth of profit per partner	13	27	16	48	56	<u>58</u>	45	47	47	39
Lower firmwide billable hour targets	na	na	na	na	na	na	na	na	na	32
Reduced leverage	12	42	45	58	57	<u>65</u>	56	54	57	na
Smaller first-year classes	11	42	40	55	62	60	61	<u>63</u>	57	na

na = not asked

Underlined = peak year