

THE 2018
ADERANT BUSINESS OF
**LAW AND LEGAL
TECHNOLOGY**
SURVEY

GLOBAL EDITION

Aderant



THE HUMAN OPERATING SYSTEM OF THE LEGAL BUSINESS

While there are many studies every year around the legal community, we believe this one is decidedly different because it centers on the business of law and the professionals commissioned with carrying out such duties. It's no secret that law firms have grown increasingly reliant on experts in business, finance, strategy, technology and other disciplines that are not taught in law schools.

These professionals help lawyers find new clients and win new business. They help choose the technology tools and infrastructure that firms need to stay competitive. They develop new ways to deliver legal services and improve process efficiency. They safeguard the law firm treasury and they do all of this while enabling lawyers to deliver high quality legal services and fulfill their ethical obligation to be good stewards of their clients' budgets.

In many ways the business of law, as a community of people, has become the human operating system of the legal business. As such we're very pleased to present the second annual Aderant Business of Law and Legal Technology Survey. This year it's bigger and bolder and drew participants from around the globe.

In many ways it's equal parts inquiry, reflection and advocacy on behalf of the professionals that enable lawyers to do what they do and grow the business of law.

Deane S. Price
President
Aderant

EXECUTIVE SUMMARY

The legal business climate is improving.

More than half (57%) of all respondents said business in their law firm is “better” or “much better” than it was in the last 12 months. This is a notable improvement over the same survey last year. Respondents from larger firms are more likely to say business is better.

Pricing and cybersecurity are the top law firm challenges.

Respondents said the top challenges facing law firms are:

- 1) pricing (36%)
- 2) cybersecurity (33%)
- 3) operational efficiency (32%)
- 4) technology adoption (30%)
- 5) competition (26%). Among US firms only, cybersecurity jumped from sixth place last year to tie for the top spot with pricing in 2018 in this survey.

Profitable pricing and time estimation dog AFAs.

Most respondents report having 20% or less of client accounts structured under an alternative fee arrangement (AFA), which was defined as agreement other than the billable hour. The top barriers to implementing AFAs are pricing these agreements profitably and estimating the time necessary to complete legal work.

There are two speeds in law firm billing and invoicing: fast and slow.

Most respondents (61%) say it takes their firm a week or longer to publish client invoices – the rest (39%) get it done in a week or less. About half (48%) say their firms spends too much time on pre-bills and invoicing.

Billing challenges stem from both sides of the table.

E-billing (56%) was the top challenge in law firm billing cited by respondents, as corporate clients have increasingly turned to e-billing and outside counsel guidelines (46%) to reign in legal spending. Still several challenges in the billing process were squarely of the law firm’s own device. For example, 48% of respondents cited a prolonged pre-bill editing and review cycle and 41% cited getting timekeepers to enter their time. Time-to-collection (38%) rounded out the top five.

Big firms focus on innovation.

About one-third (30%) said their firm has someone dedicated to the responsibility of law firm innovation. Respondents from the largest law firms were more than 2x as likely to say their firm had an employee in charge of innovation. Titles suggest in some cases this is a task assigned as an additional duty to the C-Suite and in others it’s a dedicated role.

Legal technologies with the greatest impact. The technologies respondents said had either a “moderate impact” or “high impact” on their law firm included the following:

- 1) 90% said document management
- 2) 88% said time and billing management
- 3) 73% said financial management or ERP
- 4) 70% said mobility and mobile apps
- 5) 70% said business intelligence. Respondents also ranked concepts and the results suggest law firms are focused on eliminating process inefficiency.

The benefits of disaster recovery, lower costs, and business continuity are the primary drivers for moving to cloud-based technology. In a twist of trends, better cybersecurity was cited as a benefit of moving to the cloud.

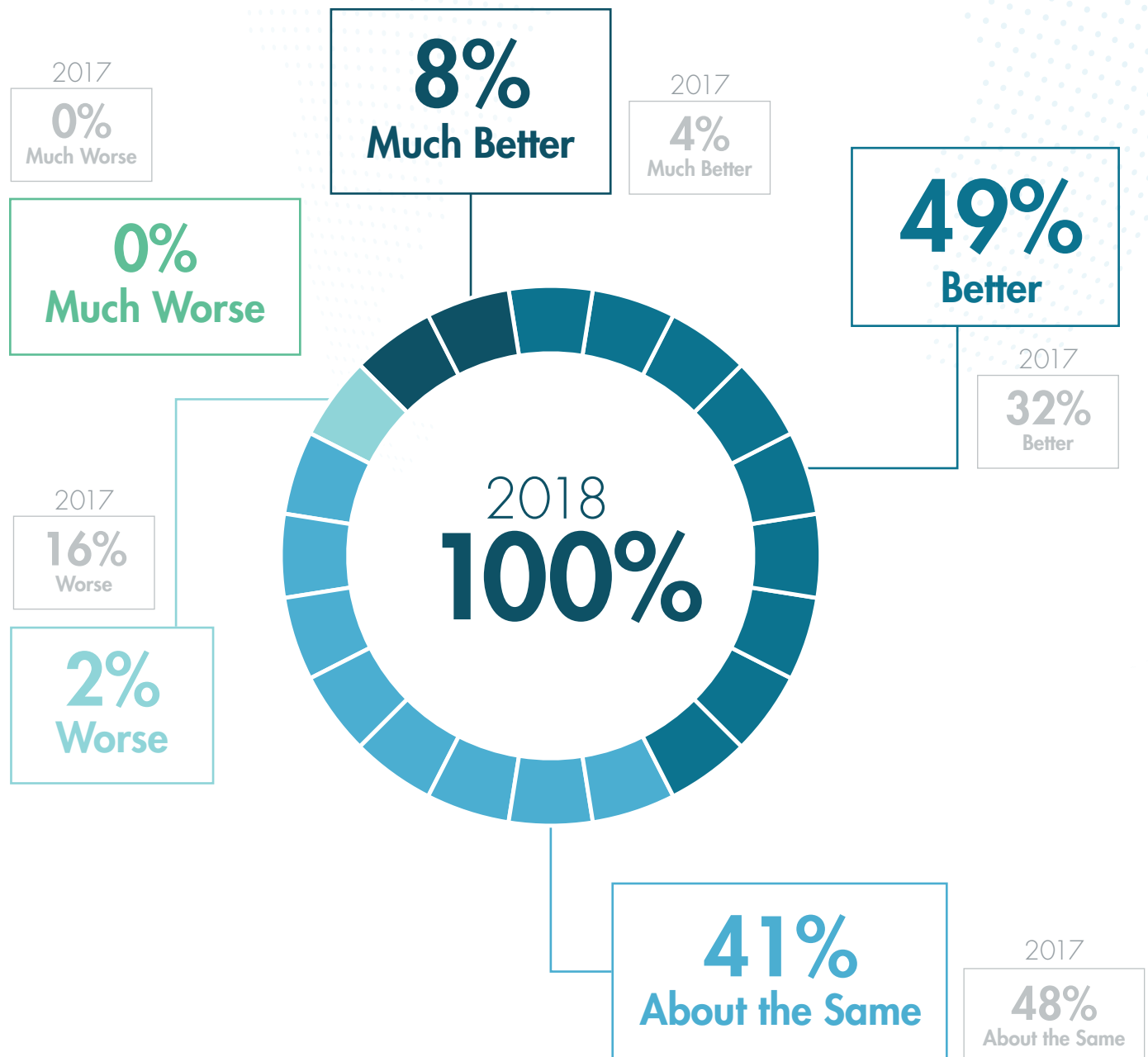
Hiring trends also point to an improving business climate.

A majority of respondents (71%) said their firm has added associate lawyers over the last few years. That was followed by marketing or business development staff (46%), equity partners (43%), and IT staff (43%). Non-equity partners (38%) completed the top five.

HOW IS BUSINESS FOR LAW FIRMS COMPARED TO LAST YEAR?

More than half (57%) of all respondents report business in their law firm is “better” or “much better” than it was last year. This is a notable improvement over the same survey conducted about 12 months ago.

While that previous survey only polled US law firms, just 36% reflected the view that business in their firm had improved at that time. A crosstab analysis of this year’s survey indicated the optimistic tilt remained true even when the data was isolated to compare US law firm answers from this year with answers from last year. For example, 54% of the US-based respondents said business had improved.



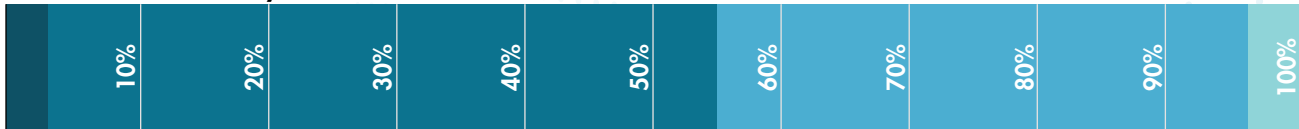
A CLOSER LOOK BY FIRM SIZE

A separate crosstab analysis by law firms size (globally) shows a clear trend that the larger the firm, the more likely the respondent was to say business is better. More to the point, there's noticeable tick up in optimism among firms with 501 or more lawyers.

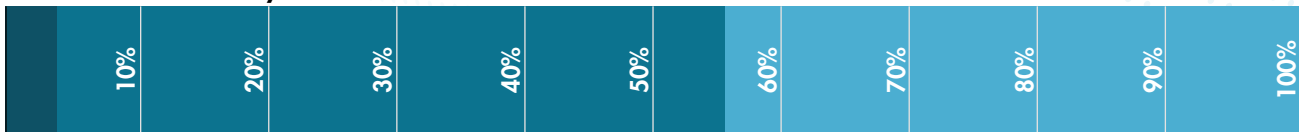
25-100 Lawyers



101-200 Lawyers



201-500 Lawyers



500 or more Lawyers



This sentiment nests with other recent studies. For example, citing data from the Citi Private Bank Law Firm Group, Law.com reported the fiscal year ending in 2017 finished ahead of 2016 for the law firms surveyed.

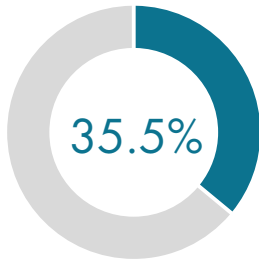
“Revenue growth of 4.5 percent was greater than the 3.8 percent growth seen the previous year. Lawyer billing rate increases, improved accrual realization and improved demand (total timekeeper hours), drove revenue growth, which was tempered only by a slowdown in collections,” according to the report.

In addition, Citi Private Bank Law Firm Leaders Confidence Index Survey 1H 2018, found that “while confidence in the US economy has waned, law firm leaders have become more confident in the outlook for the global economy.”

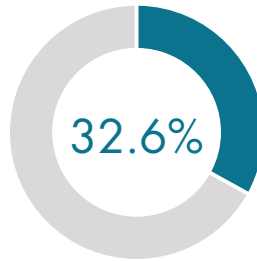
TOP CHALLENGES

When asked to rank a list of 17 possible law firm challenges, six challenges topped the list with 20% of respondents or more around the globe. An additional eight challenges ranked in double digit percentages.

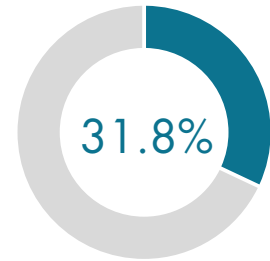
As it was with the survey last year, no single challenge earned greater than 50% of the votes. This demonstrates the wide diversity of challenges facing firms.



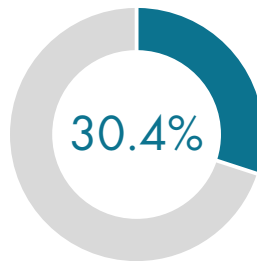
Pricing Pressure



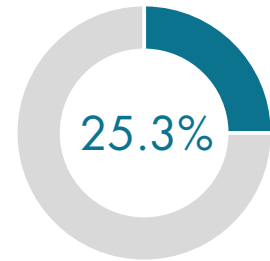
Cybersecurity



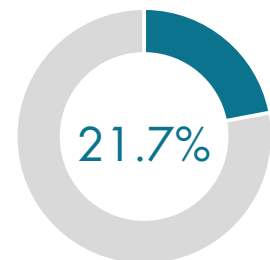
Operational Efficiency



Technology Adoption



Competition



Growing Business from Existing Clients

A CLOSER LOOK BY REGION

Isolating the data by geography also demonstrates how firms based in different regions face different challenges:

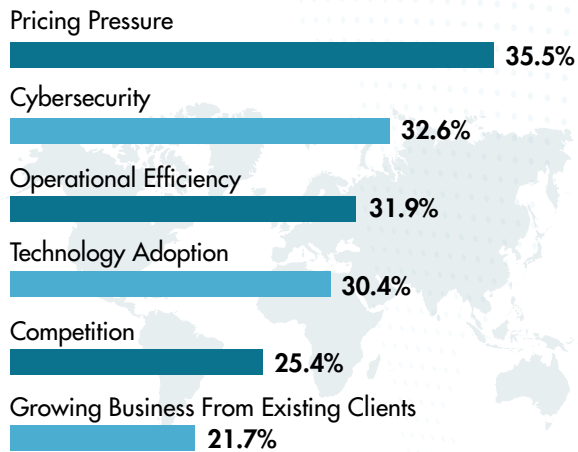
Cybersecurity and pricing pressure tied for the top challenge in North America

Operational efficiency and pricing pressure tied in EMEA

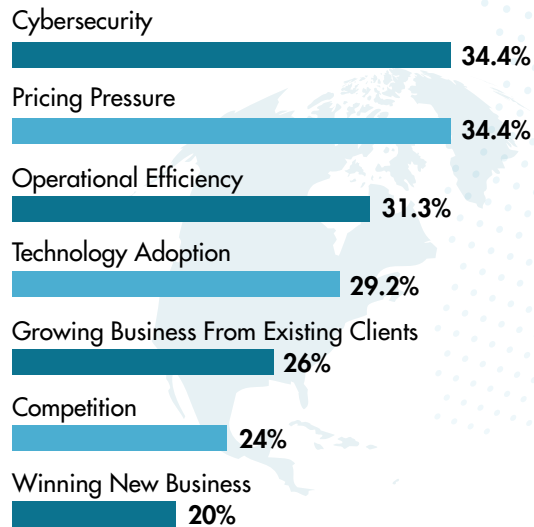
Technology adoption edged out pricing pressure in APAC

Bearing in mind that the sample from North America was much larger than EMEA or APAC, if there is a common denominator felt by firms all over the world, a safe bet would be pricing pressure.

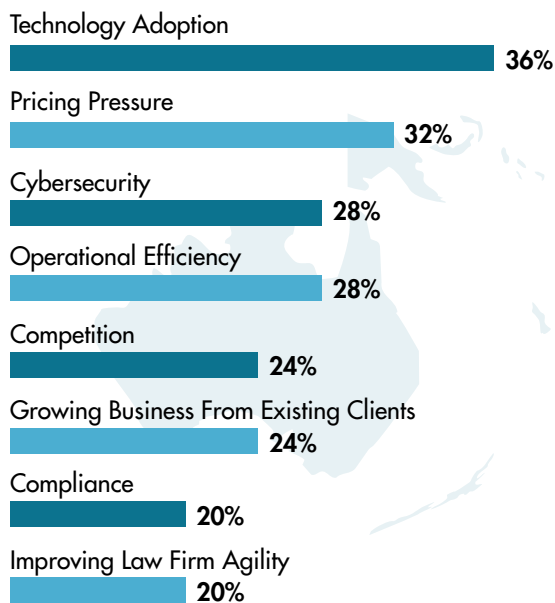
GLOBAL



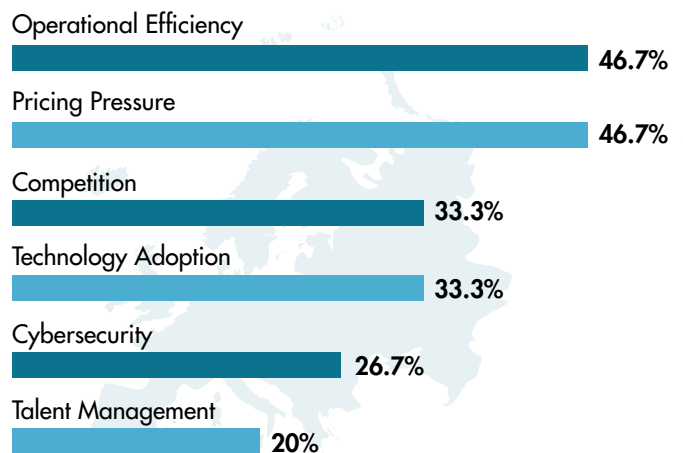
NA



APA



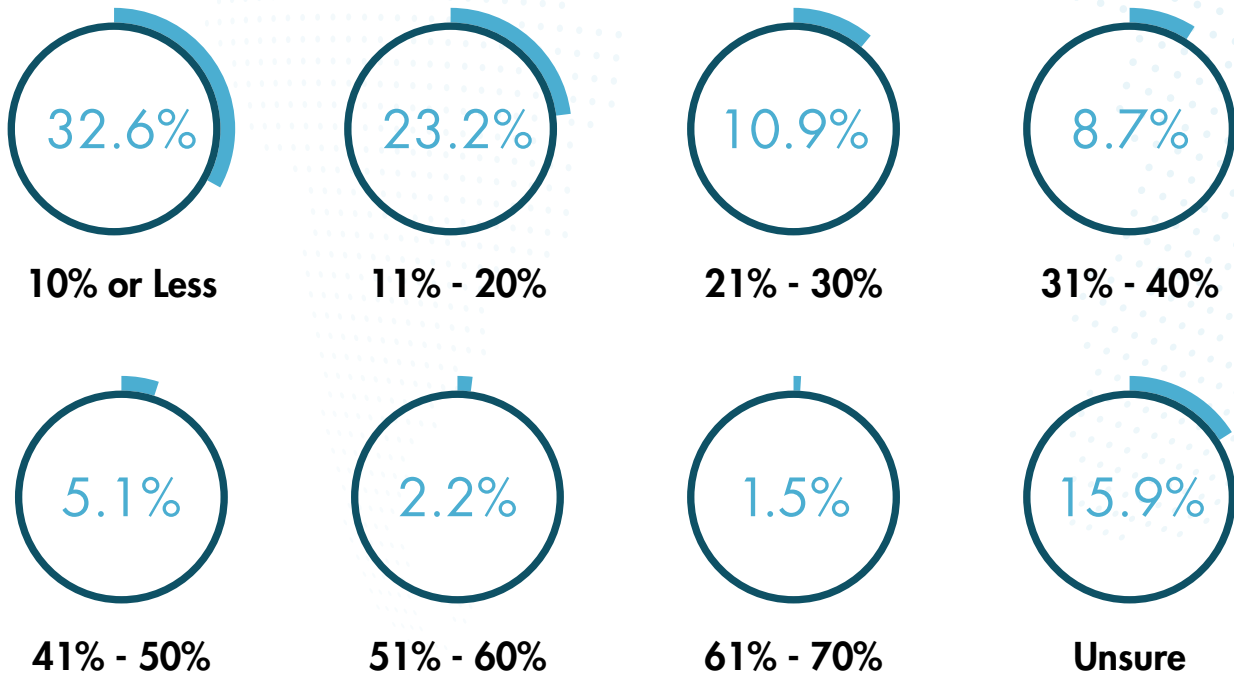
EMEA



THE STATE OF AFA'S

Most respondents report having 20% or less of client accounts structured under an alternative fee arrangement (AFA) which this study defined as agreement other than the billable hour.

Surprisingly about one-fifth of respondents reported between 21-40% of client accounts are invoiced as an AFA, but readers should be cautious about interpreting the trendline as anything other than flat. Averages can be misleading because a few outliers lead to larger averages. A cross-tab analysis on this data suggests a handful of price savvy firms are bringing the average up.



North America



EMEA



APA



BARRIERS TO AFA'S

The top barriers to implementing AFAs are interrelated: pricing work profitably and estimating the time necessary to complete any given legal project. Some law firms resist AFAs because they perceive these as unprofitable, as we wrote in a separate Legal Business Report titled [Challenging the Status Quo in Law Firms](#):

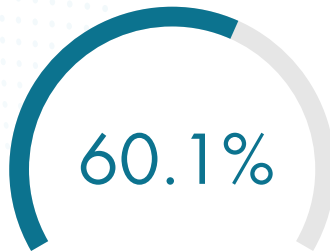
"That probably has more to do with the fact that alternative pricing strategies are still emerging as a discipline. AFAs that are unprofitable imply an insufficient understanding of the costs to deliver the service – or an inability to manage the costs effectively.

Whether or not clients truly want AFAs, they are still inviting the conversation. Law firms that focus on data collection can develop the capability to accurately price AFAs. Imagine the competitive advantage of the law firm that responds to such a request with a confident prediction of costs for the client and profitability for the firm."

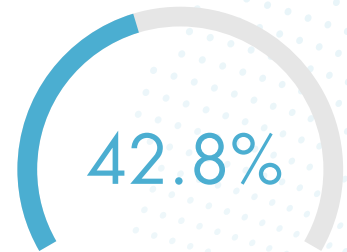
In our assessment many law firms already have the data necessary for estimating time and pricing, the challenge has more to do with making that data accessible and gaining the expertise to use it. Indeed respondents highlighted this idea in subsequent questions about legal technology.



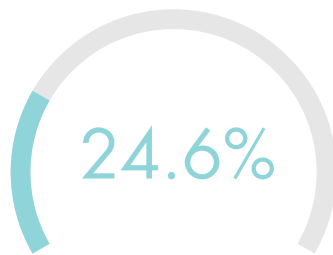
Determining Accurate or Profitable Pricing



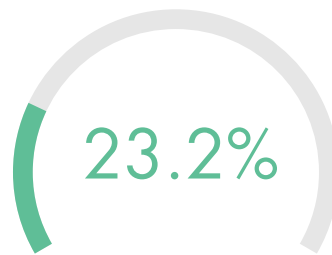
Estimating How Much Time and Effort the Work will Require



Clients Introduce Alternative Fees Simply to Negotiate a Discount



Most Clients are more Comfortable with Billable Hours



Unreasonable Client Expectations

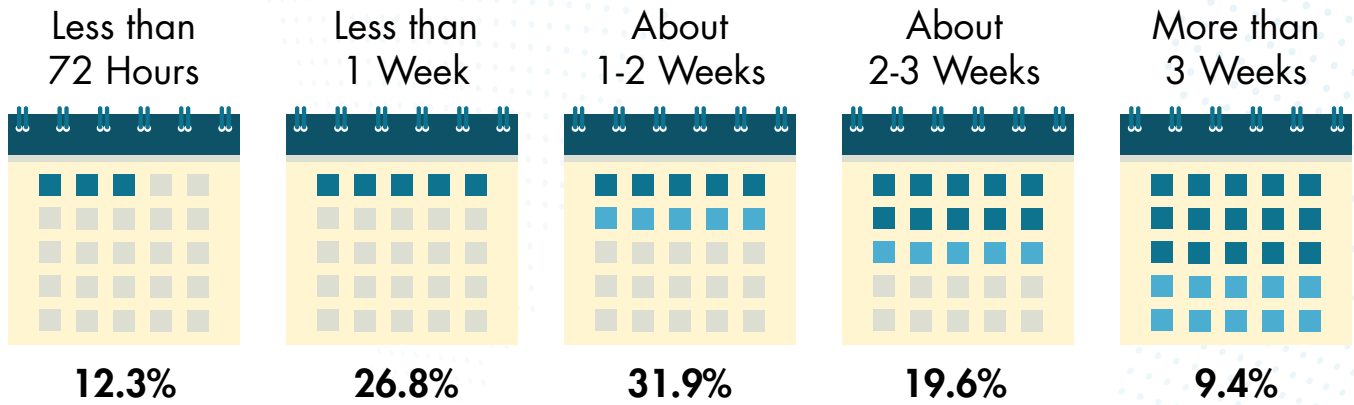


BILLING PROCESS AND EFFICIENCIES

Two speeds of the billing process: fast and slow

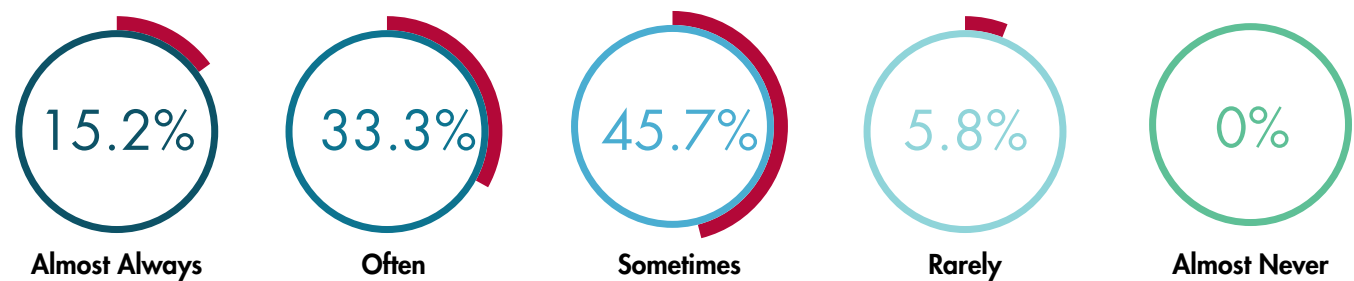
When it comes to pre-bills, billing and invoicing, law firms seem to operate at one of two speeds: fast or slow. A majority of respondents (61%) say it takes their firm a week or longer to push a pre-bill through the review process and publish an invoice. On the flip side, 39% publish invoices in a week or less.

The data suggests this is a universal theme as crosstab analysis by both size and geography showed little difference. In addition, the data is fairly consistent with the findings from the same survey last year.



Perhaps unsurprisingly, about half (48%) of business of law respondents believe their firm often or almost always takes too long to edit and review pre-bills. However, this remains an important point for law firm leaders to consider seriously because every time a paper pre-bill is passed around for another review cycle – it is highly probable the prolonged process costs the firm in the following ways:

- a) time timekeepers spend on administrative and non-revenue producing activities
- b) write-downs or in some cases another round of write-downs
- c) slows the collections process which the aforementioned Citi Private Bank study concluded was a drag on revenue growth on an otherwise good year in 2017.



This question included an optional open-ended comment field which garnered 30 different perspectives that provide context for why the billing process is prolonged for many firms. A representative sample is included on the following page.

REPRESENTATIVE COMMENTARY ON THE BILLING PROCESS

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



"The billing process isn't user friendly enough, therefore it has to pass several stations before the bill is finally sent to the client in the format the client wants."

"Pre-bills require too much review time due to inaccuracies in time gathered on matters."

"Complex billing requirements (e.g. 3rd party bills and split bills). Time recording always needs reviewing as we never tend to just bill whatever has been recorded and tailor each bill to levels the client will accept based on agreed estimates."

"We haven't implemented paperless (pre)billing yet so printing takes too much time."

"Process is not automated enough."

"There are a few timekeepers that are behind the curve and miss the prebill deadlines concerning their time entry. Recapturing additional time entries and reissuing prebills becomes problematic in the process."

"Inefficiencies - many manual processes are necessary in the electronic billing process. Timekeepers not paying attention to guidelines on the front end, making more work for the back office on the back end."

"As an innocent bystander it sure looks like our billers spend more time than is efficient on tweaking prebills and invoicing. I'd like to think that there is a way to reduce the admin time spent on this."

"Our process is inefficient and can be improved provided the attorneys would be receptive to the changes."

"The pre-bill currently goes back and forward between the fee earner and accounts for edits."

"Waiting on attorney review and approval."

"Poor adherence to process."



COMPLEXITIES IN LAW FIRM BILLING AND COLLECTIONS

Billing dilemmas emanate from both sides of the table

Among seven possible challenges in the billing process, e-billing (56%) stood out as the top challenge. It was the only challenge that earned 50% or more of the responses, which is consistent with the same survey conducted in the previous year.

Interestingly, while e-billing was the biggest challenge, most respondents said those client accounts that require e-billing are attributed to just 40% or less of law firm monthly invoices. This challenge tends to be more acute with larger firms according to the data. The survey indicates larger firms tend to have a greater percentage of client accounts process through e-billing.

E-billing tends to go hand-in-hand with outside counsel guidelines (46%) as one the ways corporate counsel has used to reign in legal spending and bring predictability to budgets. However, it is proving to be a vexing challenge for law firms because clients use a range of e-billing solutions with varying standards.

Similarly, outside counsel guidelines (OCGs) are generally highly customized and client-specific. A mid-sized law firm may have a dozen clients each with their own unique OCG that can range up to 40 pages or more in length. Large firms can easily experience the same challenge on even grander scale.

For all the billing challenges stemming from the client side of the table, there are still several that are solely rooted in law firm inefficiency. For example, 48% of respondents cited a prolonged pre-bill editing and review cycle as the second largest challenge in billing.

Likewise, 41% of respondents said getting timekeepers to perform time entry was a top challenge. This is a recurring challenge, that probably [leads to underbilling, rather than overbilling](#). Indeed, as we noted in a separate Legal Business Report titled [Improve WIP-to-Cash](#), "If you want to make an immediate impact on margins, get your time entered."

Finally, rounding out the top five was time-to-collection (38%). The aforementioned Law.com article, based on Citi Private Bank Law Firm Group, noted revenue growth in 2017 "was tempered only by a slowdown in collections."

All Lawyers

E-billing Requirements



Prolonged Pre-bill Review and Edits



Meeting Outside Counsel Guidelines (OCG)



Timekeepers Entering Time



Time-to-Collection (takes to long)



Write Offs and Write Downs



Billing Accuracy



200 or more Lawyers

E-billing Requirements



Meeting Outside Counsel Guidelines (OCG)



Timekeepers Entering Time



Prolonged Pre-bill Review and Edits



Write Offs and Write Downs



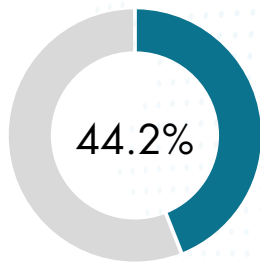
Time-to-Collection (takes to long)



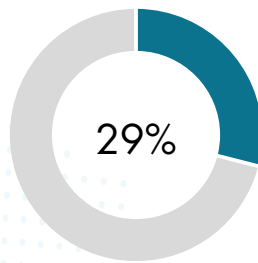
Billing Accuracy



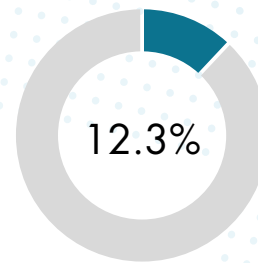
PERCENTAGE OF MONTHLY BILLINGS THROUGH E-BILLING



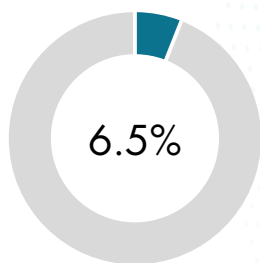
20% or Less



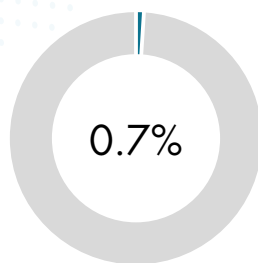
21% - 40%



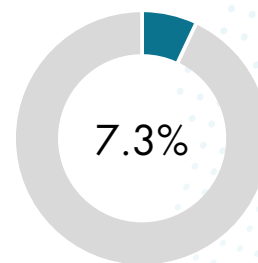
41% - 60%



61% - 80%



81% - 100%



Unsure

25-100 Lawyers



101-200 Lawyers



201-500 Lawyers



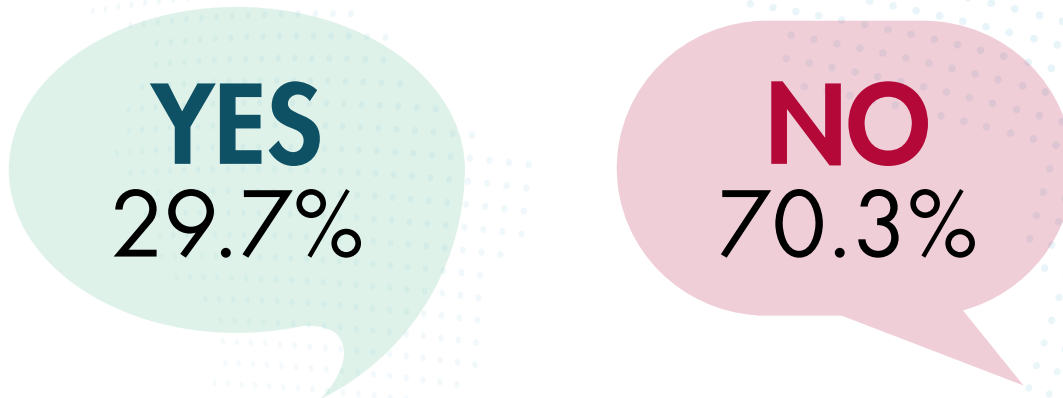
500 or More Lawyers



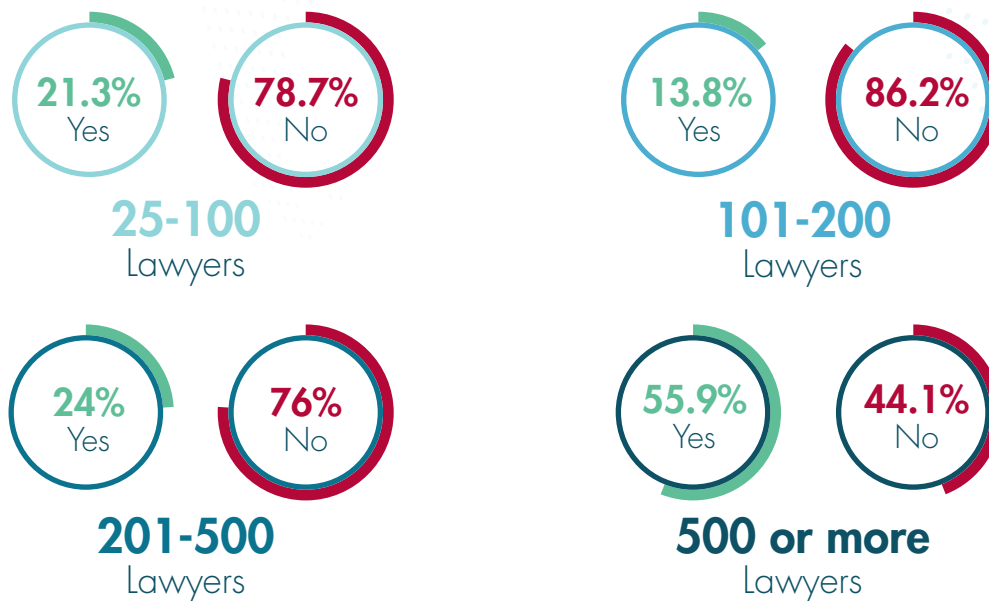
INNOVATION

Large law firms focus on innovation

We hear and read a lot about innovation in legal circles, but we wanted to know if firms had anyone tasked specifically with the responsibility. So we added this question to the survey this year and found only about one third (30%) of respondents did – and the vast majority did not.



However, the crosstab by law firm size revealed a surprising insight: Respondents from the largest of law firms were more than twice as likely to say their firm had someone on staff dedicated to innovation as compared to any other law firm size category.



To gain context, we asked for the title of the law firm employee tasked with innovation in an optional question. The titles submitted suggest in some cases this a task assigned as an additional duty to the C-Suite and in others it's a dedicated role. We received 29 responses and here is a representative sample:

- Chief, Practice Innovation, Pricing & Knowledge
- Chief Financial Officer
- Chief Technology Officer
- Chief Information Officer
- Knowledge Management
- Manager Support & Innovation
- National Innovation Leader

- Director of User Experience
- Director of Strategic Initiatives
- Partner and Head of Innovation
- The Legal Practitioner Director and Operations Manager
- Business and Legal Services Executive
- Head of Innovation

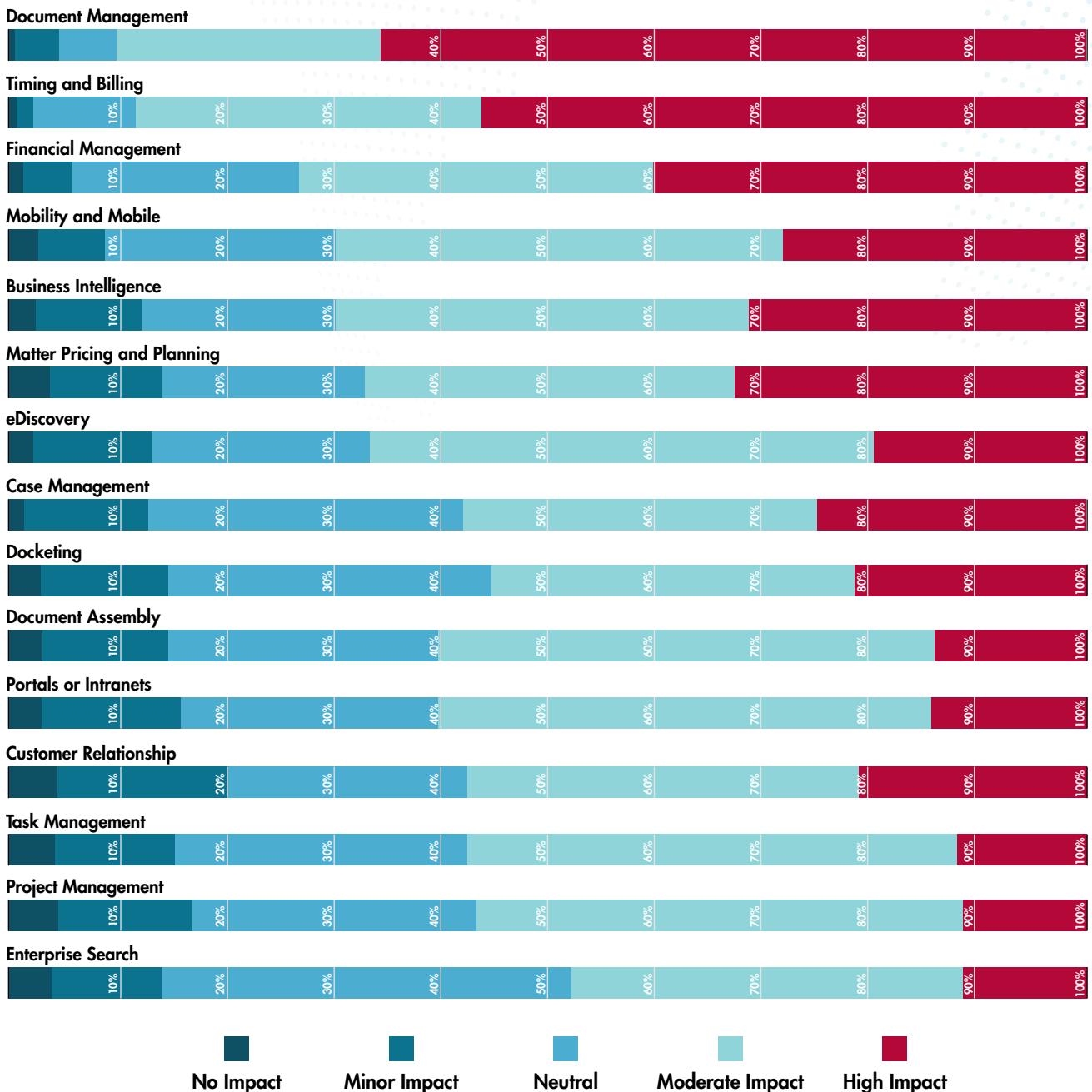
EFFICIENCIES OF TECHNOLOGY

Although we had a similar question last year about which technologies had the greatest impact, we aimed for greater granularity by asking respondents to rank a list of 15 common technologies.

The detailed chart nearby provides a weighted average for purpose of providing a numerical ranking. The top technologies closely track to the billing challenges surfaced in previous questions.

The top five technologies respondents felt had either a “moderate impact” or “high impact” on their law firm included the following:

- 90% said document management**
- 88% said time and billing management**
- 73% said financial management or ERP**
- 70% said mobility and mobile apps**
- 70% said business intelligence**

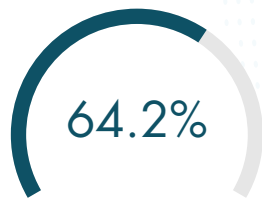


TECHNOLOGY TO DRIVE EFFICIENCY

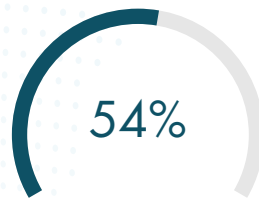
Artificial intelligence (AI) and machine learning (ML) draw lots of headlines, but this survey suggests law firms are taking a pragmatic focus to technology concepts. It's not to say AI or ML are not important; we believe they are and these concepts hold potential. However, these answers suggest firms are looking to eliminate process inefficiency.

The top five are good examples. Automating routine tasks (64%) eliminates the need for human intervention where possible, while workflow automation (54%) tools tend to drive tighter collaboration. Both support process efficiency.

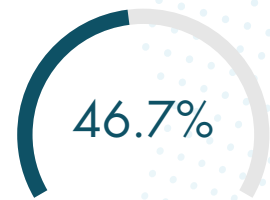
Analytics (47%), integration (34%) and mobility (24%) are strong signals that law firms understand they have important data and are seeking to tie it together in ways they can analyze it and then deliver insight to those that need it wherever they are located.



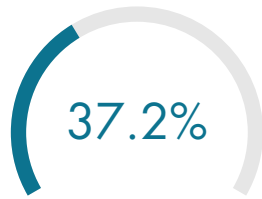
Automating Routine Task



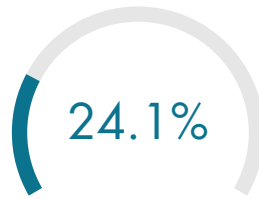
Workflow Automation



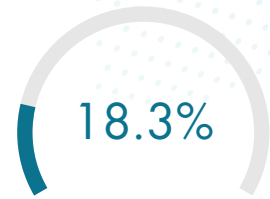
Analytics, Data Mining and Business Intelligence



Integration of Systems



Mobile Access to Law Firm Systems



Internal Collaborative Tools for Law Firms



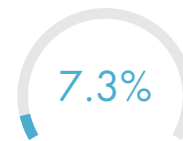
External Collaborative Tools for Law Firms



Artificial Intelligence and Machine Learning



Cloud-based Solutions



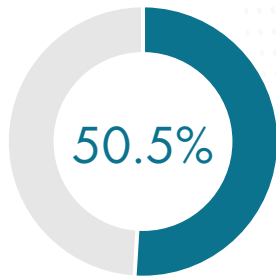
Predictive Analytics

CLOUD CONSIDERATIONS

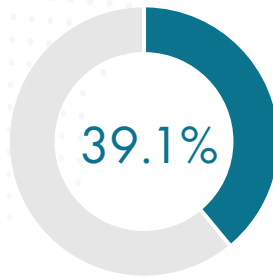
While the cloud (9%) didn't rank high on the list of concepts driving effectiveness, most firms seem to be more and more open to the cloud. Most survey questions about the cloud – including this one last year – ask firms about the barriers to cloud adoption. The answers in these surveys is almost always uniformly related to cybersecurity.

This year we decided to look at this question from a new vantage point and asked firms what was driving cloud adoption. The benefits of disaster recovery (51%), lower costs (39%), and business continuity (29%) rounded out the list of the top three. In addition, in a reversal of trends, better cybersecurity (28%) came in at fourth place.

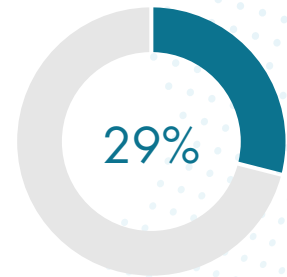
Just 25% of firms said they were not adopting the cloud at this time.



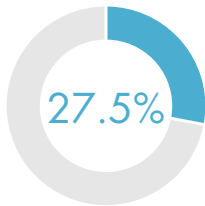
Provides Better Disaster Recovery



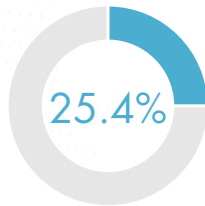
Less Costly Compared to On-premise Solutions



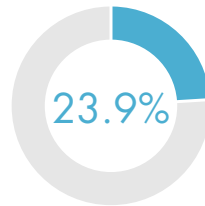
Augments Business Continuity



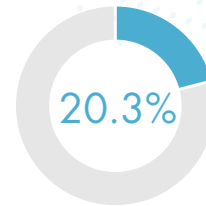
Cloud Offers Better Cybersecurity



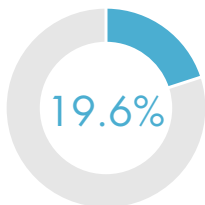
Improving Features and Functionality in Cloud Products



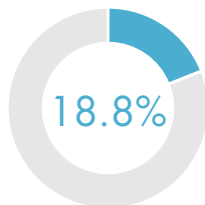
Centralized Data Improves Collaboration



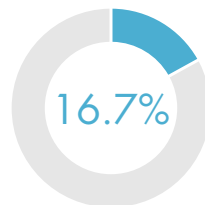
Converts Capital Costs to Operating Costs



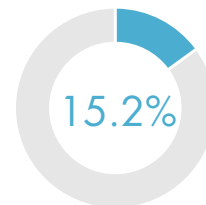
Faster Connection Speeds Make it Possible



Vendors have Improved Compliance



Provides Easier Integration Across Systems

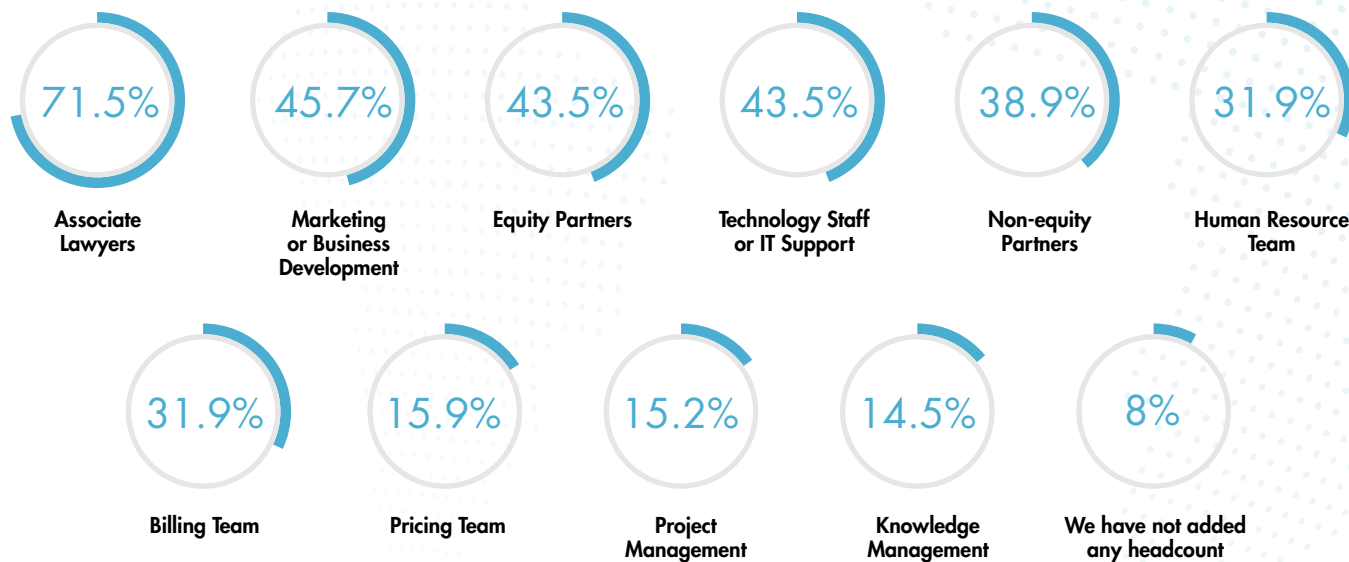


Clients are Increasingly Using the Cloud

TRENDS IN STAFFING

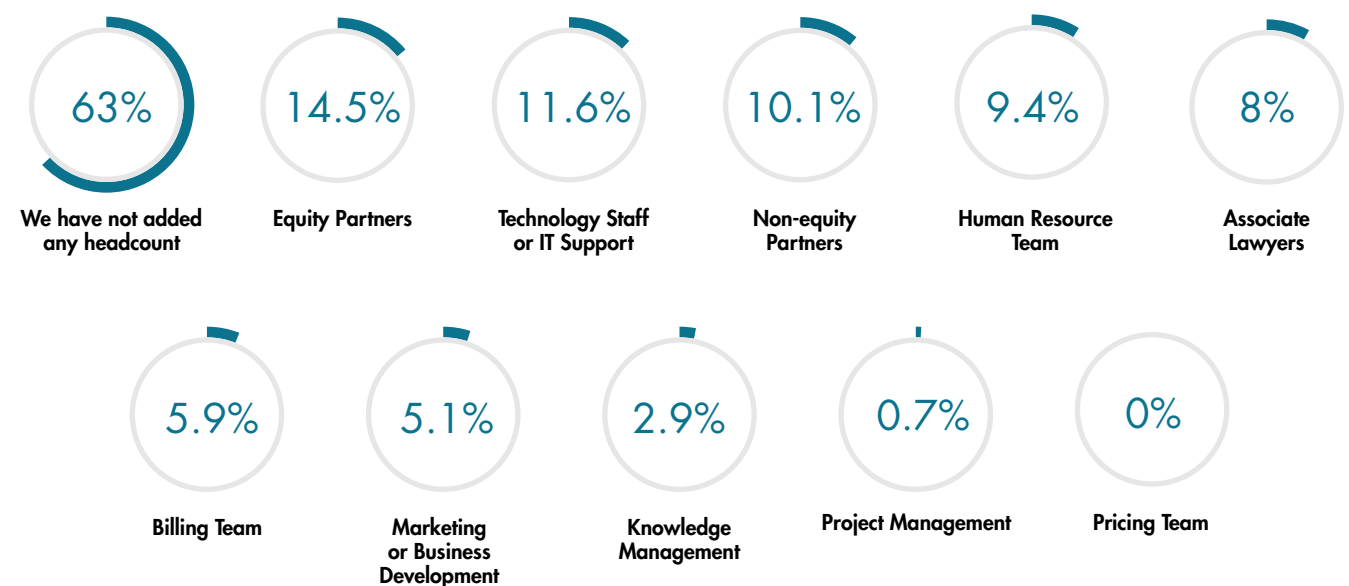
This survey began by asking respondents about the business climate in their firm. Hiring trends stand to reason as a factor supporting the notion that conditions in the legal business are improving.

A majority for respondents (71%) said their firm has added associate lawyers. That was followed by marketing or business development staff (46%), equity partners (43%), and IT staff (43%). Non-equity partners (38%) completed the top five.



A follow up question about headcount reductions only reinforced the idea of a stronger business climate, at least from the perspective of business of law professionals. A majority (63%) said their firm had not reduced headcount in the last few years. For those that did, lawyers and specifically, equity partners were at the top of the list (15%), followed by technology staff (12%) and non-equity partners (10%).

Five respondents wrote in to say their firms have let go of legal secretaries or office support staff.



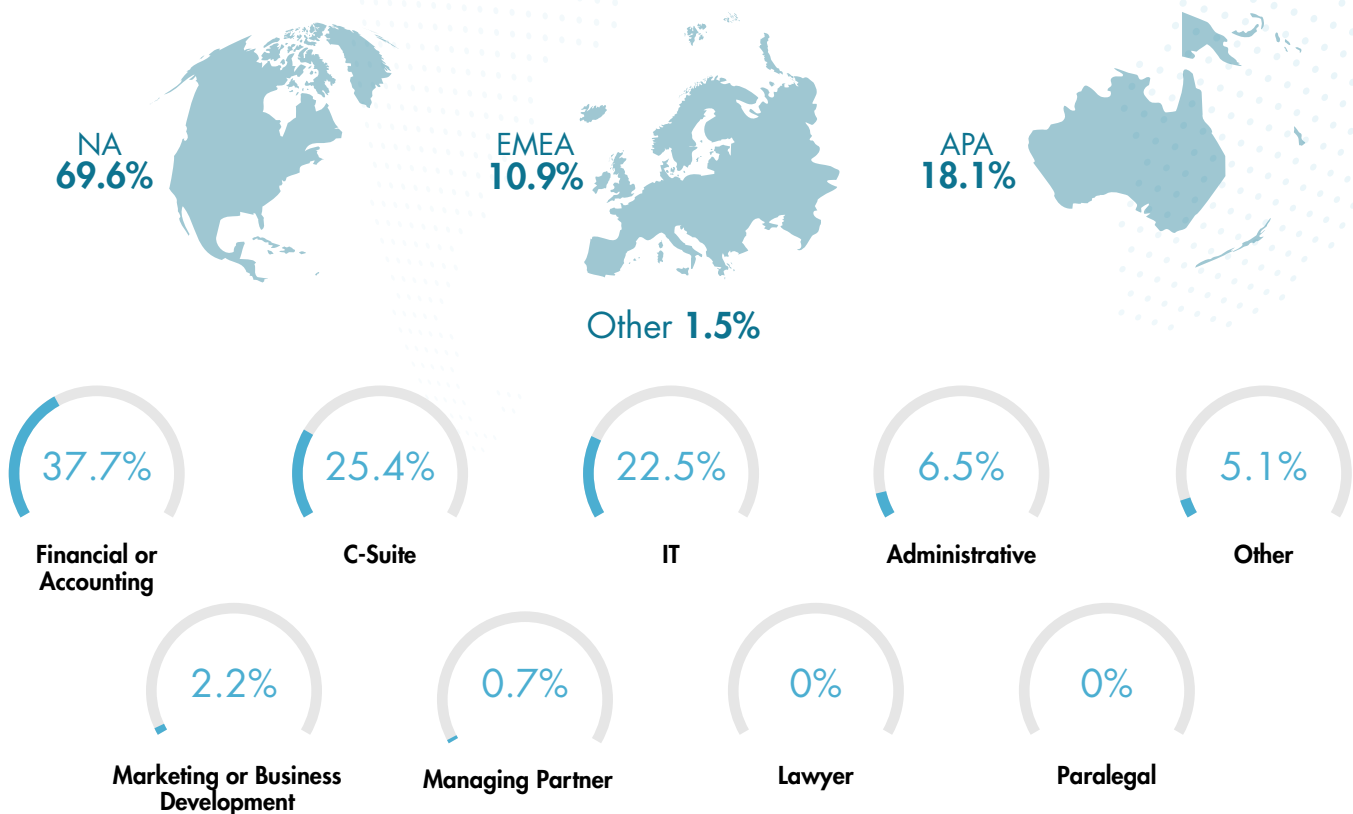
SURVEY METHODOLOGY

A total of 138 business of law and legal professionals from law firms all over the globe completed this survey, which was conducted online from March 16, 2018 until April 16, 2018. Respondents were solicited by email invitation. It contained more than 20 questions and took respondents an average of 10 minutes to complete.

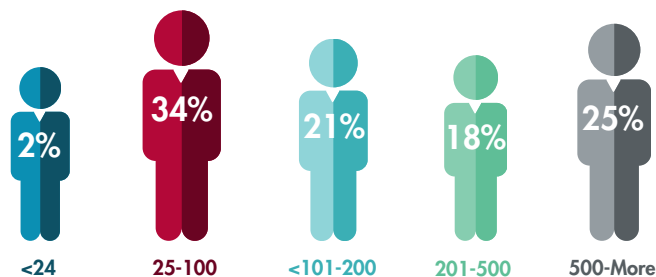
The vast majority of respondents hold business of law, legal technology, or related legal professional in a role other than that of a practicing lawyer. This included C-suite staff, financial or accounting staff, IT personnel, and other important functions essential to running a law firm. Respondents that selected "other" wrote in that they held roles spanning knowledge management, corporate trainer, and hybrid roles spanning IT and accounting.

Most respondents hail from larger firms. For example, 98% of respondents are from firms with 25 or more lawyers; 64% are from firms with more than 100 lawyers; 43% from firms with more than 200 lawyers and 25% are from firms with 500+ lawyers.

In North America, all respondents stem from the US or Canada. In EMEA, most respondents stem from the UK, with a few across continental Europe, the Middle East and South Africa. In APAC, most respondents stem from Australia and New Zealand. Aderant incentivized respondents with chance to win a complementary pass to an Aderant Momentum conference to be held in their geographic region in 2019. Every respondent that began the survey, also completed it.



NUMBER OF **LAWYERS** IN YOUR FIRM



ADDITIONAL RESOURCES BY ADERANT

You may also be interested in the same report from the previous year: [The 2017 Aderant Business of Law and Legal Technology Survey](#) or see these related publications:

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Legal Market Report: [Improve WIP-to-Cash](#)

Think Tank: [Can Legal Technology Really Provide a Strategic Advantage?](#)

Think Tank: [How Law Firms Can Reboot Business Intelligence to Improve Profitability](#)

Think Tank: [7 Trends in Cloud Technology Law Firms Need to Know](#)

Think Tank: [Highly Successful Law Firm KM Projects Focus on Revenue and Efficiency](#)

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