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# 2017 STATE OF U.S. SMALL LAW FIRMS

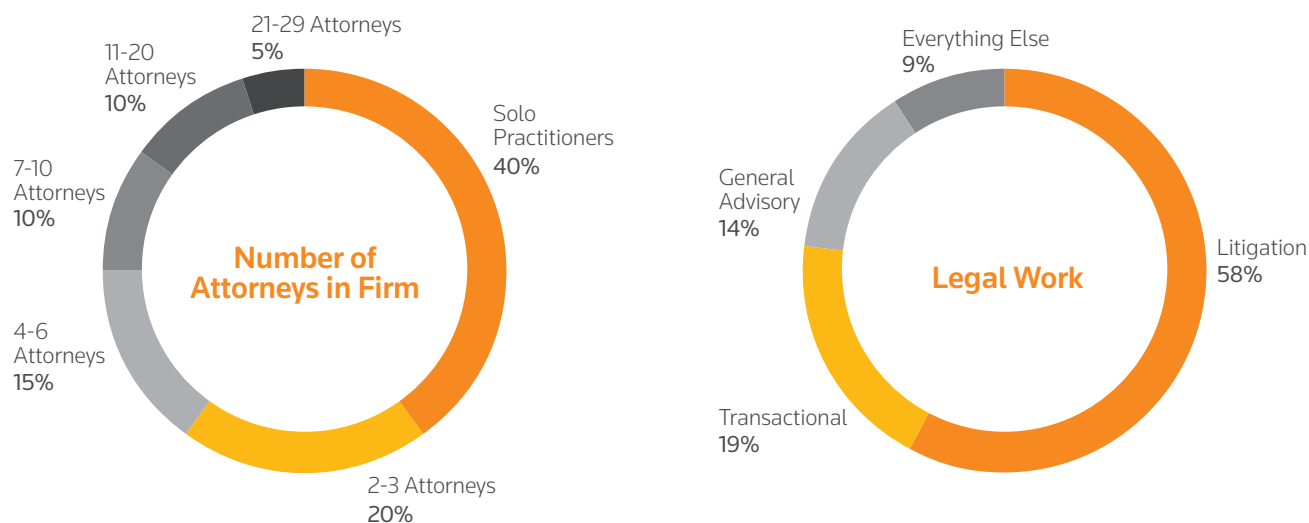
*Foresight to drive your firm forward*



The 2017 State of U.S. Small Law Firms study is a reflection of the challenges and pressures small law firm attorneys are feeling in today's market. The initial groundbreaking study, produced in 2016, provided a starting point quantitatively outlining the challenges facing the small law firm market, a task rarely attempted in the past. The State of U.S. Small Law Firms study stands apart as being the only survey to focus exclusively on small law firm partners and leaders to provide a representation of the small law firm market as a whole. With more than 300 participants, the study broadly encompasses responses from solo practitioners to firms up to 29 employees, made up of both Thomson Reuters customers and non-customers, practicing in a wide range of areas.

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## WHO PARTICIPATED



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## THE EVOLUTION OF A SMALL LAW FIRM

Looking at both the 2016 and 2017 studies, small law firms continue to face similar challenges within an extremely competitive landscape. This survey serves as an examination of both the challenges and opportunities small law firms have felt throughout 2017, and perhaps more importantly, the strategies they are implementing to help them adapt to an ever-evolving environment. The evolution of the small law firm is primarily dependent upon the pace and dedication to planning, embracing tools, and metric tracking. These allow a practice to properly manage and invest strategically for optimal success and growth.

### DEFINING + MEASURING SUCCESS

Despite challenges that are faced by solo practitioners and small law firms, the vast majority of respondents consider their practices to be at least moderately successful. When asked to identify whether their firms were “not successful,” “neither successful nor unsuccessful,” “successful,” or “very successful,” 86% of respondents opted for either “successful” or “very successful.” However, just as we found in 2016, there’s a unique difference between those firms who identify themselves as “very successful” compared to those who identify as “unsuccessful.”

#### How do firms define success?

Respondents identified client satisfaction ratings, ability to win repeat business, overall profits, and work/life balance to be key attributes that define the success of their practice. Despite these common key attributes, larger firms (11-29 attorneys) show slightly more concern about overall profit and revenues than practitioners or smaller firms.

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**1 OUT OF 4 FIRMS**  
rated overall profits as their primary  
definition of success.

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#### Profits and client satisfaction

When asked what their “primary” measure of success was at the firm, 25% selected overall profits, while another 22% chose client satisfaction ratings. Looking behind these numbers based on the number of attorneys at the firm, we found surprising uniformity. For example, 24% of solo practitioners chose client satisfaction ratings, while 26% (just 2% more) of 11-29 size firms said the same. The only portion of the small law firm market that varied to any appreciable degree from these averages was the 7-10 attorney segment, where 12% of respondents identified client satisfaction ratings as the primary definition of success, while 36% identified overall profits as primary.

## Work/Life balance

“Very successful” respondents said they spend nearly 62% of their time practicing law. Contrast that with the 58% of their working day that attorneys at “unsuccessful” firms report. At first blush, this 4% discrepancy may appear insignificant. However, if each attorney plans to bill 1,800 hours this year, those at the “unsuccessful” firms need to work nearly 3,100 hours to bill that amount, while those at the “very successful” firms need to work just over 2,900. With work/life balance being a key challenge for many small law firms, this close to 200-hour difference in time required to meet a billable target becomes significant. Numbers aside, work/life balance in today’s modern practice equates to a happier and more productive firm.

## Efficiency

Attorneys reported spending nearly **40%** of their workday on tasks other than practicing law.

Time efficiency is an additional factor many small law firms see as contributing to the overall success of their practice. Holding true to our findings last year, time allocation continues to be an area for small law firms to assess. Respondents report that nearly 40% of their time is spent on tasks other than the practice of law, increasing 1% from 2016. Firms in both 2016 and 2017 were similarly challenged with the amount of time spent on administrative tasks.

## Time spent on administrative tasks:

**8.7%** vs. **15.3%**  
(very successful firms) (unsuccessful firms)

Attorneys at “unsuccessful” firms reported spending nearly twice as much time on administrative tasks, 15.3% of their working time compared to just 8.7% for attorneys at “very successful” firms.

These findings raise an interesting question. Aside from generalized measurements, how closely do firms track and analyze their key definers of success?

Total working hours required to reach 1,800 billable hours (annually):

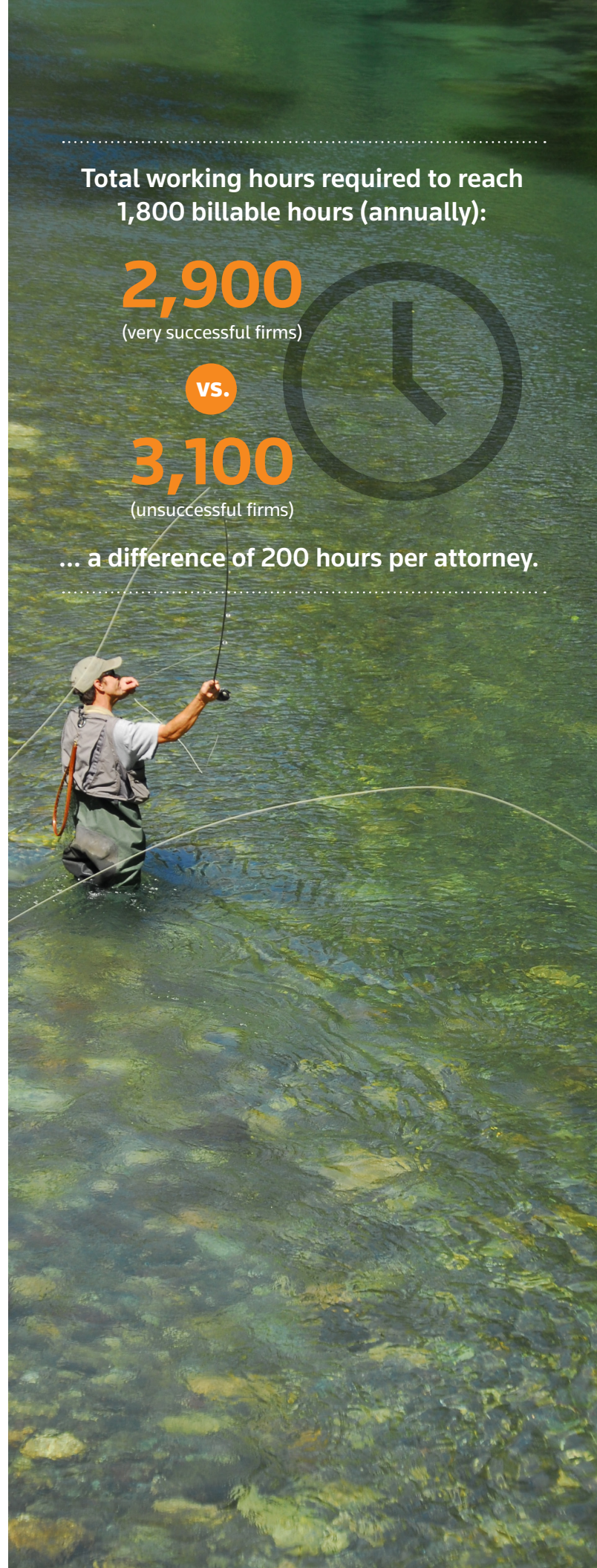
**2,900**  
(very successful firms)

vs.

**3,100**  
(unsuccessful firms)

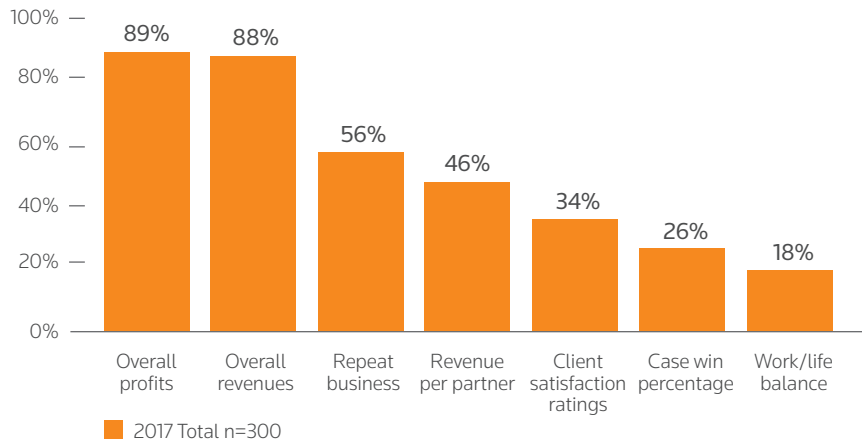


... a difference of 200 hours per attorney.



## TRACKING SUCCESS

Which metrics do you track within your firm?



### Profits and client satisfaction

It is encouraging to see that 89% of respondents report that their firms track overall profits – given this was identified as a primary definition of success by a considerable number of firms. However, 90% of respondents said that client satisfaction ratings were part of how their firm defined success, with 22% listing it as the primary definition. It is concerning then that only 34% of respondents report that they track client satisfaction ratings as a metric within their firms. We also note that the definition of a client satisfaction rating has a lot of variability to it. Some may track actual metrics like net promoter scores, a measurement that tracks the willingness of customer recommendations, or they may use financial performance reports. Others may do more passive monitoring such as watching online reviews or collecting the occasional anecdote to act as a testimonial. Regardless of that variation, the fact remains that significantly fewer firms admit to even tracking client satisfaction as a metric, compared to those using metrics to track overall profits.

**45%** of firms that report tracking client satisfaction saw improved ratings.

### Seeing results

Firms who do track client satisfaction report improved business outcomes. Fully 45% of firms who report tracking client satisfaction report that they've seen their client satisfaction ratings improve in the past 12 months. In fact, client relationships played a major role in why many firms felt their performance had improved over the past 12 months.

Measured tracking and analyzing business efforts will provide the best answer to what's making an impact on a small law firm's overall success. It will also assist with the firm's marketing and general business approach to help alleviate some of the many challenges they continue to face.

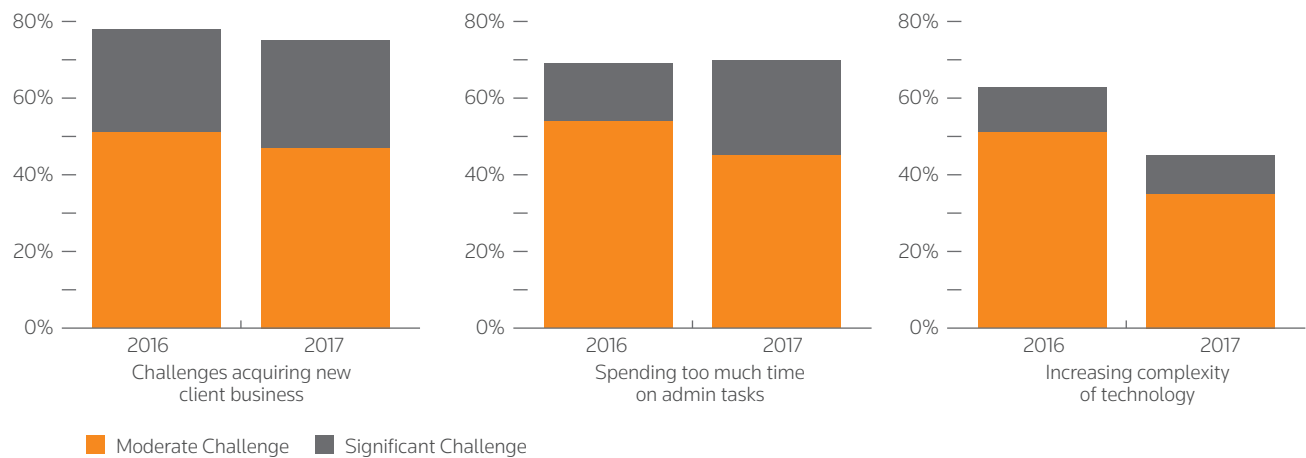
*"We've instituted more accounting-based metrics to measure revenue, rate of return and attorney productivity."*

*– Three-attorney law firm*



## CONTINUED CHALLENGES

Are the following issues a challenge for your firm?



Just as in 2016, attracting and retaining client business remains the top significant challenge facing small law firms in 2017. A full 75% of respondents said that acquiring new client business posed at least a moderate challenge for their firm, while 28% said it was a significant challenge.

Firms also expressed serious concerns about how they spend their time with 70% of respondents saying spending too much time on administrative tasks posed at least a moderate challenge; 25% of those respondents said it was a significant challenge.

*“We’re using our timekeeping system to track time spent on admin tasks.”*

– Five-attorney law firm

Another important challenge facing small law firms, particularly in a market where acquiring new business is seen by many as a significant hurdle, is competition for client business. Similar to last year’s finding, nearly 75% of respondents agreed that other law firms of similar size were a source of competition. Also identified as a key competitor, were significantly larger firms competing for the same clients.

In what may be an encouraging sign, respondents reporting rate pressure from clients as a significant challenge declined from 2016, with only 13% citing it as a significant challenge. However, an additional 46% stated that rate pressure posed a moderate challenge they had to confront.

Perhaps unsurprisingly, larger small firms, those with 11-29 attorneys, were more apt to express concerns about keeping up with the increasing complexity of technology and managing staff than were their smaller counterparts. This is likely due to larger firms dealing with these issues more regularly as they may be more likely to have complex technology in place, and they will face a higher likelihood of staffing concerns.

**3/4**

**of firms said acquiring new clients is a challenge.**

## AN EMERGING THREAT

# 17%

### identified DIY legal sites as competition

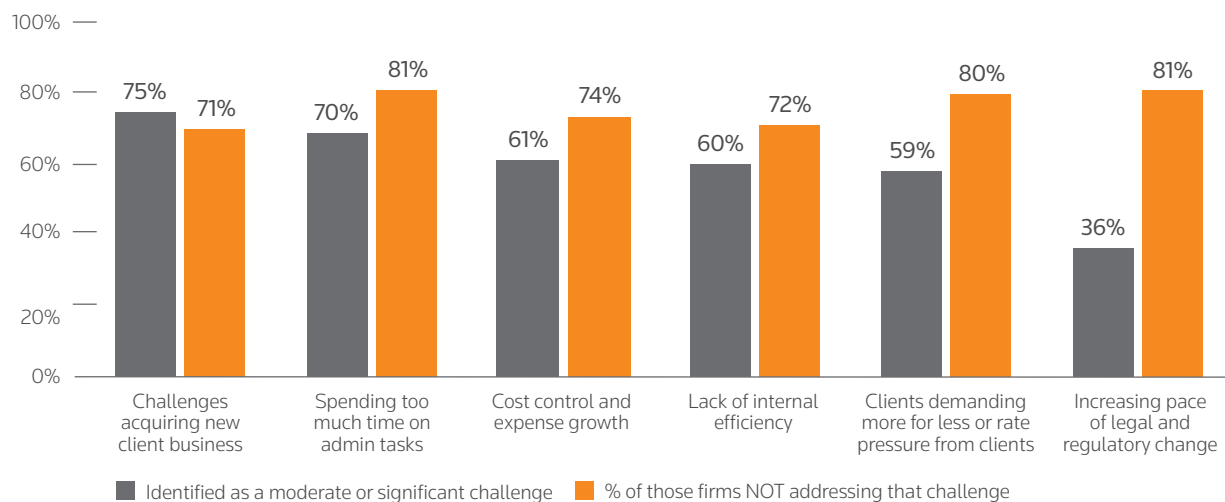
(significantly up from 11% in 2016)

An emerging challenge to note is that 17% identified DIY legal websites or services as competitors, significantly more than last year's finding of slightly less than 11% who viewed these alternatives as competitors. This increase may well be an indication that small law firms will see DIY or self-service legal services grow as advances in technology continue at a rapid rate.

Perhaps unsurprisingly, solo attorneys showed far more concern about DIY sites than did their larger counterparts. While 28% of solo attorneys identified DIY providers as competitors, only 3% of firms with 11-29 attorneys said the same.

## ADDRESSING CHALLENGES

Most challenges are not being addressed.



Apparent in both the 2016 and 2017 studies is that change can be challenging. Similar to 2016, despite recognizing the presence of challenges, a large number of small law firms admit they haven't done much to address those challenges. Among firms who say they're facing challenges related to spending too much time on administrative tasks, 81% say they are not addressing this major challenge.

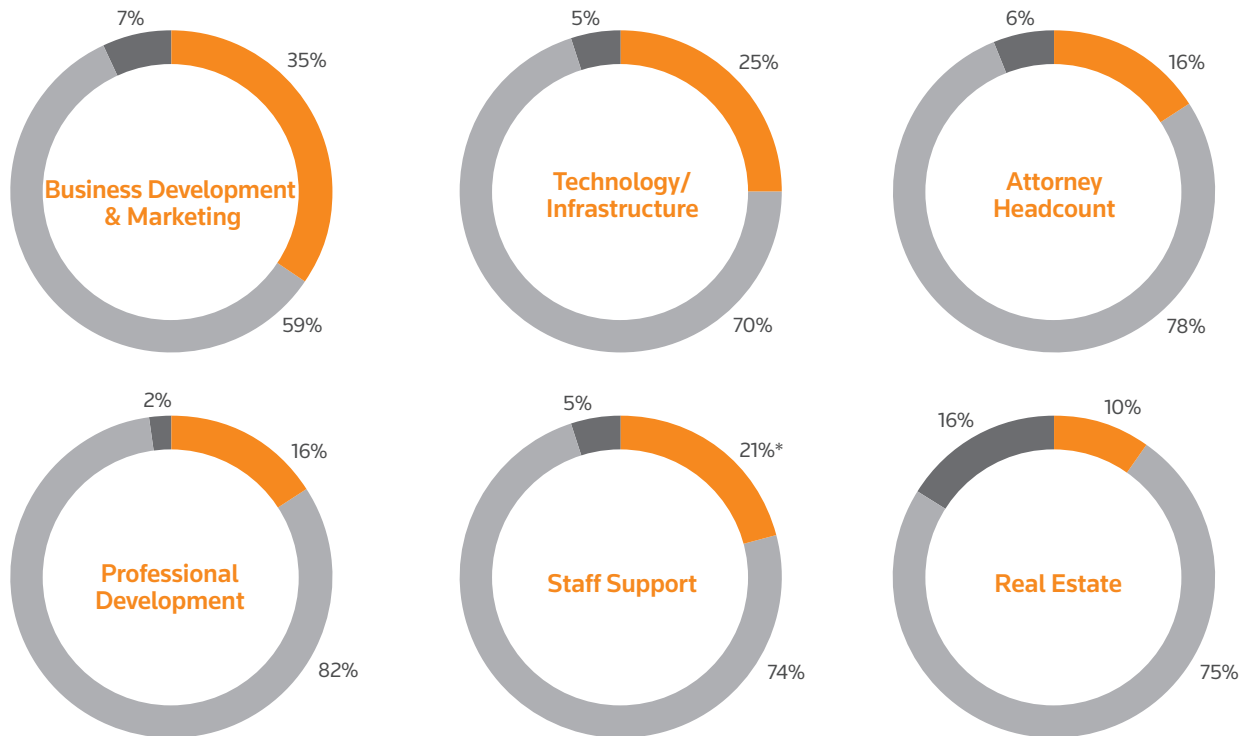
Of the respondents who say they have a challenge acquiring new business, 71% say they are not addressing it. This continues a trend we noticed in our inaugural report last year, indicating that firms may be aware of what sorts of obstacles lie in their way, but are unsure of how to confront them, challenged to find the time necessary to do so, or find it difficult to spur change within their firm.



**35%** of firms plan on investing in marketing and business development.

## INVESTING IN CHANGE

In the next 12 months will your investment in these areas be higher, lower, or remain the same as the previous 12 months?



■ Higher ■ Essentially remain the same ■ Lower \* Significantly higher than 2016

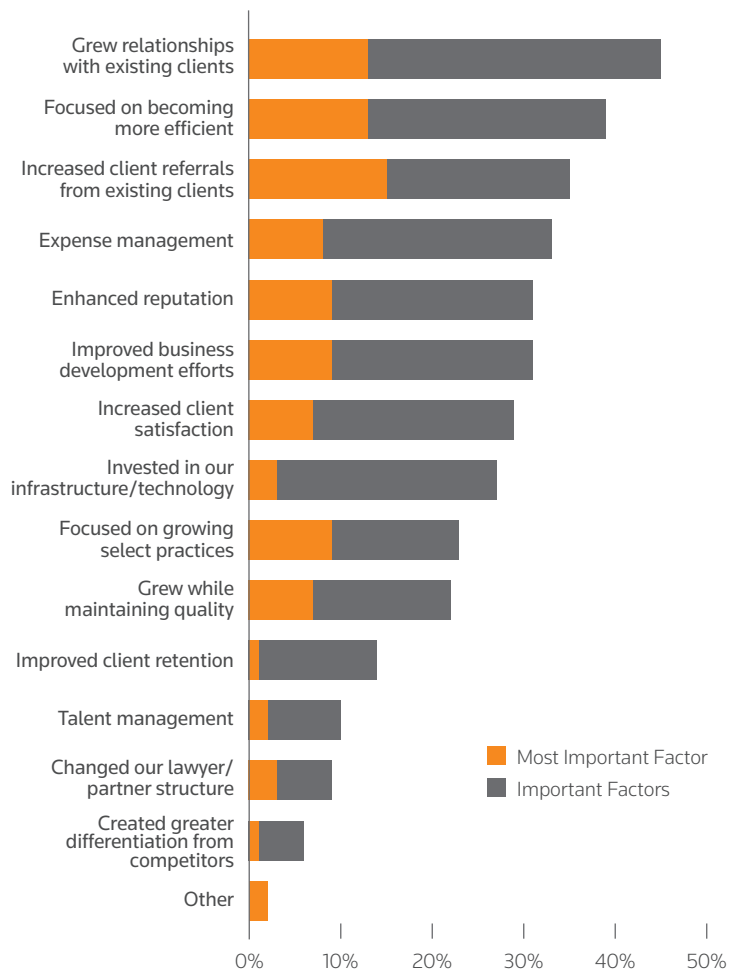
Key areas of planned investment going into the next 12 months reflect a focus on the challenges and opportunities small law firms are seeing. The top two areas of investment are increased Business Development/Marketing and Technology/Infrastructure, identified as growth areas by 35% and 25% of respondents respectively. These two areas of focus held status as the top investment priorities for all segments of small law firms, regardless of number of attorneys.

**18%**  
of firms had no specific  
firm goals  
(up from 12% in 2016)

*“We believe we can fix many of our challenges with further use of technology.”*

– Three-attorney law firm

What are the important positive factors in your firm's performance in the past 12 months?



## INVESTMENTS THAT DROVE CHANGE

### Client growth

In the past 12 months, when investing in business development, firms saw an increase of existing client relationships and referrals. In this 2017 survey, 45% of respondents said better performance came from better relationships and 35% attributed improved performance to increased referrals. In fact, increased referrals from existing clients earned the top spot from respondents when they were asked to rate the single most important factor that led to improved performance. But it's important to note that neither of these things can happen without paying attention to client satisfaction.

*“[We implemented a] new billing and accounting system to increase efficiency and tracking of client bills.”*

*– Two-attorney law firm*

*“We’ve implemented a more collaborative approach to business development over the last year that’s been helpful in gaining new avenues for client acquisition.”*

*– Three-attorney law firm*





## Efficiency

In 2017, successful firms also saw improvement when they focused on becoming more efficient. In fact, at 39%, improving internal efficiency was the second highest rated priority among respondents. Only increasing business development was rated as a higher priority, which is unsurprising given the number of respondents who identified acquiring new client business as a top challenge.

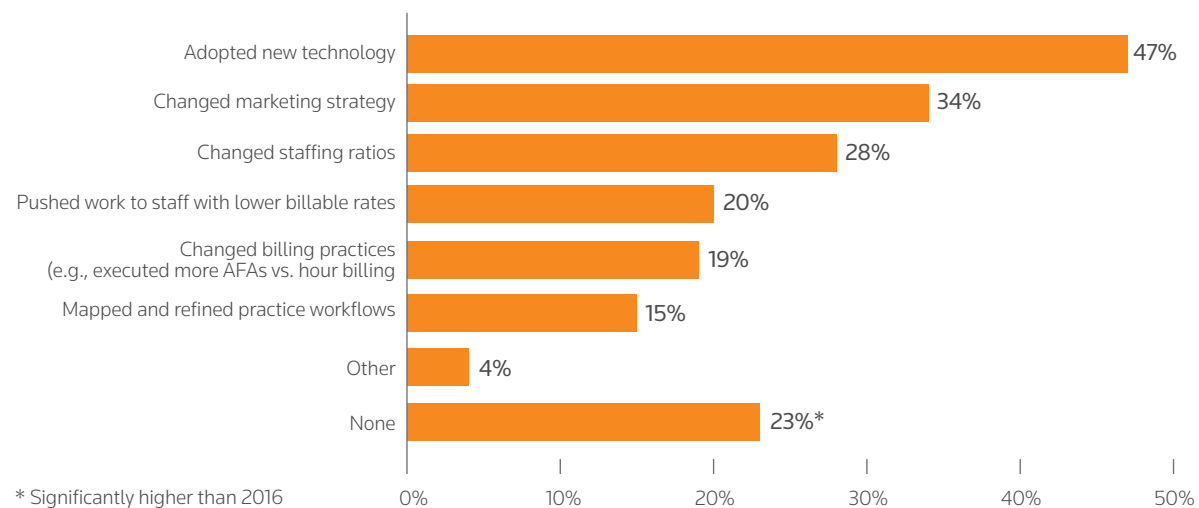
But knowing that firms want to improve efficiency isn't enough. Understanding how firms plan to develop that efficiency is also a vital tool for planning. Firms were

significantly more likely to not have specific firm goals in 2016 compared to 2017. It could be said that this discrepancy aligns with the difficulty small law firms have to adapt with the changing digital landscape and increased client demands.

**23% of firms reported making no changes in the past two years**  
(significantly up from 6% in 2016)

## Technology

What changes has your firm made in the past two years?



Nearly half of respondents said they have adopted new technology in the past two years. This clearly represents an effort to improve how they do business, as new technology is not intended to reduce efficiency. Here again there is quite a bit of variability with regard to how many firms within each segment of firm size have adopted new technology. But for each segment of small law firms, adoption of new technology was the number one change they identified from the past two years. With the growth of a digitally savvy generation, adjusting to technology has quickly become a necessity.

When asked why their firms made these changes, the majority of respondents said they did so in an effort to both improve quality and reduce cost. By streamlining the business approach, firms are able to reduce both time expended and monetary costs.

The combination of saving time and money provides an excellent justification for pursuing efficiency. With a lens on those small law firms that consider themselves "successful," it's apparent that overall business efficiencies also resulted in increased revenue and work/life balance.

*"We're moving our files to the cloud to give 24-hour access to our attorneys to allow them to work from outside the office when necessary. We're also updating our telecommunications infrastructure to facilitate communications by all means."*

– Three-attorney law firm

## CONCLUSION

The 2017 State of U.S. Small Law Firms survey shows strong awareness of the challenges facing small law firms, with perhaps an increasing awareness of emerging competitors such as online DIY legal services. However, this awareness is tempered by a continued reluctance to take meaningful action to address the challenges today's small law firms are facing. Those firms who consider themselves to be "very successful" provide some interesting areas of focus for small law firms wondering where to start when trying to determine how to manage complex issues stemming from a rapidly changing and demanding environment. Expanded efforts in marketing and business development, as well as streamlining their business approach with the adoption of technology/infrastructure, are shown to be the top two areas of increased investment by small law firms over the next 12 months.

It is our hope that the 2018 version of this study will provide evidence of greater efforts on the part of small law firms to address the challenges they face, either by emulating the example of those who have already begun to address them, or through innovative solutions that perhaps have not been tried before. Today's legal market demands new approaches.

The data is clear; some small law firms seem much more willing to pursue new strategies proactively. The firms that plan, track, and analyze their efforts – as well as invest in tools and resources aligned with business strategies – are proving to be the ones that stand out as successes as defined by their peers. This strategic, up-front approach to running a small law firm offers the right balance for attorneys to successfully focus on what they do best – practice law.



## KEY TAKEAWAYS

- The majority of firms are not addressing significant challenges, with less than one-third addressing the top three: acquiring new client business, spending too much time on administrative tasks, and the increasing complexity of technology.
- DIY legal sites continue to expand their footprint and compete in the small law marketplace.
- Business Development/Marketing and Technology/Infrastructure continue to be the top two areas for increased investment in the next year.
- Small law firms who invested in Business Development/Marketing within the last 12 months saw an increase in client acquisition and retention.
- As small law firms continue to see an emergence of a digitally savvy generation, adjusting to technology has quickly become a necessity.

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