

ZEN AND THE ART OF LEGAL NETWORKING

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INSIGHTS & COMMENTARY ON
*Relationship Building
within the International
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Law Firms: The Future is NOW

BY LINDSAY GRIFFITHS ON DECEMBER 6, 2016



The “law firm of the future.”

We’ve spent a lot of time talking about this in recent months, not because I find it to be interesting (which I do), but because other than my “Instagram for Lawyers” post, this has been the hottest topic on Zen this year. I had a conversation with a senior partner at a law firm last week, who asked me “How do we communicate to

people that the future is NOW?" His firm has been embracing these "futuristic" policies for a number of years, and recognizes that change in the industry is not happening fast enough.

In May, Altman Weil published the 8th edition of their "Law Firms in Transition" survey, which polls the managing partners and chairs at 800 US law firms with 50 or more lawyers (this year's survey received 356 respondents from 49% of the 350 largest US law firms). If you haven't already read at least the executive summary for this survey, I highly encourage you to take a look through it. In the midst of the second quarter of this year, Altman Weil said:

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

Yikes.

A bunch of a hoopla about nothing? We'll get to that in a minute.

The survey summary goes on to look at key findings, which include:

- **Unreliable demand:** We still haven't returned to pre-recession levels for the demand for legal services at outside firms. Altman Weil's CLO Survey, released in November, gives us some insight here, and we'll look at that shortly.
- **Surplus of lawyers:** This shouldn't come as a surprise to anyone in the US, as we've been talking about this in the industry since 2008.
- **Inefficient delivery of legal services:** This is where the opportunities lie – many experts are giving lawyers and law firms a blue print for how to operate more efficiently, but the May survey reveals that “more than half have not significantly changed their approach to achieve greater efficiencies.” Why. Not.
- **Proactivity as a competitive advantage:** Altman Weil says they've seen a “7-year trend of compelling success enjoyed by firms that take a proactive approach to alternative fee arrangements,” leading them to extrapolate that a general proactive approach would serve firms well. Here's another huge opportunity for law firms.
- **Resistance to change:** The pace of external change is not going to slow down, and law firm leaders know it. The reason for the slow changes internally at firms is attributed to low awareness and resistance among non-leadership partners.

So why I am talking about a survey from May?

Seven months later, and all of the same things could still be said (no big surprise), and many of them are. But now, there may be more reason to get excited (here's the hoopla).

To many of us, and law firm leaders in particular, the results of the recently released Altman Weil Chief Legal Officer survey don't come as a surprise. Clients are unhappy, the demand for legal work is increasing, but they're keeping it in-house or taking it to alternative providers, and a lot of unhappy clients just switch law firms without trying to fix the issues. I Above the Law, "Is Everything Old? The 2016 Chief Legal Officer Survey."

Let's look at the salient points.

Cost Pressures are Still Number One

This should surprise literally no one:

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Cost pressures are a primary concern for CLOs, encompassing both internal budget constraints and outside counsel fees.”

In terms of how CLOs are managing internal pressures, they're looking to improve efficiencies through technology and the restructuring of internal resources. They're also embracing data and project management. Because in-house lawyers are doing this in large measure, it adds to their frustration when their outside law firm partners are not making the same efforts. Why does that matter? Because, as has long been the case “[e]xternally, outside counsel present a broad target for cost cutting.” “Cost-cutting” to CLOs means discounts and AFAs, as well as reducing their outside legal spend or shifting work to lower-priced firms.

Last week, Jordan Furlong wrote an excellent piece, “You're not selling what we're buying,” where something he said really stood out to me:

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The real reason why demand is falling at law firms is that clients have diversified their purchases, but law firms haven't diversified their offerings. Law firms are steakhouses. Clients are looking for restaurants.”

The CLO survey bears that out – clients are bringing more work in-house, where not only lawyers are doing it, but also non-lawyer staff. Other work, such as legal research, document review, e-discovery, due diligence, and others, is being outsourced to non-firm vendors. For those lawyers reading this who think that’s probably a minority:

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More than half of all law departments report that they outsource some work to nonfirm vendors (up from 43% in 2012, when we last asked the question, to 57% this year). The two types of work most likely to be outsourced are litigation discovery (including e-discovery) and document review.”

That’s a 14% jump in four years.

It also represents a real opportunity for law firms, not just in the way that they manage the budgeting process and fees for their clients (which we’ll look at in next week’s post). But what other services could your firm be offering clients so that you’re a one-stop shop for legal services? What makes you a restaurant, instead of a steakhouse?

The Evolution of Technology

As I mentioned before, CLOs are embracing data in larger numbers, and using technology to help them in the acquisition of this data. The survey reveals that legal departments are still new to the game when it comes to this, but they report that “law firms aren’t even in the game.”

It’s fairly dismal that:

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When asked how many of their top ten law firms have provided useful spend analysis to the law department, 73% of CLOs reported that none of them had.”

Law departments are going to be making improvements here over the next few years, and Altman Weil says that “we expect to see steady increases in both the use of more sophisticated data analysis, and the value that CLOs will derive from it.”

That means there's a HUGE opportunity for law firms here – but the time to jump on this is NOW before the learning curve gets too steep. Altman Weil agrees.



We think law departments would reward law firms that seized this obvious opportunity to provide meaningful data - and the bar for success here is low."

Breaking Up Isn't Hard to Do

Most of us would hope that if our clients are unhappy with us, that they'd talk to us about it and work with us to make changes, rather than moving to another law firm. But for many of us, making a switch when we're unhappy is easier and less uncomfortable than having those difficult conversations about what's going wrong. Because there are so many options for smart, talented lawyers out there (remember that surplus of lawyers I mentioned?), clients don't have to look far for someone who will competently do the work that they need with slightly better service.

If you're absolutely sure that none of your clients will ever choose another firm or another lawyer over you, then you can skip this section. But if not, then you might be curious to know what the CLO survey had to say about the reasons that law departments switch firms. There are some key themes – according to the survey, in the last year:

- Problematic service (think “responsiveness”): 53% of respondents “shifted a portfolio of work worth \$50,000 or more because of a client service issue”
- Cost: “41% switched to another firm in pursuit of lower fees”
- Efficiency: “30% moved their work to a firm that was more effective in managing matters”

Dissatisfaction with firms and their unwillingness to change has been brewing for some time. For the last seven years, Altman Weil has asked CLO respondents to rate their law firms on a scale of zero to ten, assessing the level of their commitment to change. On this scale, “zero equals ‘not at all serious’ about change and ten equals ‘doing everything they can.’” Before I tell you what the CLOs have ranked the firms, take a few seconds to give yourself a rating, and then consider what your clients would rate you – and write them down.

For the 8th year in a row, respondents have ranked law firms at a three.

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in terms of pressure) – Altman Weil says this is for three reasons:

- “About one third of CLOs are either satisfied with the current delivery model (17.4%), or they have asked for changes and their outside counsel have complied (13.4%).”
- “Another third (34.1%) of CLOs said they are focused on prices and outcomes rather than the service delivery model. This isn’t necessarily an expression of satisfaction or dissatisfaction with the model, but rather a statement about the primarily transactional nature of their relationship with outside counsel.”
- “The final third is more openly dissatisfied with the law firm model. Among this group, 14.5% say they have asked for changes, but have not gotten the results they wanted; 11.7% have not asked for changes, but have used firms less or dropped them entirely because of unsatisfactory service delivery. Finally, 9.1% believe it’s not their job to ask – instead law firms should act proactively to improve.”

It’s this final third that firms need to be most worried about – and do you know which third your clients fit into? Keep in mind as well that because the second group is focused purely on the transactional nature of the relationship, their motivations for staying with you and your firm will be very specific. So you should know which of these three groups each of your clients falls into, and what you need to be doing to help keep them as clients of your firm.

So how can firms change? Let’s address some ideas for improved client service in future posts (and I invite all of you to share your thoughts and comments on these issues as well). In the meantime, dive into these two surveys and the associated articles to get a little better understanding of why the future is now – while much of this information isn’t new or groundbreaking to many law firm leaders, it can be an incredibly valuable educational tool for helping to inform and motivate some of your slower-to-change partners.