

2016 Report

On Trends Impacting
the Legal Industry



Table of Contents

1. Introduction: Operating in the “New Normal” 3
2. A Need to Focus on Information Security 4-6
3. Greatest Concerns: Managing Profitability and Attracting New Clients ... 7-8
4. Staffing Pain Points in the “New Normal” 9
5. The State Of Outsourcing in the Legal Industry 10-12

Appendix: Overview of Respondents 13-14



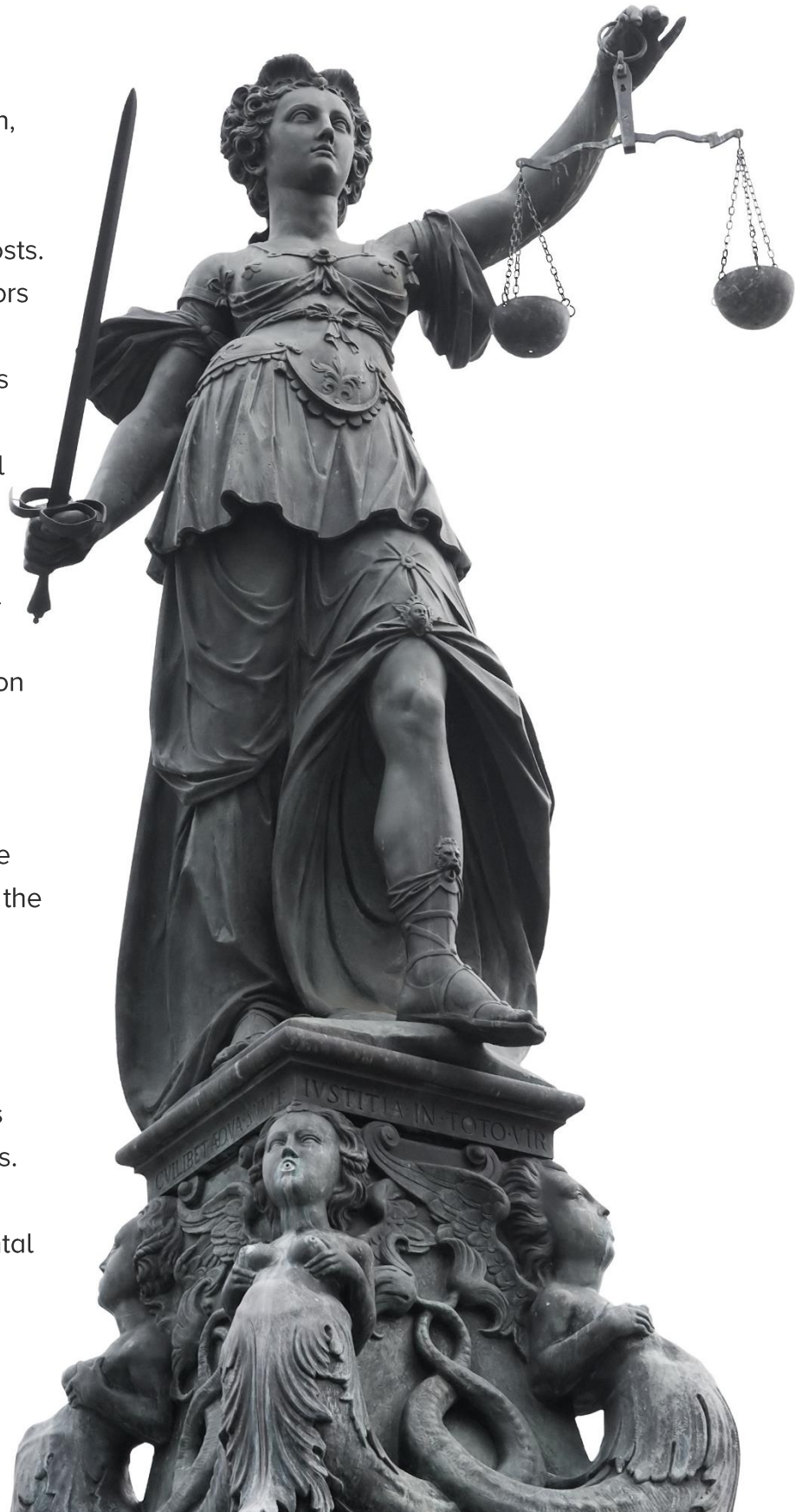
Introduction: Operating In The ‘New Normal’

Post-recession, law firms have experienced sluggish demand growth, shifting competitive dynamics, falling realization rates, new technology expenses and mounting operating costs. Though several consultants, professors and partners have weighed in on this “new normal” through various articles and books, a voice was missing from this conversation — the voice of legal management professionals.

This gap led the Association of Legal Administrators (ALA) and Novitex to partner to develop the “2016 Report on Trends Impacting the Legal Industry.”

ALA and Novitex worked together to evaluate survey responses from more than 800 legal professionals. During the process, we examined current and emerging challenges, ranging from profitability management to support staff, outsourcing and information security. We also assessed how firms are adapting to evolving expectations.

This report also draws on supplemental research to provide a more thorough and balanced look into the trends impacting the legal community.



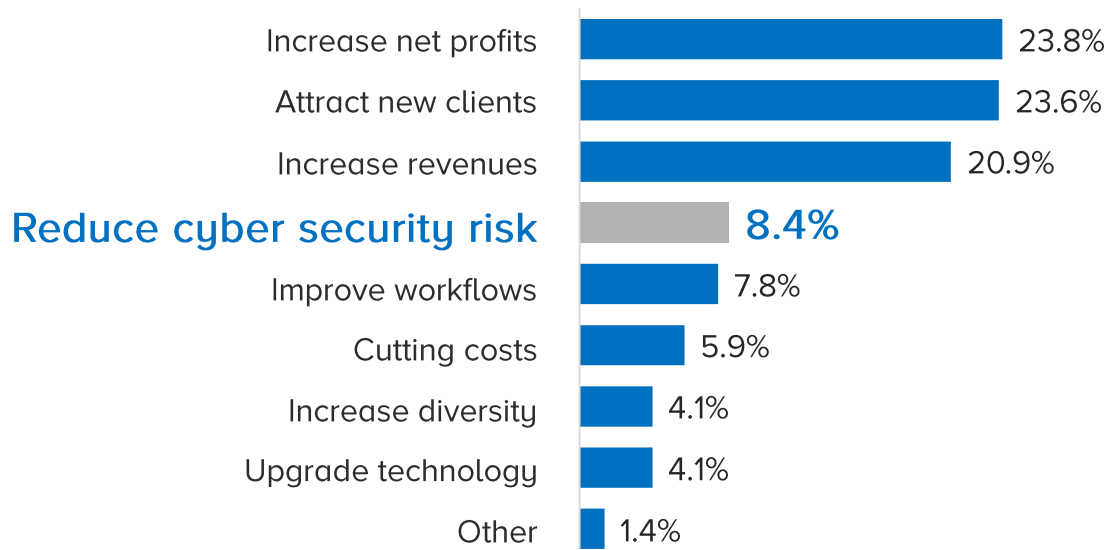
A Need to Focus on Information Security



Though firms are becoming increasingly aware of the threat cybercriminals can impose, respondents reported that information security (IS) is not a top concern. While ranked fourth, there is a significant gap between security and the top three concerns, detailed below.

Operational Concerns

What area causes the greatest concern for your firm?



The conventional wisdom is that many firms are too small or obscure for hackers. However, the statistics reinforce another story.

The “2015 Annual Security Report” conducted by Cisco, named law firms as the 7th highest target for cyber criminals — this was the first time that the legal industry made the top 10 most targeted verticals. The American Bar Association also reported that:

One out of four firms have fallen victim to a data breach



A Need to Focus on Information Security

With the average breach costing \$4 million, it would be wise for firms to put a greater emphasis on security. Not being prepared for a breach can force a firm to shut down its network until the risk is eliminated, which can have a severe impact on the speed of your business.

Though a security incident can harm a firm’s financial posture and reputation, only 2 percent said their firm spends a “great deal” on IS. As indicated by the chart below, one of the most important findings from the survey is that **10 percent of respondents reported not allocating any dollars to cybersecurity.**

How much of your operations budget, excluding staff salaries, is allocated to the following?

	None at all	A little	A moderate amount	A lot	A great deal
Accounting/Finance	11%	45%	37%	6%	1%
Advertising/Marketing	9%	27%	40%	19%	5%
Cyber-security	10%	36%	40%	12%	2%
E-discovery	27%	36%	30%	6%	1%
General human resources	13%	39%	35%	12%	2%
General IT	5%	13%	44%	32%	6%
Litigation support	20%	34%	35%	11%	1%
Practice management	24%	36%	31%	8%	1%
Process improvement	28%	40%	26%	6%	1%
Records management	14%	45%	32%	7%	2%

10% *do not allocate any dollars to cybersecurity*



A Need to Focus on Information Security

Given the increasing threat cybercriminals can pose, firms should deploy the following best practices, at a minimum:

- *Have formal policies that support IS.* This should also include physical security policies, as the two are interconnected.
- *Train employees on firm policies.* In most incidents, a breach occurs due to human error. Ongoing, comprehensive employee training helps mitigate this risk.
- *Leverage best-in-class technology, practices and approaches, such as “Defense in-Depth” and the NIST Cybersecurity Framework.*
- *Make vendors, especially those that have access to the firm’s network and systems, demonstrate the soundness of their IS program.*
The Target attack, one of the largest breaches in history, was enabled by a gap in security of a vendor.



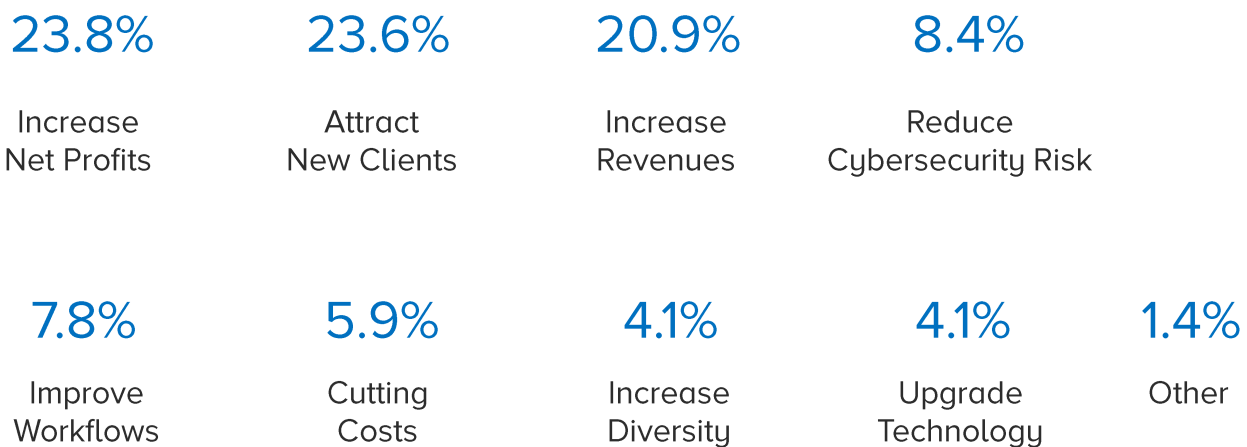
3

Greatest Concerns: Managing Profitability and Attracting New Clients

Respondents reported that managing profitability is their greatest concern, closely followed by attracting new clients. While increasing revenue was a top three concern, the results demonstrate that there has been a shift in priorities, as firms historically have been more focused on topline revenue.

Operational Concerns

What area causes the greatest concern for your firm?



Even with a greater emphasis on profits, 24 percent of respondents did not know or have any insight into their firm’s financial posture. While cost cutting is not a top priority, 66 percent reported being in cost management mode. In order to develop an effective cost optimization plan, it is critical to understand firm finances.

24% *did not know their firm’s financial posture*

66% *of firms report being in cost management mode*



Greatest Concerns: Managing Profitability and Attracting New Clients

Many firms are opting to shift costs and/or their associated tasks, and according to respondents, the top three areas are:

1. Benefits

By and large, firms have been reluctant to change their premium benefits and have opted to move costs to their employees instead. Alternatively, more and more firms are starting to self-fund medical claims to drive savings, ranging between seven and 10 percent.

2. Support Staff

During the recession, the large majority of firms reduced staff size and relied on versatile employees to do more with less. A leaner support staff is likely to endure as firms continue to experience an increasingly competitive legal market. A growing portion of firms are opting to leverage a managed service model for support functions, such as eDiscovery, business continuity planning and document management. This outsourcing model enables firms to lower staffing costs while maintaining the same level of support.

3. Office Space

82% of respondents reported leasing office space. With premium rents rising faster than profits, firms are looking for ways to reduce on their leasing costs. Some firms are reducing real estate costs by moving back office support functions to more cost effective locations. Firms are also opting to consolidate these functions and are opening shared services centers. Growing alternatives also include:

- **Hoteling:** With a growing mobile workforce of attorneys, nearly 50 percent of dedicated work stations can be left empty on any given workday. To optimize the utilization of workspace, law firms are starting to trade in permanent desks for a hoteling model. In a recent [National Law Journal](#) article, the real estate brokerages, CBRE and Cushman & Wakefield, predicted that hoteling is the future of the legal industry.
- **Virtual law libraries:** Given budget constraints, firms are opting to move to an entirely electronic environment.
- **Off-site outsourcing:** A substitute for moving operations to lower-cost cities is to outsource work off-site. While this approach is not new, this solution is gaining greater appeal post-recession.

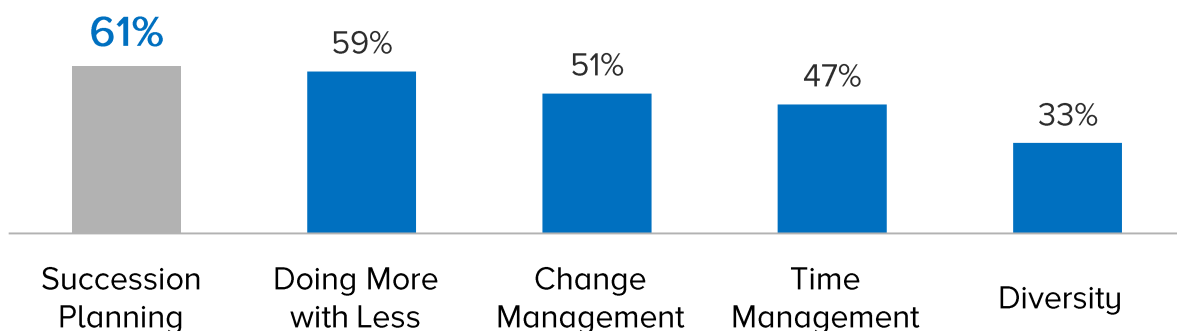


Staffing Pain Points in the “New Normal”

Nearly half of respondents said that their greatest staffing concern is succession planning. [Altman Weil](#), a leading consultancy for the legal industry, reported as many as 40 percent of actively practicing attorneys are at or near the retirement age. While this reality provides firms with opportunities, it also poses challenges. Transitioning from the first to the second generation of leadership is a difficult task that brings its own set of obstacles. With the second generation having different preferences and styles, legal management professionals must evolve accordingly.

Staff Related Pain Points

Very or Somewhat Challenging %



The second greatest concern also is not unexpected. It is “doing more with less,” which is interconnected with time management, an area that nearly 50 percent of respondents said was very or somewhat challenging. Given that partners’ confidence in the economy is the lowest it has been since 2012, the outlook for growing support staff is low, making it more likely that this trend will continue.

While shifts in staffing can cause challenges, it can also provide firms with opportunities to drive efficiencies and increase profitability. According to the Altman Weil Law Firm Survey, 77 percent of firms that made changes to their staffing models increased their profits per equity partner, compared to 56 percent that maintained the status quo. Despite these results, few firms have been willing to proactively consider structural changes that would enable them to operate in the “new normal” more effectively and efficiently.



The State Of Outsourcing in the Legal Industry

Sixty-six percent of respondents reported outsourcing some of their firm's non-core back office functions, ranging from document processing and administrative services, as well as marketing, technology, human resources and finance.

By and large, firms rely on a blended model, leveraging in-house resources with supplemental services provided by a third party.

Respondents reported fully outsourcing a small portion of functions, such as IT, eDiscovery and risk management. With growing pressure to optimize workflows and costs along with increased complexity, we anticipate that more and more firms will move to fully outsourced models for non-core functions.

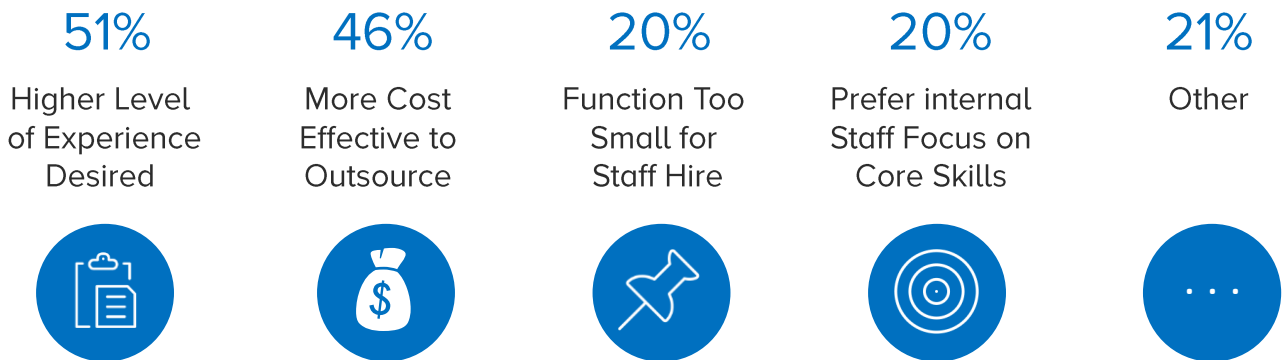
Percent of Firms Leveraging a Mixed Model of In-Housing and Outsourcing Key Functions



The State Of Outsourcing in the Legal Industry

Respondents also shared that firms are increasingly looking to outsourcing providers for their expertise and ability to reduce operational costs.

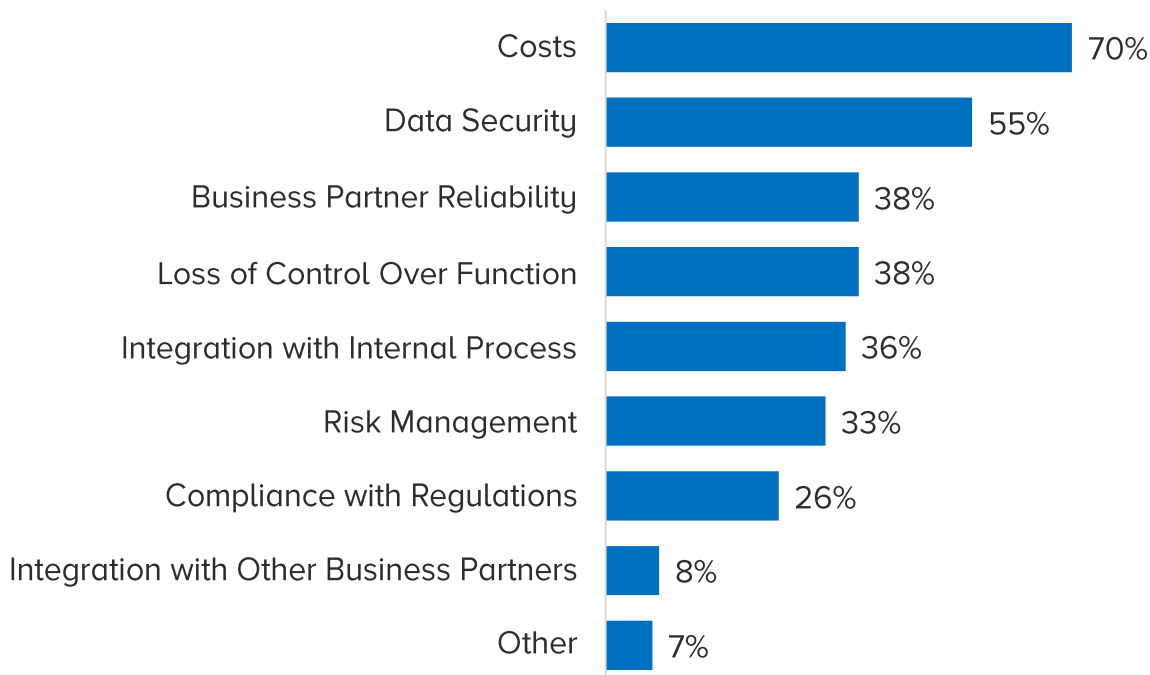
Why Firms Outsource*



*Respondents were able to select more than one response so percentages may add up to more than 100%

Contrarily, 70 percent of legal management professionals cited cost as a primary concern for not utilizing services providers, followed by data security and vendor reliability.

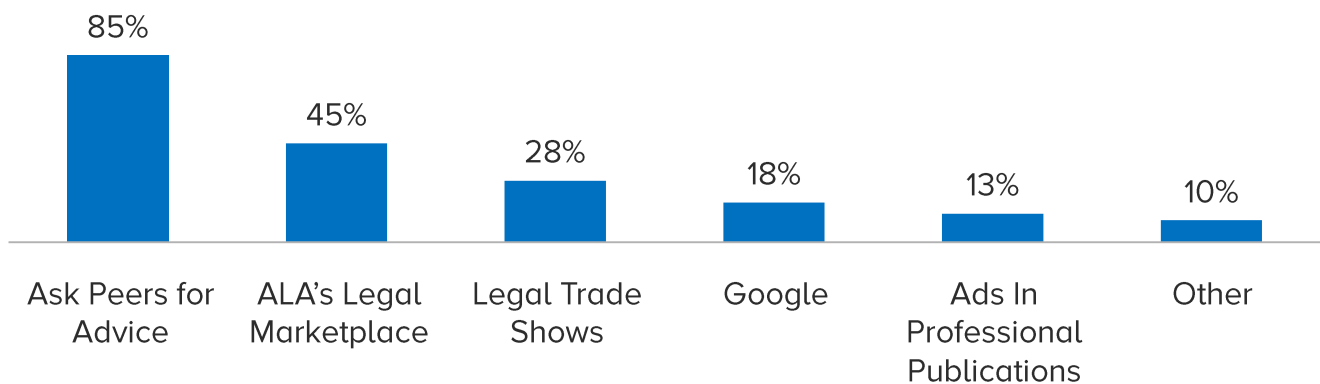
Biggest Concerns Related Third-Party Outsourcing



The State Of Outsourcing in the Legal Industry

When legal management professionals need to find a provider, the vast majority rely on peer-to-peer advice and ALA's Legal Marketplace as they start the selection process. When it comes time for the final decision, peer reviews are the biggest influencer, followed by the firm's relationship with the vendor.

Top Influencers When Selecting a Provider



Questions to Ask Potential Vendors

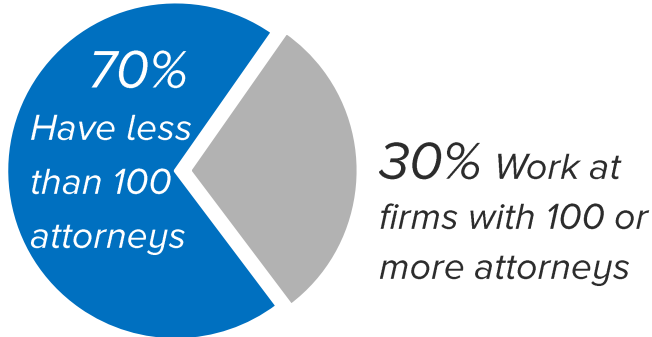
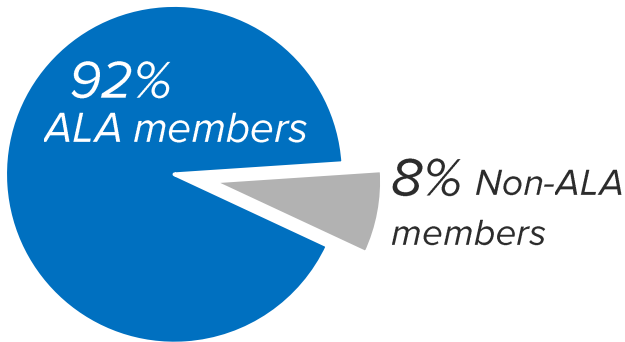
The questions below are applicable to a range of vendors, from services providers to marketing agencies, and professional employer organization services firms.

- Do you have experience with firms like ours? If so, detail.
- How do you measure and show your effectiveness?
- Do you provide proactive and responsive client service? Provide details.
- Are you flexible and scalable enough to support our short- and long-term needs?
- Do you have the technology leadership needed to evolve with changing market conditions and exploit new innovations?



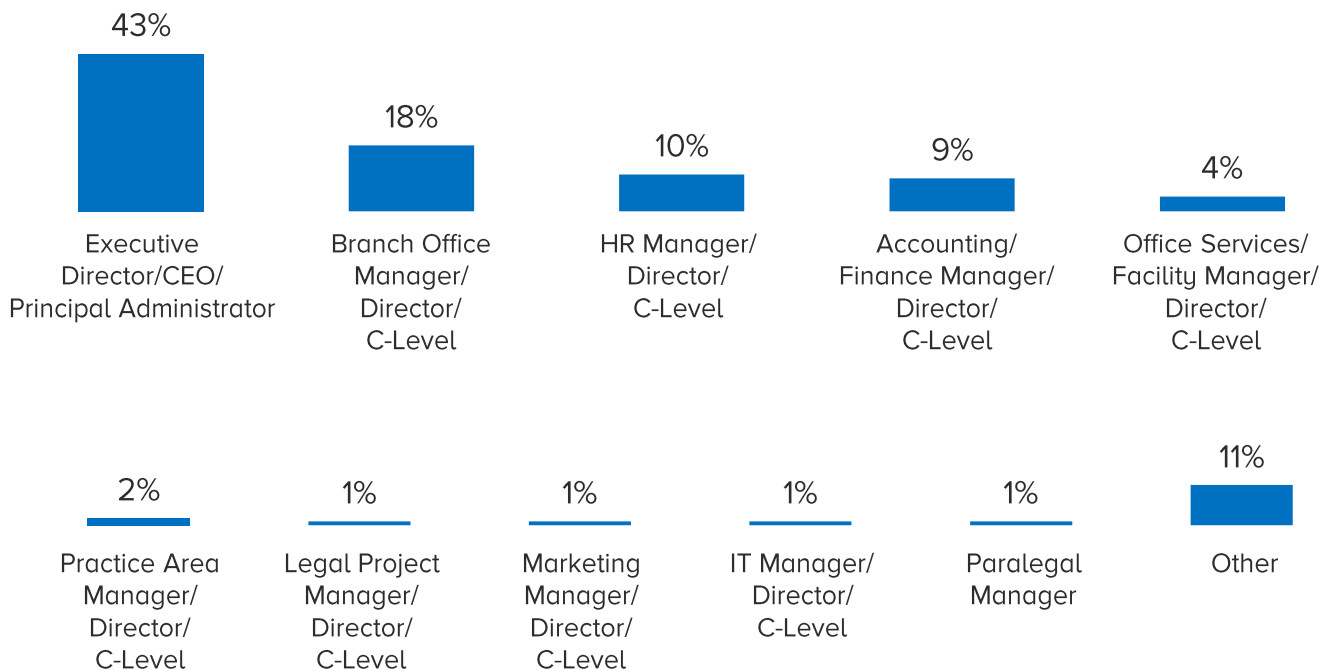
Appendix: Overview of Respondents

The results presented here are based on an online survey, which ran from May 2 to June 17, 2016. During that time, more than 800 legal management professionals responded from 48 states and multiple countries, ranging from Canada to Panama, Saudi Arabia and Nigeria.



5.4 Years
Average tenure, according to the ABA Journal

Respondents By Title



About Novitex & ALA

About Novitex: Novitex is a technology-based, managed services provider that has worked with legal firms for nearly 30 years. We support firms with our suite of offerings, ranging from mail and print to word processing, eDiscovery and back office support. Today, we support nearly 100 law firms with approximately 1,500 employees, who provide services at 300 client sites. With a team of former lawyers, legal administrators and IT professionals, Novitex has the unique ability to understand firms' challenges and design solutions that effectively solve for them.

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The Association of Legal Administrators: The ALA is the undisputed leader in the business of law and law practice management. The organization provides members with advice, resources, expert guidance and connections for all aspects of legal management, from the ALA Annual Conference & Expo and Legal Management Webinars to the Certified Legal Manager Program, Job Bank and industry-leading publications.

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