

TECH & PRODUCTIVITY REPORT

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Productivity, Efficiency and Technology

The law firm market continues to make slow, steady progress. But much of that progress is being threatened by poor productivity, leaving firms searching for ways to improve efficiency.

According to **Thomson Reuters Peer Monitor** data, demand for law firm services – as measured by billable hours – has risen for six consecutive quarters.

That is the longest positive streak since the financial crisis of 2008-2009.

Demand



The flip side, however, is that while the growth is consistent, it is tepid at best – averaging only 0.6 percent during the period. Coupled with factors such as slowing rate growth and declining realization, revenues may be closer to flat.

Productivity is Falling

Against the backdrop of moderate revenue growth, an additional challenge is that productivity in firms is dropping.

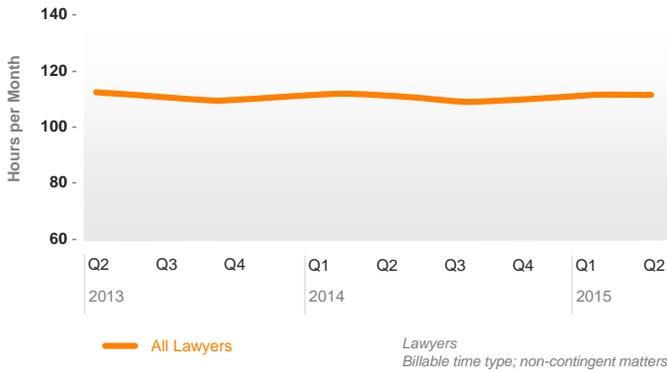
Since Q3 2013, productivity for large law firms has fallen for seven consecutive quarters, as measured on a quarterly year-over-year basis.

As the below graph indicates, productivity has, for the most part, been in a downward trend line for the last three years. For 2015, productivity has dropped 0.9 percent through the end of July.

This steady decline in productivity poses a significant challenge for firms in an era when client pricing pressures are increasing. Firms are having to demonstrate greater value in the legal services they are delivering, while simultaneously decreasing the time and other resources used to generate those services.

The productivity decline has been more gradual for Am Law 100 firms, slightly more pronounced for Am Law Second Hundred firms, and been particularly steep for Midsize firms (those outside of the Am Law 200).

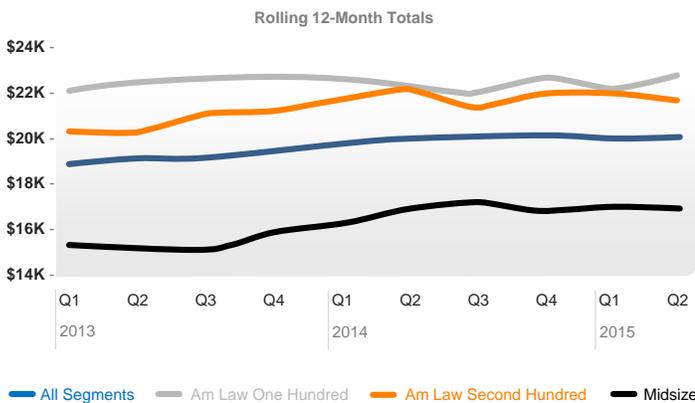
Productivity | Hours Worked per Lawyer



Technology Spending Trends

Technology makes up about eight percent of overhead expenses for the typical large law firm, or about \$20,000 on an annual per-lawyer basis. So far in 2015, technology spending is increasing about 2.2 percent, although that is less than the nearly five percent growth seen in 2014.

Technology Spend per Lawyer



Efficiency, Productivity and Competitive Differentiation

One of the key paths to improving productivity is increasing work product output without increasing either headcount or hours. Automated workflow tools can boost efficiency at several stages of a matter's lifecycle. For example, knowledge management tools can enable practitioners to re-purpose a firm's existing work product. Drafting tools can speed creation of documents, checking of citations, and formatting to conform with court rules.

Automating simple or repetitive tasks such as these frees up attorneys' workflows to focus on providing higher-value services for clients. Improved productivity can thereby enhance delivery of services, increase profitability and reduce client fees. In this manner, technology is increasingly becoming a point of competitive differentiation in an increasingly competitive and cost-sensitive market.

In a 2014 survey by ILTA titled "*Legal Technology Future Horizons; Strategic Imperatives for the Law Firm of the Future*," 73 percent of law firm leaders said that technology-enabled innovation will be a crucial differentiator for law firms moving forward.

Conclusion

Achieving greater efficiency and productivity is becoming a priority for today's law firms. Declining productivity is limiting firms' profitability, and hampering their ability to meet clients' increasing demands for greater value and lower costs. As the ILTA Legal Technology Future Horizons report concludes, "Information technology is absolutely critical to strategic survival and future growth in a rapidly changing and highly competitive business environment."

Technology, properly applied, can be one avenue for firms to address these issues, increasing productivity and putting firms in a better position to meet clients' needs.