



# 10 Legal Industry Threats, Challenges and Trends You Need to Know in 2016

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*As recently as a decade ago, the legal industry was enjoying a lucrative golden age. New law students graduated into high-paying entry-level jobs, and law firms had no lack of clients. Even when the recession hit, the legal profession wasn't impacted immediately; students continued enrolling in law schools, finding clerkships and moving on to become associates in prestigious firms. In the intervening years since that time, however, the legal landscape has seen many significant shifts—not only due to economic factors, but also because of the availability of new technologies. All of these together have brought about the following predictions, threats, challenges and trends that are sure to be shape the legal industry in 2016.*

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## 1. Even More LPO

Legal process outsourcing, or LPO, has been utilized by attorneys for offloading legal work that's become more standardized and no longer really needs to be completed by practicing lawyers. Outsourcing can be performed by domestic vendors, or even sent offshore. This delivery model has helped reduce overhead for law firms, plus frees up in-house capabilities and talents for endeavors that are better suited for growing the business itself. Firms improve efficiency in daily operations, and the outsourced work is processed systematically and professionally, often at an enormous cost reduction compared to keeping the same tasks in-house.

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## 2. Fewer Lawyers

Smaller first-year classes even in the most prestigious law schools are a solid indicator that future growth within the profession is likely limited, at least for now. Formerly optimistic law school applicants who have now graduated and spent months or years without even entry-level nibbles—and yet carry roughly six figures in outstanding student loans, on average—have become understandably cynical about their chosen profession. Looking at these stats from the outside has scared many more potential applicants away from pursuing a law career as a result.

In an interesting response to this concern, which is not limited only to the United States, the UK has encouraged a return to legal apprenticeships. In colonial days, lawyers began their career as apprentices within the trade, working their way up to a clerkship and eventually a practice. Re-instituting this tradition is already gaining traction abroad, and may affect a similar movement domestically, especially considering the current imbalance in law student supply and demand.

### 3. More Lateral Movement

Lateral movement is the primary means of career development in the legal world, and this shows no sign of changing anytime soon. However, the lateral market itself seems to be taking on a new atmosphere. While the bar is set higher at traditional firms, with very few moves to hire a lateral unless the applicant boasts a particular skillset, a number of mid-level associates are departing the predictable career path in favor of more intriguing ventures like mediation, legal recruiting or even legal-tech startups.

Yet, while beneficial for associates, lateral movement may not always benefit firms themselves. Departing associates may take a significant amount of existing client traffic with them to their new home, for one thing. Even firms on the receiving end face many intricacies involved with successful lateral hiring. However, as long as clients remain reluctant to pay for services from entry-level associates, lateral hiring isn't going anywhere.



## 4. More Part-Time Lawyers

Law is a profession that consistently requires a tremendous time investment. Despite this reputation, however, more lawyers are moving toward part-time employment—and more firms are actively encouraging this trend. Sometimes referred to as “balanced hours” rather than part-time (so as not to imply any type of second-class citizenship), this lighter schedule offers a number of benefits:

- Firms can retain highly talented associates who may need only a temporary reduction in their hours (for example, a mother reducing to part-time to start a family).
- Lawyers still receive proportionate pay, benefits and time off accrual under a balanced hour policy, unlike the traditionally stigmatized position of part-timer.
- Attorneys enjoy a better work-life balance overall, while clients are happier and firms attract more business.

This is a schedule that works best when both firm and attorney are on board with the outlined policies; when part-time

employment is mandated from the top down, balanced-hour attorneys are not precluded from promotion or partnership, and still enjoy a generous salary along with the standard perks. Of course, no matter how part-time any lawyer may be, a big case may still mean all hands on deck for a few late nights and weekends.

## 5. More Contract Lawyers

Another creative response to the question of unsustainably long hours at the office is for firms to contract lawyers on an as-needed, independent basis. The pay is quite a bit lower, not to mention that firms save on overhead like benefits and high salaries. Typically, contract lawyers are placed by staffing agencies to take care of legal-world drudgery like document review. This is often in response to a big case or sudden increase in workload that's not expected to last long enough to justify hiring new blood. Contract attorneys may also be able to work remotely for even more savings to the firm.

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While most of the benefits of contract lawyers seem to land on the side of the practice, there are benefits for the attorneys as well:

- The opportunity to gain experience while looking for full-time employment
- Varied work duties that change often
- May be able to work independently from home or other remote location

Perhaps most importantly, the practice of engaging independently contracted lawyers offers both firm and attorney the much-needed flexibility that's essential for success in today's competitive market.

## 6. Increasingly Competitive Pricing

As clients become increasingly well-researched and sophisticated, more law firms find themselves in stiff competition with each other price-wise. Clients want more positive outcomes for their cases, and do not hesitate to pack up their business and move it elsewhere if they feel counsel is not performing up to par. As a result, more firms feel pressured into doing better work for smaller retainers. Obviously, just discounting prices isn't sustainable over the long-term, so the cost-cutting has rippled inward, affecting internal cost structures as well. Although some of these issues are touched on in more detail elsewhere in this list, new trends are shaping how those within the legal profession are beginning to view billable hours, client billing and work-life balance overall. In short, legal pricing structure and billing practices are changing rapidly in many ways.

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## 7. Less Leverage in Customer Negotiations

Customers across all industries are getting savvier; the still-struggling economy makes every dollar that much more precious, and each dollar's owner that much more reluctant to part with it. The legal industry is no exception to this economic trend; as mentioned above, clients are now more likely to shop around for the best deal before signing over a retainer. As often as law firms offer solutions like discounted hourly rates, undercutting the competition can't continue indefinitely—it just



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isn't sustainable. This puts lawyers in the unusual and uncomfortable position of holding the weaker spot when it comes to customer negotiations.

What modern-day practices need to realize is that clients are looking for more than just a lower bottom line. Cheaper hourly billing is only a temporary fix anyway; what clients really need (and what lawyers really need to start delivering) is higher quality service without the bloat. Putting in fewer hours, but more efficiently, is a far more supportable negotiating position for developing a lasting client relationship, and is also reflective of the changing legal landscape as a whole.

## 8. Adjusted Operating Models

The previous points regarding work schedules, pricing and customer satisfaction all indicate a larger trend for the legal industry: adjusted operating models. Faced with increased competition from non-traditional service providers and more business being outsourced to LPOs and other alternative vendors, law firms can no longer afford to continue embracing the outdated operating models that were still effective just a few years ago.

Although it's easy to forget, the legal field at its heart is ultimately a service industry that needs to meet the needs of its clients. All too often, this has been forgotten. Now that clients are gaining more leverage, the legal profession finds itself reshaping to adapt to the needs of the customer, something that should have happened long ago. Successful law firms need to focus on



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delivering their services with greater efficiency and in a more timely fashion in order to stay competitive. Despite the writing already on the wall, many firms remain resistant to making this change.

## 9. Bye-Bye Hourly Billing

Alternate fee arrangements are gaining traction over the age-old practice of hourly billing—with law firms and clients alike. The move away from a system that seems to reward inefficiency in favor of a more sensible, streamlined approach has given rise to new pricing models like fixed fees, flat fees or a blend of the two.

The firms that have embraced alternative billing report that long-term relationships with clients are more positive as a result. Just to drive the point home, here are a few compelling statistics from the Altman Weil Law Firms in Transition 2015 Survey:

- 88% of firms under 100 lawyers (and 100% of larger firms) used alternative billing in 2015
- 56% of respondent firms with 250 lawyers or more say that alternative billing is either profitable or more profitable than hourly
- These numbers continue the upward trends shown over the last five years

While hourly billing isn't going to disappear all at once in 2016, it's clear that it's on its way out for good.

## 10. Adoptions of Managed Services

The focus on improved practice efficiency and reduced costs overall lead to one simple solution: an increased adoption of managed services. With the right technology, a small, experienced team can deliver the same high-caliber end product as a huge law firm—but in less time and at a fraction of the cost. This doesn't mean that lawyers are replaceable, however; while tech may facilitate process, gadgetry will never be a substitute for sound human judgment... only for billable hours.

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Outsourcing tech to an experienced vendor means a more predictable IT budget, effortless scalability and far less overhead in terms of both hardware and personnel. This adaptation is another factor that will allow lawyers to focus on their core business rather than periphery, along with better serving the needs of their clients.

### The Real Trend of 2016

All of these separate trends really add up to one central theme: 2016 is shaping up to be the year that redefines legal industry leadership. The long-ingrained habits and practices—hourly billing, huge corporate firms, a massive influx of new associates to take care of busy work—are decaying. These traditional legal business practices have rendered old-school firms uncompetitive and crippled their potential future growth. Even the firms that have remained the most resistant to change can no longer deny that the time is at hand to adapt or be left behind. This is the era of embracing new business practices for law firms: creative billing solutions, a healthier work-life balance, and the much-needed agility that smaller firms and managed services can offer. Can the legal industry rise to the challenge?

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