Attorneys running small law firms know that they sit in a unique position. Successful small firms not only provide excellent service to their clients, they are also savvy entrepreneurs capable of building a successful small law firm in a rapidly evolving market.

1. Challenges acquiring new client business
2. Client rate pressure/clients wanting more for less
3. Spending too much time on administrative tasks

Moreover, more than 40% of firms who reported at least one significant challenge also reported they have not determined how to address these challenges.

This gets at the heart of the small law firms’ conundrum.

Figure 1. Small law firm challenges, as small law firm leaders reported in the 2016 State of U.S. Small Law Firms survey, Thomson Reuters

### About the Study

Thomson Reuters conducted a study with 300 solo and small law firm partners at firms of fewer than 30 attorneys about a broad range of measures to track trends, including success, competition, challenges, goals and priorities, changes in the firm and the legal market, firm strategy, factors in positive firm performance, practice management, areas of investments, and firmographics.
There's nothing small about Small Law

Small law firms play a key part in the U.S. legal industry. By one estimate, small law firms account for $108 billion of the estimated $437 billion total legal market. Small law firms in aggregate actually exceed BigLaw’s estimated $95 billion in revenue. Yet most legal industry research focuses on large law firms, and there is a critical gap in statistically reliable insight on the health of small law firms. Many industry experts forecast that small law’s market share will continue to grow as business and consumer clients look for quality representation that is more responsive to cost concerns and client desires for accessibility.

While the small law firm market is sizeable, so too are the challenges attorneys practicing in small law firms must confront in building a successful small law firm.

MAJOR CHALLENGES

Challenges acquiring new client business

Seventy-eight percent of respondents said that acquiring new clients presented a challenge, with 27% saying that challenge is “significant.” For firms with 11-29 attorneys, the percentage of respondents stating that acquiring new clients was a significant challenge jumped considerably to 37%.

Any law firm will wither without new business from new or existing clients. Firms must continuously secure new business, either from existing or new clients, to ensure viability. But small law firms face increasing competition for market share. Survey respondents were asked to identify what they saw as their greatest sources of competition. Predictably, more than two-thirds of respondents saw “other law firms of a similar size” as top competitors. Nearly half also saw strong competition from larger firms that were seeking business from the same clients, though when examined further, this response was more common among Full Service firms with business and individual clients.

While large law competitors (or rather, their clients) represent an opportunity for the larger end of the small market, the smallest law firms face an emerging challenge at the low end of the market: In the State of Small Law Firms study, individual consumers acting pro se, as well as legal self-help or DIY sites are recognized as sources of competition, though less significantly. Thirteen percent of respondents said they saw pro se individuals as competition, with 11% saying the same about DIY websites. To be sure, the latter contributes to the former, as DIY sites enable potential law firm clients to go it alone.

Are small law firm leaders giving short shrift to these potential competitors, in the same way that larger firms may underestimate competition from small? Firms recognize that they face stiff competition in winning new business. With that in mind, no potential source of competition should be overlooked. DIY sites are still in their relative infancy, but they are helping to create a much savvier client pool. While it may not be overtly apparent, we may see indications that clients may not be directly voicing their dissatisfaction with the delivery model law firms use, but they may be voting with their feet and dollars. While few law firms today view online legal service providers as stiff competition, it will be interesting to watch the progress of this statistic over time as the influence of online providers continues to grow. Coupled with continued pressure from peer and larger firms, small law firms may find themselves in an increasingly tight spot in the near future.

Who am I?

The survey sub-segmented small law firms based on a variety of criteria. For the purposes of this report, two primary methods of classification were examined: the number of attorneys in the firm as well as the operating model of the firm.

Firm sizes were divided as follows:
- Solo attorneys
- 2-6 attorneys
- 7-10 attorneys
- 11-29 attorneys

Firm operating models were divided as follows:
- General Practice/Solo
- Litigation
- Full Service
- Business Boutique

These sub-segmentations will be used throughout the remainder of the discussion here.

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2 Nearly 72% of respondents from Full Service firms selected this option.
3 Defined as a firm catering primarily to the personal legal needs of individual consumers, as opposed to business clients. Typical practice areas include family and criminal law, estate planning, and residential real estate.
4 Defined as a firm catering to both business and individual consumer clients, providing a mix of both transactional and litigation services. Typical practice areas include business organizations and corporate law, real estate, estate planning, and bankruptcy.
Client rate pressure

Client satisfaction leads to the second most frequently identified challenge for small law firms: client rate pressure, or the demand from clients that law firms deliver more value for less money. Indeed, respondents rated this as the second most common area where they faced a “significant challenge,” behind only business development difficulties.

According to the survey, 62% of small law firm respondents saw client rate pressure as a challenge to their business. Of that pool, 21% said that rate pressures posed a “significant challenge.” (Figure 2)

In fact, clients demanding more services for fewer dollars posed a significant challenge that was nearly universal across the study sample. All firm sizes, and nearly all business types with the exception of Full Service firms, saw at least 15% or more of their respective respondents saying that client rate pressures posed a significant challenge. Given trends seen across the legal market – not only in small law firms, but BigLaw and in-house departments as well – this is not a trend that is likely to abate.

Spending too much time on administrative tasks

The final major challenge is the concern law firm leaders have with spending too much time on administrative tasks instead of practicing law. It is likely that any attorney in small firm practice can relate to this pain point. That truth is reflected in the survey results where, regardless of firm size or business type, fairly similar percentages of respondents saw this as a challenge or a significant challenge. Among all respondents, 69% identified spending too much time on administrative tasks as a challenge, with 15% saying it posed a “significant challenge.”

So where does the time go?

On average, 31% of respondents’ time was spent on something other than actually practicing law. This was relatively consistent whether the firm had 2 or 29 attorneys. For solos, the picture was even more heavily slanted toward administrative work, with 45% of those attorneys’ time spent on something other than the practice of law.

There was one significant disparity in the results, though, when administrative time is cross-checked with the small firms’ own measure of success. Thirty-one percent of firms that define themselves as “unsuccessful” to “neither successful nor unsuccessful” said that excessive time spent on administrative tasks posed a significant challenge. Contrast that result with only 10% of “very successful” firms or the 14% of “successful” firms who gave a similar response. It appears that firms that struggle have an inadequate amount of time available for practicing law. For those firms that see themselves as more successful, allocation of time is less of a pressing concern.

### Figure 2. Small law firm challenges (client rate/value pressure), as small law firm leaders reported in the 2016 State of U.S. Small Law Firms survey, Thomson Reuters

### CHALLENGES ARE UNADDRESSED

Given that a good number of firms are aware of at least some of the issues they face in today’s market, what is surprising is the large percentage of those firms who reported that they have not determined how to address their challenges.

According to the survey, only 37% of respondents who recognized the challenge they faced acquiring new client business had actually implemented changes to address the issue. Another 22% reported having a solution formulated, but not yet implemented, while 41% said they haven’t yet figured out how to win more business. (Figure 3)
The percentages are similar for the other significant challenges highlighted:

**Administrative Tasks**
- 19% of respondents have implemented changes to reduce the amount of time spent on administrative tasks
- 40% have a plan to reduce administrative time, but haven’t implemented it
- 41% have yet to determine how to address this issue

**Client Rate Pressures**
- 34% have made changes to respond to client rate pressures
- 24% are waiting to implement their changes to client pressures
- 42% are unsure how to respond to client rate pressures

Why are so many firms behind in meeting these challenges? They offer a variety of reasons:
- We don’t believe our delivery model needs change: 27%
- We lack the necessary time or resources: 23%
- We are not feeling enough economic pain to motivate more significant change: 19%
- Clients aren’t asking for it: 16%

There’s an interesting trend in large law that comes into play in small law as well: In the annual Altman Weil Law Firms in Transition survey, leaders of large and medium law firms responded that they are not making more concerted efforts to change how they deliver legal services because “clients aren’t asking for it.” This response comes from the very same leaders who also report that clients are increasingly taking work in-house rather than hiring a law firm, and that clients continue to put increasingly restrictive guidelines around billing practices. And as stated above, large firms now find themselves competing with smaller firms, as clients seek representation with lower cost and higher transparency. The disconnect should be obvious: How can law firm leaders watch their clients actively seek out alternative providers, and not interpret that as a call to change?

The firms that have formulated strategies to deal with these challenges but have not yet implemented them are in a scarcely better position than those with no plan. Waiting to implement the plan means that the firm is still dealing with the full force of the problem today. And should an unforeseen problem arise, these firms-in-waiting will find themselves trying to either confront two significant challenges simultaneously or prioritize one challenge over another, leaving them vulnerable.

### THE GOOD NEWS – FIRMS VIEW THEMSELVES AS SUCCESSFUL

For the most part, small law firms view themselves as largely successful. In fact, among the largest small law firms, those with 11-29 attorneys, 44% of respondents to the survey said they viewed their firm as “very successful.” Fully 85% of respondents to the survey viewed themselves as either successful or very successful.

With the unaddressed challenges facing small law firms, it is necessary to look behind the numbers a bit to understand why those firms perceive themselves as successful. Specifically, how do those firms define success? In order, here is what small law firms said: (Figure 4):

**Figure 4. Top 5 definitions of success, as small law firm leaders reported in the 2016 State of U.S. Small Law Firms survey, Thomson Reuters**

Client satisfaction (88% of respondents) and repeat business (87%) were the most commonly cited definitions of success. However, when asked to pick a primary definition of success, overall profits (26% of respondents) rose to the top of the list.

Firms that identified themselves as either “successful” or “very successful” highlighted key factors that they felt contributed most to their firms’ success in 2015.

- “Enhanced reputation” was cited as one of the most important factors in their success by 45% of “very successful” firms, and 40% of “successful” firms
• “The ability to win new business based on the firm’s value” was credited by another 40% of “very successful” firms.

• “Focus on becoming more efficient” was a top choice among 33% of “very successful” firms and 43% of “successful” firms.

• “Investment in infrastructure/technology” was pointed to by nearly one-quarter of both “successful” and “very successful” firms.

SO WHAT ARE SUCCESSFUL FIRMS DOING DIFFERENTLY?

Simple, bottom-line goals

There is a correlation between a focus on two simple, bottom-line goals – overall profits and client satisfaction – and success. Those firms that identified themselves as either “successful” or “very successful” are the same firms that keyed in closely on overall profits and client satisfaction. In essence, the study shows that among “lawyer entrepreneurs,” simple goals allow each firm to fill in unique strategies to get there. The focus on overall profits and client satisfaction seems to be what is driving their sense of success. It is, in fact, quite likely, that one leads to another.

The above drivers of success and their interconnection are illustrated in the success story of a new Minneapolis small law firm. In an interview with Thomson Reuters, the managing partner of that firm explained that while he and his partners enjoyed success at a larger firm, they felt that there was a better way to deliver services to their clients, eliminate much of the overhead that bogged down their former firm, and make themselves more accessible to clients. By opening their own practice, they were able to have a closer focus on the client and reduce the costs that the client must bear. This firm’s effort to be more responsive to their clients has resulted in tremendous profit and growth for the firm. Their headcount grew from three attorneys to seven in slightly more than three years.

It is this same opportunity for entrepreneurship that will likely help position small law for greater growth in the coming years. The agility of many small law firms, combined with the ability to recruit high-quality talent from competitors through intangible benefits like a better work/life balance and the ability to compete heavily on price due to their lower cost structure, could set the stage for enterprising small law firms to capture an even greater share of the ever-expanding legal market.

Operational strategies

There is an interesting story behind firms who identified themselves as either “successful” or “very successful” vs. middle-of-the-road firms (e.g., those that said they were neither “successful nor unsuccessful,” and firms that self-identified as “unsuccessful”).

We’ve already established that focusing on bottom-line goals of overall profit and client satisfaction are common to “successful” and “very successful” firms. What about the strategies to meet those goals? Perhaps there are commonalities even across the day-to-day operations of successful firms, with real decisions and specific steps to take?

Indeed, for “very successful” firms, 63% of their time is spent practicing law, 12% managing their firm, 7% on administrative tasks, 6% growing the firm, and the remainder spent with clients (Figure 5). But for those firms that identified as “neither successful nor unsuccessful,” or “unsuccessful,” the numbers were much more concerning. For those firms, less than 53% of their time was spent practicing law, while better than 14% of their time went to dealing with administrative tasks.

But the fact remains that all of these groups recognize that inefficient allocation of time, e.g., spending too much time on administrative tasks, poses a challenge for their firm. This is an important recognition because, in a professional industry like the law where time is money, any hour that is not spent on a revenue-generating task represents wasted effort.

“Unsuccessful” firms: What not to do

Interesting insights also arise from an examination of the firms that identified as “neither successful nor unsuccessful” or simply “unsuccessful.” Interestingly, expense management was reported as a key driver of their financial performance. Only 18% said that “enhanced
reputation” was a factor in their previous performance, while only 15% said they had won new business based on the firm’s value. Translation: less successful firms are not focused on building their brand.

By contrast, successful firms are differentiating themselves – building a brand, leveraging it to win new business, and investing in the firm’s future. **Less successful or unsuccessful firms, on the other hand, are instead trying to cut their way to profitability.** Both successful and unsuccessful firms report investing in technology and trying to become more efficient, which is a vital factor in improving client service delivery. But in prioritizing cutting expenses over enhancing reputation and winning new business, unsuccessful firms may be limiting their potential.

**APPLY THE INSIGHTS ON SUCCESS, TO SOLVE SPECIFIC CHALLENGES**

Having identified strategies and investments that have helped lead to success or struggle in the market, it is then possible to apply them as potential solutions to the challenges small law firms face.

**Solutions for the challenge: acquiring new business**

A focus on enhancing reputation can help law firms become more of a “go-to” resource for those seeking legal representation. But enhancing reputation is about more than just “building a brand” through simple name recognition. When asked their top priorities for their firms, 54% of leaders of “very successful” firms said they wanted to make “being considered the best” the top priority. Another 37% said that they wanted to provide better service to their clients, while 41% wanted to increase focus on differentiating their firm from competitors (Figure 6).

Each of these priorities boils down to a way to strengthen client loyalty and avoid client price pressure.

A firm that is seen as a leader in a given practice and that delivers quality work product in an efficient manner that exceeds the client’s expectations can build a brand that goes beyond relying on mere name recognition. Such a firm can become an inseparable part of how the client perceives the value. Translation: less successful firms are not leveraging technology to ensure efficient practice of law.

**Enhancing the firm’s reputation in the local community**

**Improving internal efficiency**

**Differentiating the firm from the competition**

**Providing better service to current clients**

**Leveraging technology to ensure efficient practice of law**

As discussed, client pressure regarding rates has been a common trend for several years, and it is unlikely to abate. In fact, it is likely even more complex than clients simply pushing back on rates. Rather, clients also commonly push back on the number of hours spent on a matter, or even on the types of tasks that they are willing to pay for. More than ever before, some clients, particularly institutional clients of the type served by full service and boutique firms, are implementing billing guidelines restricting the number of hours for which they will pay for tasks like research, or eliminating those hours altogether. It’s common for litigation defense firms, for example, to work under the guidelines of an insurance company which dictates how many dollars and hours can be spent on aspects of drafting, research, etc. These firms often reject the billable-hour model in favor of flat-rate or other alternative fee billing. Bottom line: it’s important for each firm to openly evaluate old models of billing more hours at higher rates, because many firms may not find it the most profitable in today’s market.

And, is it bad to move away from a billable hour? In many cases flat-fee arrangements, such as a set price for filing a motion or for drafting a company manual, are an outright advantage for both the firm and the client. By implementing internal technologies, the attorney can complete several tasks – at the same flat rate – in the same amount of time that he or she formerly completed just one. Clearly, this multiplies billings. And for the client, a pre-agreed flat rate provides the predictability they are demanding in today’s environment.
If a firm cannot convince the client to pay more money, how can the firm increase its profitability? While clients may be willing to pay only a certain dollar amount for a given matter, firms can still control their profitability by controlling how the work product for the matter is produced. Introducing efficiency into the workflow of a given matter can help reduce the amount of work, and therefore the cost, involved in producing the final outcome of the matter.

As previously discussed, many “very successful” firms are already using small law technology and process improvements in an effort to satisfy the priority they place on increasing efficiency in the practice of law and management of their business. This focus on efficiency helps those firms to reduce the cost they incur to produce a matter.

Small law firms already have a price advantage over many of their larger law firm competitors. Moreover, small law firms in general are in a better position to implement changes to respond to increasing client pressures because they are generally, by nature, more nimble. As the managing partner mentioned earlier pointed out, one of the reasons he wanted to leave a larger firm in favor of starting a small practice was so he could be more responsive to his clients without having the burden of trying to convince a larger partnership of the wisdom of a given solution.

Small law firms that can position themselves as agile, responsive, efficient providers of quality legal services may well be able to actually confront two of the challenges discussed here with one set of solutions, as clients will want to engage their services and may push back less on rates due to the increased sense of value they experience.

Solutions for the challenge: spending too much time on administrative tasks

The key to confronting this challenge is a more effective allocation of time; more time practicing law, less time on nonbillable activities. It is no coincidence, then, that “very successful” firms were the most likely to place a premium on leveraging technology to ensure efficient practice of law and firm management. These same firms are more likely to be holding steady or increasing their technology spend, investing in their priorities.

There are specific small law firm technology tools identified in the survey that “very successful” firms use at greater rates than do their counterparts:

- Conflict checking
- Case/matter management
- Financial management/accounting
- Document management
- Document drafting
- Electronic signatures
- Knowledge management

Most “very successful” firms have been using these tools for better than a year already, with only a relative handful reporting that they implemented these legal technology systems in the past 12 months.

CONCLUSION

The market in which small law firms compete today is an interesting balance of opportunity and challenge. For firms that can find strategic ways to confront the challenges in the market, the opportunity presented by institutional clients looking to reevaluate their stable of outside counsel in favor of more responsive and cost-effective options could prove quite lucrative.

But threats posed by competition from other law firms, as well as emerging providers in the form of DIY websites, or even from a client impulse to move work in-house or to go pro se, highlight a landscape that firms will need to navigate with caution.

There are certainly a mix of strategies that can help lead law firms to greater success. Finding the right mix of these strategies, or identifying other options not discussed here, will be a task that confronts those firms looking to carve out a more solid niche.

For firms willing to take an entrepreneurial approach to profitability and client satisfaction, and who will actually implement those changes, the market may well reward them for their effort. A minority of small law firms are taking proactive steps to confront the challenges they face in today’s market. But firms should be wary of cultivating excuses to maintain the status quo, or simply failing to recognize the challenges they face. The market is constantly evolving. And consequences for those firms that refuse to evolve with it could be severe.

Results were weighted by firm attorney count to allow for consistent comparison year over year.