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2020 State of U.S. Small Law Firms

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"Plus ça change, plus c'est la même chose"

It's a phrase with which we are all likely familiar, albeit probably not in French. When Jean-Baptiste Alphonse Karr coined that phrase in 1848, which translate roughly to "the more things change, the more they stay the same," there's essentially no chance he had law firms in the 21st Century in mind.

Yet during a period of unprecedented speed of change for law firms of all sizes, and even in the years leading up to today's tumult, certain applications of this phrase have held quite true, particularly for small law firms.

This is the fourth time Thomson Reuters has produced a report on the current state of small law firms in the United States. Nearly every aspect of American life has undergone significant change during that time. Yet some things have remained relatively constant for small law firms. In particular, we note a few key themes.

1. **Small law firms continue to face a number of significant challenges, many of which have remained consistent year-to-year.** As has been the case in previous versions of this report, the most frequently cited example of a significant challenge for small law firms is acquiring new client business (26% of respondents rated this a significant challenge). This is followed closely by spending too much time on administrative tasks and not enough time practicing law (17%).
2. **Despite facing many of the same challenges one year to the next, most small law firms have yet to take meaningful action.** Of those firms stating they face a challenge either acquiring new business or managing administrative tasks, fewer than one-third have actually implemented a plan to deal with the problem. This too is a trend that's held consistent. High levels of recognition of the problems posed by various challenges has not led to significant action.
3. **Because of a general lack of action, there is a real opportunity for those firms willing to make the first move.** In business, there is the concept of the "first-mover advantage." This idea holds that there is an advantage to be gained by being the first to offer something new to the market. While it is undoubtedly true that some small law firms have already taken a leading role to innovate their service delivery models, there remains ample fertile ground for other firms to implement similar changes, whether by improving business development acumen, creating optimal internal efficiencies for managing their law firms, or adopting technology to streamline their practice.

A few other key findings:

- Small law firms felt increasing pressure around getting paid by their clients, felt most acutely by firms with 10 or fewer attorneys, firms whose size make it much less likely that they have professionals dedicated to managing billing and collections.
- Out of all the challenges faced by small law firms, getting paid by clients is the challenge they are most likely to have taken steps to address.
- For the majority of small law firms, the bulk of the pressure they feel from competition comes from other law firms, as opposed to DIY legal websites or alternative legal service providers.

- Even with longstanding recognition of the challenges associated with acquiring new client business, most firms have not increased their marketing budgets in the past three years, and don't intend to increase it going forward.
- The average attorney responding to the survey spends 60% of their time or less actually practicing law. The rest goes to managing the firm or recruiting or retaining clients.
- Most small law firms say they consider client satisfaction ratings to be part of how they define success (83%), yet only 36% of respondents say they actually track such ratings as a metric.
- When respondents were asked to identify their goals for their firms, most goals grouped around addressing the top two challenges for small law firms, winning new business and managing the firm.
- Focusing on becoming more efficient and growing existing client relationships were identified as the most important factors to success in the past year.
- Investment in technology or infrastructure was the most common area for increased investment going forward, however, very few firms said they plan to invest in the kinds of technology that might help address their administrative burdens or client acquisitions.
- Despite all the challenges in the market, the vast majority of small law firms identified their firms as either successful or very successful.

This survey, conducted in March and April 2020 at the onset of the COVID-19 pandemic and concurrent economic woes in the United States, posed questions to 400 respondents from law firms ranging from solo practices up to 29-attorney firms. Their responses offer key insights into how lawyers at small firms were starting to think of their businesses as the pandemic set in, and what impacts their actions, or lack thereof, had on their preparedness for economic upheaval.

To be sure, many things have changed rapidly during the months between when this survey was conducted and when any individual person might be reading this report. But one cannot fully understand where they are today without first understanding where they've been. It is our hope that this report serves as a good foundation for small law firms looking to implement strategic and tactical changes to improve their business outlook through the current struggles and beyond.

Challenges Faced by Small Law Firms

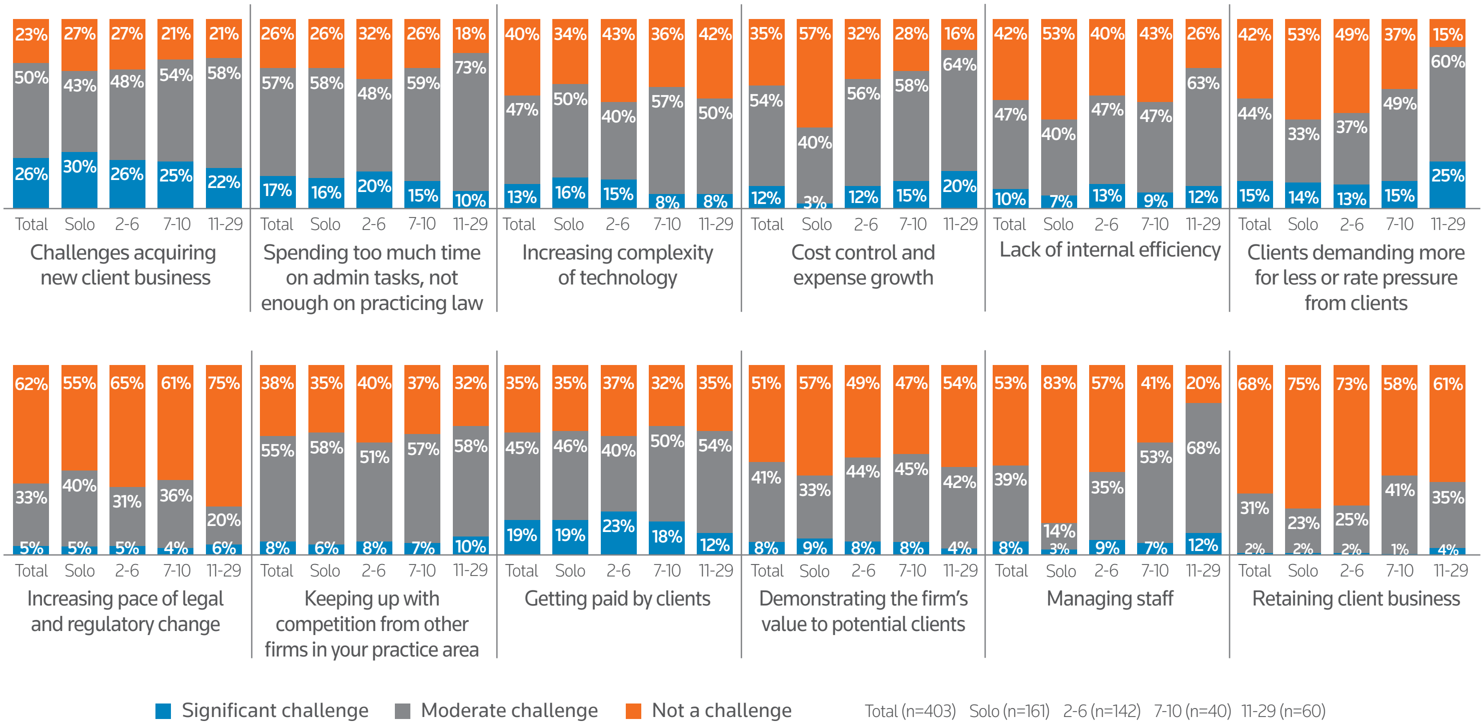
In each of the several past versions of this study, challenges acquiring new client business has been the highest ranked "significant challenge" faced by survey respondents, with significant proportions of additional respondents rating it a "moderate challenge." This indicates that small law firms have struggled for years, and continue to struggle, with improving their business development acumen. This is worthy of note and will be the focus of further discussion.

Spending too much time on administrative tasks and not enough time practicing law has also historically been an area of challenge for small law firms. Respondents to this year's survey rated it as the second most common challenge, with 74% of respondents rating it at least a moderate challenge. This is closely related to a lack of internal efficiency, identified as a challenge for 57% of respondents.

Perhaps as a reflection of the growing pressure exerted on the legal market by the rise of the COVID-19 pandemic, getting paid by clients was also a frequent source of significant challenge for small law firms, particularly those with 10 lawyers or fewer. This could be due in part to financial difficulties on the part of clients. But as we'll see as we explore technology systems used by firms, it could also be due to a lack of financial backend and payment systems within these firms.

The challenge of getting paid by clients could also be related to a difficulty on the part of law firms to demonstrate their value to their clients. While not commonly identified as a challenge by law firms responding to the survey, this could in fact be an under-recognized challenge. Firms experiencing a challenge getting paid by their clients may not be doing as strong a job of demonstrating value to their clients as they think, leading to clients pushing back more on costs or delaying payments.

Figure 1 – Firm Challenges



Addressing These Challenges

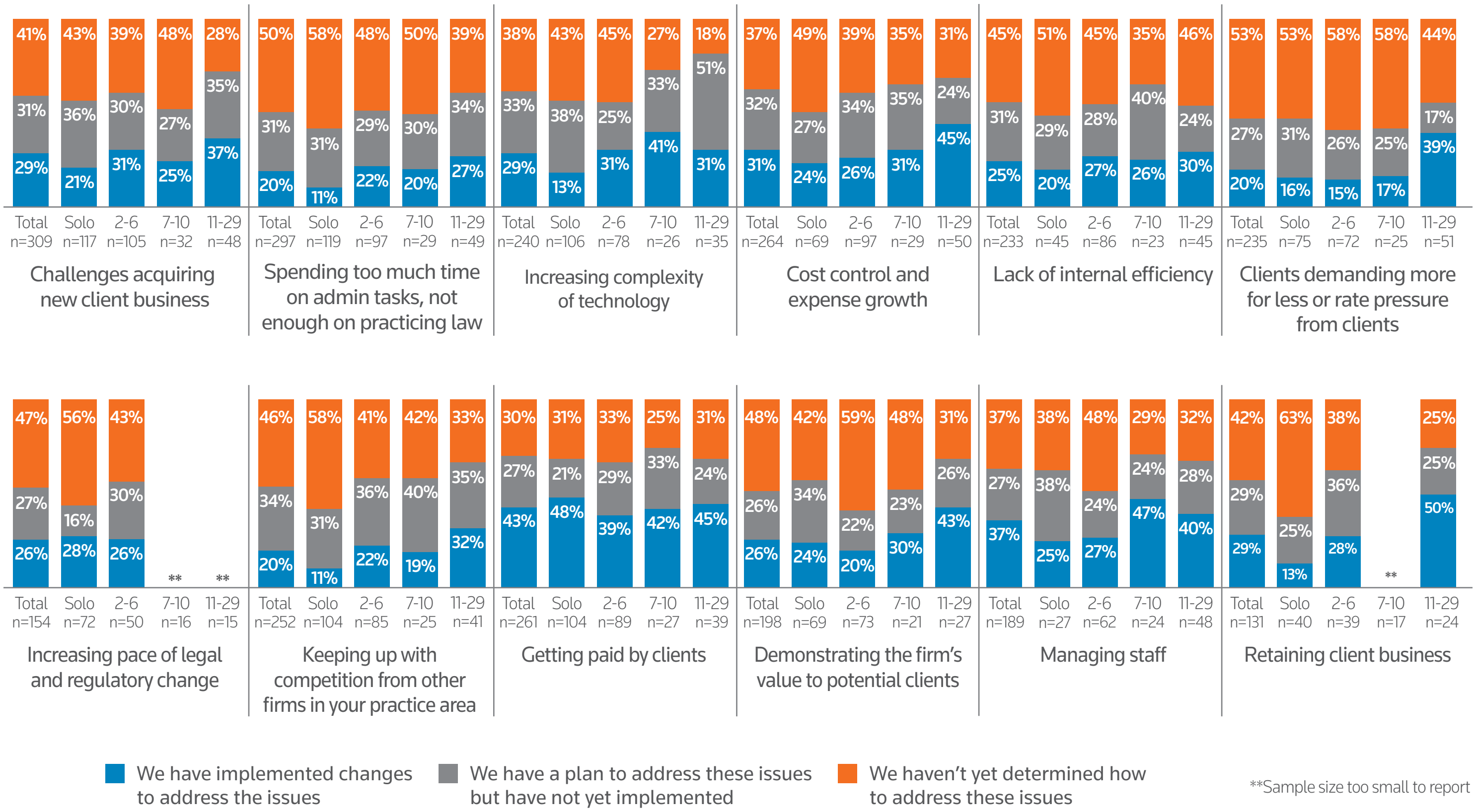
Another theme we have seen frequently throughout the years of conducting this survey is that, despite generally high levels of recognition of challenges by the leaders of small law firms, implementation of solutions to confront these challenges remains wanting.

For example, only about 29% of firms saying they have a challenge acquiring new client business say that they've actually implemented a plan to address that challenge. True, an additional 31% say they've made a plan that they have not implemented yet, but here again, this is something we've heard for years. We often hear about firms making plans to address challenges, but for a variety of reasons, those plans may never actually be put into action. Making a plan without taking any actions does little to actually alleviate the identified problem.

Among the challenges commonly identified as "significant challenges," getting paid by clients was the challenge most frequently met with action. Given the existence of a law firm as a cash-flow-dependent business with little other operating capital, this is a wise move.

It is notable, as well, that larger small firms, those with 7-10 lawyers or 11-29 lawyers, were generally more likely to have actually implemented a plan to address the challenges they face, regardless of the challenge in question.

Figure 2 – Addressing Challenges



Changes to Meet Challenges

Among those firms who said they've either implemented a plan to address their challenges, or have at least developed a plan they have yet to implement, most frequently leaders at those firms are looking to improve, upgrade, or add technology to their tech stack to help alleviate the pressures they are feeling. Around a quarter of respondents pointed to changing technology as a solution, regardless of the size of their firm.

Other common, though substantially less frequently cited changes included increasing, updating or emphasizing marketing; monitoring or cutting costs such as salaries or overhead expenses; and improving payment collections.

Figure 3 – Changes Implemented

	Total	Solo	2–6	7–10	11–29
Changes Implemented in 2020	n=299	n=114	n=104	n=30	n=52
Improve / upgrade / add more technology (hardware & software)	26%	22%	28%	30%	23%
Increase / update / emphasize marketing / advertising / promotions / networking to generate new clients	14%	13%	10%	19%	20%
Monitoring / cutting costs / salaries / overhead / employees / etc.	12%	4%	15%	9%	14%
Improve / increase payment collection / accept credit / debit cards / ACH payments	10%	7%	14%	14%	9%
Meeting / planning / strategizing	10%	9%	10%	12%	12%
Adding more / better attorneys / staff / managers	10%	4%	10%	16%	9%
Better communication with staff / clients	9%	3%	12%	7%	9%
Work smarter / more efficiently / hold accountable for productivity	8%	9%	6%	9%	12%
Update / better website / increase social media presence / SEO / client reviews	8%	10%	8%	7%	7%
Increase / monitor billing rates / hours / increase retainers	8%	7%	6%	5%	14%
Establish / enforce / monitor firm policies / procedures	6%	6%	10%	5%	5%
Employee evaluations / recognition / awards / bonuses	5%	0%	5%	7%	12%
Hire consultant / specialist	3%	2%	2%	7%	2%
Choosing new clients carefully	1%	2%	0%	4%	0%
Other	10%	19%	11%	0%	16%
None / Not sure / NA	5%	7%	1%	2%	0%

Sources of Competition

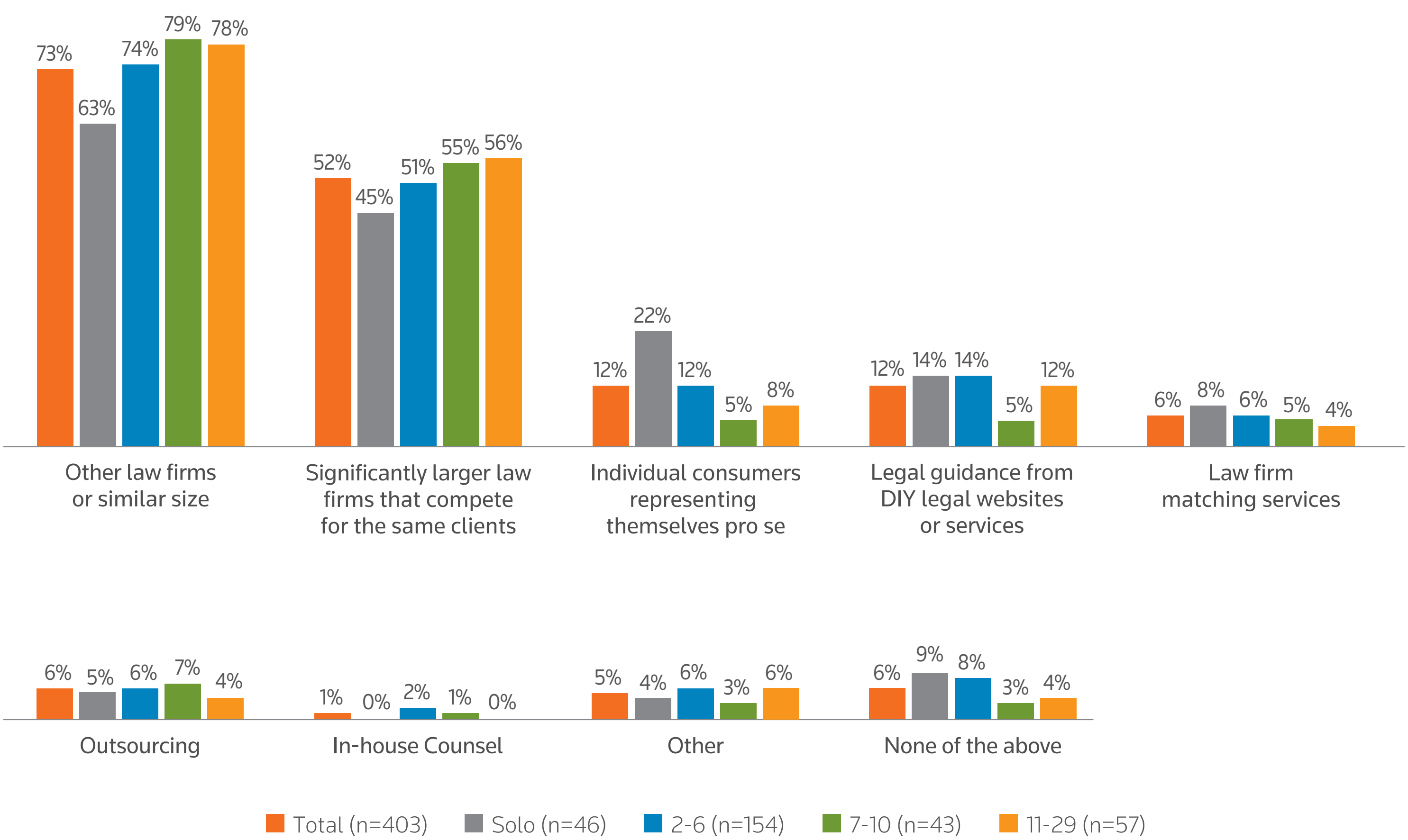
For most small firms, their headaches do not end with the list of challenges already discussed. A majority of small law firms of all size also experience threats to their business due to competition, both from other small law firms and from larger law firms that compete for the same clients.

These sources of competition are inextricably intertwined with the challenge small law firms feel around acquiring new client business. The legal services market has, for a number of years, been a buyer's market. The onset of the economic slowdown associated with COVID-19 will only exacerbate this reality.

For small firm lawyers, it is vital to stake a place in the market that differentiates them from their competitors, whether those competitors be other small firms or larger firms with deeper benches. Small law firms looking to compete must clearly establish what sets them apart in terms of the value they bring to their clients. As we've seen, firms generally feel they do a good job of demonstrating value to their clients, but the reality of some of the challenges they face suggests otherwise.

In the face of strong competition, small law firms would do well to invest in a robust, integrated marketing plan.

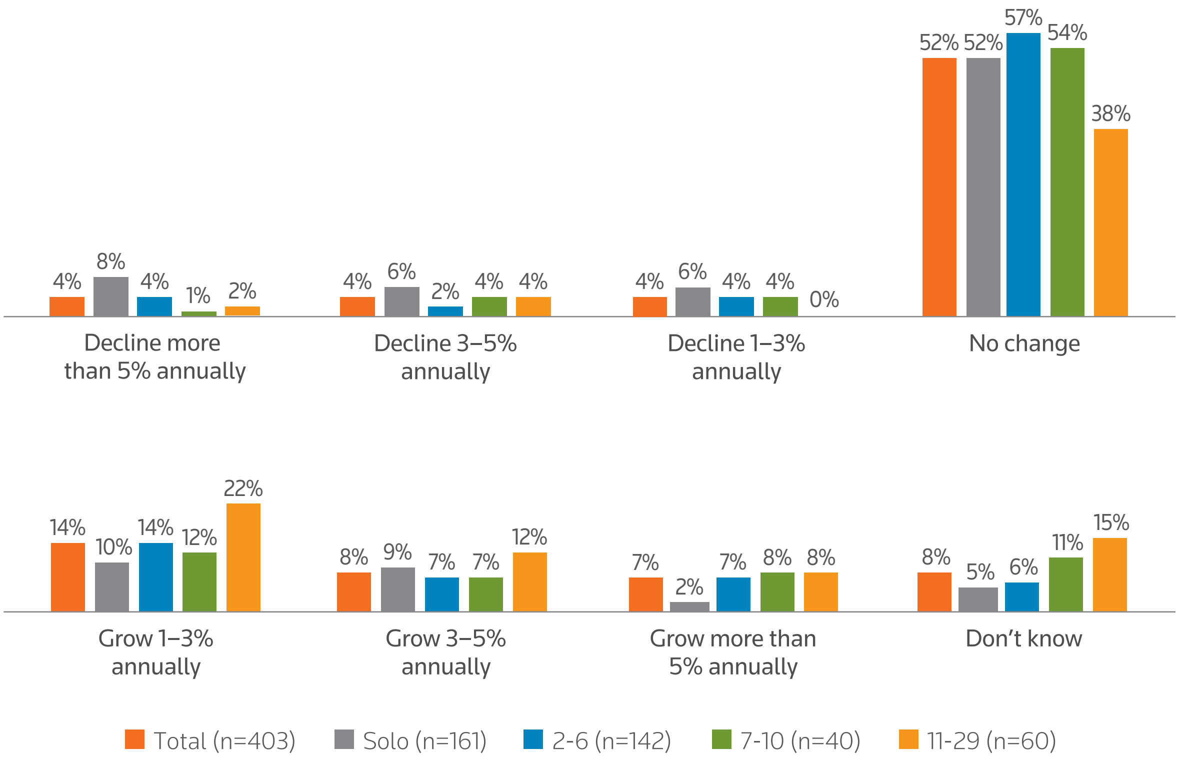
Figure 4 – Sources of Competition



Changes in Marketing and Spend

Despite widespread recognition for years of the challenge posed with acquiring new client business, and nearly 30% of respondents saying they've implemented a plan to address that challenge, more than half of respondents report no change in their marketing spend in the past three years. The only exception to this comes among firms with 11-29 attorneys, where 38% reported no change, with 22% reporting growth in marketing spend of between 1-3%. In general, larger small firms were more likely to grow their marketing spend than smaller firms, regardless of the rate of growth.

Figure 5 – Change in Marketing Spending in Last Three Years



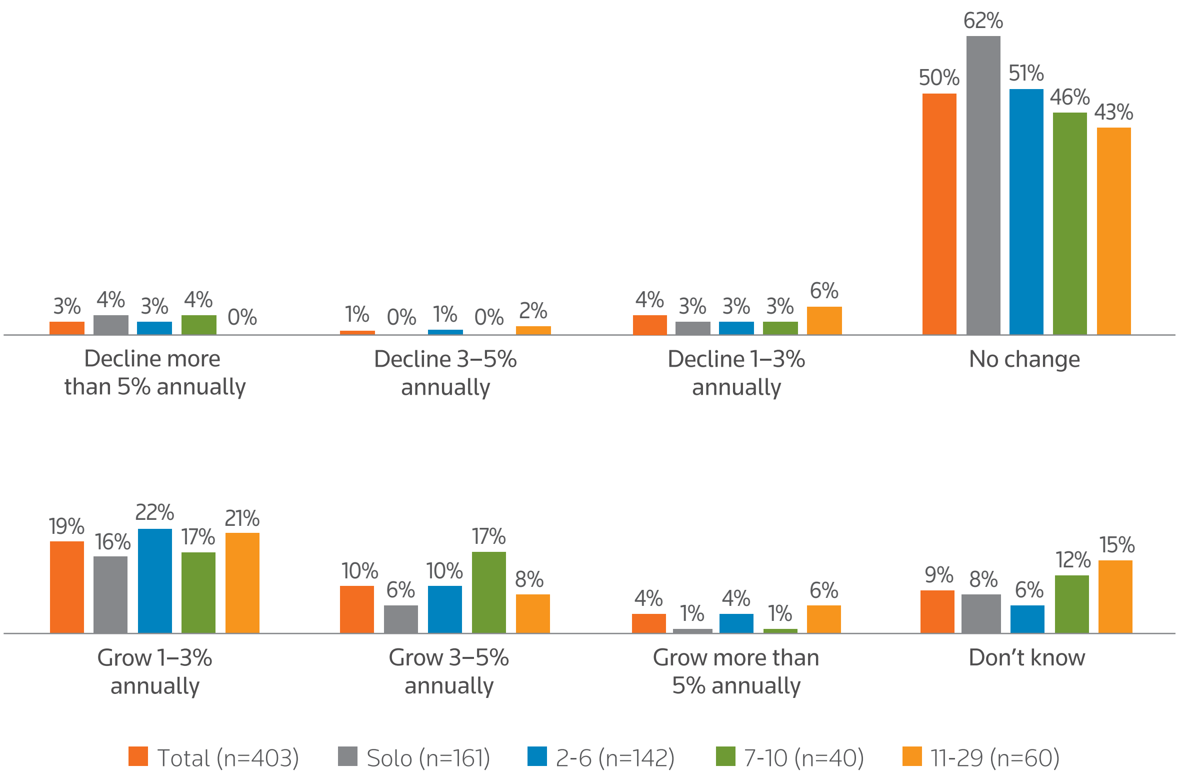
The numbers look virtually identical with regard to planned growth of marketing spend. Smaller law firms still see majorities planning no change to their marketing spend. And fewer firms with 11-29 lawyers plan to grow their marketing spend in the next three years than did so in the past three years.

On a positive note, it is encouraging that even though this survey was fielded during the start of the pandemic shutdowns, very few firms reported planning to cut marketing spend in the coming three years. It is difficult to say whether that still holds true as the state of the economy continues to be in flux. It should be noted, though, that even those firms planning to hold fast on their current levels of marketing spend will find themselves with diminished buying power year-over-year due to normal inflation.

It is also worth noting that even in the face of potentially contracting marketing budgets, firms can find opportunities to address their challenges with acquiring new client business through a strengthened focus on marketing activities with a higher return on investment. A smaller overall marketing budget may actually result in better returns if that smaller budget focuses on a strong, integrated marketing strategy with a focus on maximizing return.

One additional note, while the question addresses both marketing and advertising spend, we treat them as essentially the same for the purposes of discussion here as any advertising should be part of a broader aligned marketing plan, rather than being considered a separate effort.

Figure 6 – Change in Marketing Spending in Next Three Years



"A smaller overall marketing budget may actually result in better returns if that smaller budget focuses on a strong, integrated marketing strategy with a focus on maximizing returns."

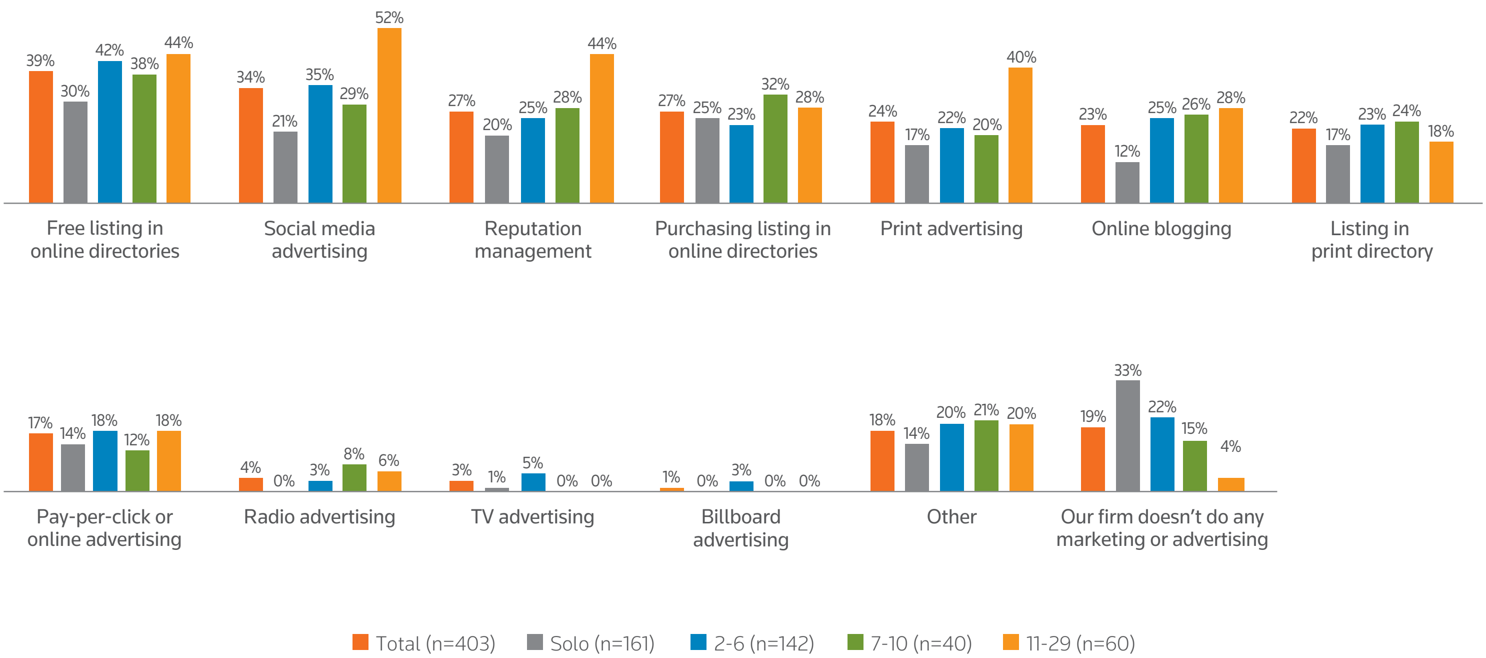
Types of Marketing Activities

Free listings in online directories, social media advertising, and reputation management are the most common types of marketing activities for small law firms, but there is a clear dichotomy between larger small law firms and solo attorneys in terms of their adoption.

More solo attorneys admit that they do no marketing or advertising (33%) than say they engage in any of the listed types of marketing (the highest was 30% who say they use free online directory listings). In general, a surprising number of respondents say that their small law firm does not do any marketing.

Generally, more small law firms say they use print directories than targeted or pay-per-click online advertising, despite the boom over the past several years in online commerce. We do note, however, the proportion of firms who do engage in social media efforts, purchase listings in online directories, or run a blog.

Figure 7 – Types of Marketing Activities

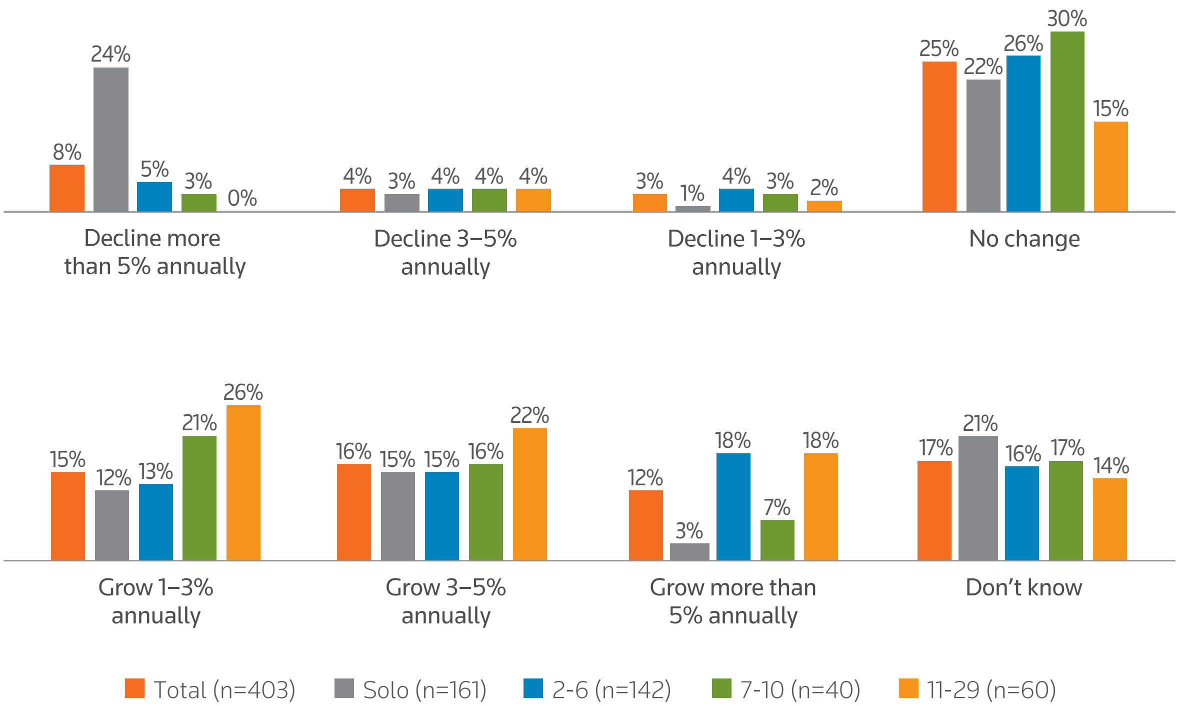


"...a surprising number of respondents say that their small law firm does not do any marketing."

The Impact of Marketing

Despite acknowledging a challenge acquiring new business, many respondents say that their firm's client base, *i.e.*, the number of clients served by the firm, has increased over the past three years. Another 25% say their client base has held steady. The largest sign of potential trouble lies among the 24% of solo lawyers who reported their client base has decreased more than 5% per year over the past 3 years.

Figure 8 – The Impact of Marketing



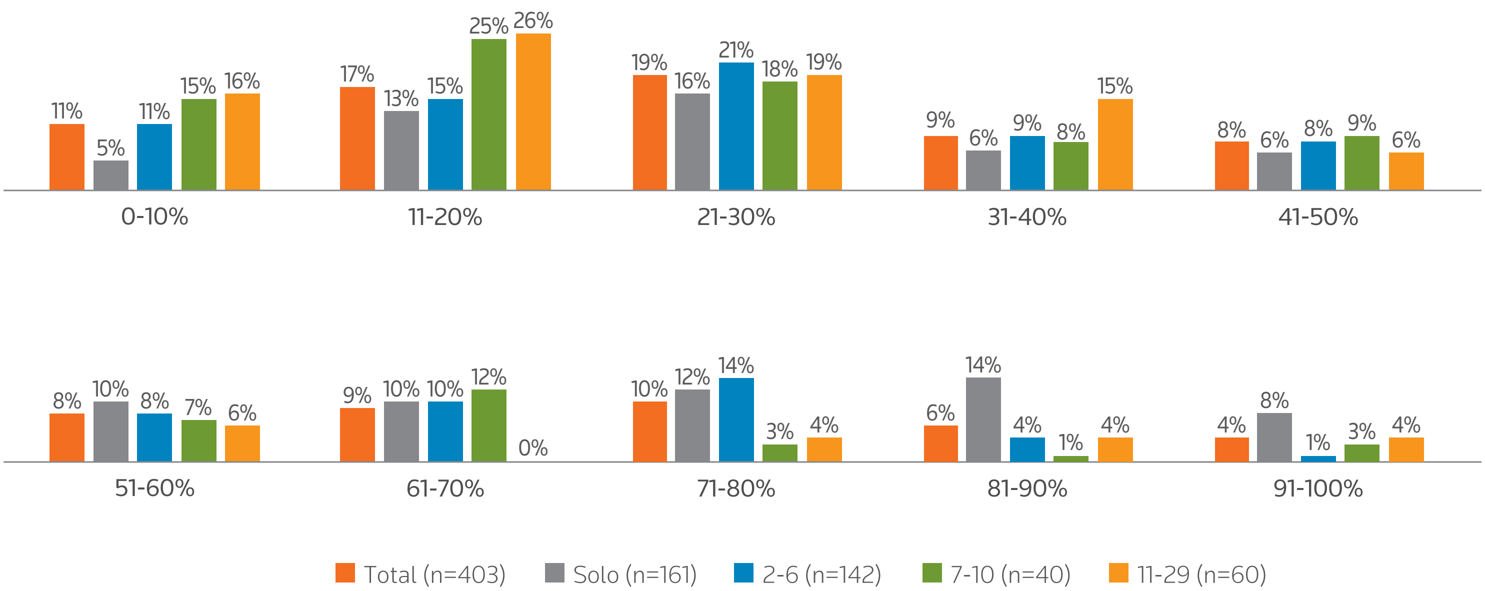
"...many respondents say that their firm's client base...has increased over the past three years."

The Importance of Existing Clients

For the majority of small law firms, the bulk of their annual revenues come from existing clients. Roughly half of responding firms report that they receive 30% or less of their revenue each year from new clients. Here again, solo attorneys are the exception, with the majority of solo law firms receiving 50% or more of their revenue from new clients each year, owing most likely to the types of clients served and the services being offered (e.g., family law, criminal defense).

It is, perhaps, ironic, that solo lawyers were also those who were most likely to have reported declines in their marketing spend over the past three years, and were less likely to increase their marketing budgets over the coming three years.

Figure 9 – New Client Revenue



"...the bulk of their annual revenues come from existing clients. Roughly half of responding firms report that they receive 30% or less of their revenue each year from new clients."

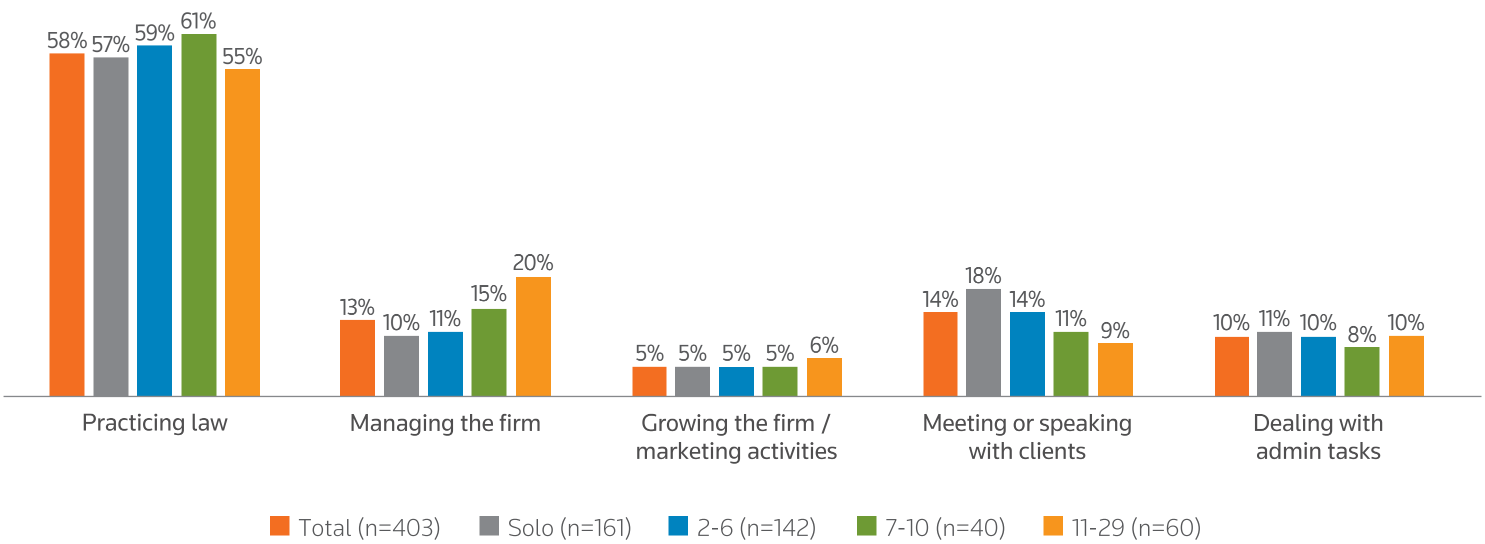
Finding Time to Be a Lawyer

Roughly 60% of a small firm attorney's time is spent practicing law. That means that 40% is spent elsewhere. And given that practicing law is what attorneys are paid to do, it is no surprise that 64% of respondents said they face a challenge from spending too much time on administrative tasks.

Particularly for small firm lawyers, administrative burdens can be consuming, especially in comparison to their counterparts at larger firms. Larger firms often have deeper benches of allied professionals tasked with managing tasks like IT, marketing, billing, and collections. In smaller firms, these tasks fall much more commonly to the partners. This can be seen in the 20% of time spent managing the firm by respondents from firms with 11-29 attorneys. These firms arguably have more complex operations due to larger staff and overhead, increasing the amount of time that must be devoted to management.

Time being a finite commodity, small firm lawyers should be focused on finding efficient solutions to internal operations and management so as to optimize the amount of time they can spend practicing law.

Figure 10 – Time Allotment



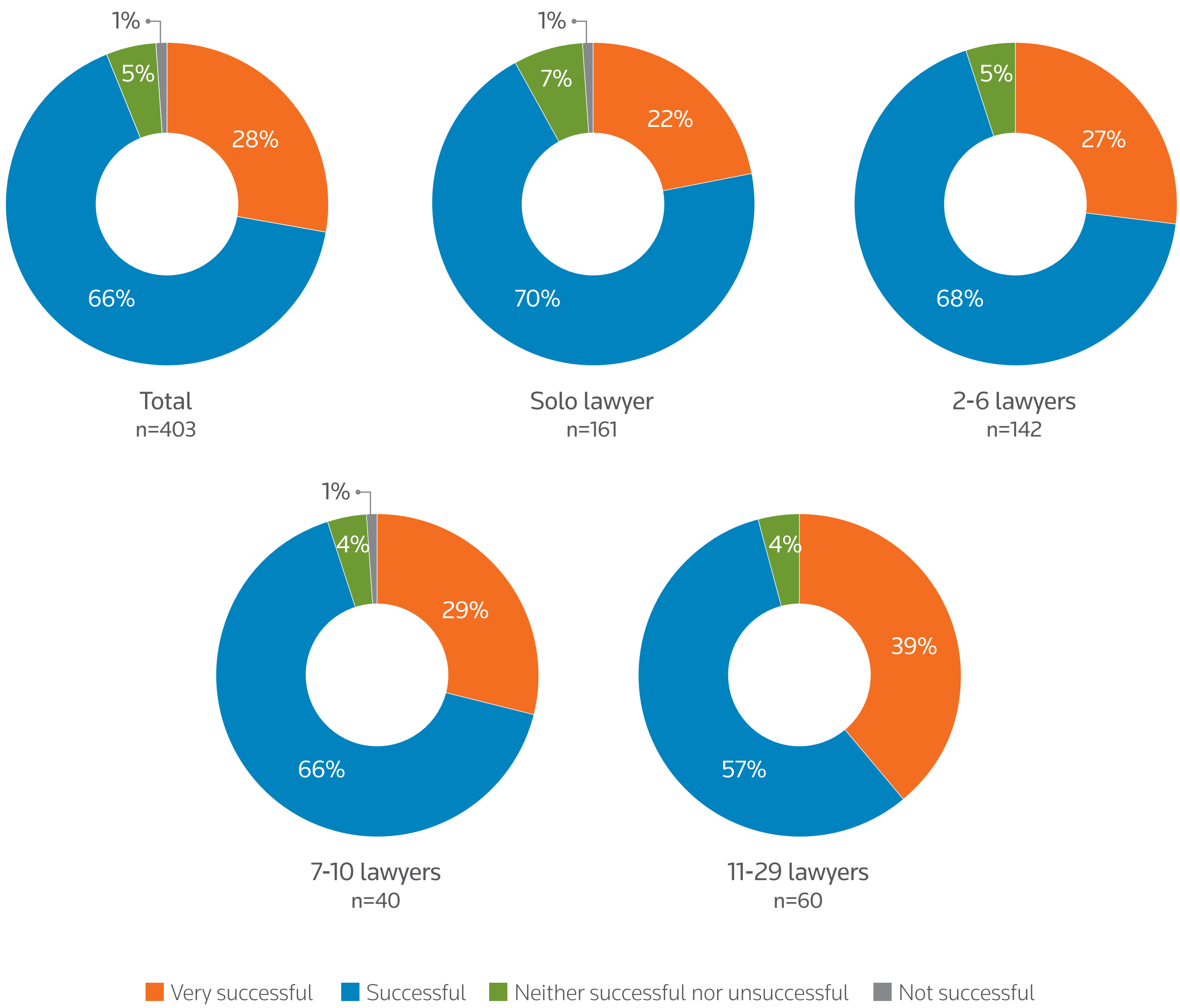
"Roughly 60% of a small firm attorney's time is spent practicing law. That means that 40% is spent elsewhere. …64% of respondents said they face a challenge from spending too much time on administrative tasks."

Most View Themselves as Successful

Despite the numerous challenges they face, most small law firms consider themselves to be either successful or very successful. This may be part of the reason why many small firms appear reluctant to implement changes to the challenges they see, because the feeling of success can be a strong inhibitor of a drive to change. However, it is important to note that small law firms recognize that they face a high degree of competition from larger law firms, and many of these firms are making the same types of changes small firms have been putting off.

To look more directly at the idea of why small law firms largely view themselves as successful, it is useful to look at how they choose to define success.

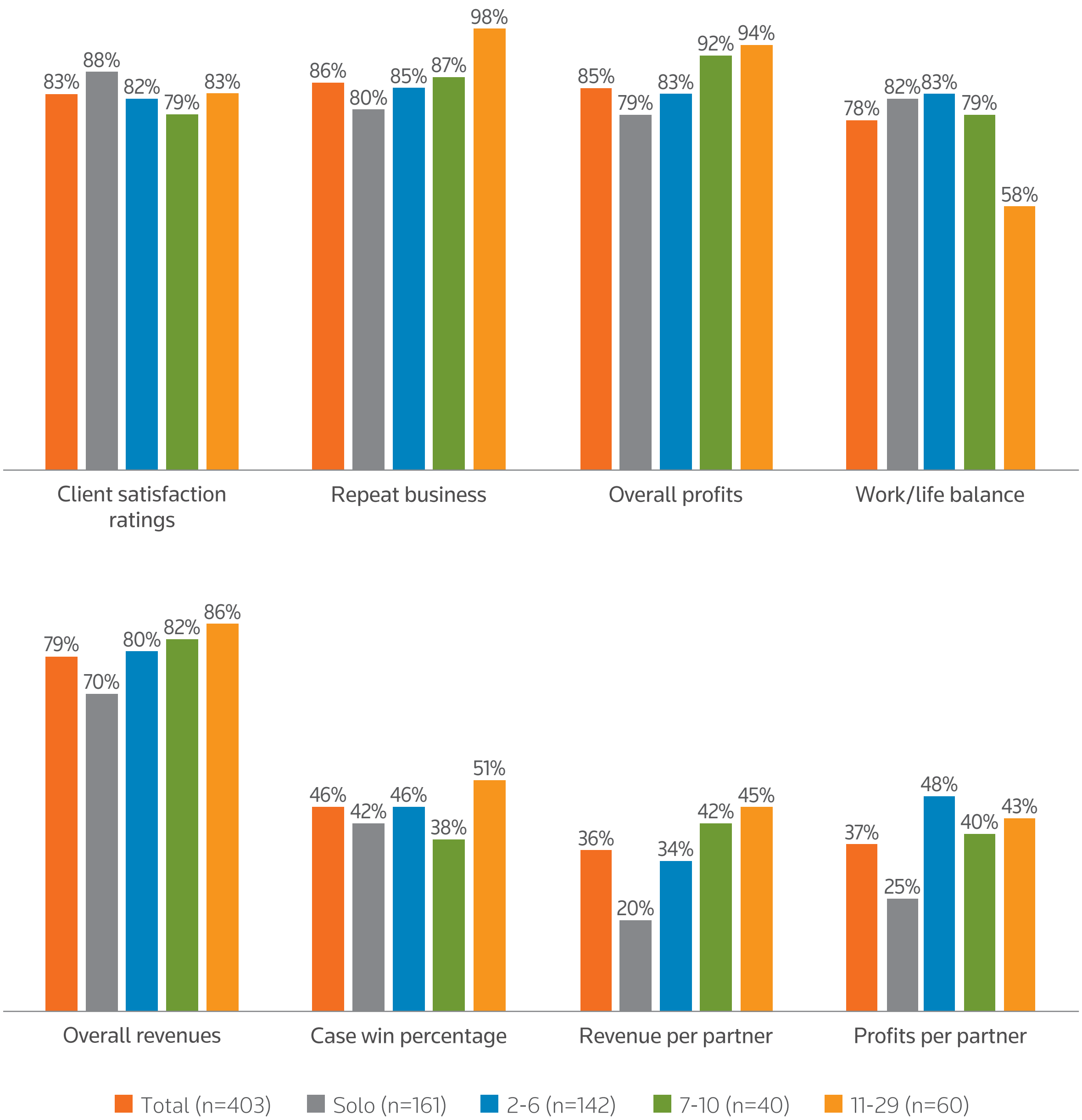
Figure 11 – Success Characterized



The most common measures of success for small law firms are overall profits, repeat business, and client satisfaction ratings. It is encouraging to see overall profits edging ahead of overall revenues as a measure of firm success, placing the emphasis for success on the bottom line.

However, how closely these measures of success are monitored may be a different story.

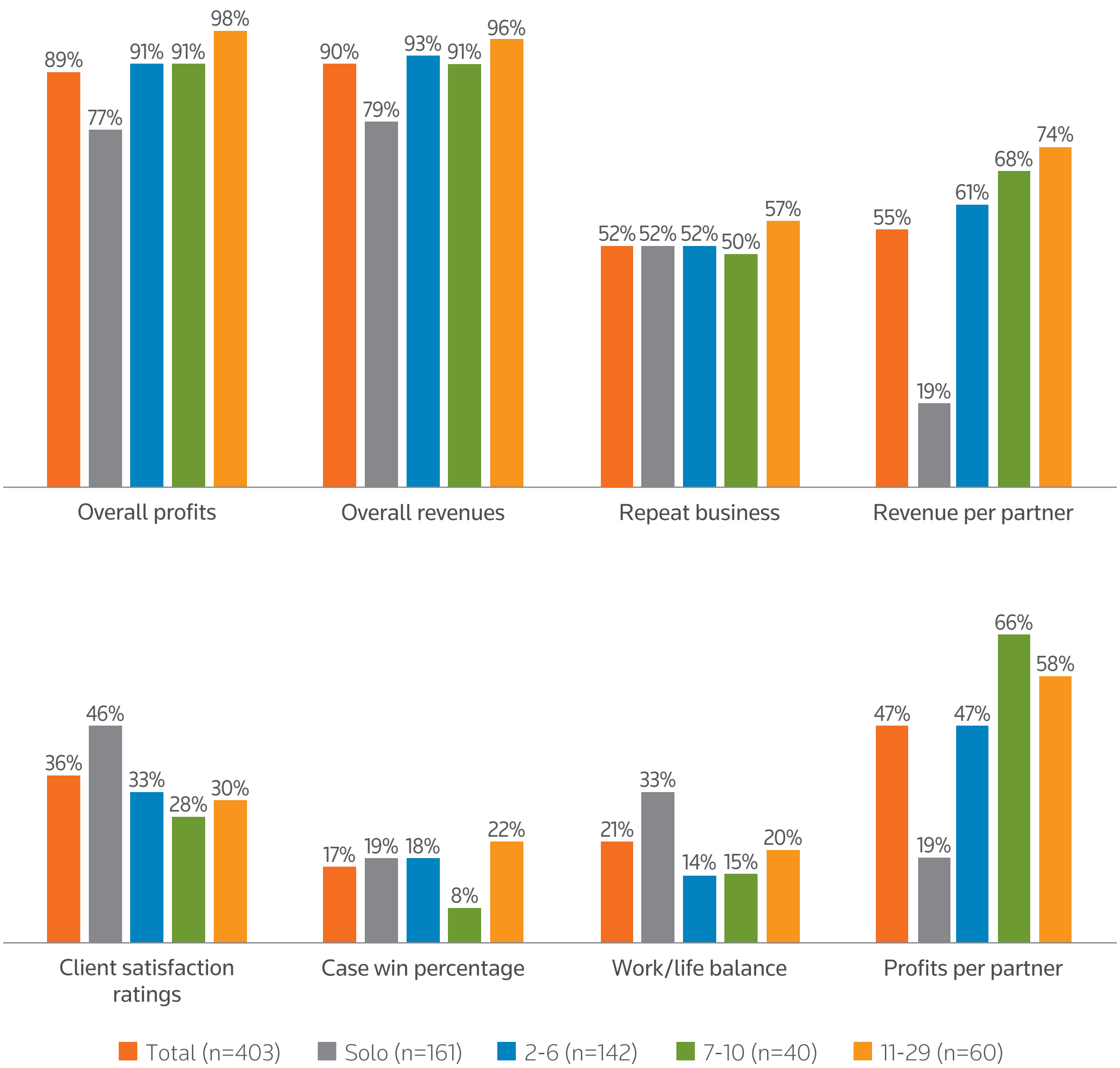
Figure 12 – Measures of Success



Despite 83% of respondents saying that client satisfaction ratings were part of how they defined success, only 36% say they actually track them. A similar, though smaller, divergence can be seen with repeat business, where only 52% of respondents say they track it as a metric, while 86% said it was part of how they defined success.

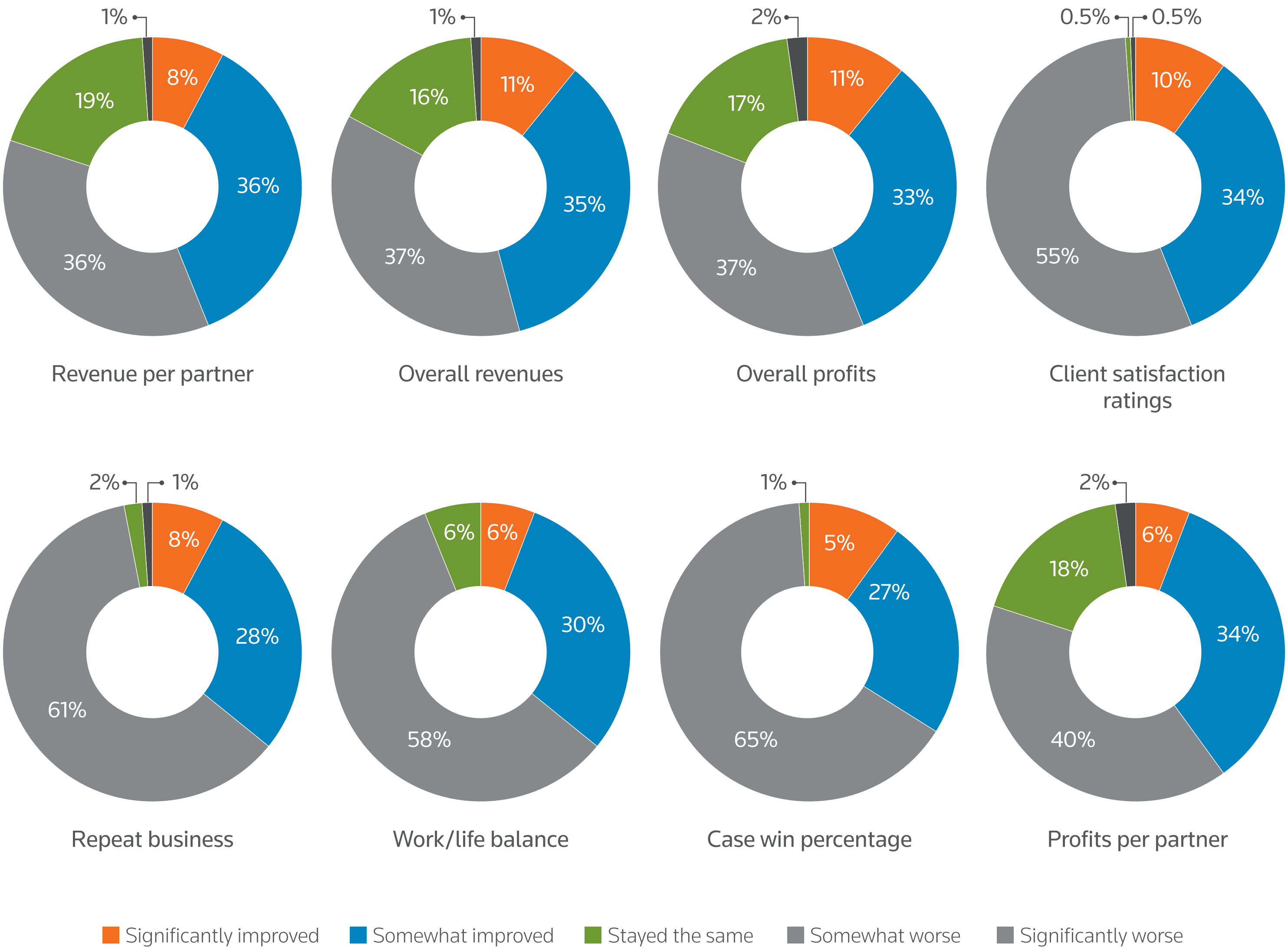
Small firms were much more likely to track overall profits and revenues. Interestingly, more firms reported tracking revenue per partner than those who said it was part of their definition of success.

Figure 13 – Metric Tracking



The well-worn business school maxim that "you can't manage what you don't measure" holds true for small law firms, as does its corollary, "measure what matters." Among those firms who tracked key metrics, almost none saw declines in those metrics that were not influenced by external forces. Some firms who measure metrics like revenues and profits did see those metrics decline, but there are a host of economic factors which can lead to such declines. In contrast, those firms who tracked metrics like client satisfaction or repeat business were highly likely to see those metrics either hold steady, and in many cases improve, sometime substantially.

Figure 14 – Metric Changes



Goals and Priorities

When asked to identify their top three goals for their firms, respondents unsurprisingly gravitated to goals related to the challenges they previously identified. Some 33% of respondents identified increasing or improving business development as a goal. To that we can add:

- 26% want to be seen as 'best of the best'
- 21% want to differentiate from their competition
- 19% want to enhance their reputation in the local community

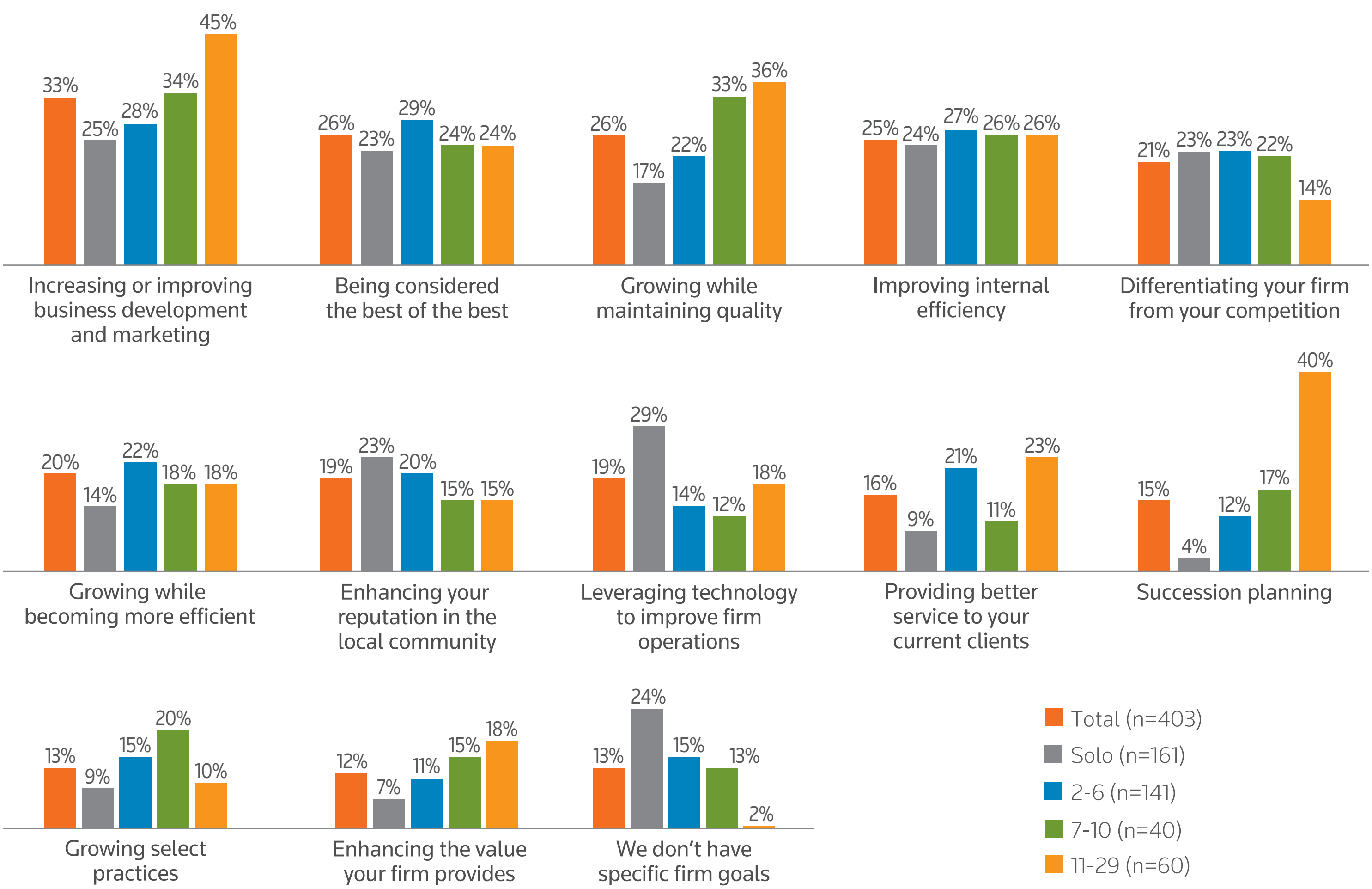
All of these can easily be seen as goals related to improving business development.

Firms were also quick to select goals that addressed their challenges with lack of internal efficiency or spending too much time running their firms.

- 25% want to improve internal efficiency
- 20% want to grow while becoming more efficient
- 19% want to leverage technology to improve firm operations

It is also an encouraging sign that relatively few firms admit that they lack specific firm goals. Again, there's a difference between having a plan and actually implementing that plan, but any planning process necessarily starts with identifying goals.

Figure 15 – Goals & Priorities



Changes to the Firm

None of the preceding is to suggest that the bulk of small law firms have done nothing to change their firm in the past several years. Indeed, many report making a number of changes, even if those changes are not directly related to the challenges identified at the outset of this report.

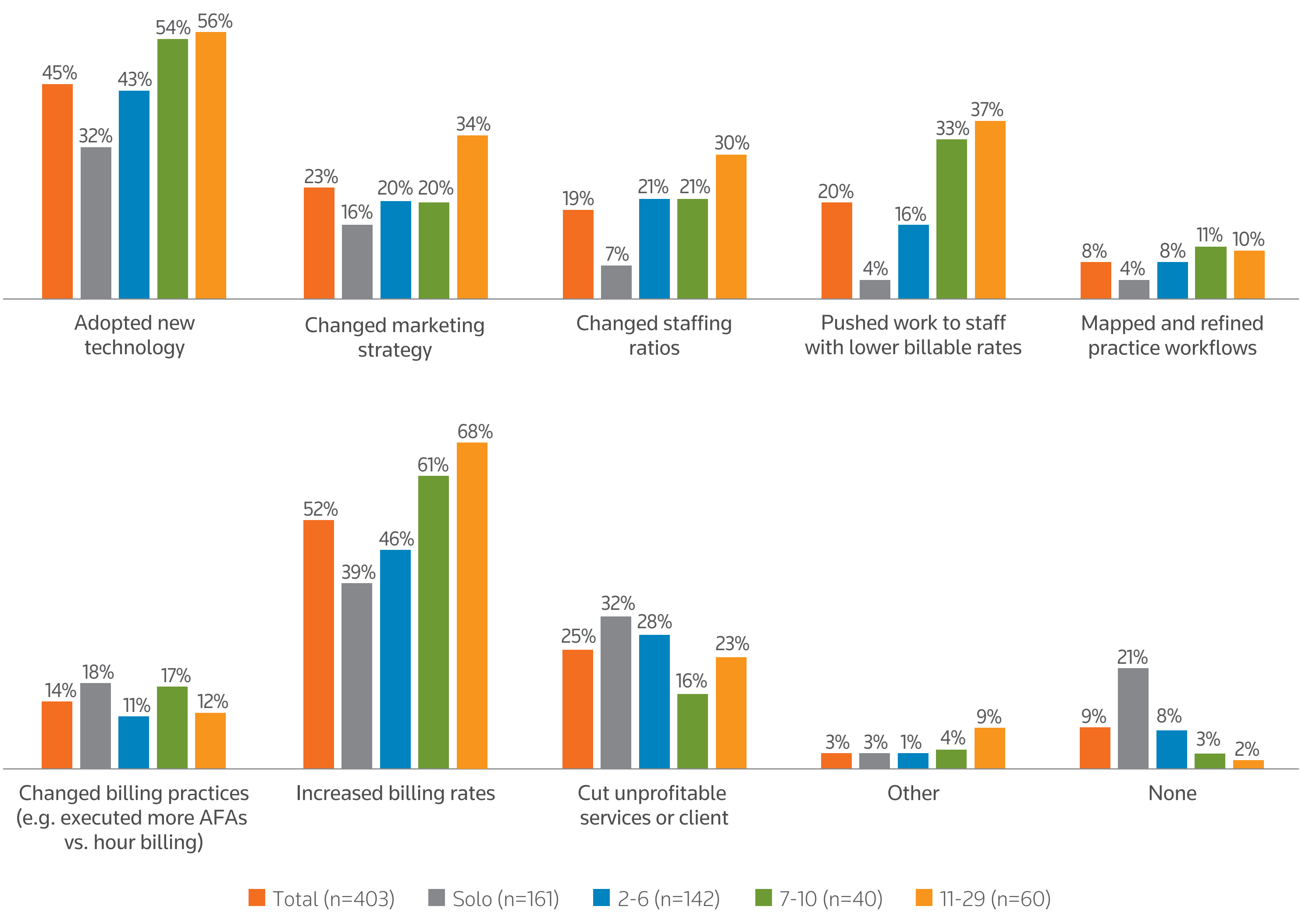
More than half of respondents report increasing their billing rates, with this being more common among the larger firms surveyed. Indeed, this has been a common tactic to help enhance profitability for firms of all sizes for much of the past decade. Unsurprisingly, far fewer firms report having changed their billing practices to offer more alternative fee arrangements.

Technology was a dominant theme here as well, with 45% of respondents saying that their firm had adopted new technology in the past 2 years.

Less common, though still noteworthy, 25% of respondents reported cutting ties with unprofitable services or clients, and 23% reported changing their marketing strategy, an important step to address that much-discussed challenge.

So why pursue these changes?

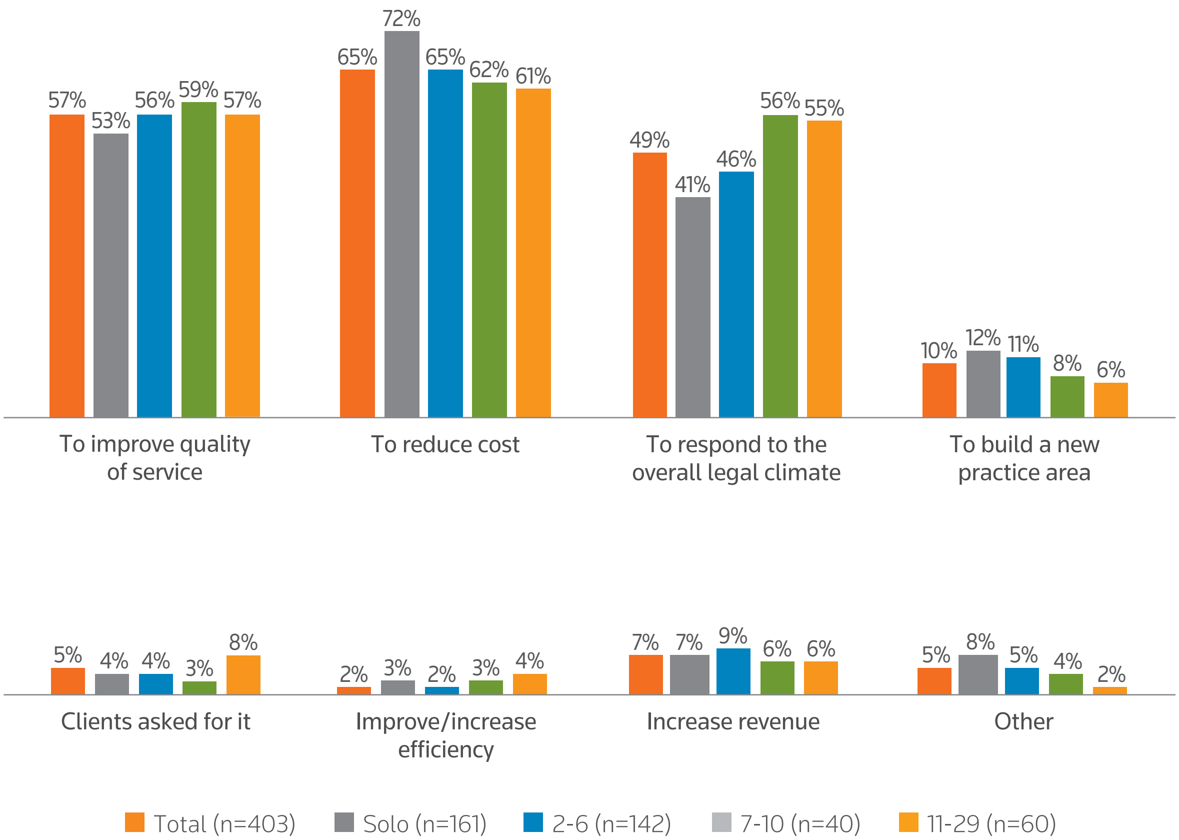
Figure 16 – Firm Changes



Most often, respondents said the changes they sought were an effort to either reduce cost or improve the quality of service.

Despite a stated goal of improving efficiency, very few firms implemented any changes with that goal in mind.

Figure 17 – Reasons for Major Changes



"...respondents said the changes they sought were an effort to either reduce cost or improve quality of service."

What Drives Positive Performance

Forty-percent of respondents said that growth in relationships with existing clients was a factor in their positive performance. The benefit here is two-fold as strong relationships with existing clients helps not only with repeat business, but also with referrals, which was identified by 33% of respondents as a positive performance factor.

Another 43% said that expense management had been a positive performance factor, which is understandable given the overall economic uncertainty. Strategic management of expenses will undoubtedly be a key portion of preserving profitability. As always with expenses, though, the trick will be managing expenses in such a way that the ability to practice law and efficiently do business is not encumbered.

Figure 18 – Positive Performance Factors – 2020

	Total	Solo	2–6	7–10	11–29
All Positive Performance Factors	n=403	n=161	n=142	n=40	n=60
Expense management	43%	34%	42%	32%	46%
Focused on becoming more efficient	43%	44%	39%	42%	56%
Grew relationships with existing clients	40%	32%	39%	42%	48%
Increased client referrals from existing clients	33%	33%	30%	41%	31%
Enhanced reputation	32%	31%	31%	32%	35%
Invested in our infrastructure/technology	29%	18%	27%	32%	46%
Increased client satisfaction	25%	30%	24%	24%	20%
Improved business development efforts	23%	8%	23%	25%	41%
Grew while maintaining quality	17%	9%	8%	21%	46%
Focused on growing select practices	17%	16%	18%	18%	16%
Talent management	14%	3%	11%	21%	28%
Improved client retention	13%	14%	6%	20%	17%
Created greater differentiation from competitors	10%	3%	13%	13%	10%
Changed our lawyer/partner structure	9%	1%	11%	11%	14%
None	1%	3%	1%	0%	0%

Interestingly, when asked what was the single most important factor in a firm's positive performance, "focused on becoming more efficient" was the most frequently selected, followed closely by "grew existing client relationships."

Figure 19 – Most Important Performance Factors – 2020

	Total	Solo	2–6	7–10	11–29
Most Important Performance Factors	n=403	n=161	n=142	n=40	n=60
Expense management	15%	18%	18%	17%	6%
Focused on becoming more efficient	13%	17%	15%	11%	10%
Grew relationships with existing clients	10%	5%	8%	12%	16%
Increased client referrals from existing clients	9%	12%	9%	11%	4%
Invested in our infrastructure/technology	9%	5%	6%	16%	8%
Enhanced reputation	7%	7%	5%	8%	4%
Grew while maintaining quality	7%	3%	4%	7%	26%
Improved business development efforts	7%	2%	11%	3%	18%
Increased client satisfaction	6%	13%	5%	5%	4%
Focused on growing select practices	5%	5%	6%	4%	0%
Talent management	3%	1%	2%	4%	2%
Changed our lawyer/partner structure	2%	1%	4%	0%	0%
Improved client retention	1%	1%	1%	1%	0%
Created greater differentiation from competitors	1%	2%	1%	3%	0%
None	1%	3%	1%	0%	0%

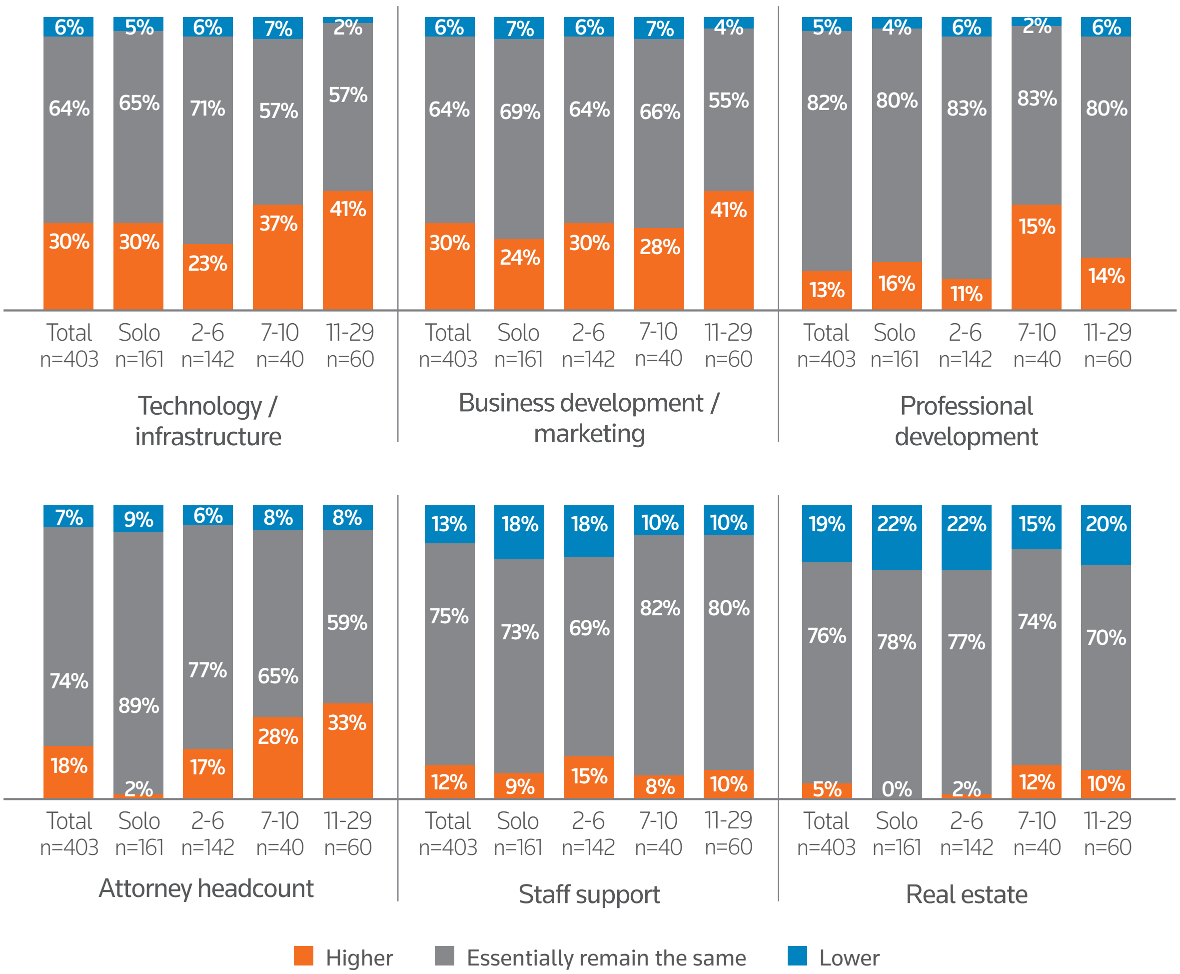
The Need to Invest

Small firms undoubtedly recognize that to accomplish the goals they've set forth and confront the challenges they face, they will need to make some key investments.

Technology is again a focus, with 30% of respondents saying they plan to increase their investment in technology and infrastructure.

The same holds true for marketing and business development, where another 30% plan to increase their investment. As we saw previously, the level of increased investment will likely vary widely. But given the prolonged period during which finding new client business has posed a problem, a commitment to increased investment will hopefully help alleviate some of that strain and increase the proportion of firms seeing their client base expand.

Figure 20 – Investment Areas

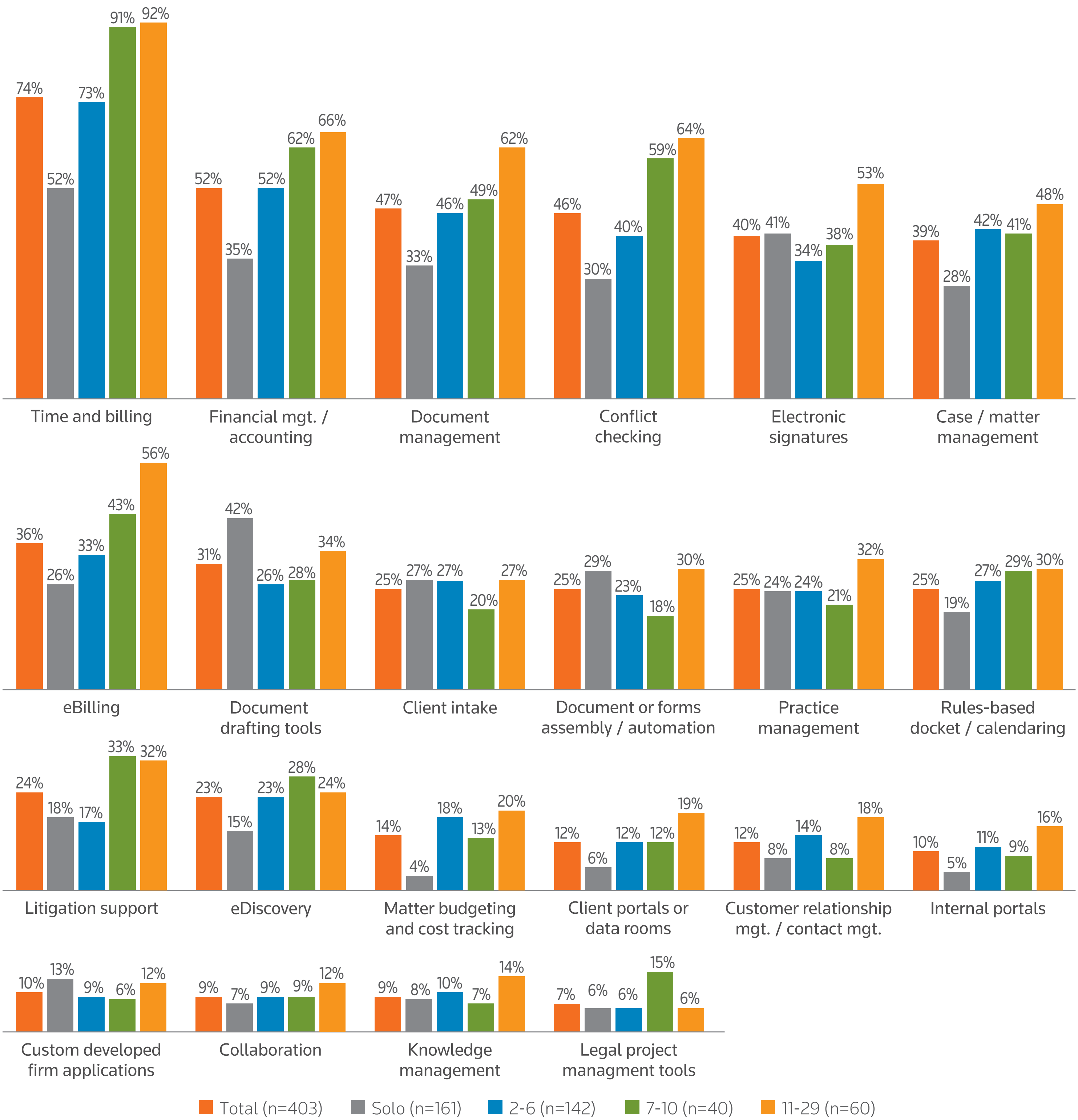


"Technology is again a focus, with 30% of respondents saying they plan to increase their investment in technology and infrastructure."

A Few More Notes on Technology

The need for improved technology has been a recurring theme in this report. So it seems worthwhile to engage in a bit more substantive discussion of the current state of technology for small law firms and the changes small firms plan to make.

Figure 21 – Technology Systems Used

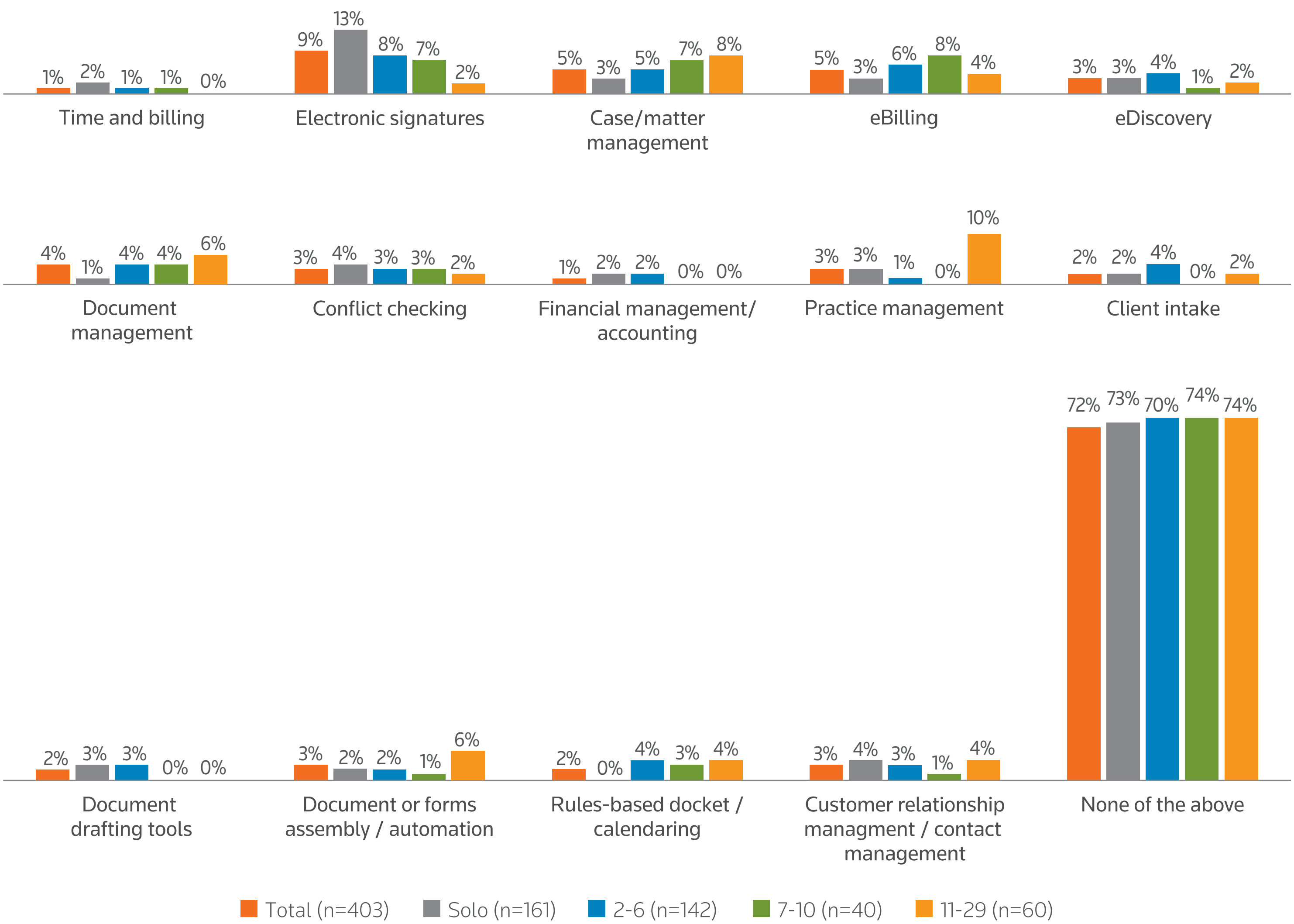


A majority of small law firms have already implemented time and billing technology, as well as financial management programs. Among firms with 11-29 lawyers, majorities also report using document management, conflict checking, electronic signature, and eBilling tech.

Far less common among small firms of all sizes are technologies such as practice management programs, rules-based docketing, matter budgeting, or collaboration tools. Adoption of these kinds of technology could help small firms address the challenges they face from a lack of internal efficiency and spending too much time on administrative tasks within their firms.

Similarly, few firms have adopted client intake programs, client portals, or client relationship management tech. These types of applications could be beneficial to firms looking to ease the burden of winning new business.

Figure 22 – Technology Systems to Implement

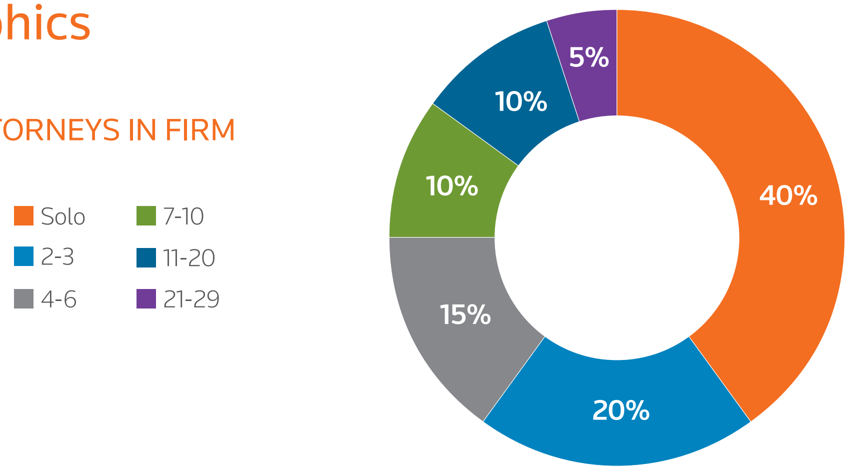


Having identified these tech options as potential aids to problems faced by small law firms, very few firms report an intent to implement any of them in the next year. The clear front-runner is practice management, which 10% of firms with 11-29 attorneys say they plan to implement in the next year. The other technology platforms discussed struggle to find even 5% of respondents who plan to implement them in the next year.

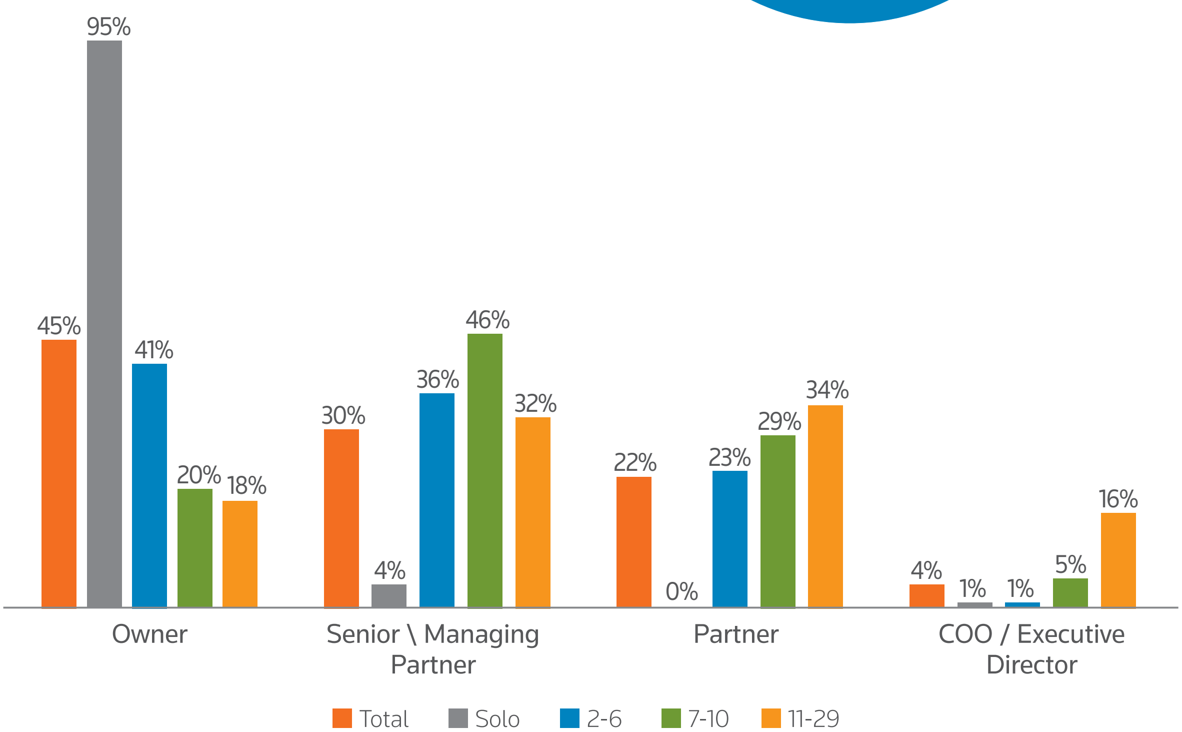
Firms looking to differentiate themselves in an increasingly competitive market may want to explore these technologies, as they appear to offer a clear opportunity to do something their competitors are not doing and don't plan to do anytime soon.

Firmographics

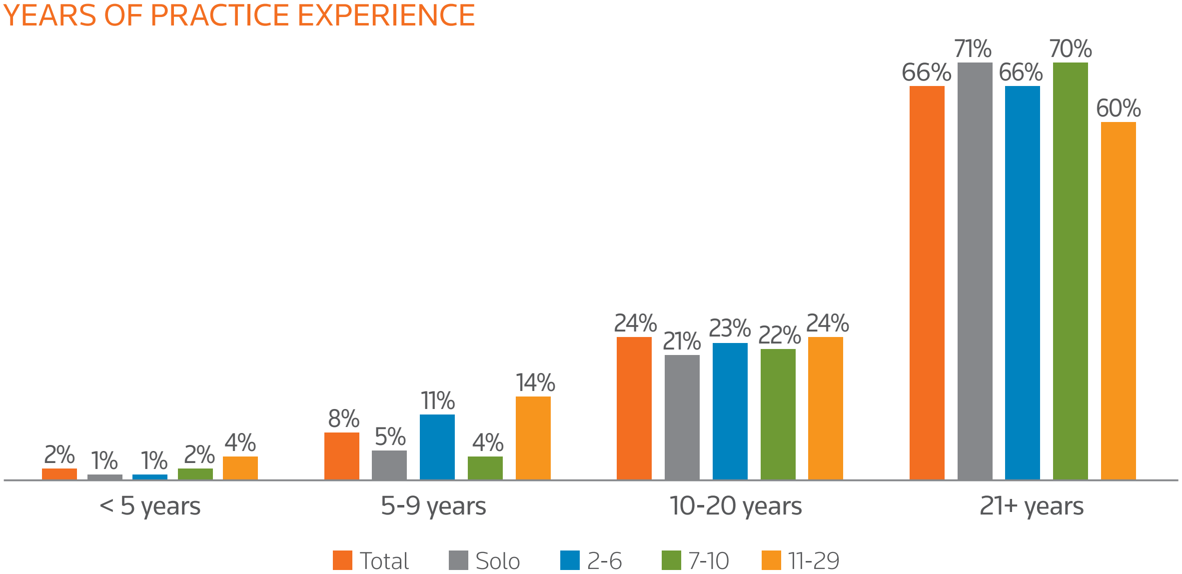
NUMBER OF ATTORNEYS IN FIRM



JOB TITLE



YEARS OF PRACTICE EXPERIENCE



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