



ANNUAL BUSINESS TRENDS REPORT 2024

**KEEPING UP WITH
THE COMPETITION IN
CHALLENGING TIMES**

LEGAL SECTOR

INTRODUCTION

2023 was something of a bumpy ride for many law firms and economic challenges and uncertainties seem likely to continue through 2024 too. There is little sign that the cost-of-living crisis that has impacted many this year is coming to an end. Rising costs have affected all businesses, including those in the legal sector and many employees are struggling too. For some, seeking a new employer for better pay has been the answer. Others are weighing up benefits that include having more flexible working opportunities that can help to alleviate other pressures in their lives such as childcare, or reduce the time wasted in their daily commute, and the competition for talent has been acute.

Law firms are operating in a more competitive landscape generally, as the Big Four (Deloitte, EY, KPMG, and PwC) and other combined legal/accountancy/professional services businesses are able to use economies of scale alongside the convenience of a one-stop shop to lure clients away from legal specialists.

Artificial Intelligence (AI) is a new threat to those aligned with more traditional legal processes. The firms that are already implementing AI are using it for day-to-day work and may be able to reduce fee-earner hours spent on a project, reducing costs and previous standard fees to clients,



The 'Amazon effect' that dominated retail and other product/service procurement during the pandemic has left its mark as customers want more, for less, and faster. Clients are becoming more demanding, expecting firms to provide 24/7 access, with swift responses and communication processes as well as competitive fees. This phenomenon is affecting many sectors in the UK economy, but when compared to other UK business sectors, some law firms are behind the curve in digital adoption, missing out on the benefits experienced by more digitally-savvy competitors.

Now is the time for all UK law firms to accelerate their digital transformation, adopting new and powerful technology that can drive greater efficiency, productivity, and growth to ensure a brighter 2024 and beyond.

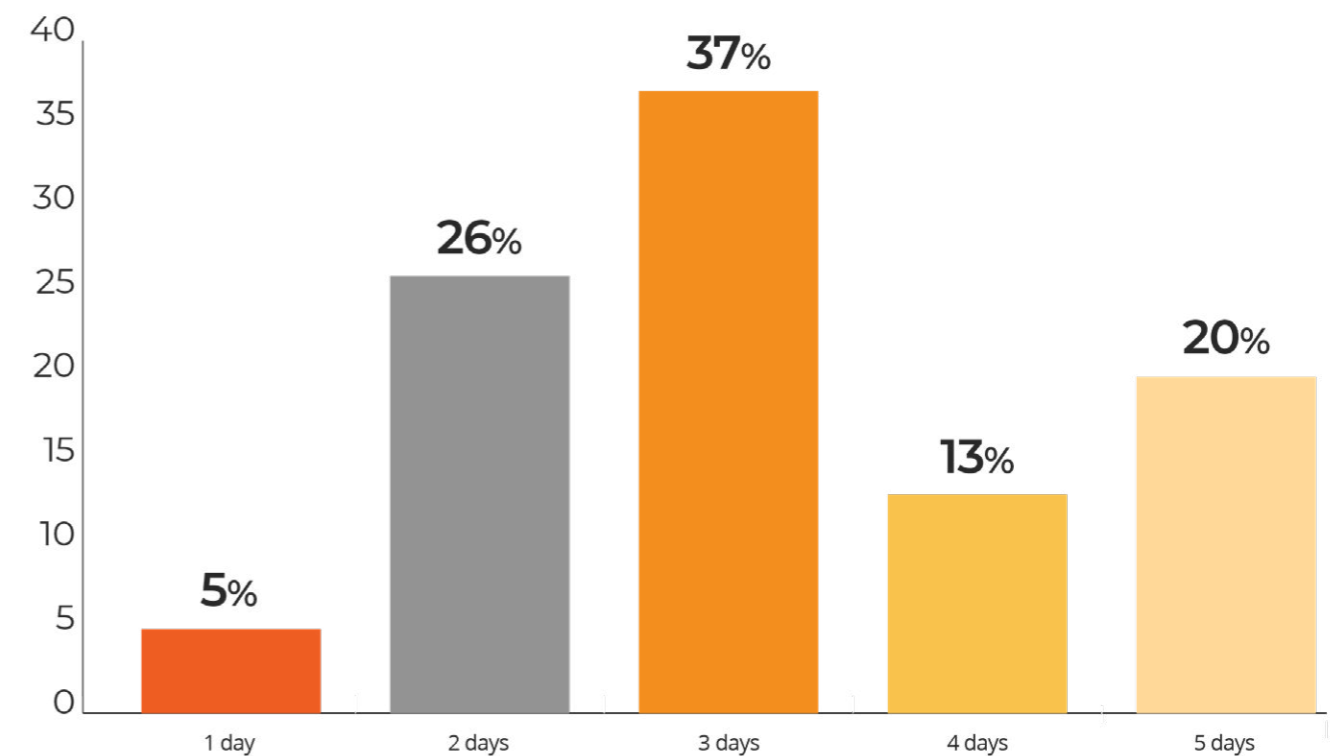


A RETURN TO THE OFFICE

Many firms want to reduce hybrid working and increase time that staff work in the office, but is this policy undermining talent attraction and recruitment strategies?

Traditionally ambitious lawyers have put in many extra hours, both by staying late in the office and working from home. As the technology has enabled better access of files and easier communication for remote working, many lawyers have chosen to split their time between office and home, embracing the benefits of both.

How many days a week do your staff currently work in the office on average?



Our survey shows that law firm employees are now working an average 3.2 days a week in the office with the rest of their time is spent working remotely, either from home, court, a client's offices or even while travelling. Last year 11% told us they were struggling with hybrid working. Hybrid appears to have become a greater issue as this year, 27% of legal respondents say that hybrid working is one of their biggest day-to-day challenges. This could be because some firms have still not implemented the digital solutions that can streamline remote access and enable effective hybrid working.

However, it seems that some legal professionals may be tiring of hybrid and are more concerned with increasing productivity when working from the office. Only 16% say that having more technology to support remote working would make the biggest difference to growth and productivity at their firm.

Less than one-quarter (23%) of legal professionals tell us they would like to implement technology to deliver improved remote access, which is fewer than the average 36% of respondents from all industry sectors in our main Advanced Trends Report. This finding appears to be at odds with the idea that offering hybrid working is a potent strategy for attracting and retaining talent.

One-third (33%) of legal professionals say attracting and retaining talent is their number one business challenge at the moment and 43% say tackling this is a core priority for the next 12 months. The talent shortage has in no way been overcome so far. Furthermore, in 2022 more than one-third (37%) told us their firms were offering flexible working options as part of their talent attraction and retention strategy. Could firms be missing

a trick now, assuming that hybrid is 'over' and not continuing to prioritise it by providing the appropriate digital tools?

Our survey suggests that firms are equally split over their hybrid working policies. 50% say their firm wants to increase the number of days employees work in the office now, and 50% do not. There may be something about the culture of law firms that is biased towards proximity, driving people to want to be seen putting in the hours at work. Lawyers and support staff may feel under pressure to be present in the office to ensure they aren't passed over for opportunities while those who are working more from home may worry that they will find themselves unable to shine by comparison.

The wide availability of technology that enables remote working has allowed many firms to access invisible talent pools, for example, hiring high-quality employees with chronic illness and disability. This may prevent them from accessing the office, but not from being productive and effective when working from home. Pressuring staff to return to a predominantly office-based work life could backfire for some firms as these individuals may seek a more flexible employer.

The high cost of recruitment and onboarding new people makes it crucial to hold onto talent, and these days retention is arguably even more important than attraction. 45% of legal professionals in our survey tell us it takes, on average, 3-6 months to replace a fee-earner, and 29% say it takes 6-12 months. That's a lot of time for lost revenue and more workload pressure piled onto remaining colleagues.



43%

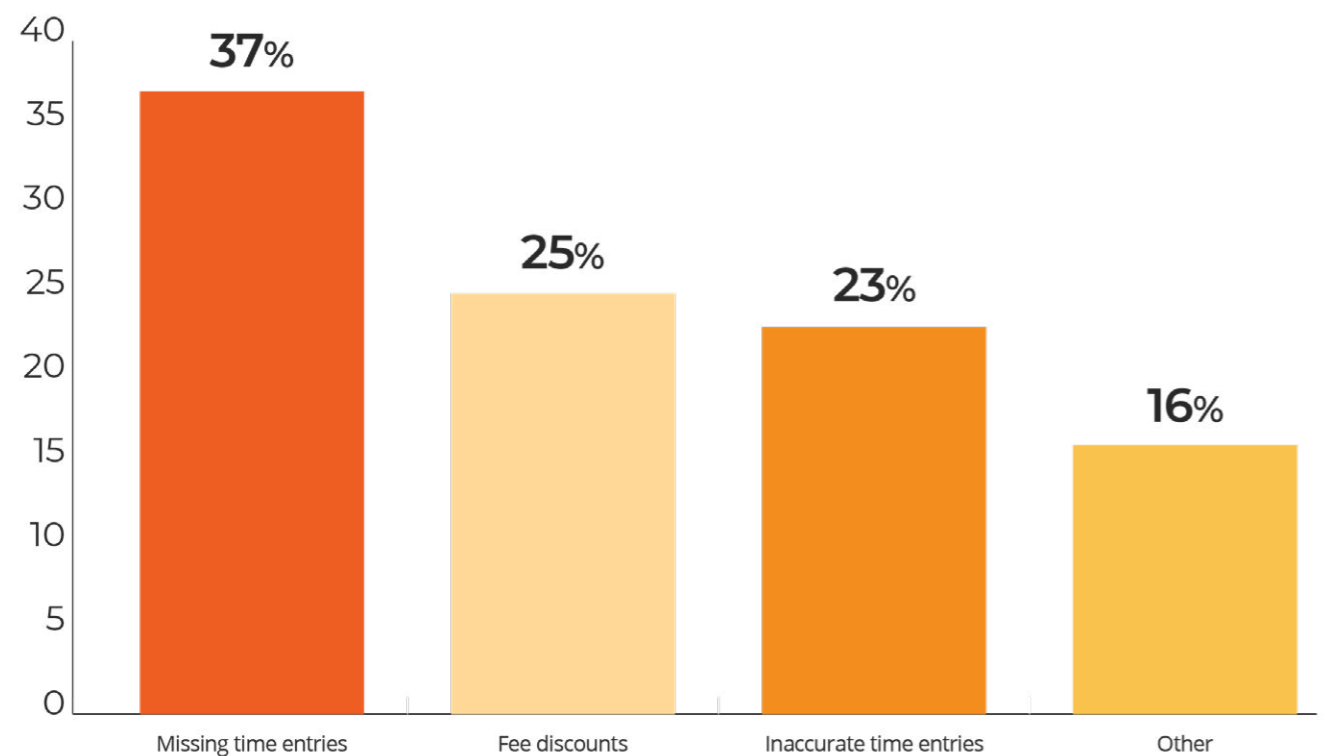
say talent attraction and retention is a core priority for the next 12 months.

IT'S ABOUT TIME

Only one quarter (25%) are realising 70% or more of their billable time targets, highlighting the need for better automated systems that accurately capture time and billing.

Profit leakage should be a particular concern for law firms because it is avoidable. Our survey shows that 37% of legal professionals say the biggest form of profit leakage at their firm is missing time entries, while 23% attribute it to time entry inaccuracies.

What is your biggest form of profit leakage?





2/3

of firms are not using powerful time recording software to drive higher time capture rates.

Legal professionals know it is crucial to capture every minute of billable time to ensure accurate billing and avoid profit spillage, so it is interesting to see just how big the problem really is. The majority (58%) say they use finance tools for better billing, while 44% use time recording software. Of all the digital tools available to firms, having accurate automated time recording software appears to make a watertight case for its own adoption – investment literally translates into more accurate billing and increased income. Yet our survey suggests two-thirds (66%) of firms are not implementing this powerful solution.

It is not surprising then, that only one quarter (25%) are realising 70% or more of their billable time targets. One-fifth (21%) say they are realising just 30-40% of these, and, a mere 4% say they are realising the covetable 90-100%. This represents a significant number of billing hours that will not be invoiced for.

Implementing an integrated digital solution can increase time capture rates, and link directly to billing and invoicing processes. This is not possible with older, legacy and on-premise systems that do not have the facility to work in real time or 'talk' to each other. Our survey shows that 40% of firms are using a combination of Cloud and on-premise systems, making things much more complicated for users working with different systems that were never designed to work together, as well as wasting precious time with multiple sign-on processes. One-quarter (25%) of firms have yet to migrate any of their processes or data to the Cloud and are still exclusively using on premise systems.

As well as boosting income, achieving accurate billing is an important element in client satisfaction. When mistakes happen, as they are more likely to when information is input manually, clients may dispute their invoice. This may undermine the firm's relationship with the client as well as taking up precious resources in checking and resolution processes. Getting it right first time is a win-win for client and firm.



IMPROVING THE CLIENT EXPERIENCE

More than one-quarter of legal professionals say improving the client experience is their number one challenge.

The cost-of-living crisis may be driving more clients to tighten up on legal spend and be more discerning about the service they receive. 26% of legal professionals say improving client experience is one of the top challenges for their organisation this year, and 23% highlight meeting customer demand as an existing challenge too.

However, many firms have recorded an increase in complaints since last year. Our survey reveals that on average there has been a 29.7% increase in client complaints since 2022. 17% of legal professionals tell us complaints are up by 50%, indicating a growing problem for firms trying to grow their client base and retain existing clients.

One-quarter (25%) tell us the biggest reason for profit leakage at their firm is fee discounts.

Many are having to discount fees to try to remain competitive and secure business, despite reduced fees, so they can hold onto market share. But legal services are not just about cost and many clients will be looking for reviews and recommendations that focus on quality of service too. Firms can leverage the old adage, 'you get what you pay for', and can consider methods for improving the client experience. This may be as effective as discounting fees for attracting and retaining clients, helping drive better feedback and improved reviews and recommendations.

One of the keys to improving the client experience is better communication and 29% of legal professionals tell us they struggle with effective client collaboration, naming it as one of the biggest challenges they face every day.

27%

of firms aren't leveraging digital communication channels to improve the way they deliver services to clients

BECOMING A DIGITAL-FIRST FIRM

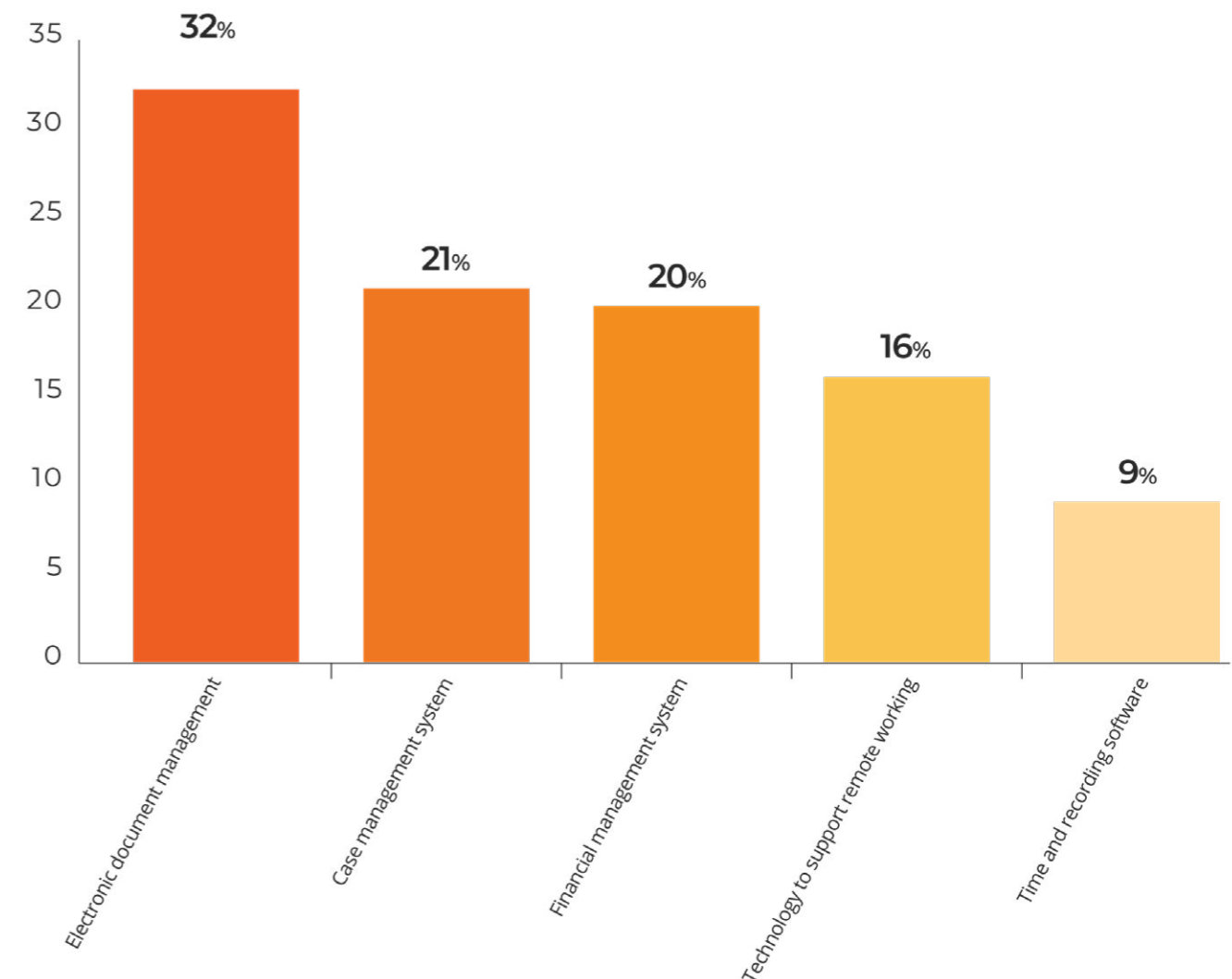
Many firms have already implemented digital solutions across some support functions such as HR and finance but lack more legal-specific solutions to ensure the firm is fully-digital.

Half (50%) of legal professionals in our survey tell us the technology they use is 'somewhat' meeting organisational requirements. 49% say they are confident and 25% are very confident that their current technology fully supports the business model, leaving one-quarter (26%) of respondents who either don't know or believe their technology to be inadequate.

Many firms are already using digital solutions to support some business functions such as HR and finance but have yet to roll them out to support the more legal-specific processes and functions that would ensure they have become a fully-digital firm. 52% of firms are using digital tools for HR, 45% for finance, and 43% are using them for legal forms. Other areas of law firm management are trailing behind, with only 23% using a digital document management system (DMS), and just 9% using digital practice and case management software (PCMS). Successful firms are using technology across all functions, ensuring that they do not miss an opportunity to drive more efficiency, productivity and profitability.

Those firms that are still operating older, legacy systems are holding themselves back from achieving their business goals. 34% of legal professionals believe that introducing electronic document management would make the biggest difference for growth and efficiency in their firm, while 21% thought a case management system would make the most difference. This is not surprising when our survey reveals almost one in ten (9%) firms are still exclusively using paper filing systems, while 38% use paper with a digital system for back up. Forward thinking firms are making strides with fully digital systems, ensuring lawyers are no longer staggering around with overloaded briefcases, their offices can be clutter-free and they generate less paper waste.

In what ways do you see automation making the greatest improvements to your processes?



Implementing a specific legal digital platform enables superior document and case management, aligned with accurate time capture for more effective day-to-day practice. Productivity and return on investment are further enhanced with additional digital solutions within all other support functions, such as supply chain management and procurement, marketing, HR and payroll, and more.

Lack of digital skills is less of a barrier for many firms now. While last year 53% said they had invested in the right digital skills in-house, and 41% were looking to outsource all or some of their IT skills requirements, in 2023 more than three-quarters (77%) of respondents say their firm has the right in-house skills to implement a digital-first strategy.

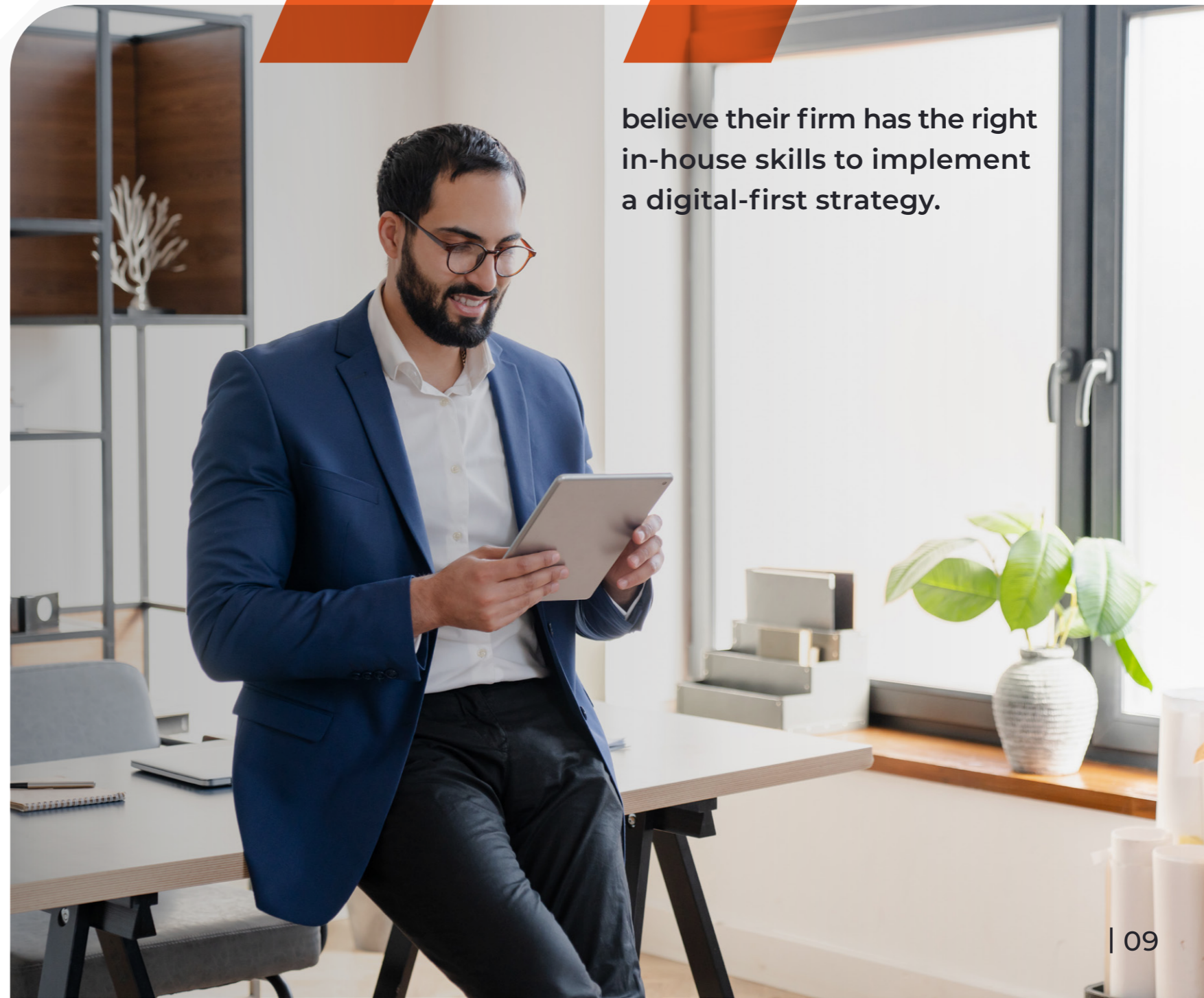
That does still leave nearly one-quarter (23%) who may need to outsource their digital requirements to a third party or hire the right skills in-house. But firms are definitely moving in the right direction. 15% of legal professionals are now telling us their firm is further ahead than expected with its technology compared to its competitors, and 49% say it is on track. The remaining one in ten (11%) say they are yet to start making progress with their technology strategy, and don't have the digital systems to be properly competitive.

The cost-of-doing-business crisis may be a factor in firms deciding whether to implement new technology this year as 41% say lack of budget is the biggest barrier, up from 33% in 2022. Other barriers include a lack of employee buy-in, cited by 39% of respondents and 32% said there was not enough confidence in the solutions available. Our conclusion that some firms are yet to realise the full potential of digital solutions to transform efficiency is evident in the 28% of respondents who say attachment to traditional methods is a barrier to implementing new technology.

Almost half (47%) of professionals working in firms that have already implemented technology say the biggest benefit it has brought them is automation in data processing and analytics. This is fewer than the average 68% of respondents from all business sectors, indicating that law is yet to recognise and harness the benefits of accurate, real time data to help it gain a competitive advantage. 47% of respondents say that technology has speeded up decision making within the organisation and 42% say it has helped them focus and prioritise workloads.

77%

believe their firm has the right in-house skills to implement a digital-first strategy.



THE CYBERSECURITY CHALLENGE

Law firms are under increasing attack from cybercriminals but our respondents feel their systems are more secure now than last year – can they be right?

The legal sector appears to be more aware than average of the direct relationship between effective technology and increased cybersecurity. 37% of legal professionals tell us that one of the benefits of the technology they use derives from the ability to work with confidence in a cybersecure environment, compared to just 20% of respondents from all industry sectors in our main report.

With large amounts of highly sensitive data relating to clients, cases, employees, and suppliers, as well as their own business activities, cybersecurity is paramount for law firms. Almost one-quarter (23%) say cybersecurity and data protection is among their number one business challenges now and 34% say data security is their top day-to-day challenge.

The sector appears quite confident about the security of its systems. Almost half (48%) of legal professionals say their digital systems are secure and 39% say they are very secure, totalling 87%. This is comparable with the 90% average for respondents from all sectors in our main report. But 9% say they do not think they are cybersecure (twice the average for all sectors, 4%).

One of the most effective ways to ensure higher levels of security is to use cloud-based data storage with a reputable and established service provider. These organisations invest heavily in data security, employing experienced and skilled threat detectors and analysts to continually monitor, prevent and intercept data breaches. By comparison, many legacy systems are running with old software that may no longer be supported with updates and will be coming to the end of its useful life if it hasn't already.



48% of legal professionals say their digital systems are secure





ALMOST

1 IN 10

legal professionals believe their systems are not cybersecure

However, 38% of law firms are still using paper with a digital backup for filing documents, including those containing highly-sensitive information and almost one in ten (9%) are still just using paper filing. These firms may feel that keeping paper documents in house is the best way to protect them, rather like keeping one's cash under the mattress instead of using a bank. They would be able to offer their clients and other stakeholders far greater assurance of cybersecurity if they were to invest in the Cloud for data storage and management processes.

39% of legal professionals described themselves as 'somewhat' prepared for a cyberattack and 37% said they were more prepared than they were last year, totalling 76%. This represents a very small increase on 2022's 74% who felt their firm was prepared for a data breach. 16% of legal professionals say they are less prepared than last year, which is more than twice the average for all industry sectors, 7%, while 9% tell us they do not believe their systems are cybersecure. There is clear indication that legal professionals are aware of the increasing risks to their data and hence, to their business from a potential data breach, but some firms are still to make the leap to more secure digital solutions.



ARTIFICIAL INTELLIGENCE OR LEGAL BRILLIANCE?

AI is already being used in legal process but the full potential benefits and risks of using this emerging and unregulated technology remain to be seen.

AI and specifically generative AI have dominated headlines and business conversations throughout 2023. 27% of respondents who are working in law/the legal sector are already using AI tools and 43% are researching it, despite it not having fully worked through national legislation or guidelines for use.

Perhaps because of this, the more cautious one in ten (10%) of firms say they have no plans to use it at all. However, that leaves nine out of 10 firms that are already using or are likely to use AI in their business, which understandably makes some employees nervous about their own job security.

The implementation of automated tools in law has greatly speeded up many processes and reduced the time people need to spend on repetitive, low value work. This has already driven a decline in legal secretary roles, as many lawyers simply don't need a full-time assistant anymore. Not surprisingly many in legal support roles may be wondering who is next, as AI threatens to replace humans in the workplace. However, it is almost certain that AI will create new roles and require firms to employ people with different skillsets, including partners who will specialise in the practice of AI-related law, and IT experts who can help shape the way that firms employ AI for the greatest benefit.



1/10 law firms have no plans to use AI

The firms already using generative AI are grappling with questions about transparency. Currently there is no requirement to inform clients that this technology is being used, and some firms may seek to implement AI without changing their pricing structures. There will surely already be canny clients asking the question and challenging the way they are being charged for AI-generated work.

Many firms are recognising the potential of AI to help them speed up contract writing and gaining access to case law and precedent. It also has the ability to go through huge datasets and flag anomalies that could indicate fraud and money laundering, helping firms ensure their own compliance as well as that of their clients.

As with other digital technology adoption, the cost of doing business is impacting on decision-making and 34% of legal professionals tell us their firm isn't using AI because it has no budget for new technology, with a further 34% saying they are concerned about the risk of AI to the organisation. Many may adopt a wait and watch approach, allowing larger organisations to trailblaze, make mistakes and learn valuable lessons before deciding to take the plunge with AI. It remains to be seen whether this is a wise strategy, or one that will leave some firms struggling to catch up with the competition.



34%

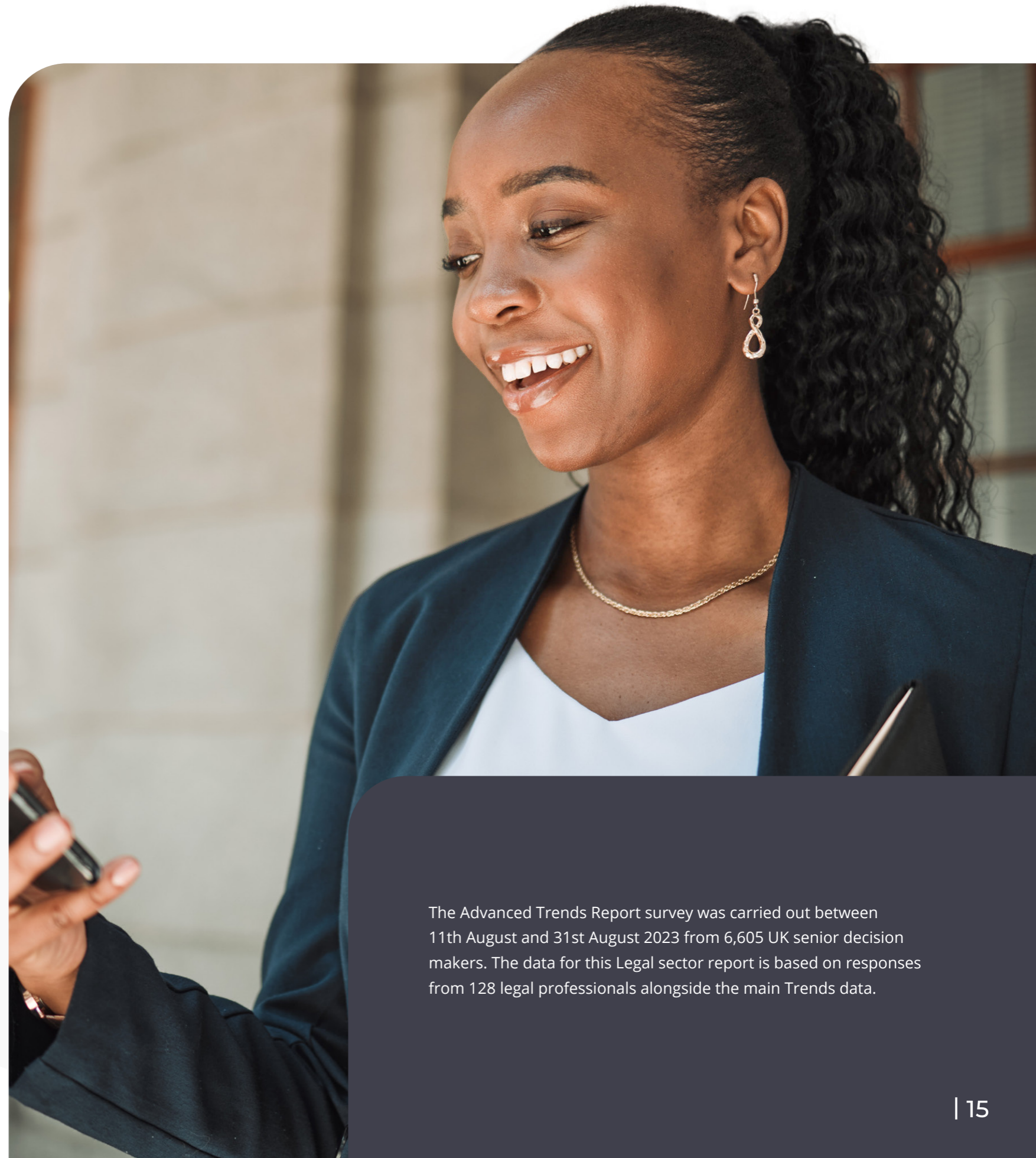
aren't using AI as they are worried about the risks it may bring to their firm.

REPORT SUMMARY

POWERING THE WORLD OF WORK

Advanced powers over 30,000 legal professionals with software automation that delivers increased productivity and agility, supporting law firm growth and the smooth delivery of vital legal services.

Our legal software suite includes practice and case management, time capture, document management, legal forms, The National Will Register, and performance & talent management. Our solutions support other key functions within firm management including HR and payroll, finance, spend management, and procurement, and an experienced IT Services team that can help firms realise their technology objectives with a bespoke, outsourced IT service.



The Advanced Trends Report survey was carried out between 11th August and 31st August 2023 from 6,605 UK senior decision makers. The data for this Legal sector report is based on responses from 128 legal professionals alongside the main Trends data.



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