



Navigating the Legal Horizon: Trends in AI Integration, Alternative Fee Arrangements, and Profitability Metrics

Key Findings Based on Survey Responses
from over 300 Law Firm Leaders Globally



Foreword



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As law firms react to economic instability and begin to embrace the rise of AI, it's helpful to take a step back to understand why clients are increasingly showing a preference for alternative fee agreements (AFAs) and the unique value they offer. There has been a fundamental shift in how clients evaluate law firms' ability to deliver predictability and value when providing legal services. Proactive thinking about how to handle future RFPs that request AFAs underlines the need for professionals to consider the broader picture when responding to proposals and pricing requests.

Clients are becoming more sophisticated and want to talk about value instead of just hours. GenAI will likely feed into this both by making some types of legal services more efficient and predictable, and by providing the insight necessary to craft more accurate AFAs. GenAI will accelerate what's already happening in the space by providing more transparency.

The billable hour isn't going away completely, at least not anytime soon. However, alternative ways of more accurately capturing the value of what's being delivered is going to change. And as GenAI makes it easier to analyze thousands of tasks in mere seconds, we can expect both law firms and sophisticated buyers of legal services to develop new ways of exploring strategies for increasing ROI as more firms offer clients AFAs.

Looking back is a good way of understanding the future. By staying ahead of the curve and recognizing the evolution of client needs and expectations, our profession can learn and adapt to changes and trends in legal billing practices.

Introduction

The legal industry is undergoing a transformative shift, propelled by the integration of technology and the evolving demands of a digitalized environment. This report is a summary of an extensive proprietary survey, which encompasses insights from legal professionals across the US, UK, and Australia, and sheds light on the pivotal role of artificial intelligence (AI), Alternative Fee Arrangements (AFAs) and technological innovation in reshaping the sector.

This report aims to illuminate the prevailing trends and hurdles faced by the legal profession across various jurisdictions and roles, with a focus on AI integration, Alternative Fee Arrangements (AFAs), and profitability tracking methods. By uncovering industry insights and potential opportunities, this report hopes to inform strategic decision-making and enhance efficiency within the legal sector.

These findings are not only of interest to those at the forefront of technological innovation within law firms but are crucial for all legal professionals, including partners as well as Marketing, Finance and Knowledge Management leaders and teams. The integration of AI and the shift in fee structures have profound implications for every aspect of a law firm's operation.

Understanding these trends is vital as they sculpt the future of the legal field. It's equally crucial to be cognizant of how these shifts impact client relations and expectations.

ABOUT THIS SURVEY

To get the most accurate data, this survey focused on a narrow set of leadership roles and decision-makers within law firms. Three hundred and fourteen legal professionals participated in this survey, representing various titles from C-Suite executives like CIOs and CFOs to finance and pricing professionals, and business development.

The survey covered three major regions:

- **United States (US):** With 33% respondents, the US had the highest participation in this survey
- **United Kingdom (UK):** The UK was represented by 32% respondents
- **Australia (AUS):** Australia saw participation from 31% professionals
- **Other:** 1% of respondents were from France, Canada, and Italy, respectively

Executive Summary



Artificial Intelligence

To a large extent, artificial intelligence (AI) dominated top-of-mind thinking of participants. The survey reveals a clear trend towards the adoption of emerging AI tech with 77% of respondents anticipating substantial investment in AI-based solutions to improve firms' efficiency, profitability, and overall value creation.



Integration and All-in-One Solutions

There is keen interest in fully connected or all-in-one tech platforms. Fifty-five percent of respondents will be investing here in the next 12 months, which streamline processes, simplify usage, and encourage adoption.



Profitability Metrics

Participants' confidence in their firm's profitability metrics is notably high, with 95% expressing varying levels of assurance. The fact that 90% of respondents reported easy access to revenue metrics indicates that firms have successfully prioritized and provided convenient access to such critical data.



Value-Driven Fee Arrangements

For 70% of firms, nearly half or more of their work was AFA-based. Client satisfaction is the primary factor influencing a shift towards AFAs, which are perceived as client-centric and value-driven rather than time-driven. And, with 64% of respondents favoring phasing out billable hours, we should expect to see more firms shift in this direction.

Flat fees are the most popular choice among Alternative Fee Arrangements (AFAs), with a usage rate of 66%.



Economic Turbulence

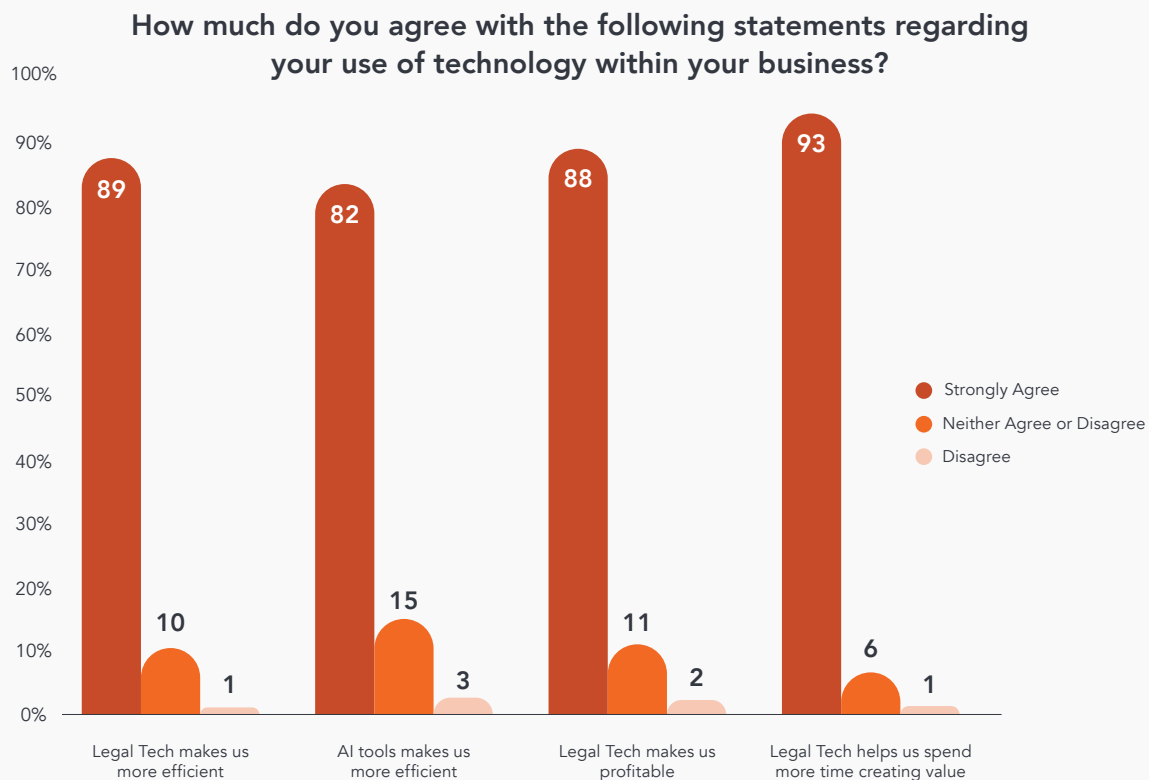
Finally, in response to economic turbulence, firms are strategically adjusting their pricing models, reducing costs, and increasing fees. More than 50% of the firms have adopted these measures, reflecting a significant recognition of the economic climate and the necessity to adapt. While a few firms reported minimal impact, the majority have implemented various strategies to navigate the challenging environment.

Findings

Artificial Intelligence Dominated Top-of-Mind Thinking of Participants

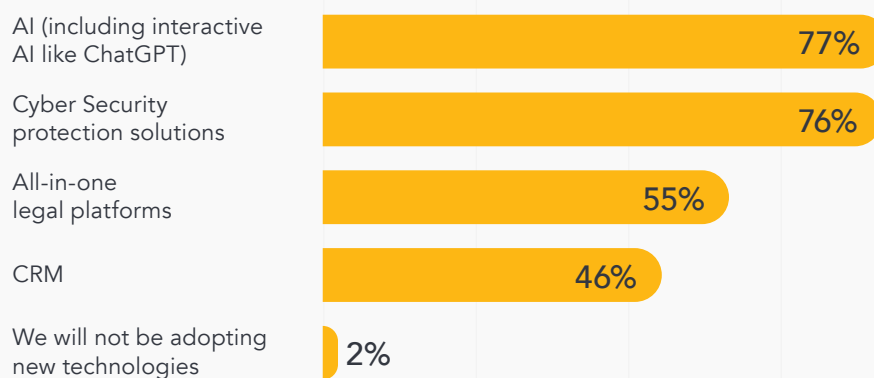
When it comes to the adoption and use of AI tools in legal tech, an overwhelming majority not only understand its value, but currently use or plan to use them for efficiency.

Results reveal that an overwhelming majority of legal professionals, 89%, acknowledge the efficiency enhancement brought about by legal tech, with 82% attributing the same to AI tools. This underscores a significant recognition of the value of AI and technology in the legal sector, with 87% understanding the benefits of AI tools.



Participants in the survey expressed a strong anticipation towards the widespread adoption of AI technology, recognizing its potential as a leading tool to enhance the utilization of Legal Tech within firms. With 77% of respondents expecting significant investment in new technologies, particularly AI-based solutions, there is a clear trend towards embracing innovative tools.

Looking at the next 12 months, what new technologies will you be adopting?



Additionally, respondents acknowledged the role of AI in augmenting the use of Legal Tech, recognizing its ability to contribute to firms’ efficiency, profitability, and overall value creation within the legal industry.

Firms Move Towards All-in-One Solutions

As technology continues to permeate the legal industry, all-in-one solutions are attracting attention.

With 55% of respondents planning to invest in all-in-one solutions over the next 12 months and 45% focusing on CRM, there is a clear need for simplification, centralization, and integration to fully realize their potential.

55%



of respondents planning to invest in all-in-one solutions

45%



of respondents planning to invest in CRM

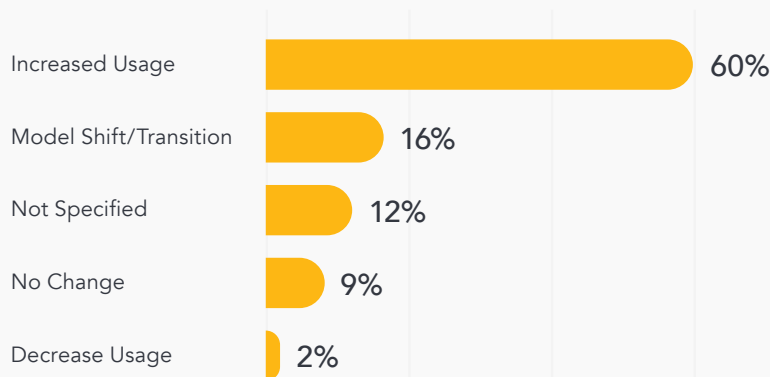
This indicates a growing trend towards streamlined business operations, with companies increasingly recognizing the need for efficient, integrated systems. Adopting all-in-one solutions and CRM software not only simplifies business processes but also improves data management and impacts client experience.

Alternative Fee Arrangements Are Favored Over the Billable Hour

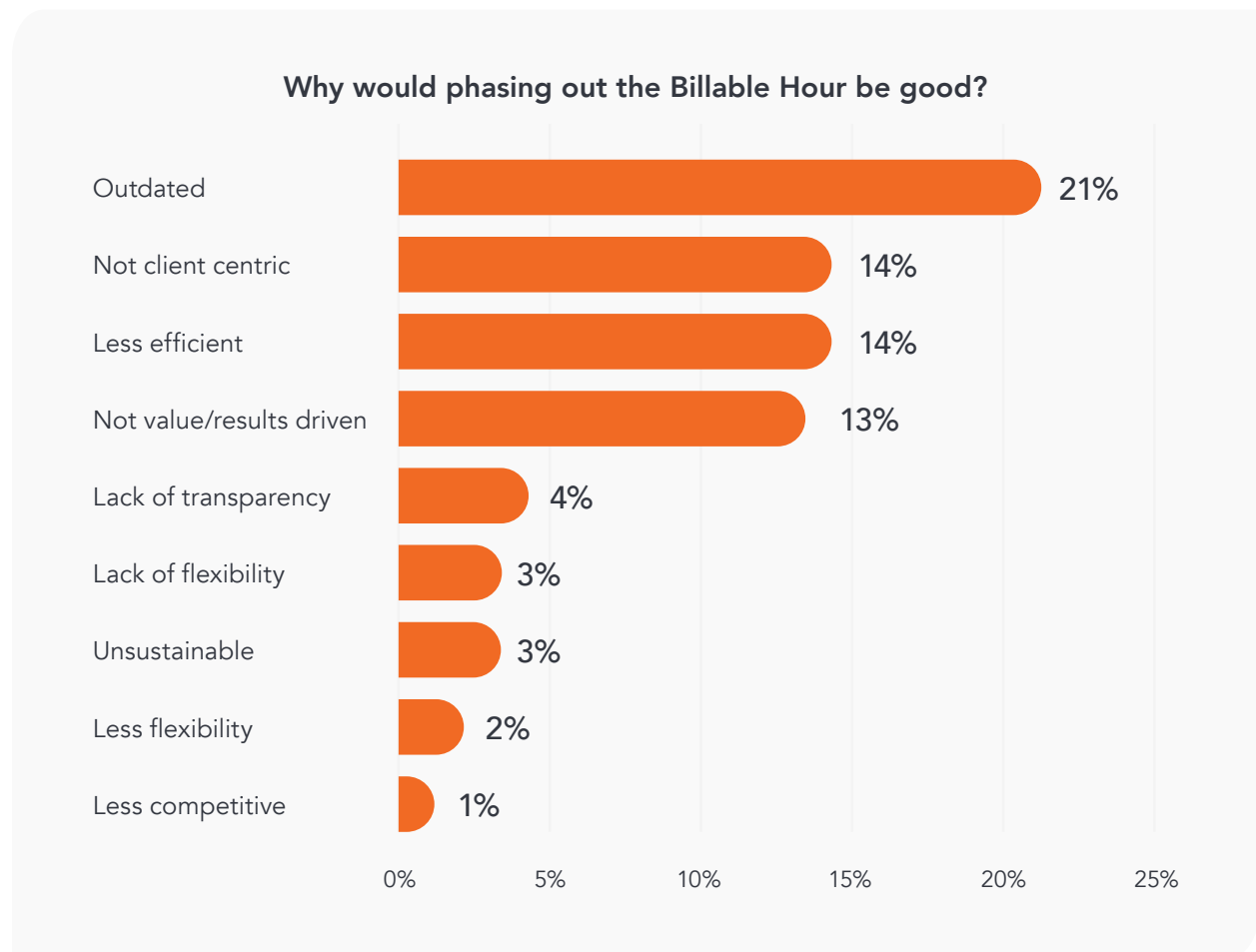
There's been an increase in usage of AFAs (60%), and more than half of respondents (64%) favor phasing out the billable hour.

Remarkably, 70% of respondents reported that nearly half or more of their work was AFA-based, with 60% noting a recent increase in AFA usage over the past two years. This surge in AFA adoption can be attributed to several factors, primarily driven by a client-centric focus. Customer satisfaction and demand (33%), cost considerations (17%), and the necessity to keep pace with industry standards (14%) were cited as primary motivators for changes in AFA usage.

How has your firm's alternative fee arrangement (AFA) usage changed in the last 2 years?



Interestingly, a substantial majority (64%) of respondents expressed support for phasing out the traditional billable hour system. This sentiment is rooted in the perception of the billable hour as outdated (23%), not aligned with client interests (21%), and inefficient, often leading to time inflation to maximize pay (14%).



Among the various types of AFAs employed, flat fees emerged as the most extensively utilized, with a usage rate of 66%. This data underscores a notable, and consistent, shift in the legal industry towards more flexible and client-friendly billing practices.

Law Firms Prioritize Profitability Metrics with Consistent Accessibility

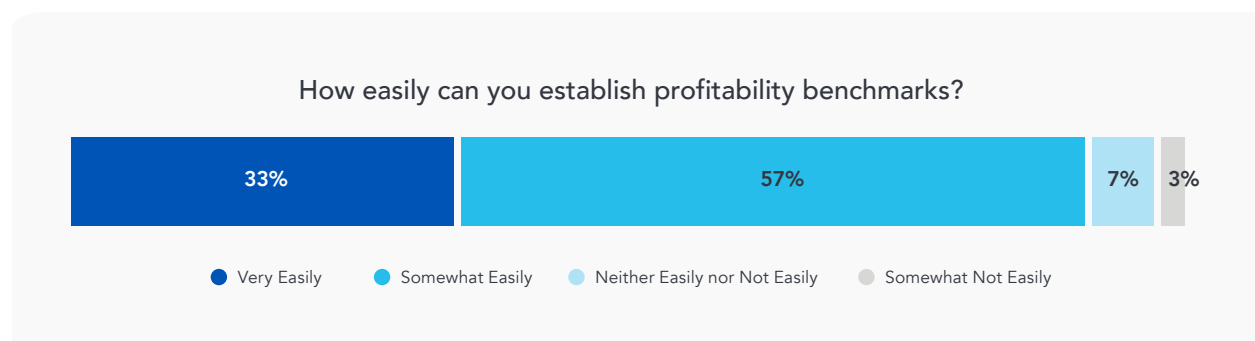
A staggering percentage (95%) of participants are confident with their firm’s probability metrics and feel they have proper accessibility to those metrics.

The survey indicates a high level of confidence among participants regarding their firm’s profitability metrics, with 95% expressing assurance irrespective of location or firm size.

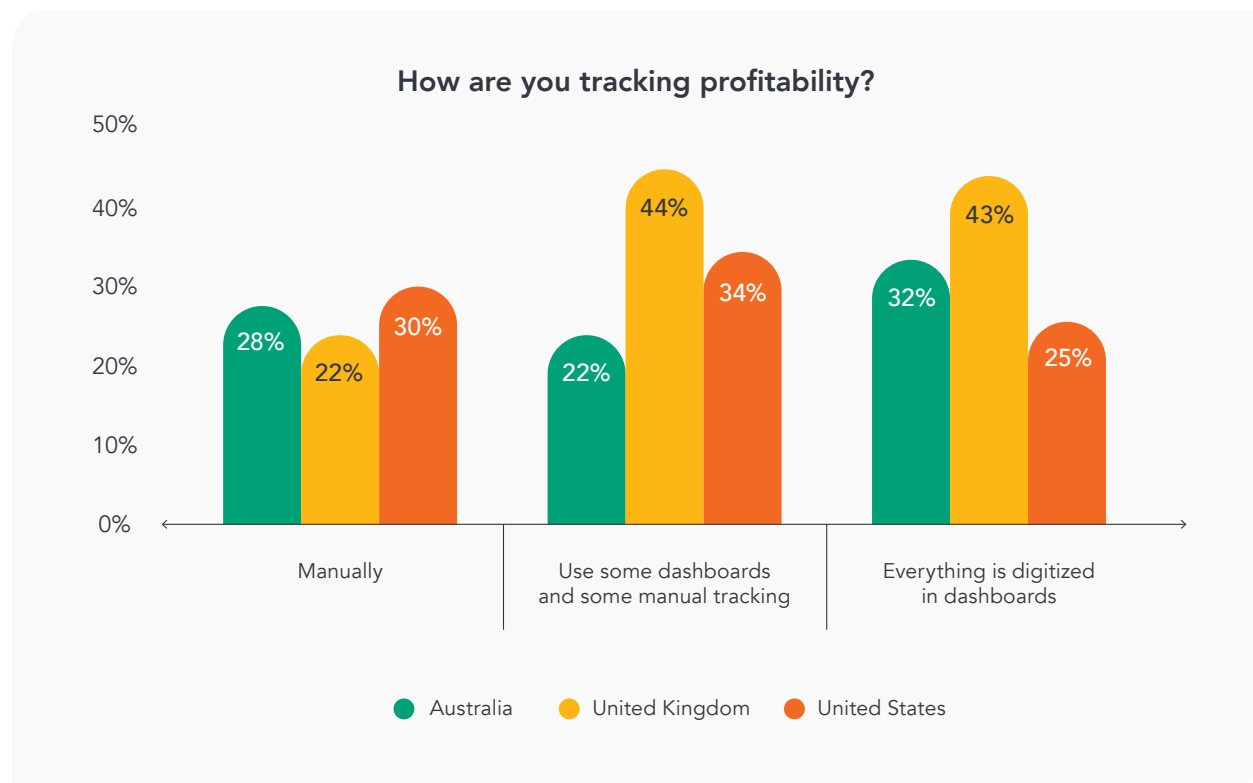
Accessibility to revenue metrics is also notably high, with 90% finding it easy to access revenue data, suggesting a prioritization and effective development of access to financial metrics. While country variations exist, such as Australia reporting slightly easier access, overall, there’s uniformity in viewing profitability metrics across various factors like matter, lawyer, practice group, industry, and client.



Establishing profitability benchmarks is similarly perceived as easy by 90% of participants, indicating streamlined processes in determining profitability and setting benchmarks.



Despite little variability in profitability tracking methods, with a third of respondents using each option, a combination of manual methods and dashboards is slightly favored.



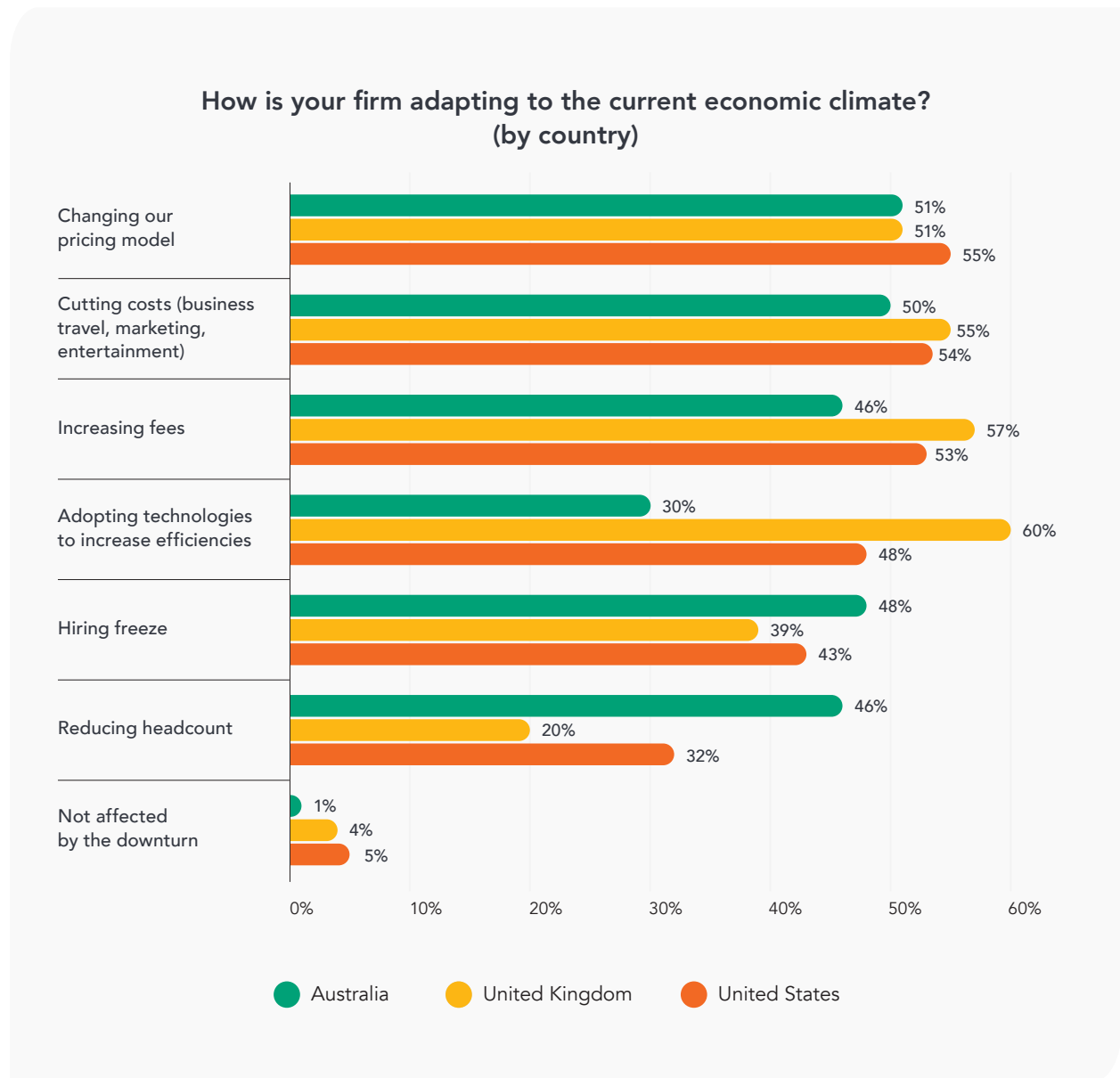
Interestingly, while firm size doesn't significantly influence profitability tracking, there's a tendency for large firms to utilize dashboards alone, possibly indicating a more advanced transition to fully digitized tracking systems.

Amid Economic Challenges, Firms Strategically Adapt Pricing Models and Costs

Firms adapted to the current economic climate by changing pricing models, cutting costs, and increasing fees (above 50%)

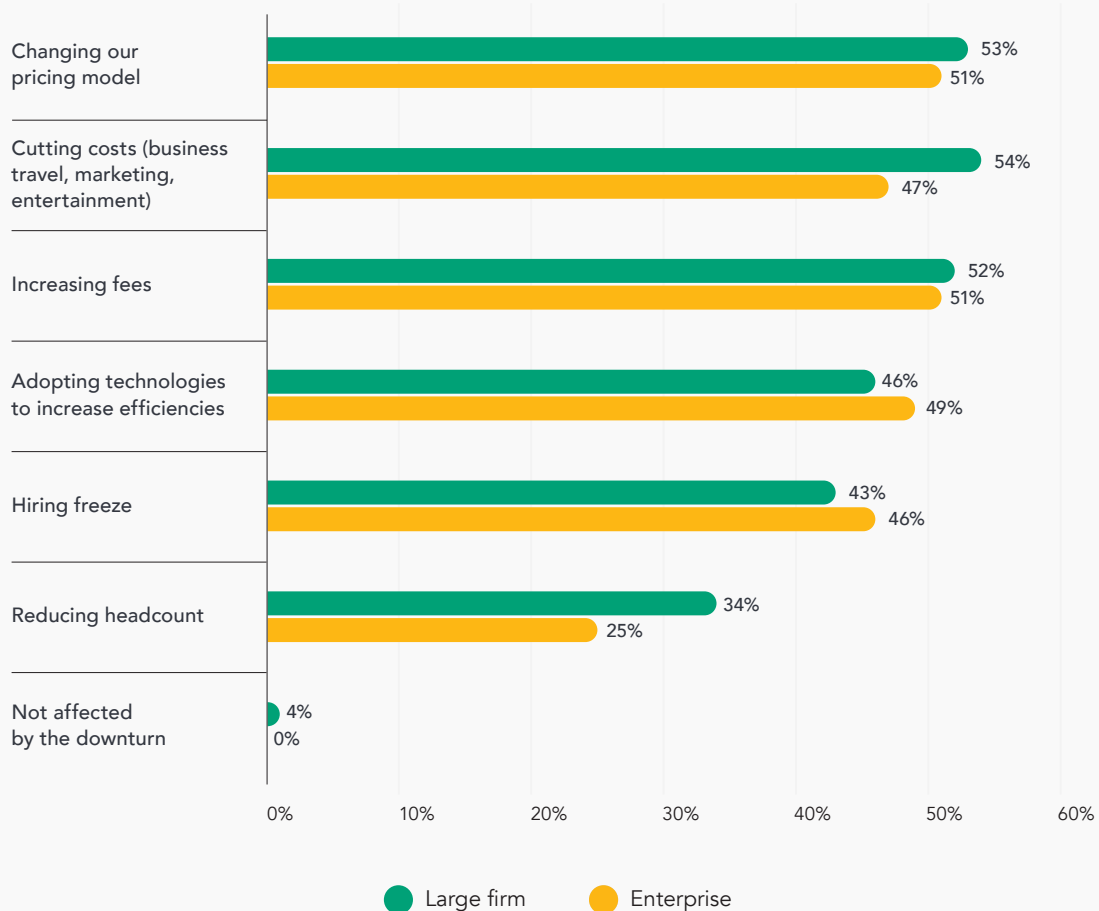
Amid the current economic climate, law firms have demonstrated adaptability by implementing changes to pricing models, cost-cutting measures, and fee increases. This indicates a widespread acknowledgment of the economic challenges and proactive steps taken by firms to navigate them.

While a minority claimed no impact on operations, the majority opted for various adaptive strategies. Interestingly, country-wise variations emerged, with Australia leaning towards headcount reduction (46%) and lagging in technology adoption (30%), while the United Kingdom showed a contrasting trend, prioritizing technology adoption (60%) over reducing headcount (20%). The US followed the UK in this trend by also favoring technology adoption (48%) over reducing headcount (32%), suggesting a proactive stance towards leveraging technology to weather economic challenges.



Firm size didn't significantly influence adaptive methods, although large firms tended to make greater reductions in headcounts, potentially due to increased sensitivity to staffing costs. Overall, these findings underscore the agility and strategic foresight of law firms in responding to economic pressures.

How is your firm adapting to the current economic climate? (by firm size)



Conclusion

The survey findings illuminate a landscape where legal professionals are increasingly recognizing the value of technological integration, with AI emerging as the focus for enhancing efficiency and value creation. The dominance of flat fees in AFAs coupled with the overall increase in use of AFAs underscores the need for firms to adapt their fee structures to meet evolving client expectations, while the high confidence in profitability metrics highlights the industry's prioritization of financial analysis.

Despite facing economic challenges, law firms demonstrate remarkable adaptability, with proactive measures such as changes in pricing models and cost-cutting initiatives. The variations observed across regions and firm sizes indicate nuanced approaches to navigating economic pressures, with a notable emphasis on technology adoption in certain jurisdictions.

By addressing these challenges and capitalizing on emerging opportunities, firms can position themselves for success alongside their peers.

Recommendations

1 Embrace AI

Law firms should be actively investing in integrating AI into their operations and workflows to capitalize on efficiency gains, start to gain insight into their work, and deliver more value for their clients.

2 Maximize AFA Utilization

Given that “the death of the billable hour” is perceived as a positive change, firms should be assessing how to shift more of their work to client-centric and value-driven AFAs.

3 Integrate and Simplify

Streamlining processes, simplifying usage, and encouraging adoption are key to unlocking tech’s potential.

4 Enhance Accessibility of Profitability Metrics

Firms who are not confident in their profitability metrics, or who have not created transparency into their financial metrics across the organization, are now in the small minority and must prioritize improving these areas to facilitate data-driven decision making.

5 Strategically Adapt to Economic Trends

In response to economic challenges, law firms should strategically adjust pricing models, implement cost-saving measures by better utilizing technology, and consider fee adjustments to maintain financial resilience. It’s essential to tailor these strategies based on regional dynamics and firm size to effectively navigate economic fluctuations.

How Can Litera Help You?

As a leading provider of legal technology solutions, Litera is proud to serve over 2.3 million legal professionals worldwide, including 99% of the Am Law 100. Our innovative tools have been designed specifically for the legal industry, revolutionizing the way law firms of all sizes manage their work. With technology crafted by legal experts, Litera is transforming the way legal teams of all sizes perfect documents, run deals, and manage cases.



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Litera's purpose-built law firm finance solutions are valuable tools for pricing, profitability, and business intelligence that put accurate data at your fingertips.

Litera's Clocktimizer uses natural language processing (NLP) to automatically read time-card narratives, helping law firms to price matter competitively, but profitably, keep matters within scope and budgets, and recover your time billed quickly from your clients. Clocktimizer's NLP classifies time entries based on their narratives, which, unlike using phase and task codes, is accurate, flexible and allows for analysis of both historical and current data. This creates more accurate reporting, and a more profitable firm.

BigSquare helps law firms gather, understand and visualize their financial data quickly and easily by providing self-service business intelligence to attorneys, finance departments and pricing teams. BigSquare's persona-based dashboard provides a 360-degree view of your firm's financial performance, helping attorneys uncover hidden opportunities, and make data-driven decisions while staying on top of KPIs.

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Tapping into the Power of Gen AI

Litera has been pioneering AI in the legal space for over a decade. Kira's machine learning AI captures over 1,400 clauses and data points of interest from contracts and other documents and is used by 60% of the Am Law 100 and 19 of the top 25 M&A law firms globally. Our Kira Smart Summaries feature combines Kira's market-leading

machine learning with GenAI to enhance accuracy and speed in analyzing content in contracts and other documents, enabling them to deliver recommendations and strategic advice to their clients faster.

The Foundation platform centralizes your firm's data and provides you with quick and easy access to complete profiles of your clients, matters, and lawyers. With our GenAI deal-point database, Foundation Dragon, layered on top of Foundation, law firms can now answer complex legal questions like "what's market?" in seconds with the power of GenAI.

Until now, your firm's collective experience has been locked away in siloed systems and transaction documents, making it nearly impossible to capitalize on. But by integrating Litera Foundation with Foundation Dragon, you can leverage your firm's experience and get concrete answers, rather than search results, to complex legal questions.

[Find out more about our AI solutions](#)



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This gives firms the flexibility to choose what's right for them and transition gradually, whilst being supported by a team with deep industry expertise and experience. So, the usual risk of large system changes is removed, but the firm gets access to all the capabilities needed to support their strategy.

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Litera has been a global leader in legal technology for 25+ years, helping legal teams work more efficiently, accurately, and competitively. As a leader in document workflow, collaboration, and data management solutions, we empower legal teams with simplified technology for creating and managing all their documents, deals, cases, and data.

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