

2016
Chief Legal Officer Survey
An Altman Weil Flash Survey



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2016 Chief Legal Officer Survey

Each year the *Chief Legal Officer Survey* provides insights into the state of in-house law departments from the perspective of their leaders and chief lawyers. In 2016 the survey shows an incremental strengthening of trends that we have seen emerging since the recession.

Chief Legal Officers (CLOs) report that their departments are most valued for their ability to advise the CEO and corporate board, support the organization's business objectives and manage legal risk. They are buffeted by market forces that include the challenges of new technologies, an increasingly complex regulatory environment, a profoundly unsettled relationship between law, risk, and compliance, and a chronically slow-growth economy with powerful global trade volatility. They're also concerned about persistent cost pressures, the lack of innovation in service delivery by law firms, and the career expectations of millennials coupled with the retirement of senior lawyers.

In this demanding environment, many Chief Legal Officers are embracing the role of change agents, wielding their buying power, leveraging technology and process efficiency, and outsourcing to alternative providers, all to build a more effective and flexible legal function.

Cost Control and Efficiency

Cost pressures are a primary concern for CLOs, encompassing both internal budget constraints and outside counsel fees.

The number one tactic used by law departments to control costs, according to the survey, is improving the efficiency of how they get work done within the department. Top efficiency initiatives are the greater use of technology tools, and restructuring or reorganizing internal resources. Other process improvements include the collection and analysis of management metrics, knowledge management efforts, and project management training.

The importance of administrative professionals is growing in law departments. One third of all departments and three-quarters of law departments with 50 or more lawyers now employ a Legal Administrator to manage day-to-day operations, oversee financial operations, department technology and personnel. This role (with

its myriad titles) is still being defined and its incumbents represent a wide variety of experience and talent.

Externally, outside counsel present a broad target for cost cutting. The survey shows this is usually a multi-pronged effort that includes negotiating discounts and alternative fee arrangements, reducing the total amount of work sent to law firms and shifting work to lower priced firms.

When law departments reduce their total outside counsel spend, they usually bring much of the work previously done by law firms in-house to be done by their lawyers and non-lawyer staff. Sometimes they outsource the work to non-firm vendors (e.g. for e-discovery, document review, due diligence, legal research, etc.), or reassess the risk profile and decide that it's work they no longer need to do.

More than half of all law departments report that they outsource some work to non-firm vendors (up from 43% in 2012, when we last asked the question, to 57% this year). The two types of work most likely to be outsourced are litigation discovery (including e-discovery) and document review.

Overall, Chief Legal Officers continue to struggle with rebalancing the mix of resources they rely on to provide legal services. To do this, they are shifting work from outside law firms to their own in-house lawyers; making greater use of contract and temporary lawyers; moving some in-house work from lawyers to paralegals and other paraprofessionals; and outsourcing to non-law-firm vendors. *By disaggregating legal work and pushing each element down to its most cost-effective level, CLOs keep refining the legal service equation.*

Technology and Data Analytics

The ongoing evolution of technology applicable to law practices is another market force affecting the legal profession, according to CLOs surveyed. This can represent new costs – as law departments must manage new risks arising from data privacy and data security concerns. But technology can also be a tool to control costs and play a contributory role in redesigning the in-house legal function in a new and more efficient form.

One of the ways law departments can leverage technology is through management metrics and data analytics, but most departments are at the beginning of the learning curve in these areas. While 39% of law departments report collecting and analyzing management metrics to improve efficiency, only 6.6% report getting great value from those efforts. In the coming years, we expect to see steady increases in

both the use of more sophisticated data analysis, and the value that CLOs will derive from it.

In assessing their departments' effectiveness in analyzing data on outside counsel spending, CLOs give themselves a median rating of five on a zero to ten scale. When asked how many of their top ten law firms have provided useful spend analysis to the law department, 73% of CLOs reported that none of them had. Although law departments still have much room to improve in this area, it seems that law firms aren't even in the game. We think law departments would reward law firms that seized this obvious opportunity to provide meaningful data – and the bar for success here is low.

Law Department Staffing and Budgeting

In the next twelve months, four times as many law departments plan to add in-house lawyers as those planning to make cuts to lawyer staff, continuing a seven-year survey trend in which increases exceed decreases by many multiples. The same pattern of more increases than decreases is also planned for contract lawyers, paralegals and support staff in law departments.

From 2015 to 2016, half of law departments increased their internal budgets, while just over a quarter decreased in-house spend. This is the seventh year in a row that the survey has found about twice as many departments increasing internal spend compared to those decreasing the internal budget. For outside counsel budgets from 2015 to 2016, 41% of law departments decreased their spend, while 32% of law departments made increases.

The Inside-Outside Relationship

Among the reasons that law departments switch law firms, the themes of problematic service, cost and efficiency appear prominently. In the last twelve months, 53% of law departments say they shifted a portfolio of work worth \$50,000 or more because of a client service issue; 41% switched to another firm in pursuit of lower fees; and 30% moved their work to a firm that was more effective in managing matters.

Every year since 2009, the survey has asked law departments to assess law firms' seriousness about changing their legal service delivery model. In 2016, for the eighth year running, CLOs rated law firms at a median three on a zero to ten scale in which zero equals 'not at all serious' about change and ten equals 'doing everything they can.' For their part, law departments say they're putting a moderate amount of

pressure on law firms to change. Departments rate the level of pressure they apply at a median six on a zero to ten scale.

Why aren't CLOs putting more pressure on their outside counsel to change the way they deliver legal service? In a final survey question we explored that question and found respondents split into three camps.

About one third of CLOs are either satisfied with the current delivery model (17.4%), or they have asked for changes and their outside counsel have complied (13.4%).

Another third (34.1%) of CLOs said they are focused on prices and outcomes rather than the service delivery model. This isn't necessarily an expression of satisfaction or dissatisfaction with the model, but rather a statement about the primarily transactional nature of their relationship with outside counsel.

The final third is more openly dissatisfied with the law firm model. Among this group, 14.5% say they have asked for changes, but have not gotten the results they wanted; 11.7% have not asked for changes, but have used firms less or dropped them entirely because of unsatisfactory service delivery. Finally, 9.1% believe it's not their job to ask – instead law firms should act proactively to improve

In a series of comments about this question, Chief Legal Officers expressed their frustration with outside law firms that are slow, reluctant or ill-equipped to change. Law department leaders who have learned to marry their legal training with a pragmatic business mindset would like to see the same evolution in the law firms that represent them. But – at least for now – in-house lawyers are outpacing their law firm colleagues as agents of change in the profession.

The 2016 Survey

The ***Chief Legal Officer Survey*** has been conducted and published annually by Altman Weil since 2000, most recently in September and October 2016. Three hundred and thirty six responses were received for the 2016 survey, 20% of the 1,711 law departments invited to participate. Demographic and budgetary data on responding law departments is included in the survey report.

The survey report follows and is online at www.altmanweil.com/CLO2016.

Survey Methodology

The large majority of survey questions were posed in a multiple choice format and responses are reported as received. Question text is transcribed in the following report exactly as it appeared in the survey. Where there were special instructions, rating scales, or supplemental definitions, that information is also included.

Free text data submitted by respondents was reviewed and, in a handful of cases, edited to correct obvious typographical errors. For numeric entries, we made a small number of corrections where the intended response was clear. In a few instances we omitted a data point as impossible to derive from the information provided.

About Altman Weil

Founded in 1970, Altman Weil, Inc. is dedicated exclusively to the legal profession. It provides management consulting services to law firms, law departments and legal vendors worldwide. The firm is independently owned by its professional consultants, who have backgrounds in law, industry, finance, marketing, administration and government.

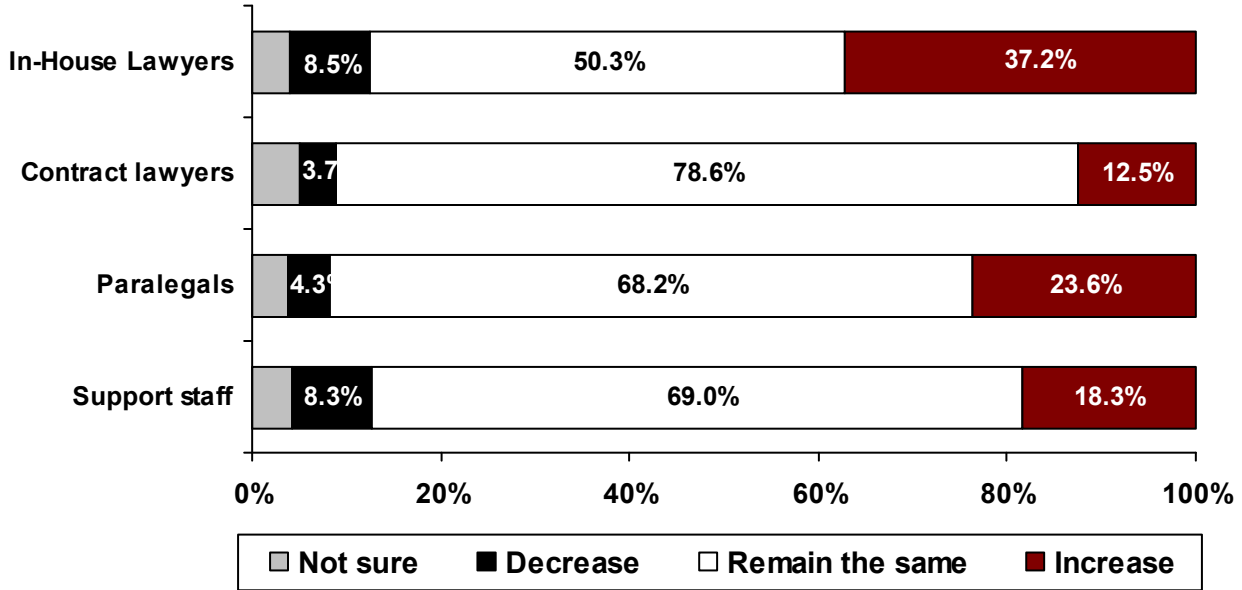
More information on Altman Weil can be found at www.altmanweil.com.



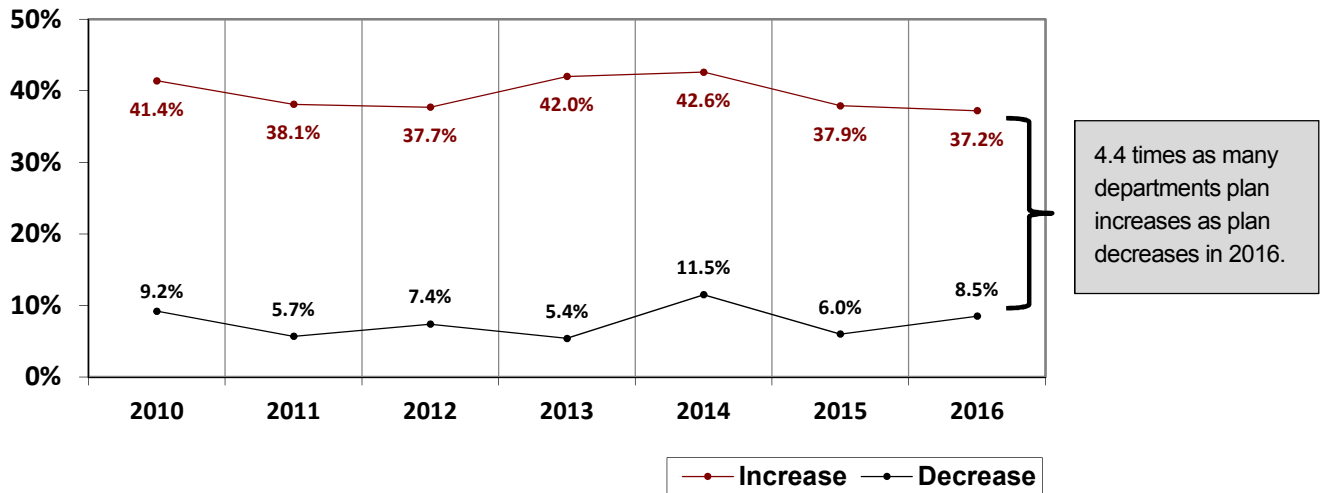
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1. Law Department Workforce

Within the next 12 months do you plan to increase or decrease your Law Department workforce?



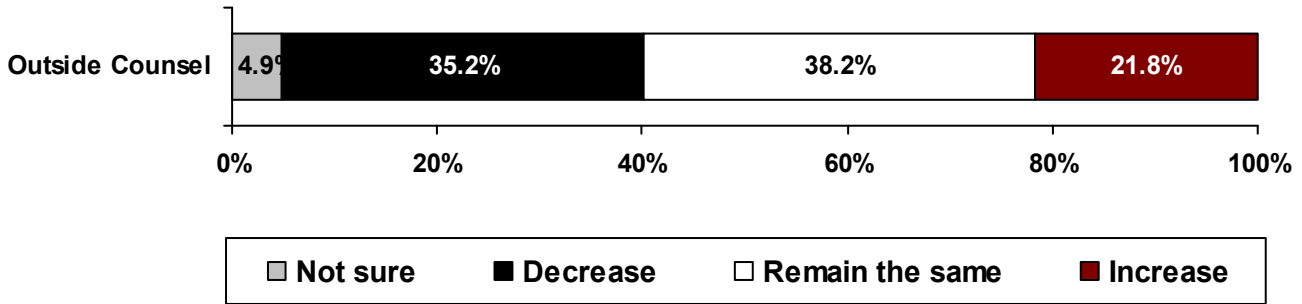
TREND: Increase or decrease your in-house lawyer workforce



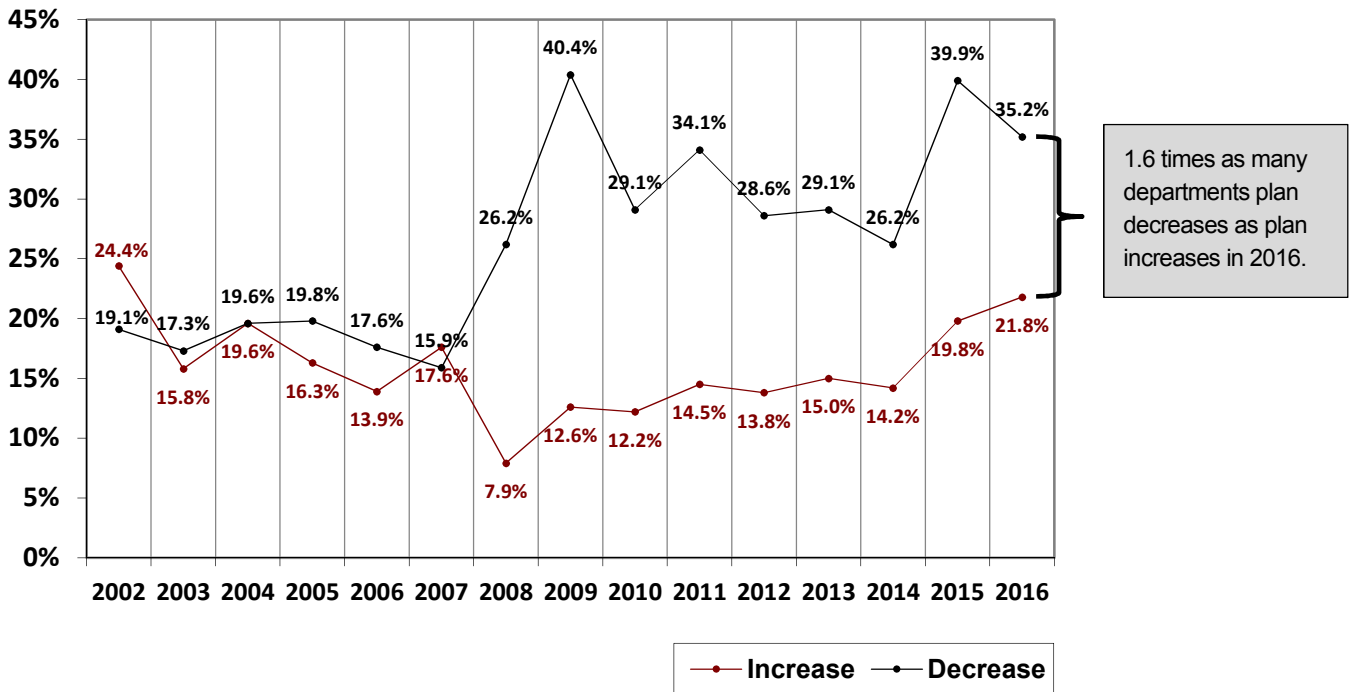
Trend data compiled from 2010 - 2016 Chief Legal Officer Surveys.

2. Outside Counsel Spend

Within the next 12 months do you plan to increase or decrease your overall spend on outside counsel?



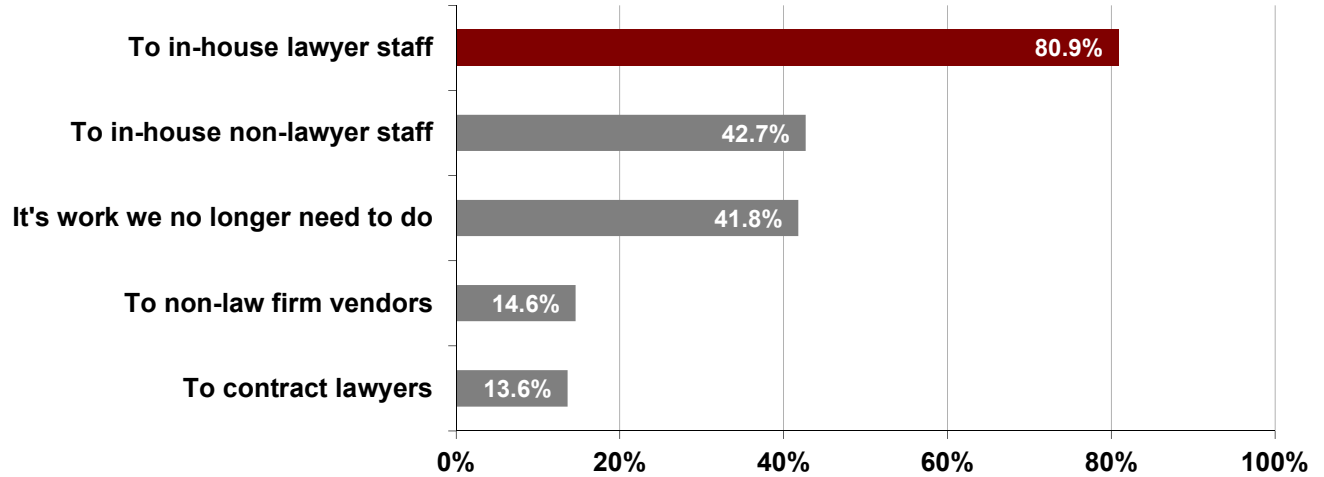
TREND: Increase or decrease your spend on Outside Counsel



Trend data compiled from 2002 - 2016 Chief Legal Officer Surveys.

3. Reallocation of Outside Counsel Spend

If you plan to decrease your spend on outside counsel in the next 12 months, where will the work go? (Check all that apply.)



Non-law firm vendors defined for this question as: “e.g., for e-discovery, document review, due diligence, legal research, etc.”

OTHER (representative responses)

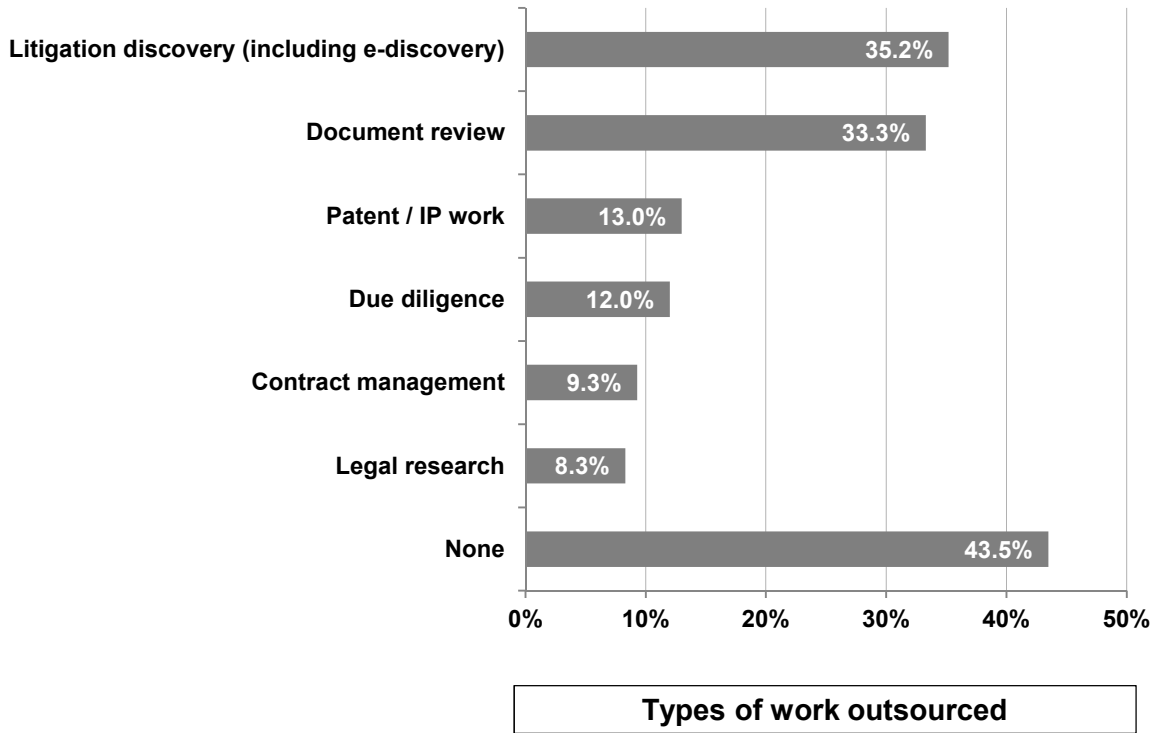
Shift to lower price firms

Consolidate work

Decrease spend with more alternative fee arrangements

4. Outsourcing

What types of work have you outsourced to non-law firm vendors in the last 12 months that you used to give to law firms? (Check all that apply.)



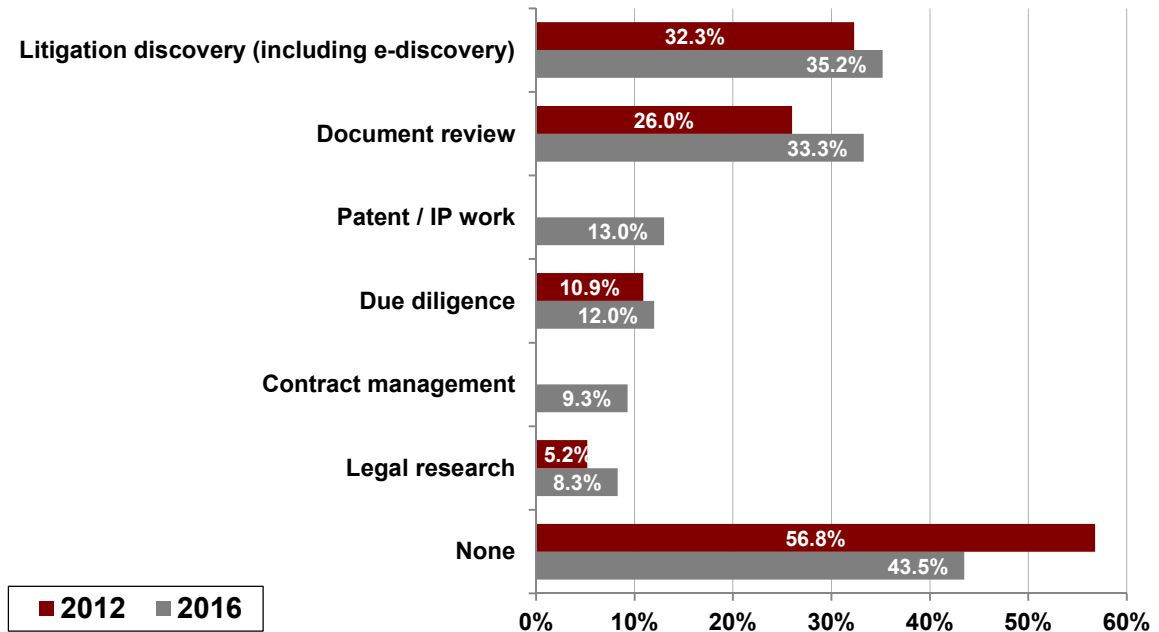
4a. What is the approximate total dollar value of the work shifted from law firms to non-law firm vendors in the last 12 months?

| | Minimum | 1 st Quartile | Median | 3 rd Quartile | Maximum | Average |
|------|----------|--------------------------|-----------|--------------------------|-------------|-----------|
| 2016 | \$10,000 | \$100,000 | \$250,000 | \$825,000 | \$5,000,000 | \$754,644 |

45% of those who reported shifting work away from law firms provided the dollar value of that work.

TREND: Outsourcing 2012 v. 2016

What types of work have you outsourced to non-law firm vendors in the last 12 months that you used to give to law firms? (Check all that apply.)



Additional outsourcing options were added in the 2016 survey.

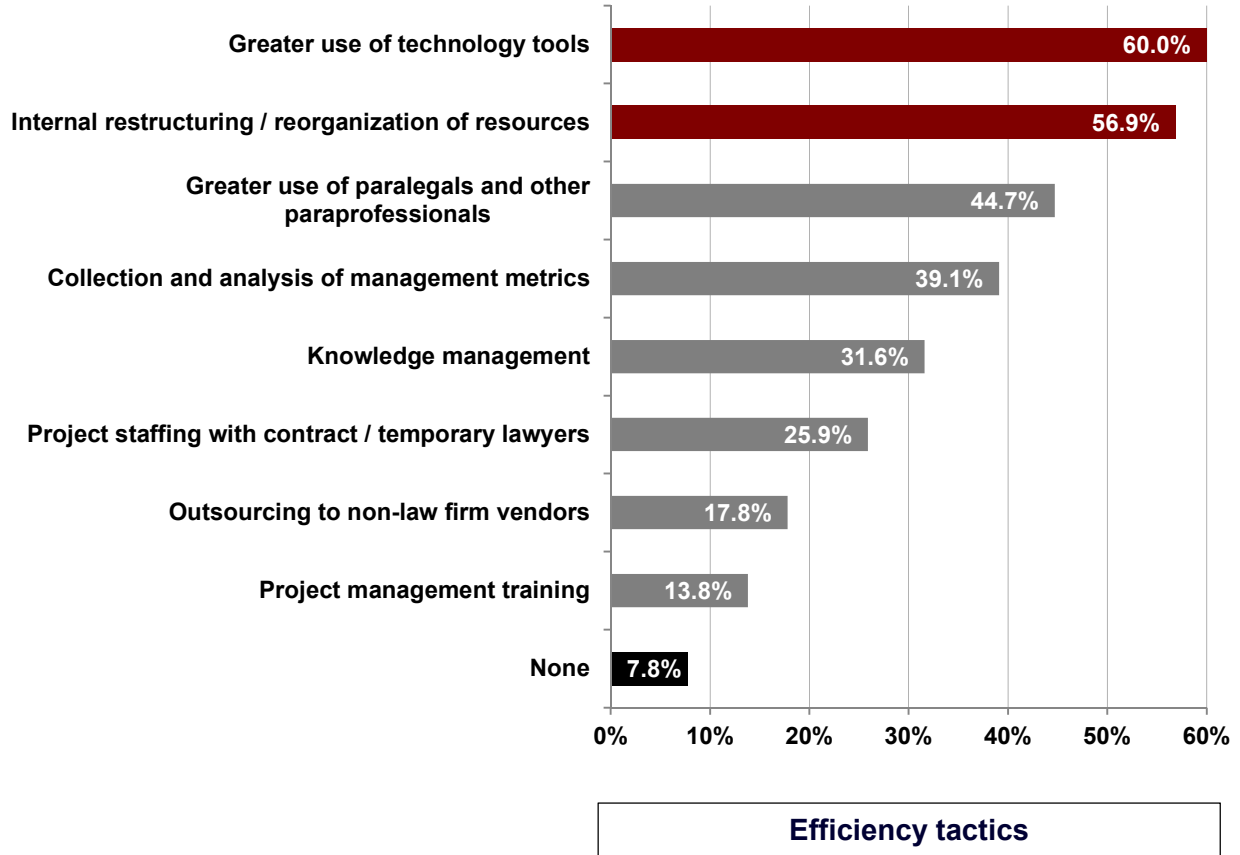
What is the approximate total dollar value of the work shifted from law firms to non-law firm vendors in the last 12 months?

| | Minimum | 1 st Quartile | Median | 3 rd Quartile | Maximum | Average |
|------|----------|--------------------------|-----------|--------------------------|-------------|-----------|
| 2016 | \$10,000 | \$100,000 | \$250,000 | \$825,000 | \$5,000,000 | \$754,644 |
| 2012 | \$40,000 | \$100,000 | \$300,000 | \$750,000 | \$2,000,000 | \$496,784 |

Trend data compiled from 2012 and 2016 Chief Legal Officer Surveys.

5. Law Department Management - Efficiency

In the last 12 months, have you done any of the following to increase your law department’s efficiency in its delivery of legal services? (Check all that apply.)



OTHER (representative responses)

Creation of Chief Operations Officer role

Use of agile and lean methodologies

Strategic reset of outside counsel partnerships and pricing

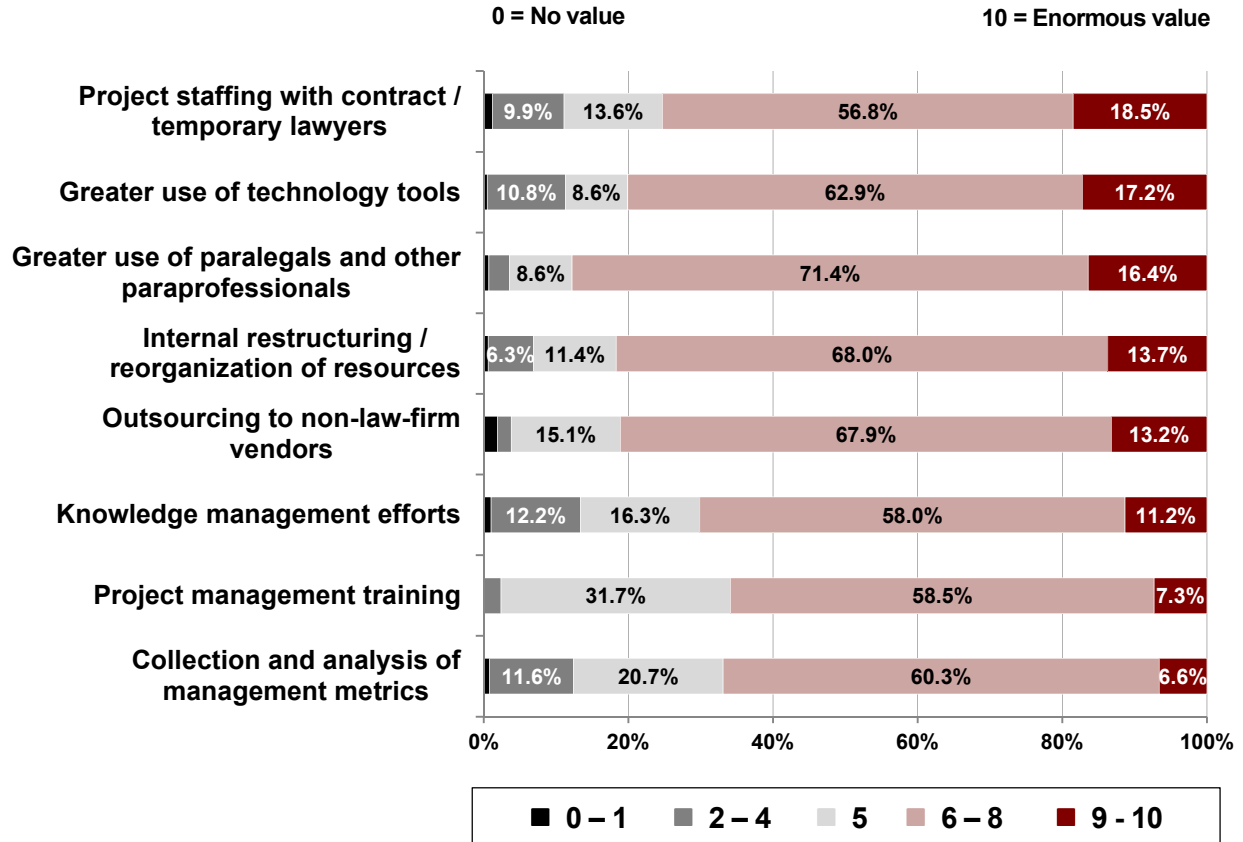
More sophisticated matter level budgeting

Streamlined contract management

5a. Value Achieved from Efficiency Tactics

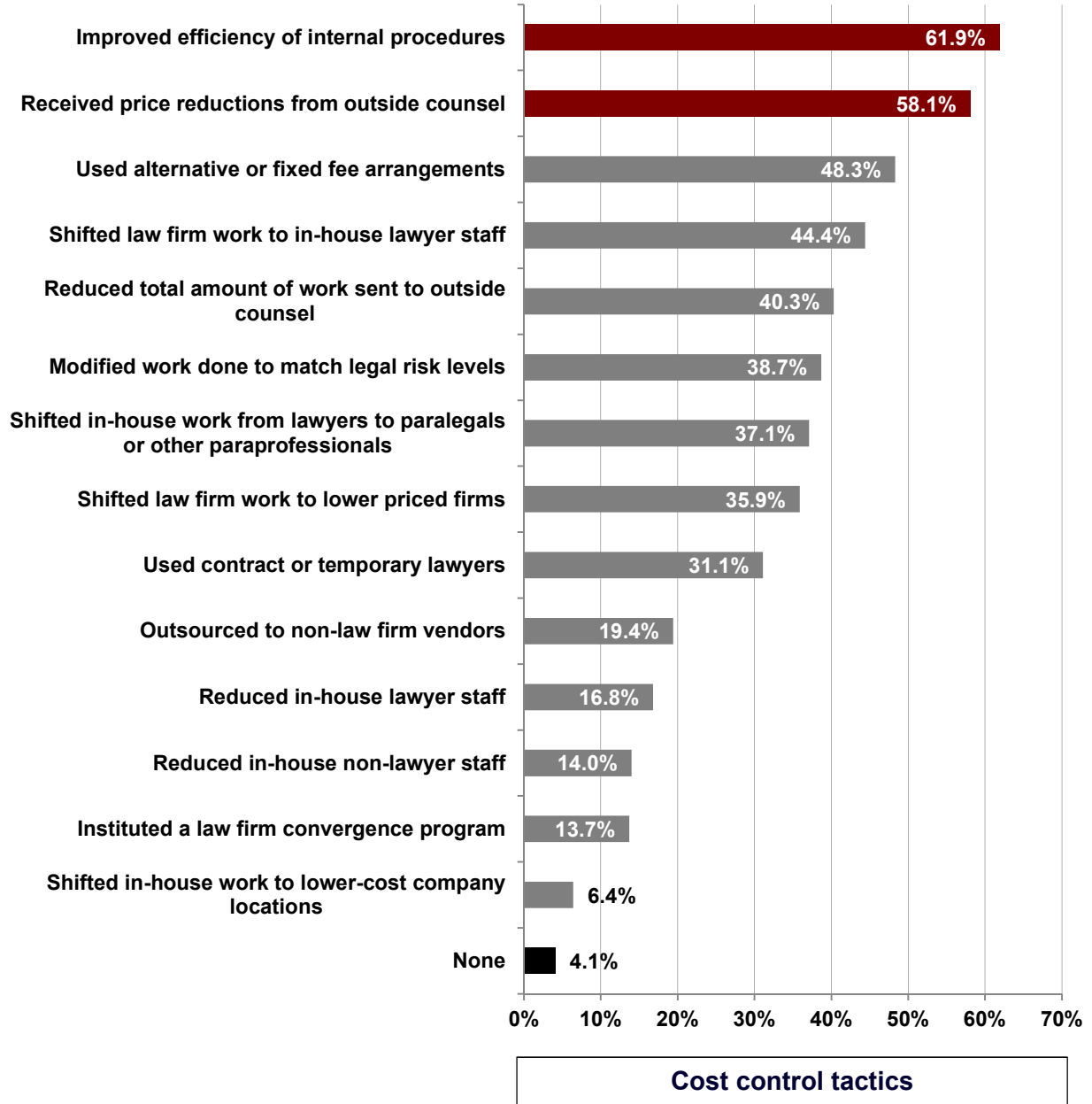
Of the initiatives you've undertaken to improve efficiency in the last 12 months, please rate them on the value of the improvement you've achieved.

Rate 0 to 10: 0 = No value to 10 = Enormous value



6. Law Department Management – Cost Control

In the last 12 months, have you done any of the following to control law department costs? (Check all that apply.)



OTHER (representative responses)

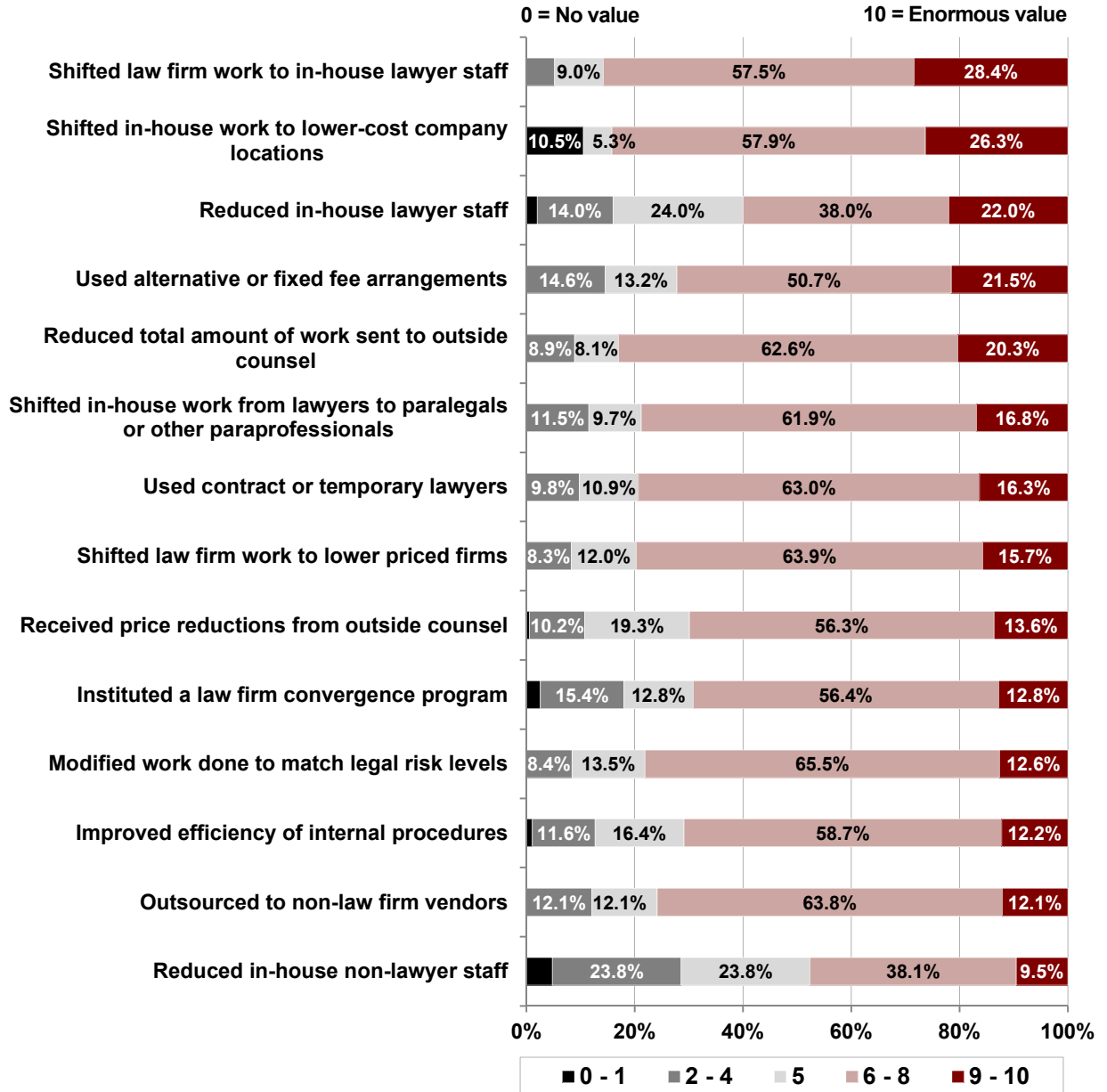
Improved monitoring / oversight of outside counsel services

Require budgeting from outside law firms

6a. Value Realized from Cost Control Tactics

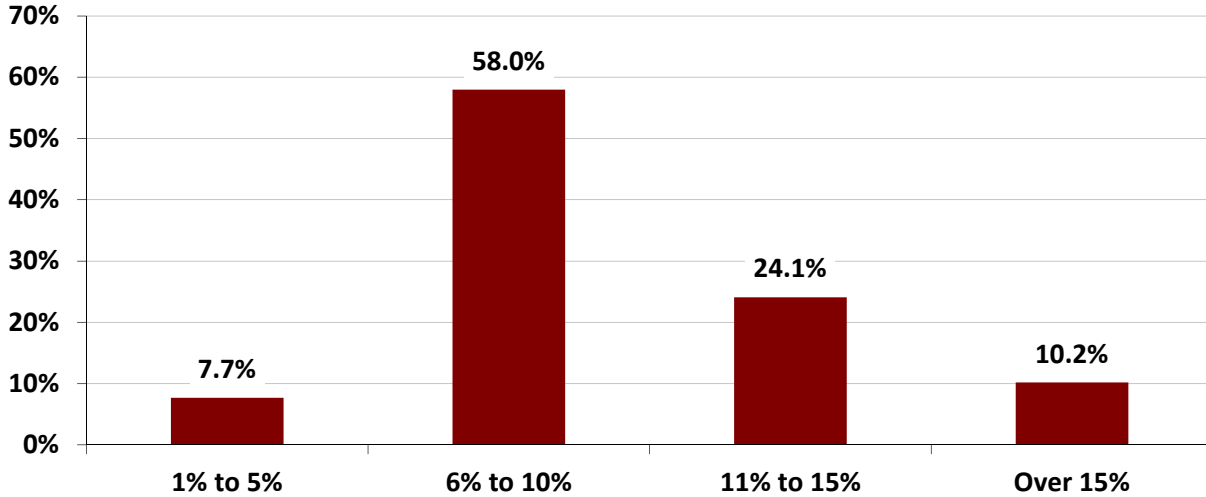
Of the initiatives you've undertaken to control costs in the last 12 months, please rate them on the value of the cost reduction.

Rate 0 to 10: 0 = No value to 10 = Enormous value

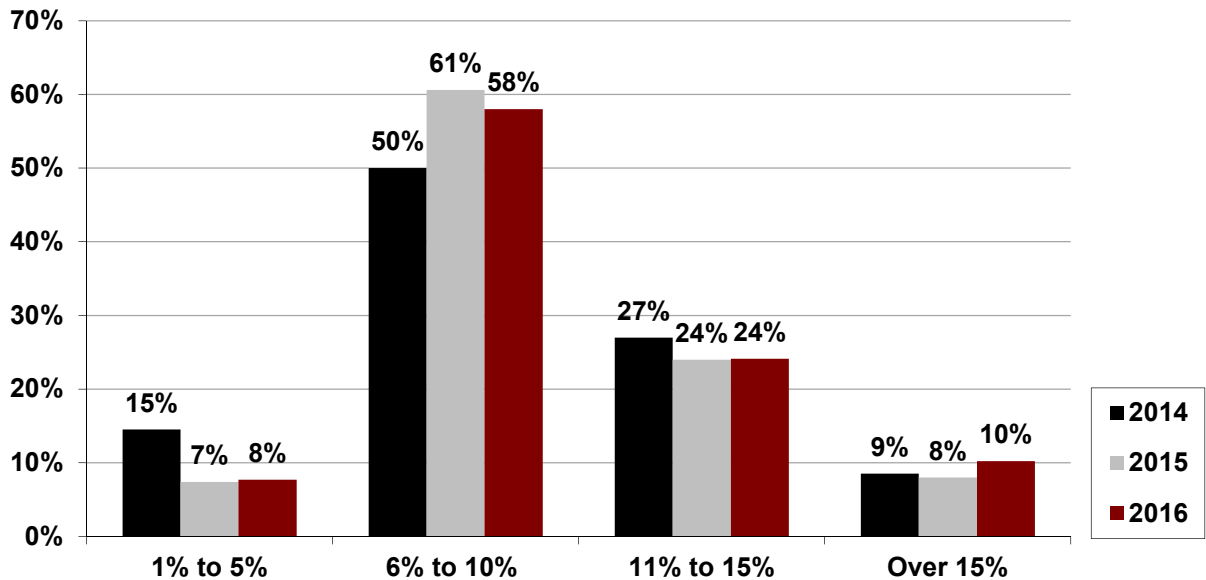


7. Discounts on Outside Counsel Rates

If you received discounts on standard rates from outside counsel in the last 12 months, what was the average price reduction received?



TREND: Average Price Reductions from Outside Counsel



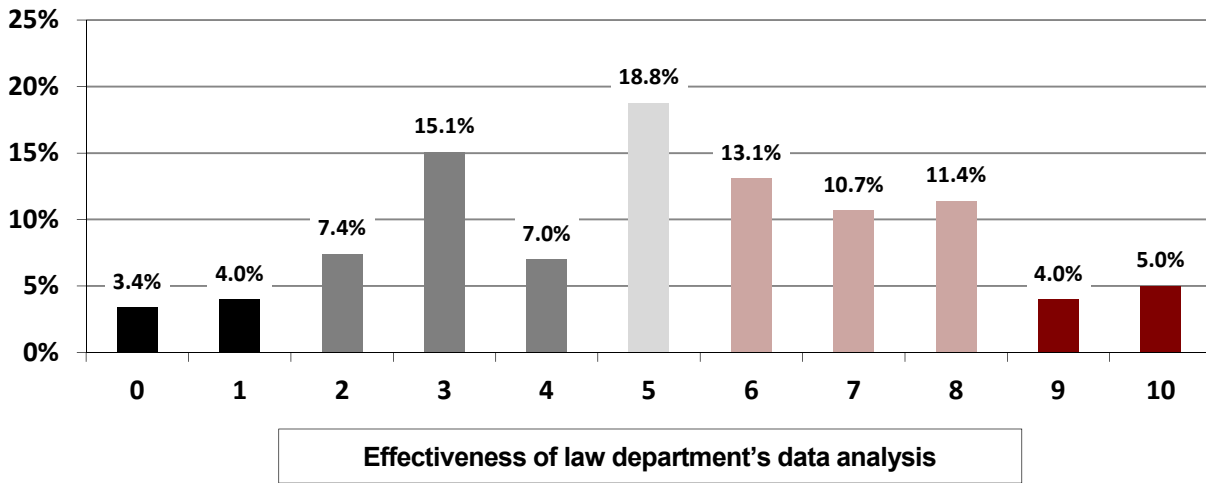
8. Outside Counsel Spend Analysis – Law Department Effectiveness

How effectively does your law department analyze and apply the data available to you on outside counsel spending?

The midpoint 5 = You have outside counsel spending data by firm and matter and periodically prepare reports for senior management.

0 = Not effective

10 = Highly effective



BY DEPARTMENT SIZE: Effectiveness of data analysis

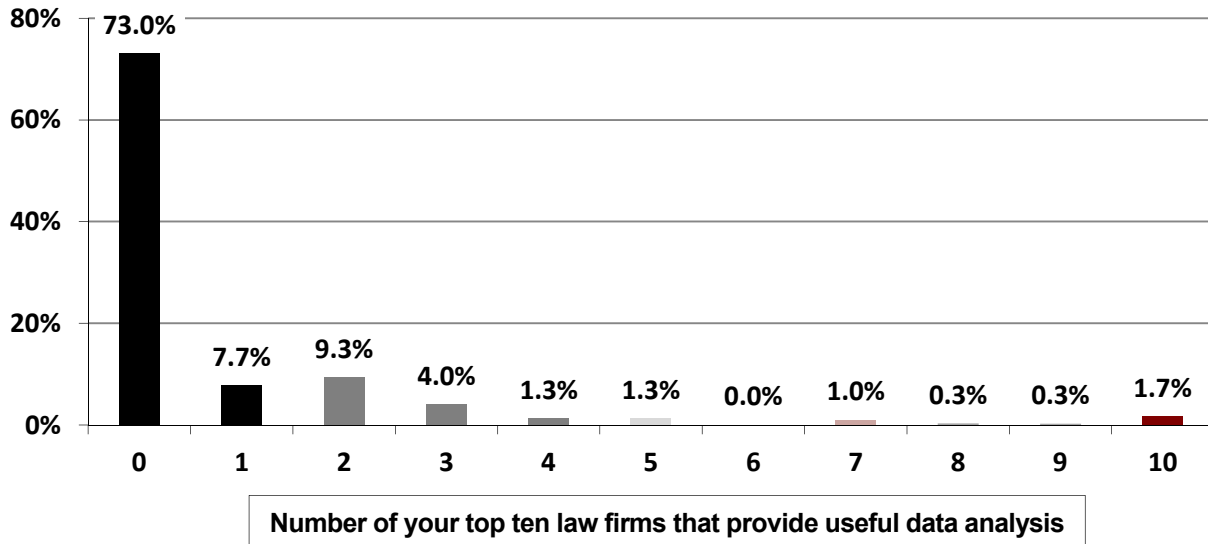
| EFFECTIVENESS OF DATA ANALYSIS | | |
|--------------------------------|--------|---------|
| DEPT. SIZE | MEDIAN | AVERAGE |
| 1 lawyer | 4 | 3.8 |
| 2-5 lawyers | 5 | 4.8 |
| 6-10 lawyers | 5 | 5.0 |
| 11-50 lawyers | 5.5 | 5.4 |
| 50+ lawyers | 6 | 6.1 |
| All departments | 5 | 5.2 |

9. Outside Counsel Spend Analysis – Useful Analysis from Law Firms

Considering the ten law firms that receive the largest portion of your outside counsel spend, in the last 12 months how many of those firms have provided you with an analysis of spending data that was useful to your law department?

0 = None of our top ten firms

10 = All of our top ten firms

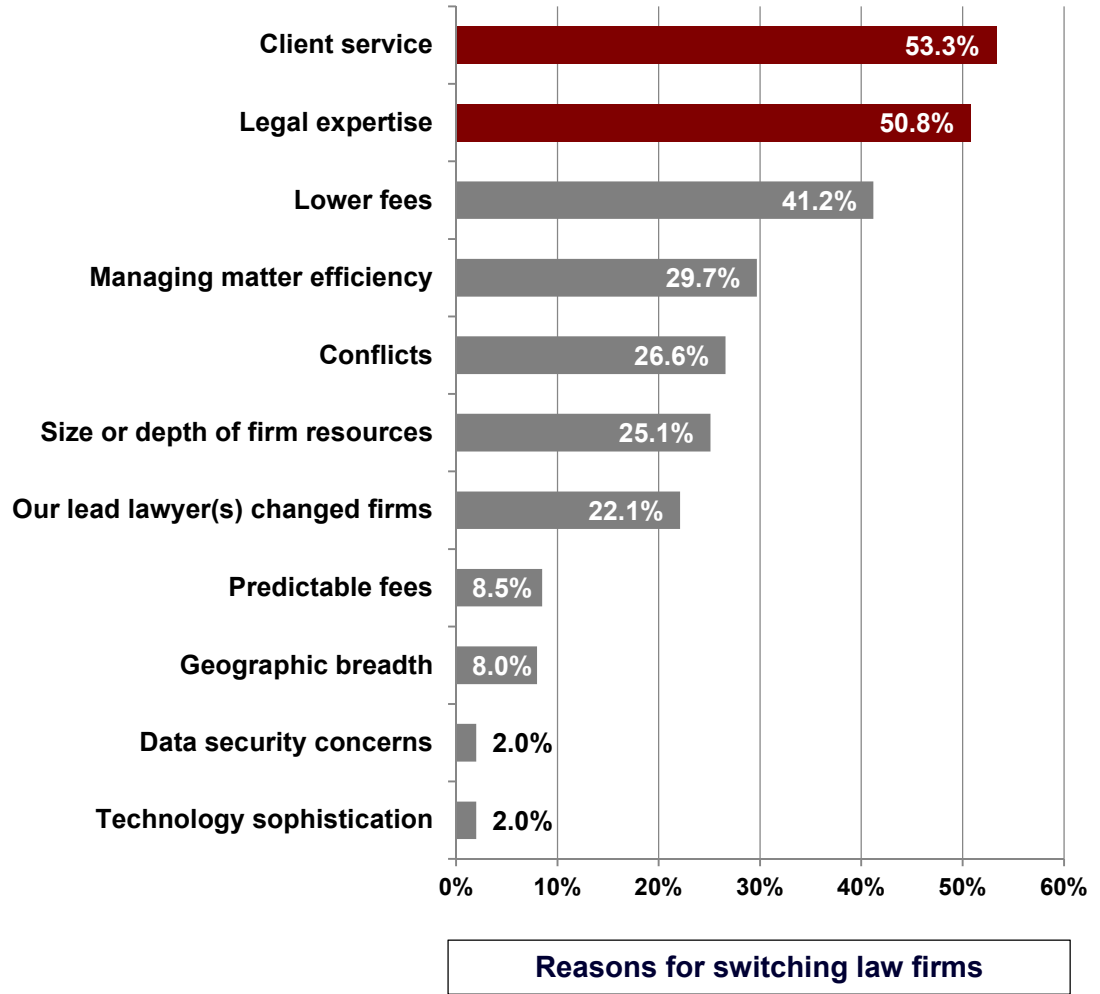


BY DEPARTMENT SIZE: Provision of useful analysis by top ten firms

| NUMBER OF TOP TEN FIRMS PROVIDING USEFUL ANALYSIS | | |
|---|--------|---------|
| DEPT. SIZE | MEDIAN | AVERAGE |
| 1 lawyer | 0 | 0.2 |
| 2-5 lawyers | 0 | 0.4 |
| 6-10 lawyers | 0 | 0.8 |
| 11-50 lawyers | 0 | 0.7 |
| 50+ lawyers | 0 | 1.6 |
| All departments | 0 | 0.8 |

10. Reasons for Switching Law Firms

In the last 12 months, have you shifted a portfolio of work worth \$50,000 or more from one law firm to another for any of the following reasons? (Check all that apply.)



OTHER (representative responses)

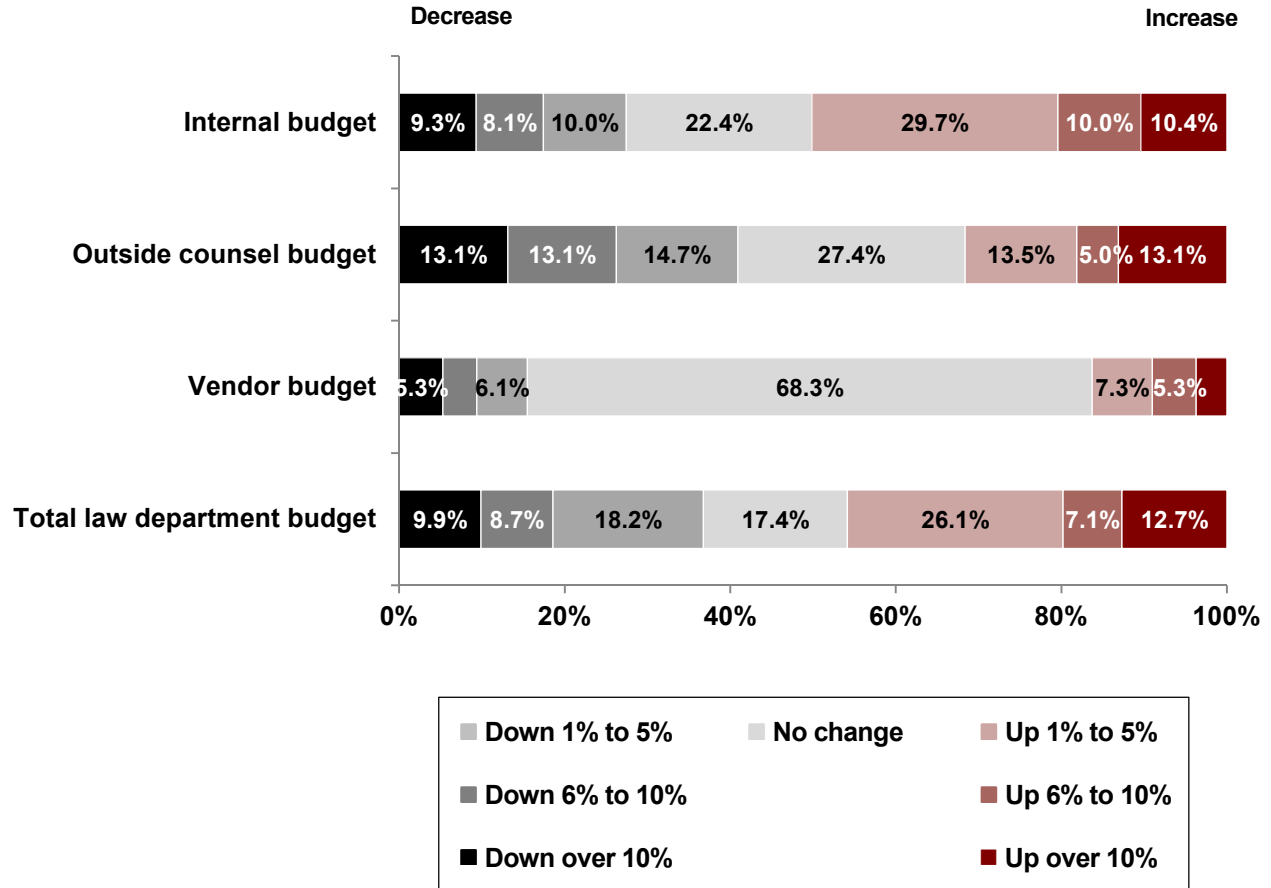
Diversity

Responsiveness

Insurance requirements

11. Law Department Budget: 2015 to 2016

Please estimate the percentage increase or decrease in your Law Department budget from 2015 to 2016.



TREND: Increase or decrease in your Law Department budget

Tables show what percentage of departments increased their budget; what percentage decreased their budget; and what percentage made no change to the budget in each category.

| Change in Law Department Internal Budget | | | |
|---|--------------------|--------------------|--------------------|
| Year | Decreased | Same | Increased |
| | % of Depts. | % of Depts. | % of Depts. |
| 2011 to 2012 | 27.6% | 26.3% | 46.1% |
| 2012 to 2013 | 17.3% | 26.2% | 56.6% |
| 2013 to 2014 | 24.8% | 20.8% | 54.4% |
| 2014 to 2015 | 25.2% | 24.0% | 50.9% |
| 2015 to 2016 | 27.4% | 22.4% | 50.1% |

| Change in Outside Counsel Budget | | | |
|---|--------------------|--------------------|--------------------|
| Year | Decreased | Same | Increased |
| | % of Depts. | % of Depts. | % of Depts. |
| 2011 to 2012 | 39.0% | 26.9% | 34.2% |
| 2012 to 2013 | 47.0% | 24.1% | 28.9% |
| 2013 to 2014 | 48.0% | 26.0% | 26.1% |
| 2014 to 2015 | 43.5% | 25.0% | 31.6% |
| 2015 to 2016 | 40.9% | 27.4% | 31.6% |

Trend data compiled from the 2012 - 2016 Chief Legal Officer Surveys.

TREND: Increase or decrease in your Law Department budget

Tables show what percentage of departments increased their budget; what percentage decreased their budget; and what percentage made no change to the budget in each category.

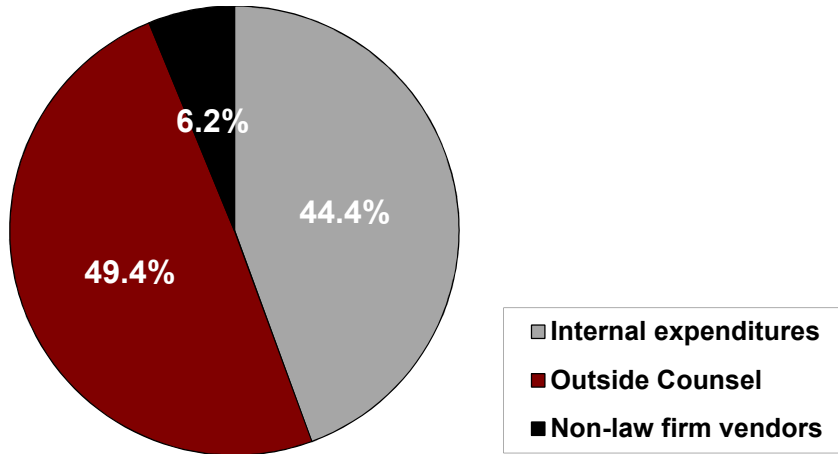
| Change in Legal Matter Vendor Budget | | | |
|---|--------------------|--------------------|--------------------|
| Year | Decreased | Same | Increased |
| | % of Depts. | % of Depts. | % of Depts. |
| 2011 to 2012 | 12.8% | 65.2% | 21.9% |
| 2012 to 2013 | 13.9% | 65.2% | 20.9% |
| 2013 to 2014 | 14.8% | 69.7% | 15.5% |
| 2014 to 2015 | 15.6% | 68.1% | 16.3% |
| 2015 to 2016 | 15.4% | 68.3% | 16.3% |

| Change in Total Law Department Budget | | | |
|--|--------------------|--------------------|--------------------|
| Year | Decreased | Same | Increased |
| | % of Depts. | % of Depts. | % of Depts. |
| 2011 to 2012 | 34.1% | 19.5% | 46.3% |
| 2012 to 2013 | 36.9% | 26.2% | 36.8% |
| 2013 to 2014 | 40.4% | 17.9% | 41.7% |
| 2014 to 2015 | 41.6% | 16.7% | 41.8% |
| 2015 to 2016 | 36.8% | 17.4% | 45.9% |

Trend data compiled from the 2012 - 2016 Chief Legal Officer Surveys.

12. Law Department Budget Allocation

Please estimate the percentage of your total 2016 Law Department budget (internal and external legal spend) that each of the following components comprise. (Responses must equal 100%.)



Definitions:

Internal expenditures: e.g., Department compensation and benefits; contract lawyers, facilities, technology and other operating costs

Outside Counsel: Total expenditures to outside law firms

Non Law-Firm Vendor: Expenditures for legal matters, e.g., e-discovery, document review, due diligence, legal research, etc.

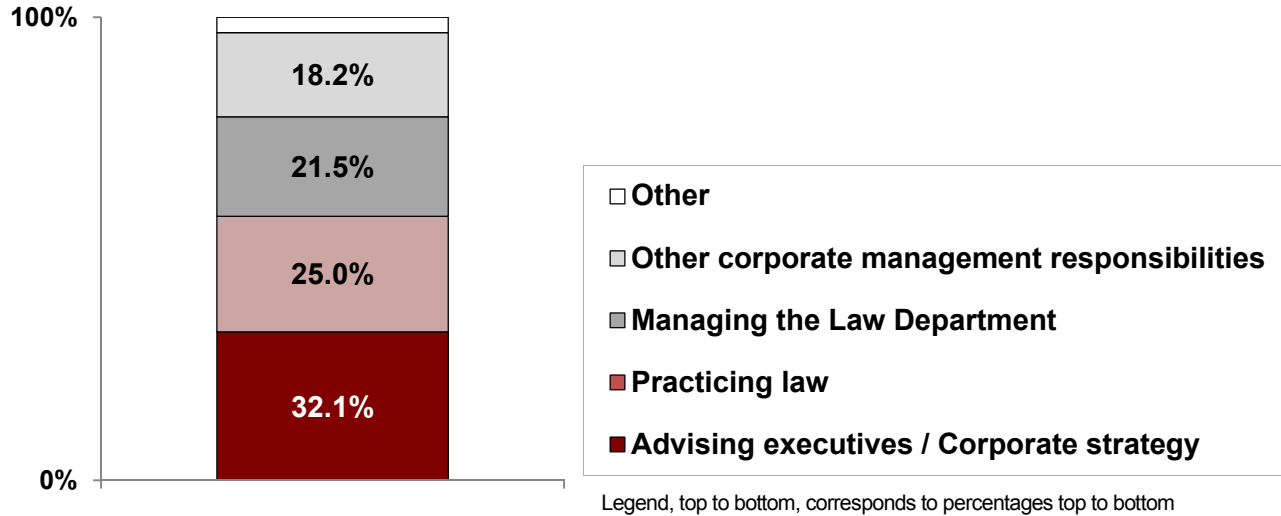
TREND – Law Department budget allocation

| Budget allocation | Internal | Outside Counsel | Non-firm vendor |
|-------------------|----------|-----------------|-----------------|
| 2012 | 44.1% | 52.0% | 3.9% |
| 2013 | 44.4% | 49.6% | 6.0% |
| 2014 | 42.6% | 50.3% | 7.1% |
| 2015 | 41.4% | 52.4% | 6.1% |
| 2016 | 44.4% | 49.4% | 6.2% |

Trend data compiled from the 2012 - 2016 Chief Legal Officer Surveys.

13. Chief Legal Officer –Time Allocation

**Please estimate how your time was allocated over the last 12 months.
(Responses must equal 100%.)**



Other corporate management responsibilities defined for this question as: “Compliance, HR, Security, etc.”

OTHER (representative comments)

Corporate Secretary / Governance

Board activities

Government relations / public policy

Managing other departments

Other business initiatives and operational roles

M&A

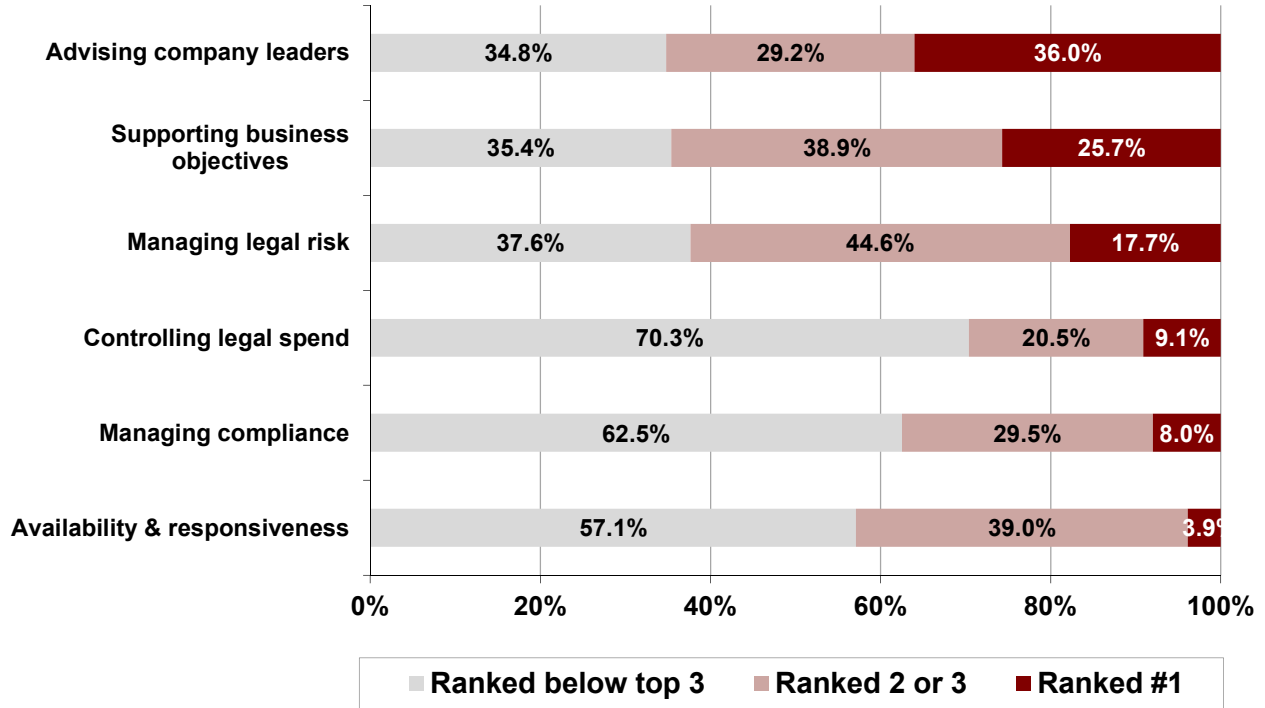
Professional activities / CLE

Pro bono and community activity

14. Law Department Performance – Value to CEO / Corporate Board

Beyond effectively solving legal problems that arise, what does your CEO and/or Board of Directors value most in your Law Department’s performance?

Rank the following activities from 1 to 6: 1= Most valuable to 6 = Least valuable.



OTHER (representative comments)

Corporate governance support

Creative business solutions

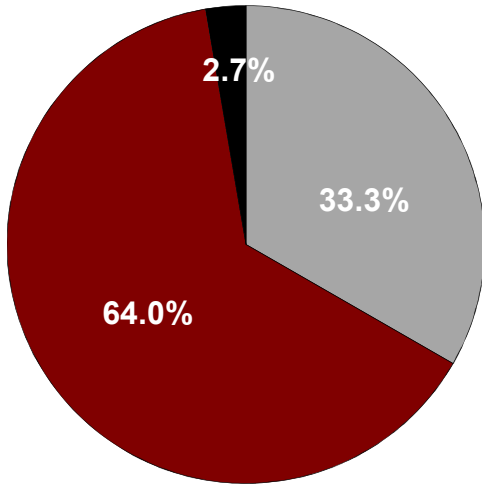
Board strategy

Driving execution in non-legal areas

Strategic government relations management

15. Law Department Administrator

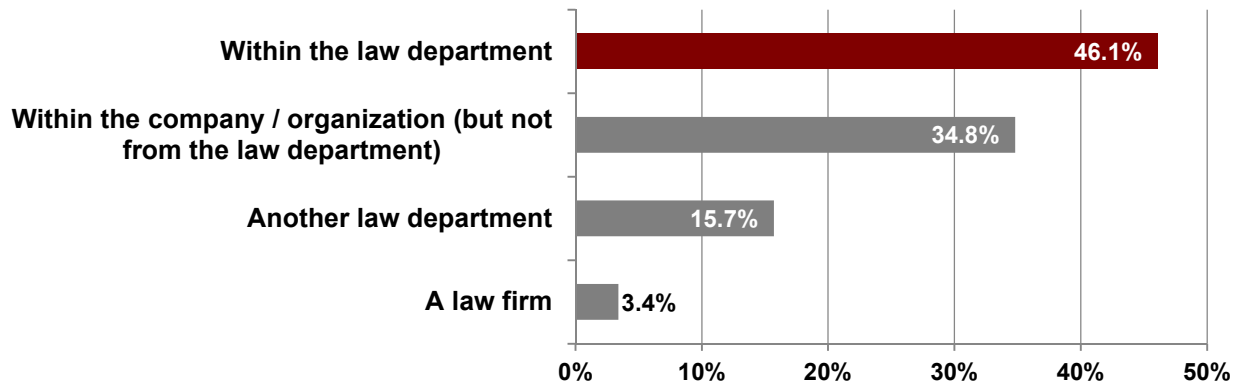
Do you have an administrator or other business manager who manages law department operations?



| BY DEPARTMENT SIZE | | | |
|--------------------|-------|-------|---------|
| | Yes | No | Plan to |
| 1 lawyer | 7.7% | 92.3% | 0.0% |
| 2-5 lawyers | 9.9% | 88.7% | 1.4% |
| 6-10 lawyers | 14.0% | 82.5% | 3.5% |
| 11-50 lawyers | 48.8% | 47.7% | 3.5% |
| 50+ lawyers | 77.6% | 22.5% | 0.0% |

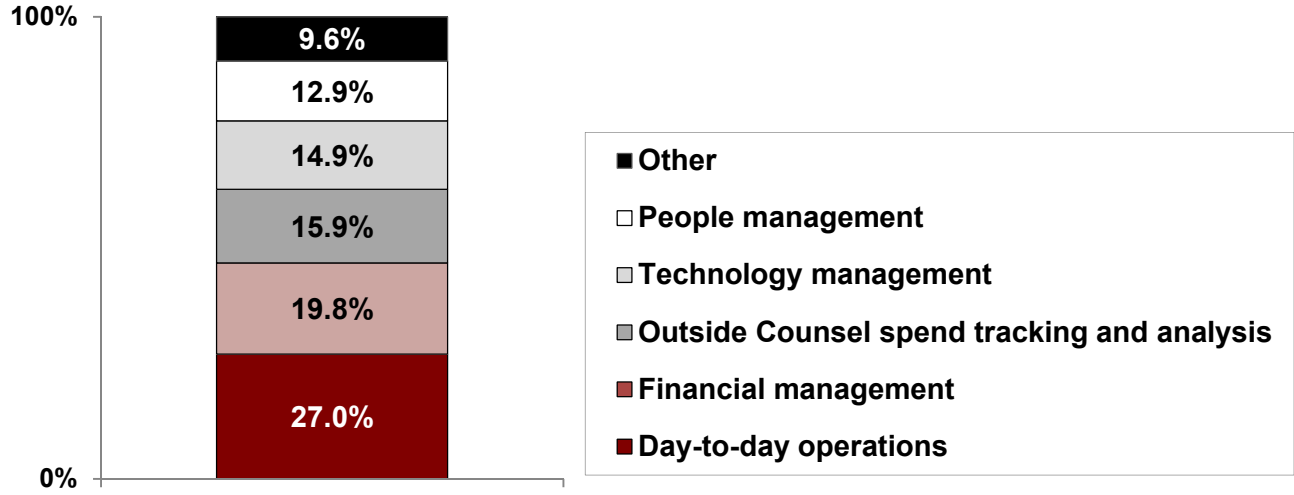
15a. Law Department Administrator

Where did your law department administrator / business manager come from?



15b. Law Department Administrator – Time Allocation

Please estimate the percentage of time your department administrator / business manager spends on each of the following functions.



Legend, top to bottom, corresponds to percentages top to bottom

OTHER (representative responses)

Practicing law

General administrative duties

Records management

Contract management

Project management / Process improvement

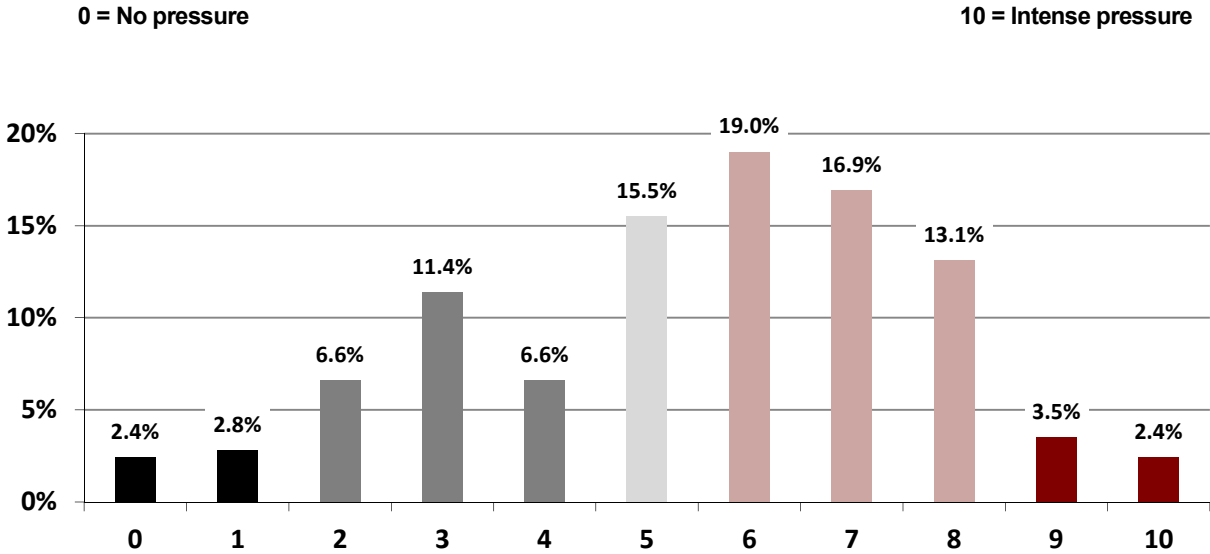
Paralegal responsibilities

Predictive analytics assessment

Special projects and planning

16. Inside / Outside Relationship – Pressure on Law Firms

In your opinion, in the current legal market, how much pressure are corporations putting on law firms to change the value proposition in legal service delivery (as opposed to simply cutting costs)?



TREND: Level of Pressure on Law Firms to Change Value Proposition

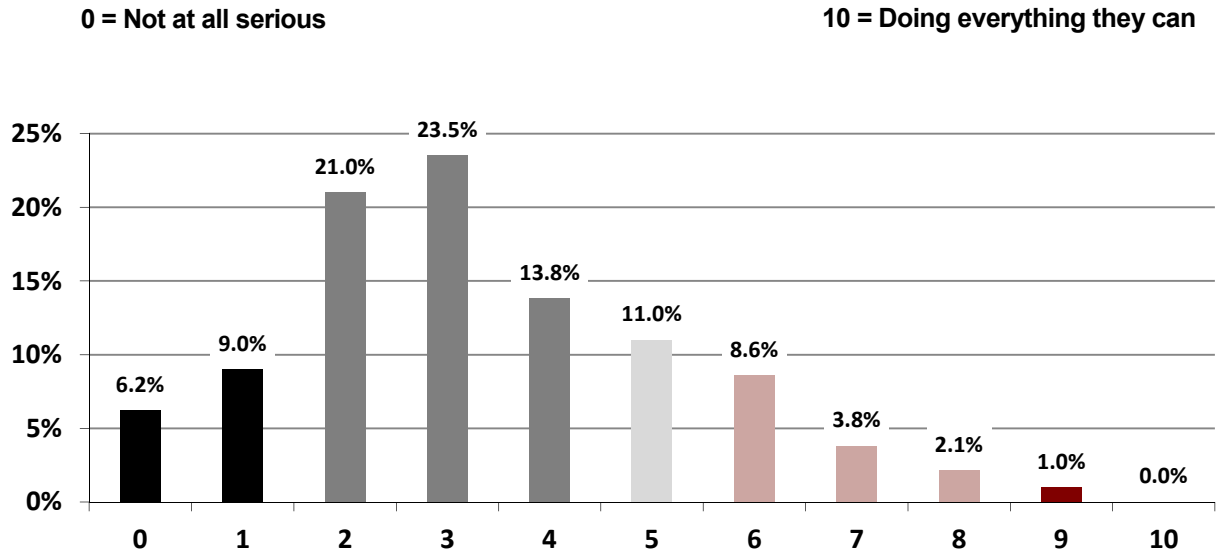
| ALL DEPARTMENTS BY YEAR | | |
|-------------------------|--------|---------|
| | Median | Average |
| 2012 | 6 | 5.5 |
| 2013 | 5 | 5.4 |
| 2014 | 5 | 5.3 |
| 2015 | 6 | 5.6 |
| 2016 | 6 | 5.5 |

| BY DEPARTMENT SIZE | | |
|--------------------|--------|---------|
| | Median | Average |
| 1 lawyer | 5 | 4.1 |
| 2-5 lawyers | 5.5 | 5.2 |
| 6-10 lawyers | 5.5 | 5.5 |
| 11-50 lawyers | 6 | 5.8 |
| 50+ lawyers | 7 | 6.2 |
| All departments | 6 | 5.5 |

Trend data compiled from 2012 – 2016 Chief Legal Officer Surveys.

17. Inside / Outside Relationship – Law Firm Change Efforts

In your opinion, in the current legal market, how serious are law firms about changing their legal service delivery model to provide greater value to clients (as opposed to simply cutting costs)?



TREND: Law Firms' Seriousness About Changing Service Delivery Model

| ALL DEPARTMENTS BY YEAR | | |
|-------------------------|--------|---------|
| | Median | Average |
| 2012 | 3 | 3.8 |
| 2013 | 3 | 3.6 |
| 2014 | 3 | 3.4 |
| 2015 | 3 | 3.4 |
| 2016 | 3 | 3.4 |

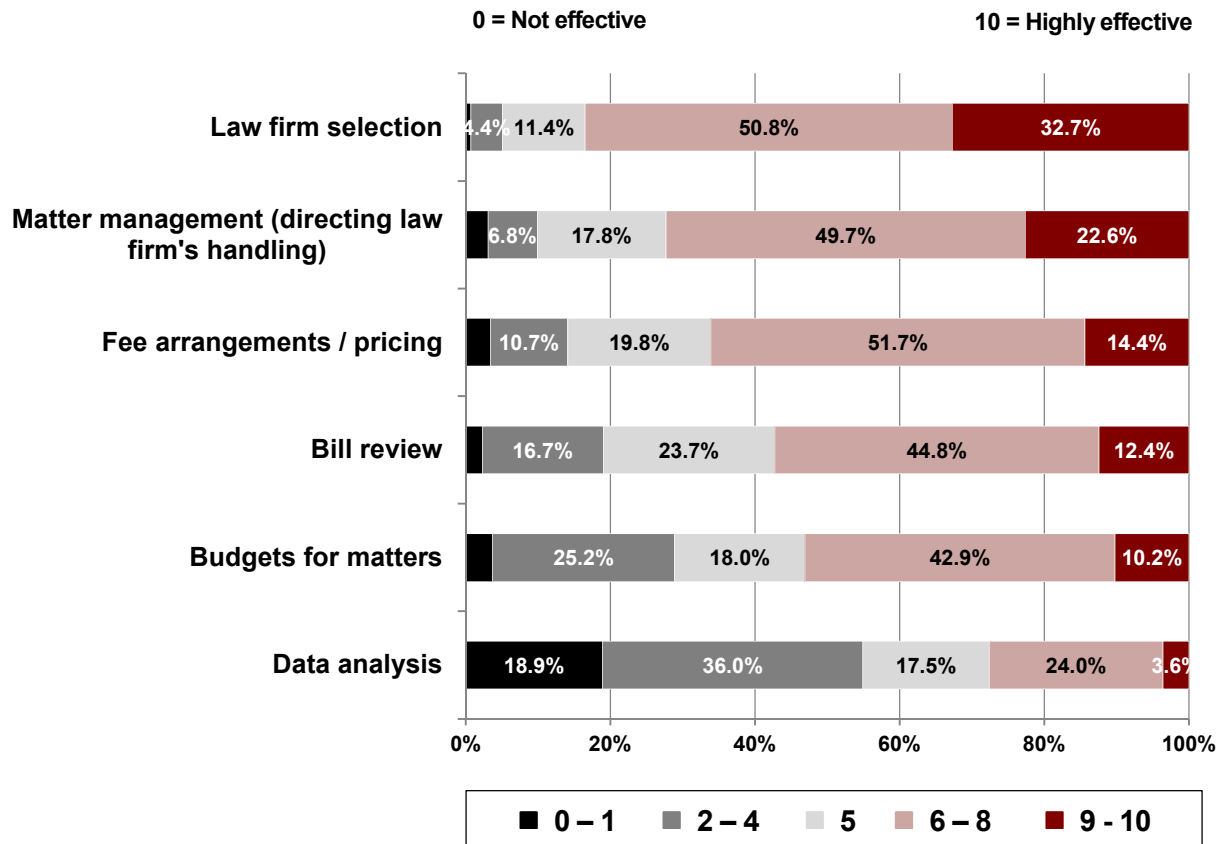
| BY DEPARTMENT SIZE | | |
|--------------------|--------|---------|
| | Median | Average |
| 1 lawyer | 3 | 3.3 |
| 2-5 lawyers | 3 | 3.3 |
| 6-10 lawyers | 3 | 3.2 |
| 11-50 lawyers | 3 | 3.5 |
| 50+ lawyers | 3 | 3.6 |
| All departments | 3 | 3.4 |

Trend data compiled from 2012 - 2016 Chief Legal Officer Surveys.

18. Outside Counsel Management

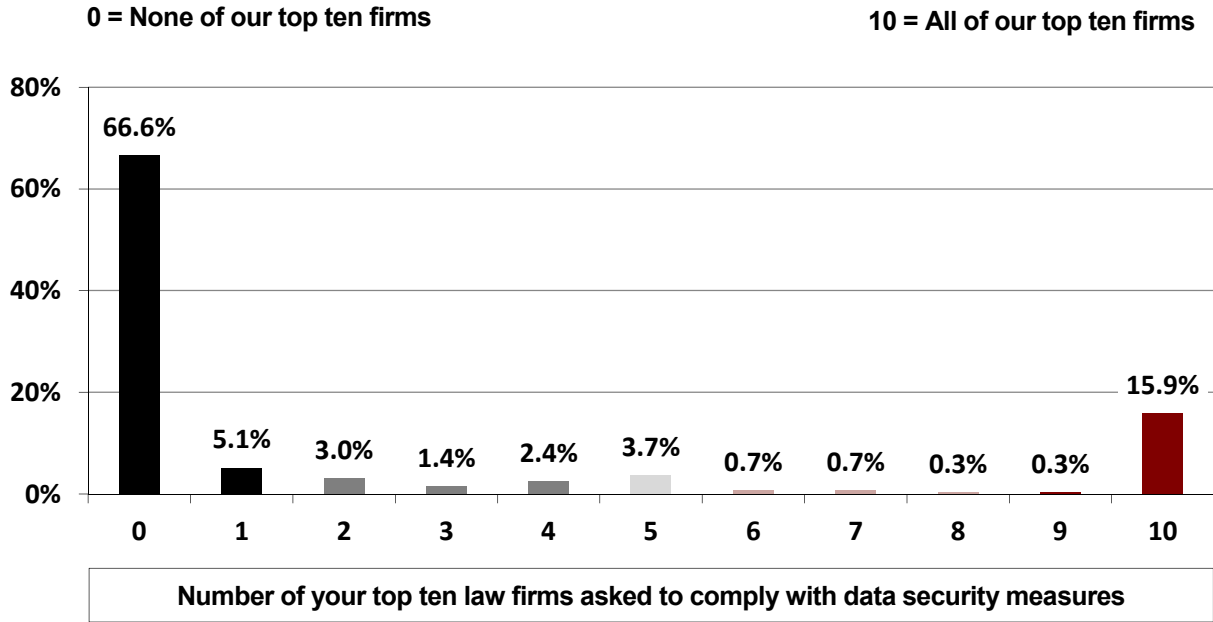
Please rate your law department’s effectiveness in getting good results from the following outside counsel management activities.

The midpoint 5 = What you understand to be typical in US law departments of approximately your size.



19. Outside Counsel – Data Security

Considering the ten law firms that receive the largest portion of your outside counsel spend, in the last 12 months how many of those firms have you asked to comply with specific data security measures?

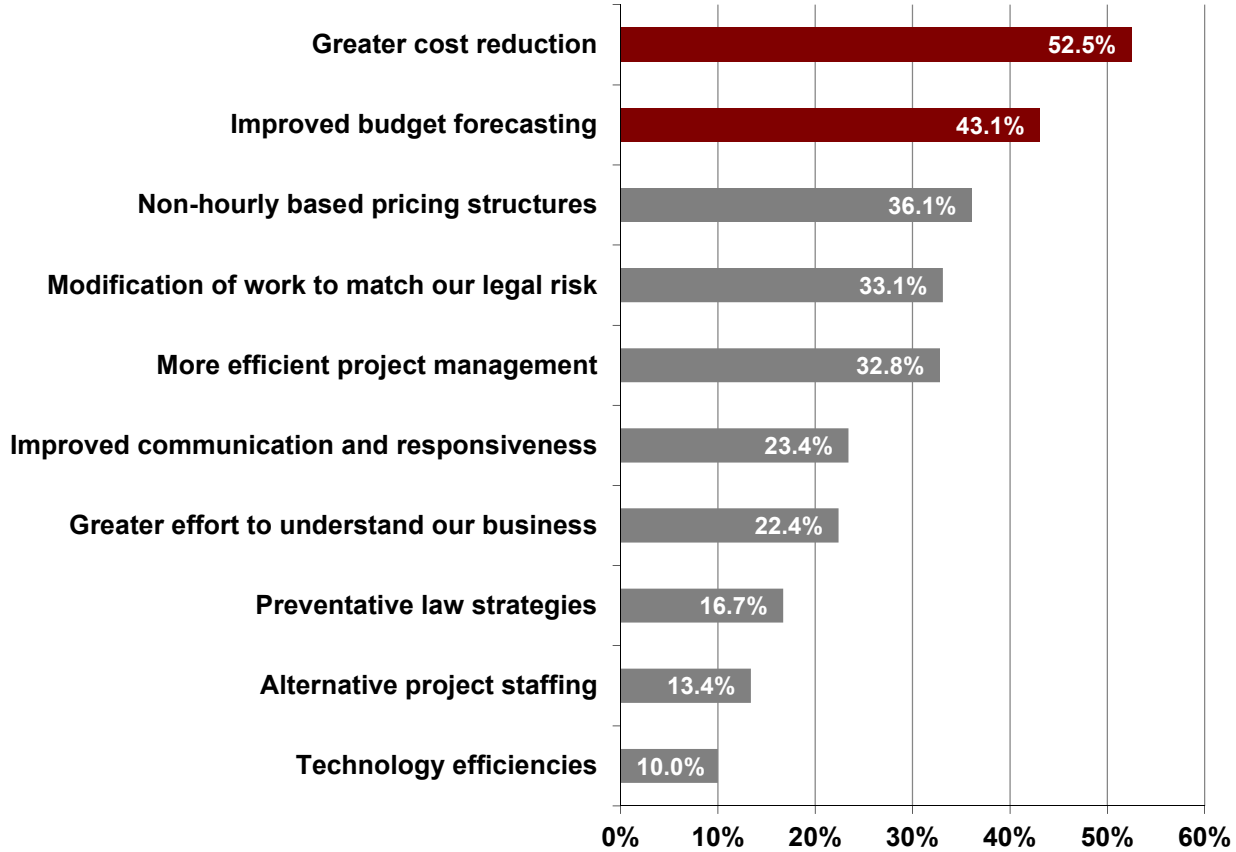


BY DEPARTMENT SIZE: Firms asked to comply with data security measures

| NUMBER OF TOP TEN FIRMS ASKED TO COMPLY | | |
|---|--------|---------|
| DEPT. SIZE | MEDIAN | AVERAGE |
| 1 lawyer | 0 | 0.7 |
| 2-5 lawyers | 0 | 1.3 |
| 6-10 lawyers | 0 | 0.8 |
| 11-50 lawyers | 0 | 2.6 |
| 50+ lawyers | 4 | 4.9 |
| All departments | 0 | 2.2 |

20. Law Firm Service Improvements

Of the following service improvements and innovations, please select up to three that you would most like to see from your outside counsel. (Select up to three.)



Alternative project staffing defined for this question as “greater use of contract lawyers, paraprofessionals, etc.”

OTHER (representative comments)

Diversity

More non-billed time to develop client relationships, gain understanding of the business

Outsourcing and/or other low cost alternatives for e-discovery and other discovery

Hybrid model, i.e. internal and outside counsel resources working together on the same matter

21. Legal Market – Forces Driving Change

What one or two forces do you think will most change the legal market in the next 3 to 5 years? (Open-ended question)

We categorized free-text responses and have included a selection of comments from the top categories presented in order of most-frequently cited topics.

TECHNOLOGY

Technology allowing for more in-house work

Better technology should lead to reduced costs

Effect of technological innovation in reducing demand for hourly services

Technology tools reduce the need for lawyers on more work

Value-added metrics will change outside counsel usage

Technology, including cloud and analytics which commoditize some legal work and [create] security risk

Data security – what happens when a big law firm’s network is breached and confidential client info is thrust into the public domain?

Big data – more automated legal work

Development of artificial intelligence

Changes in laws or regulations arising out of technology advances

COST PRESSURES / PRICING

Cost pressures on companies will result in downward pressure on legal spend

Increased pressure to obtain excellent outside counsel at mitigated prices

Companies not willing to pay high hourly rates for other than bet the company work

Better budgeting and fixed fee arrangements to match costs of legal work to value

COST PRESSURES / PRICING (continued)

Hourly rates at top end pushing clients to second-tier firms

Increasing limit on use of money center/national firms to true 'bet the company' matters

More routine work going to smaller, regional firms

An increasingly small number of increasingly senior law firm lawyers will be able to command high rates; everything else will become commoditized

Need to address ever-escalating starting salaries with alternative fee arrangements

LEGAL PROFESSION DEMOGRAPHICS

Retirement of the older generation out of law firms (the people most change averse)

Decline in law school enrollments will create a dearth of good young lawyers

Continuing push-back by younger lawyers against being a "slave" to a law firm practice

War for talent... losing too many talented people to technology, banking and other professions

Excess lawyers in the market making internal hires cheaper and more efficient

REGULATORY BURDEN

Continuing increases in regulatory enforcement drive even greater compliance focus

Increased regulatory burden will drive innovation in delivery of legal services

Cost containment needed due to increased regulation

Speed of regulatory change

Globalization of business and trade with uncoordinated international regulatory regimes

Increasing regulatory complexity will increase the importance of having depth, expertise and relationships in Washington

INSOURCING LEGAL WORK

Continued emphasis from companies to bring more work in-house to save money

Decline in importance of outside law firms in favor of more in-house experience and staffing

Advancing sophistication and capabilities of in-house teams

Greater reliance on in-house for commodity type legal work

Greater use of in-house legal resources, leaving primarily litigation and large M&A to law firms

ALTERNATIVE SERVICE PROVIDERS

Increasing use of non-lawyer professionals for work such as contracting, e-discovery, dispute resolution

Accounting firms increasingly providing legal services

Unbundling of law firm services to non-legal contractors

LAW FIRM BUSINESS MODEL

Supply and demand mismatch for legal services will force law firms to change their economic models – with a strata of top tier firms and practice areas that may still be able to command premium rates but a huge swath of firms and practice areas that will need to compete on price (with quality a given)

The widening gap between traditional legal practice and modern business practice

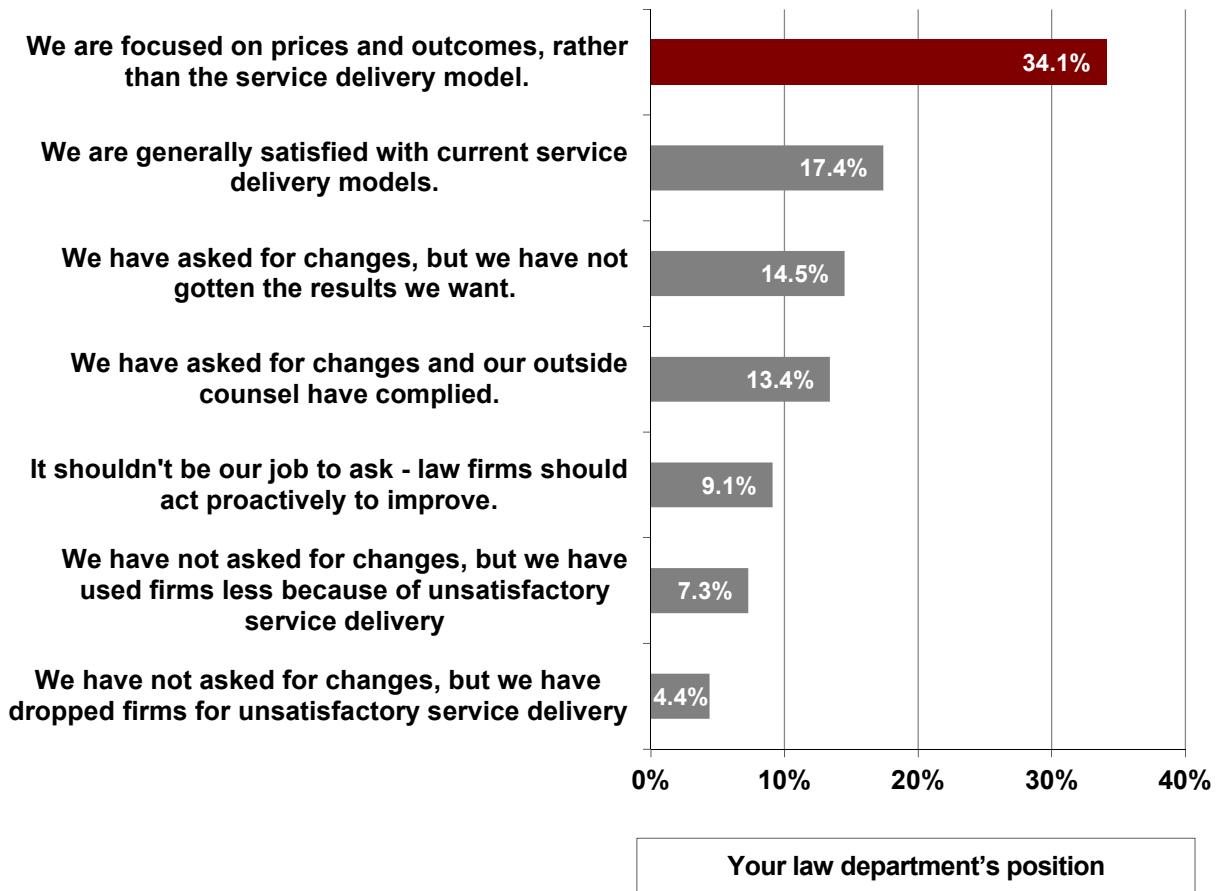
Big companies forcing a change in the business model

Firms figuring out how to fundamentally change their business model and forcing others to follow

22. BONUS QUESTION – Law Firm Service Delivery Model

In Altman Weil’s 2016 survey of law firm leaders, *Law Firm in Transition*, 59% of Chairs and Managing Partners said their law firms were not doing more to change the way they deliver legal services because “Clients aren’t asking for it.”

Which of the following statements best reflects your law department’s position on changing the way your outside counsel deliver legal services? (Choose one.)



22. BONUS QUESTION – Law Firm Service Delivery Model

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COMMENTS

I have had conversations with outside counsel about changing the way they deliver legal services but those who care have trouble figuring out how to do it and are hesitant to do it if it doesn't make them more money, while others either don't care or typically engage in communication that is only transactional as opposed to strategic. In other words, they focus on the case and the fees and don't have insight into a broader business approach to strategy.

Internal counsel is typically very stretched for time and thus find it challenging to develop proactive plans for improvement to legal services. Outside firms need to do this.

Firms and vendors should not get so comfortable in their spaces and be foolish to believe they may not be at risk of losing business. Business is business. Customer service should always be a top objective driving behavior.

The business model is broken. There will be continued pressure on fees. It is up to law firms to solve this.

I personally believe it's B.S. that clients aren't asking for change. There's no way law firms can believe that they are entitled to increase their billing rates by 4-10% per year without limit. I hated the billable hour model as a billing partner, and I hate it more as a GC.

Absolutely believe that outside counsel should periodically inform clients of additional offerings, or other alternative arrangements that may work for their clients to enhance satisfaction.

Our current counsel has been largely responsive to requests for changes. Typically, traditional big law firms are less flexible on changing fee approach.

We are generally cost benefit focused, but have favored firms that are willing to consider alternative approaches.

It is false to just sit down and expect that law firms will change on their own. Change takes place when the market asks for it. Focus on pricing may however lead into negative development on quality - must maintain a careful balance.

Any law firm that says its clients have not asked for changes is being willfully blind. As an industry, law firms may delay the advent of new service models, but not block it. The first few firms to radically change the model and focus on delivering value have the potential to become market leaders overnight.

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2016
Chief Legal Officer Survey
Participant Demographics



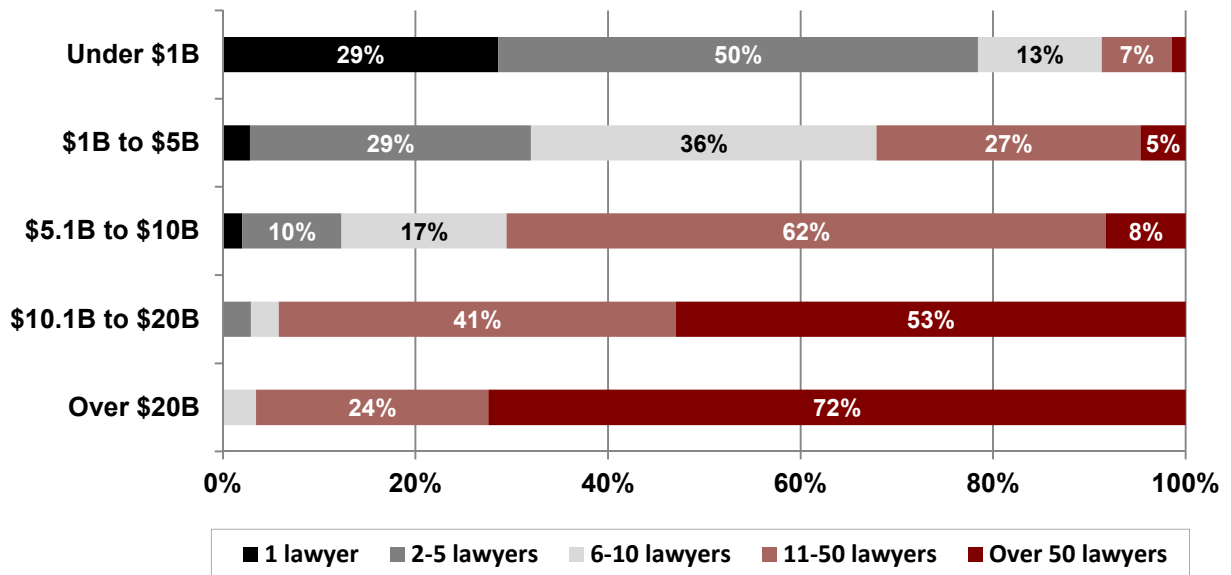
1. How many in-house attorneys are in your department (in all locations)?

| | Minimum | 1 st Quartile | Median | 3 rd Quartile | Maximum | Average |
|---------|---------|--------------------------|--------|--------------------------|---------|---------|
| Lawyers | 1 | 4 | 9 | 28 | 980 | 35 |

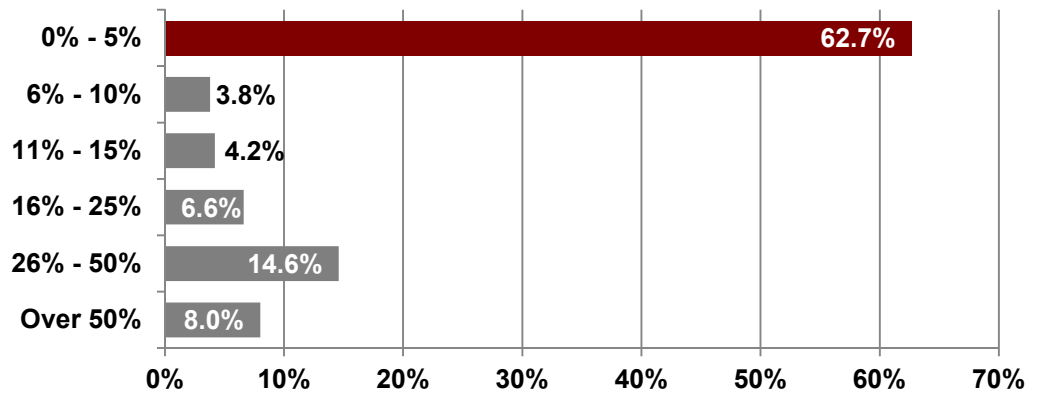
2. What are your organization’s annual revenues?

| | Minimum | 1 st Quartile | Median | 3 rd Quartile | Maximum | Average |
|---------|---------|--------------------------|--------|--------------------------|---------|---------|
| Revenue | \$12M | \$1.1B | \$3.5B | \$9B | \$150B | \$9.1B |

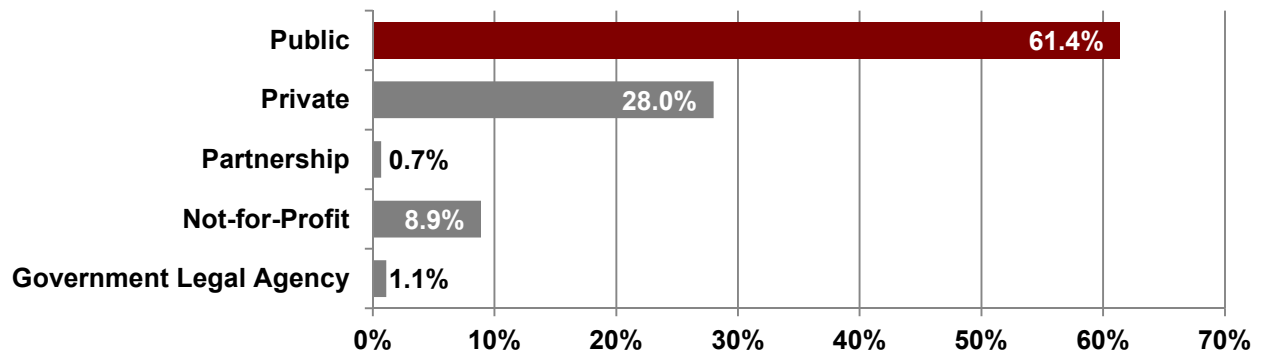
SIZE / REVENUE CORRELATION:



3. What percentage of the lawyers in your department are based outside the US?



4. Is your organization:



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