Data & Analytics: Transforming Law Firms

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EXECUTIVE SUMMARY

Sophisticated law firms are gaining an edge over the competition by utilizing data to support better decision-making in both the practice and business of law. And among those that have integrated analytics into their operations, there is an expectation that the use of analytics tools will only continue to increase. For those firms, the value analytics provides perpetuates a virtuous circle that leads from data creation to evidence-based action and back again. As a result of their efforts to support that process, data-driven law firms are being transformed.

An organization’s business records tell its story. When handled and analyzed with intent, the data resulting from a business’s daily operations can be revelatory. Similarly, the transactional nature of the business and practice of law creates a vast amount of data and presents a tremendous opportunity for firms. Legal matter management and e-billing software systems, for example, have facilitated the creation and capture of many valuable data points. These include the tracking of such items as timekeepers on a matter and the type of legal work being performed. What’s more, the digitization of court records coupled with the rise of digital filing has expanded access to and enabled analysis of the judiciary at a scale that was previously unthinkable.

The report, *Data & Analytics: Transforming Law Firms*, highlights the results of the ALM Intelligence and LexisNexis legal analytics survey, and provides an overview of the movement by some firms to embrace a data-driven operational model. In doing so, the report covers the following issues:

- Why legal analytics is essential to modern law firms;
- Which firms are more likely to take advantage of analytics tools;
- How firms are using analytics to support decision-making in both the practice and business of law;
- What obstacles must be overcome to properly deploy legal analytics solutions.
METHODOLOGY

To better understand how law firms use analytics in their litigation practice, ALM Intelligence partnered with LexisNexis to field a survey on the subject matter. The survey was administered as a research study by ALM Intelligence between October 17 and November 2, 2018 with email invitations sent to litigators, law firm leaders, and legal business professionals.

The survey received responses from 301 individuals, though not every participant responded to the entire questionnaire. All responses were aggregated and are not traceable to any firm or respondent. Lawyers comprised approximately nine out of 10 survey respondents with the remaining responses coming from legal business professionals including law librarians, researchers, and marketers.

Responses were received from individuals in firms of varying sizes, though the majority originated from individuals within Big Law.

- Nearly 70 percent of responses came from individuals in firms with 250 or more lawyers. Firms of that size would rank roughly 170 or above on the National Law Journal’s annual list ranking American firms by attorney headcount.
- Half of respondents came from the Am Law 100. Firms in that category generate with over $350 million or more in gross revenue annually.
PART I: UNDERSTANDING THE BASICS

Analytics Function
Data is more than a collection of facts, figures and observations. In the digital age, it is a commodity with tremendous value. Large quantities of data, so-called big data, have been known to carry the most potential. Nevertheless, data need not be big to drive effective decision-making. Depending on the end goal, structured analysis of small data can produce results.

On its own, data is a raw material. Data’s value comes from the insight it can reveal and is the result of subjecting it to one of four levels of analysis. Each level, outlined in Figure 1 below, is more complex and sophisticated than the last. As the analysis becomes more complex, the underlying data needs to also become larger and more sophisticated.

First, and most simple, is descriptive analytics, a process in which historical patterns are revealed. Understanding what came before can be informative when considering future events, but past is not always prologue. To dig deeper, some turn to diagnostic analytics which examines data in an effort to determine why an event occurred.

Diagnostic analytics is followed by predictive and prescriptive analytics which are more advanced techniques. Predictive analytics, the third analytical type, uses technology like machine learning to make predictions about the future. Such predictions are not definitive, but rather outline a range of results and provide the probability that those events may occur. Predictive analytics is surpassed in complexity by prescriptive analytics, the fourth, and most sophisticated type of analytics. Prescriptive analytics goes one step further by recommending a course of action in conjunction with the various forecasted outcomes.

Figure 1: Analytics functional maturity model

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**Legal Analytics**

Analytics is best understood in terms of the subject matter or domain to which the resulting insight will be applied. As such, analytics used by organizations within the legal services sector is known as legal analytics.

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Legal analytics is grounded in any data relevant to decision-making within the legal services sector. Data relevant to legal analytics may arise from inside or outside the legal profession, and in some cases, may appear unremarkable or unconnected on its face.

To understand its potential value to those in the legal services sector, data should be evaluated in relation to the analytical purpose it might serve. For example, within the legal services domain, there are two broad sub-domains: practice of law analytics and business of law analytics. And within each category, there is an entire universe of applications including compliance analytics, contract analytics, judicial analytics, performance analytics, and spend analytics, to name a few.

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**Figure 2: Legal analytics components**

![Legal Analytics Diagram]

Whether applied to the business or practice of law, data’s omnipresence in the digital economy has set the stage for law firms to move beyond drawing conclusions in an ad-hoc manner on the basis of an individual’s intuition alone.
PART II: IDENTIFYING THE USERS

Does your firm use legal analytics in its litigation practice? Survey participants were asked this initial question, and based on the response provided were directed to a separate set of follow-ups. Nearly half of all survey respondents affirmed that they use legal analytics in their litigation practice.

Figure 3: % of respondents using legal analytics in their litigation practice
Of particular note, the results revealed that, whether by gross revenue or by lawyer headcount, the larger the firm the more it likely it is to use legal analytics (Figure 4 and Figure 5).

**Figure 4: % of respondents using legal analytics by firm's Am Law ranking**

<table>
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<tr>
<th>Firm Size</th>
<th>Percentage</th>
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<tr>
<td>Am Law 1 to 100 Firm</td>
<td>52%</td>
</tr>
<tr>
<td>Am Law 101 to 200 Firm</td>
<td>44%</td>
</tr>
<tr>
<td>Unranked / Does Not Qualify</td>
<td>29%</td>
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**Figure 5: % of respondents using legal analytics by total lawyers at firm**

<table>
<thead>
<tr>
<th>Lawyer Count</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>1000+ Lawyers</td>
<td>61%</td>
</tr>
<tr>
<td>750 to 999 Lawyers</td>
<td>55%</td>
</tr>
<tr>
<td>500 to 749 Lawyers</td>
<td>39%</td>
</tr>
<tr>
<td>250 to 499 Lawyers</td>
<td>40%</td>
</tr>
<tr>
<td>100 to 249 Lawyers</td>
<td>35%</td>
</tr>
<tr>
<td>1 to 99 Lawyers</td>
<td>23%</td>
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Moreover, those that use legal analytics are ramping up their efforts. According to the survey data, 62 percent of legal analytics users reported increasing their usage over the previous 12 months.

The behavior described in Figure 6 makes complete sense in light of the survey data presented in Figure 7 below. Approximately nine out of 10 users reported that legal analytics delivered value, including around 10 percent that went so far as to say they found it to be “extremely valuable.”
What’s more, over half of legal analytics users report that they plan to increase their investment in analytics tools in the next 12 months (Figure 8).

### Figure 8: % of users by plans to increase investment in legal analytics in the next 12 months

- **Yes**: 54%
- **No**: 9%
- **Unsure**: 37%

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**PART III: GAINING THE EDGE**

Why use legal analytics? With the law firm competitive environment such as it is, it’s not surprising that users are turning to data and analytics to give them a competitive edge in matters relating to both the practice and business of law (Figure 9).

### Figure 9: % of respondents whose firm has used legal analytics for ...

- **Gaining Competitive Insights**: 72%
- **Determining Strategy for Particular Courts or Judges**: 56%
- **Case Assessments**: 54%
- **Demonstrating Expertise or Competitive Advantage to Clients**: 44%
- **Attracting New Client Business**: 41%
- **Pricing Projects**: 41%
- **Predicting Outcomes of Strategy or Arguments**: 34%
Practice of law analytics guide decision-making in matters related to giving legal advice, creating legal documents and representing parties in legal transactions. Technology, to date, has made attorneys better and more effective at their jobs. Similarly, despite some claims to the contrary, analytics — particularly AI-driven technologies — will not eliminate the need for experienced lawyers. The insights produced through analytics still need to be interpreted by skilled attorneys, and will serve, more often than not, to support their judgment, not supplant it.

Business of law analytics, on the other hand, provide insights that are more process oriented. It can be used to improve legal operations by promoting transparency, predictability and cost certainty. To reach those goals, sophisticated law firms track metrics related to budget, pricing, efficiency, and service delivery. Moreover, they establish key performance indicators (KPIs) while clearly defining “success.”

KPIs can provide important insight into the state of firm operations when they are compared to, or benchmarked against, similar measures. The possible benchmarks are many, but may include comparisons to a firm’s historical performance, comparisons to peers, or comparisons to established best practices. By comparing performance, benchmarks are great ways to identify a firm’s strengths and weaknesses, and to identify where it holds a competitive advantage in the marketplace.

The application of analytics to the practice and business of law is a powerful tool that is transforming law firms. Figure 10 below reveals where survey respondents believe analytics is having a positive impact on firm operations.

<table>
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<tr>
<th>Figure 10: % of legal analytics users who say it has improved</th>
<th>for their firm</th>
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<tr>
<td>Speed of Case Assessments</td>
<td>50%</td>
</tr>
<tr>
<td>Competitiveness</td>
<td>49%</td>
</tr>
<tr>
<td>Retaining / Expanding Existing Clients</td>
<td>34%</td>
</tr>
<tr>
<td>Landing New Business</td>
<td>25%</td>
</tr>
<tr>
<td>Litigation Success Rates</td>
<td>18%</td>
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Half of legal analytics users reported improving the speed of case assessments (Figure 10). Applying data and analytics to assess litigation in its earliest stages can benefit law firms and their clients in significant ways. First, it can be used to support strategic planning. Techniques
like predictive modeling can help the firm consider multiple litigation strategies and gain an understanding of the potential risks and costs associated.

But just as important, if not more so, is the second benefit from applying analytics to early case assessment. Litigation is often a huge unknown for many businesses and their legal departments, and that inherent lack of certainty makes planning a nightmare. Law firms that use data and analytics to conduct early case assessment can better support their clients by removing some of the uncertainty and introducing a degree of predictability.

Limiting the possibility of surprises, and understanding the probabilities that a certain scenario may occur is a tremendous benefit when planning the allocation of firm and client resources. Perhaps even more importantly, having that type of information can be instrumental in helping to properly set a client’s expectations by establishing a more nuanced definition of success, one that does not focus entirely on whether a case is won or lost.
PART IV: MAKING THE CASE

Though respondents report that legal analytics tools have resulted in concrete benefits to their firms, making the case to adopt and integrate analytics into a firm’s processes and operations is not necessarily easy. It represents a departure from the norm, and therefore those advocating for the use of legal analytics must overcome the natural tendency of people and institutions to resist change. Figure 11 below details the most significant obstacles to adopting legal analytics.

Lawyers, however, should not be intimidated by or hostile to the use of analytics as it is less radical than it may first appear. Collecting relevant data and using it to support evidence-based decisions and arguments is a natural extension of the research and analysis lawyers have performed for centuries. Technology-enabled analytics continues in that tradition only with much greater efficiency and at a much larger scale.
That said, lawyers do have the reputation for being Luddites so it is possible that some are wary of technology’s central role in the analytics process. In the foreseeable future, however, any objection to the use of analytics based solely on a reflexive rejection of technology will likely be regulated out of the profession. As technology has become fully integrated into the practice of law, state bar associations have taken notice, and now approximately two-thirds of the states have adopted into their rules of professional responsibility a requirement that lawyers have some tech competency.¹

Even with those core hurdles overcome, there are still some legitimate concerns that must be addressed when making the case for legal analytics (Figure 13). First, not all analytics solutions are created equally. Data is the foundation for analytics. The phrase “garbage in, garbage out,” illustrates the challenge in learning from inaccurate data. Without reliable data, analytics will not add value, and the resulting insights will only serve to exacerbate existing problems.

Second, firms seeking to integrate legal analytics into their operations must establish clearly defined processes. Whether the goal is to use analytics to automate or speed-up tasks or gain additional insight, to be useful, analytics needs to be applied to a specific cause or task, not deployed haphazardly in the hope of realizing some ill-defined or unknown benefit. Additionally, users must recognize that even accurate data can have its limitations. A deep understanding of the process by which the subject data is collected, cleaned, and maintained will assist users in placing the derived insights in proper context.

Third, people are key to the success of any analytics solution. When making the case for analytics, the training and skills of the users must be taken into account. For example, what expertise is required? Will retraining be necessary for staff and attorneys? Certain analytics solutions require continuous training, which can be a task that is not always easily executable in law firms, in part due to resource constraints and the demands of the billable hour.

PART V: TRANSFORMING THE FIRM

Not simply a tool for one specific task, group, or department, legal analytics is a game-changer that is transforming law firms. However, it takes commitment and trial and error in order to properly adopt and integrate analytics into a firm’s processes. A complete understanding of the investment necessary and buy-in from the top is needed for successful adoption and integration of analytics solutions.

Sophisticated firms are gaining an edge over the competition by utilizing data to support better decision-making in both the practice and business of law. And among those that have adopted analytics into their operations, there is an expectation that the use of analytics tools will only continue to increase (Figure 14).

The creation and capture of the data necessary to support legal analytics is made possible by the explosion of new practice and business intelligence tools and platforms that are increasingly becoming essential for modern firms. After reporting on metrics for a period of time, law firm teams can expect to experience a substantial change in their organizational culture. For those firms, the value analytics provides perpetuates a virtuous circle that leads from data creation to evidence-based action and back again. As a result of their efforts to support that process, data-driven law firms are being transformed.
ABOUT THE AUTHORS

About ALM Intelligence
ALM Intelligence supports legal, consulting, and benefits decision makers seeking guidance on critical business challenges. Our proprietary market reports, rating guides, prospecting tools, surveys, and rankings inform and empower leaders, enabling them to proceed with confidence.

Legal Compass®, by ALM Intelligence, puts the power of ALM’s 30 years of proprietary data and research firmly in your hands. Its comprehensive, web-based platform connects you to decades of penetrating ALM analysis and exclusive law firm data, making it the perfect tool for addressing the challenges you face on a daily basis.

About LexisNexis
LexisNexis is the leader in legal analytics.² Through rigorous processes, relentlessly improved data and leading-edge technology, LexisNexis helps legal professionals gain meaningful insights, craft winning strategies, improve client service and minimize risk. Learn about the industry-leading capabilities of Lexis Analytics™, including Context, the industry’s first and only case law language analytics solution, visit www.lexisnexis.com/lexis-analytics.

² Comparison data based on information available as of October 2018.