

Law Firm Strategy in Turbulent Times

SCG Legal

Miami

March 2014

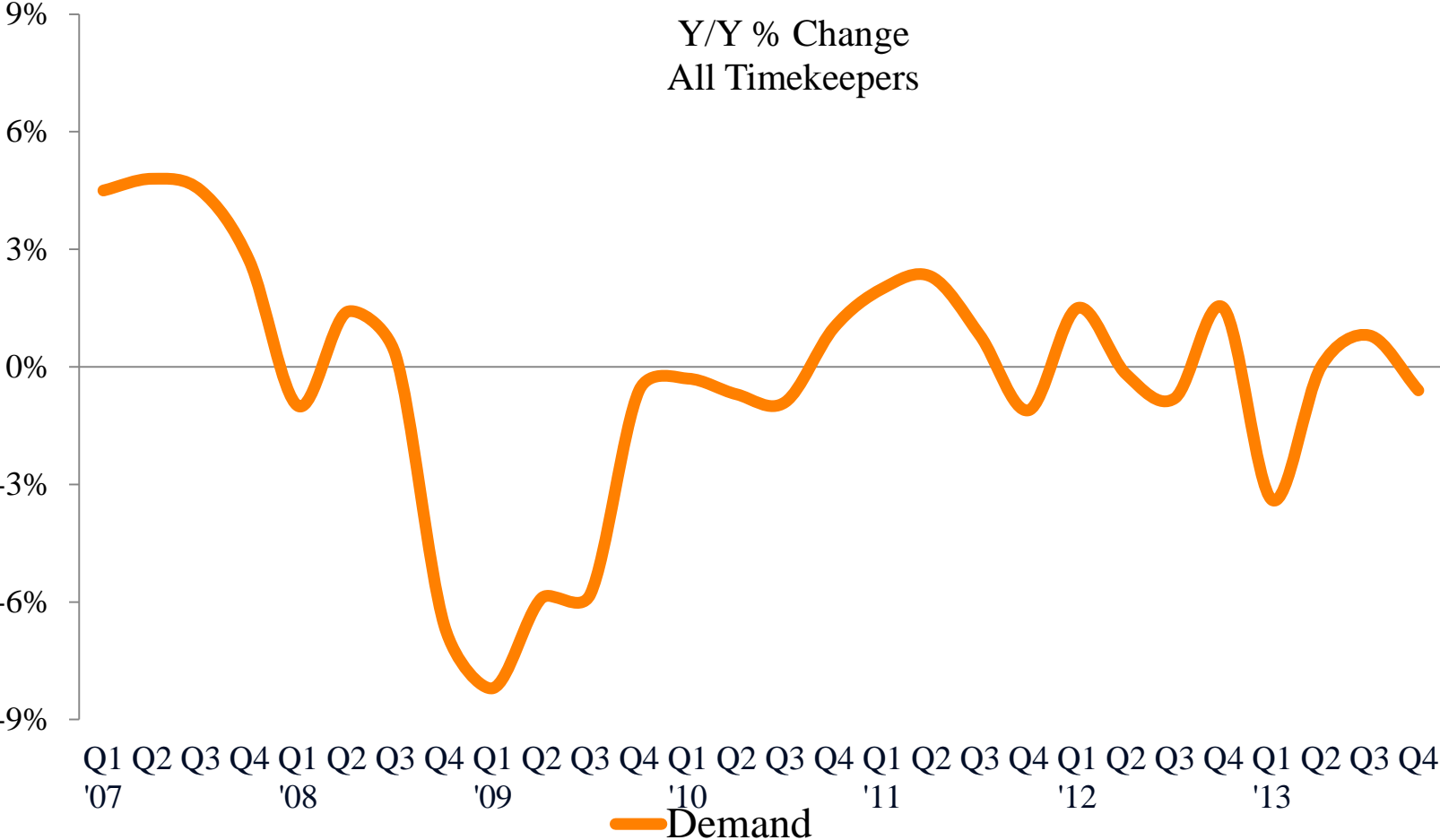
Mitt Regan

Georgetown Law Center

2013 Market

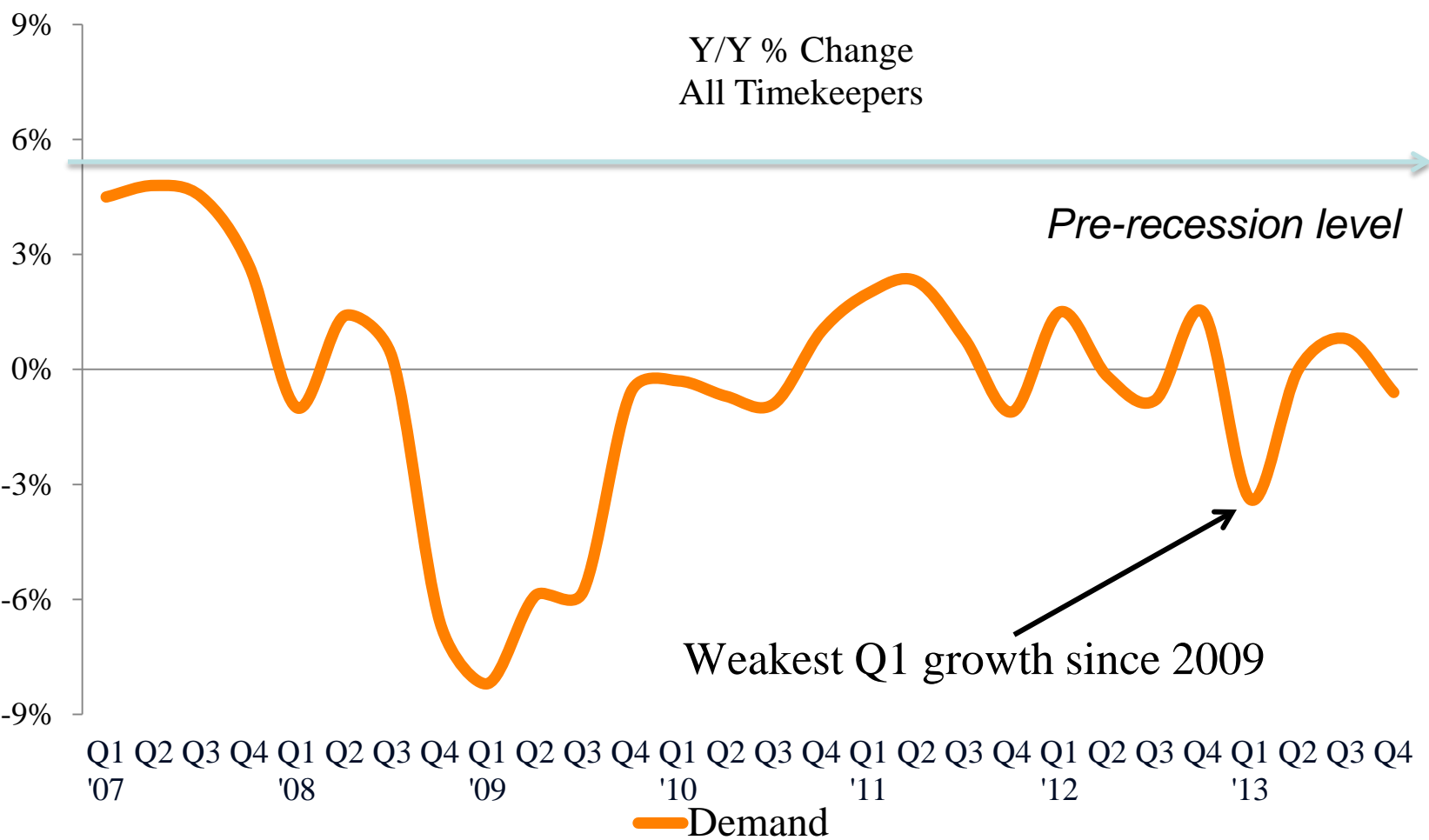
- **Continued trends of the last five years**
- **Flat or declining:**
 - **Demand**
 - **Productivity**
 - **Rates and realization**
 - **Profits per partner**
- **Expense management challenges**

Law Firm Demand Growth



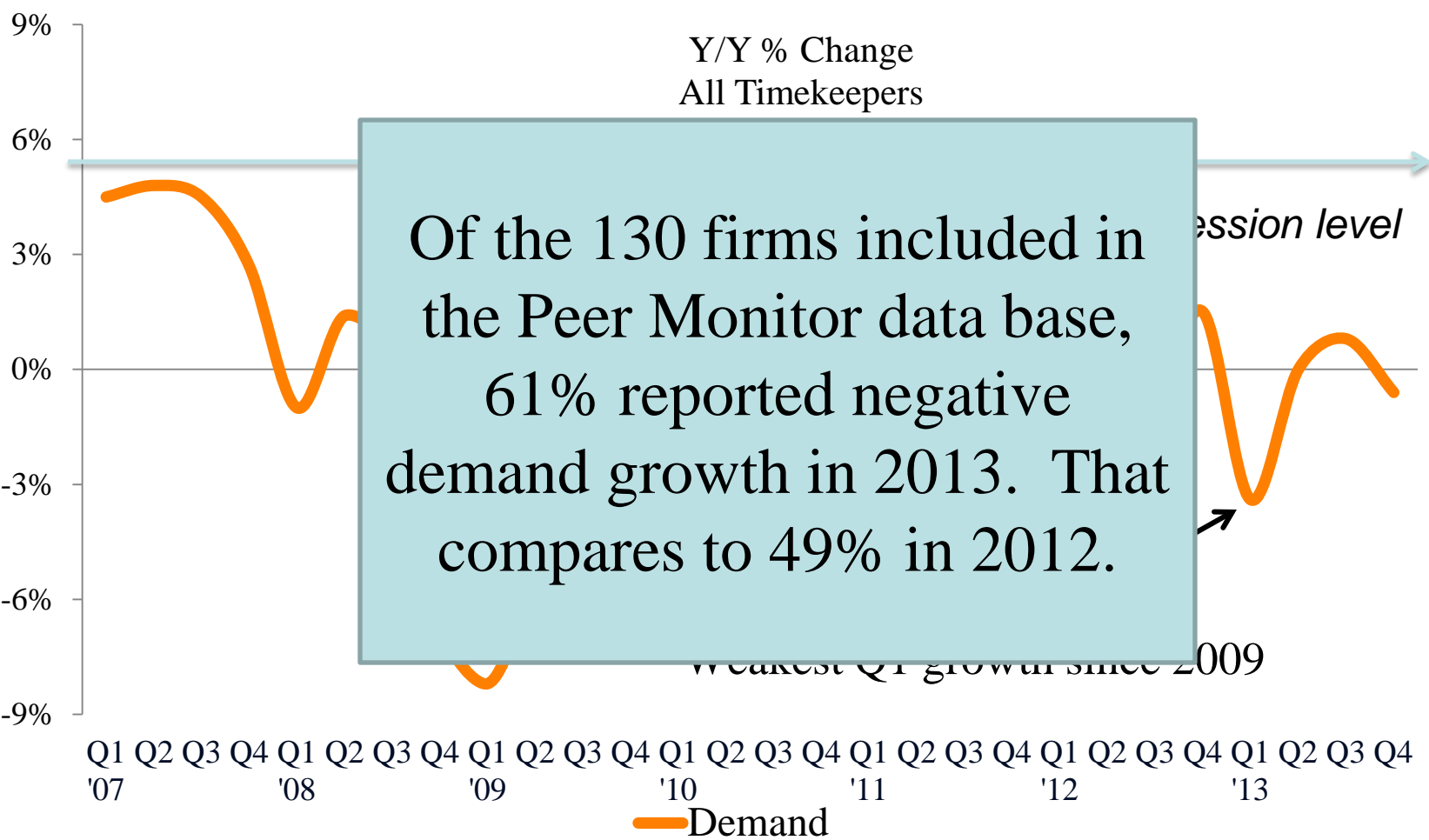
Source: Thomson Reuters Peer Monitor

Law Firm Demand Growth



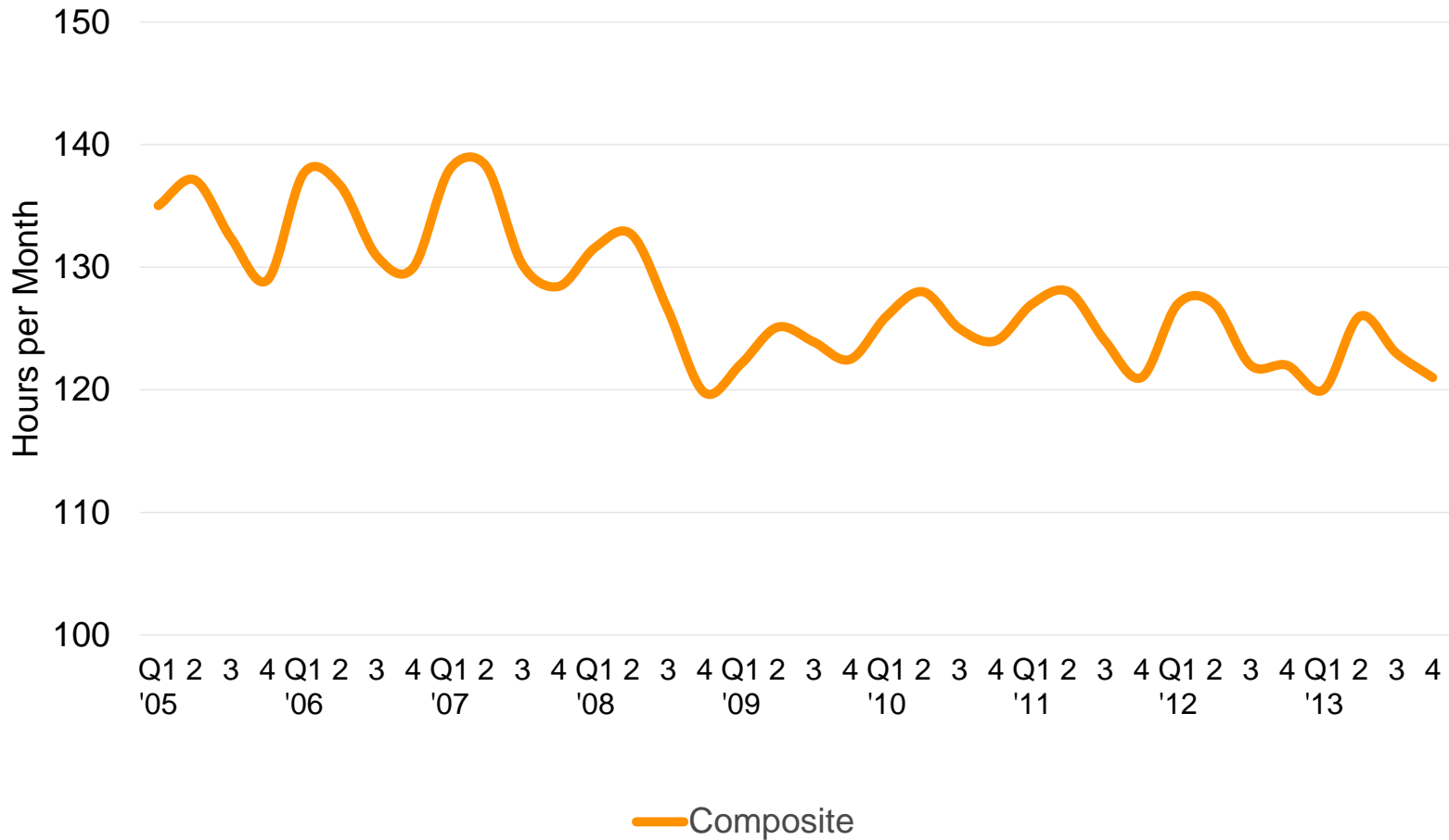
Source: Thomson Reuters Peer Monitor

Law Firm Demand Growth



Source: Thomson Reuters Peer Monitor

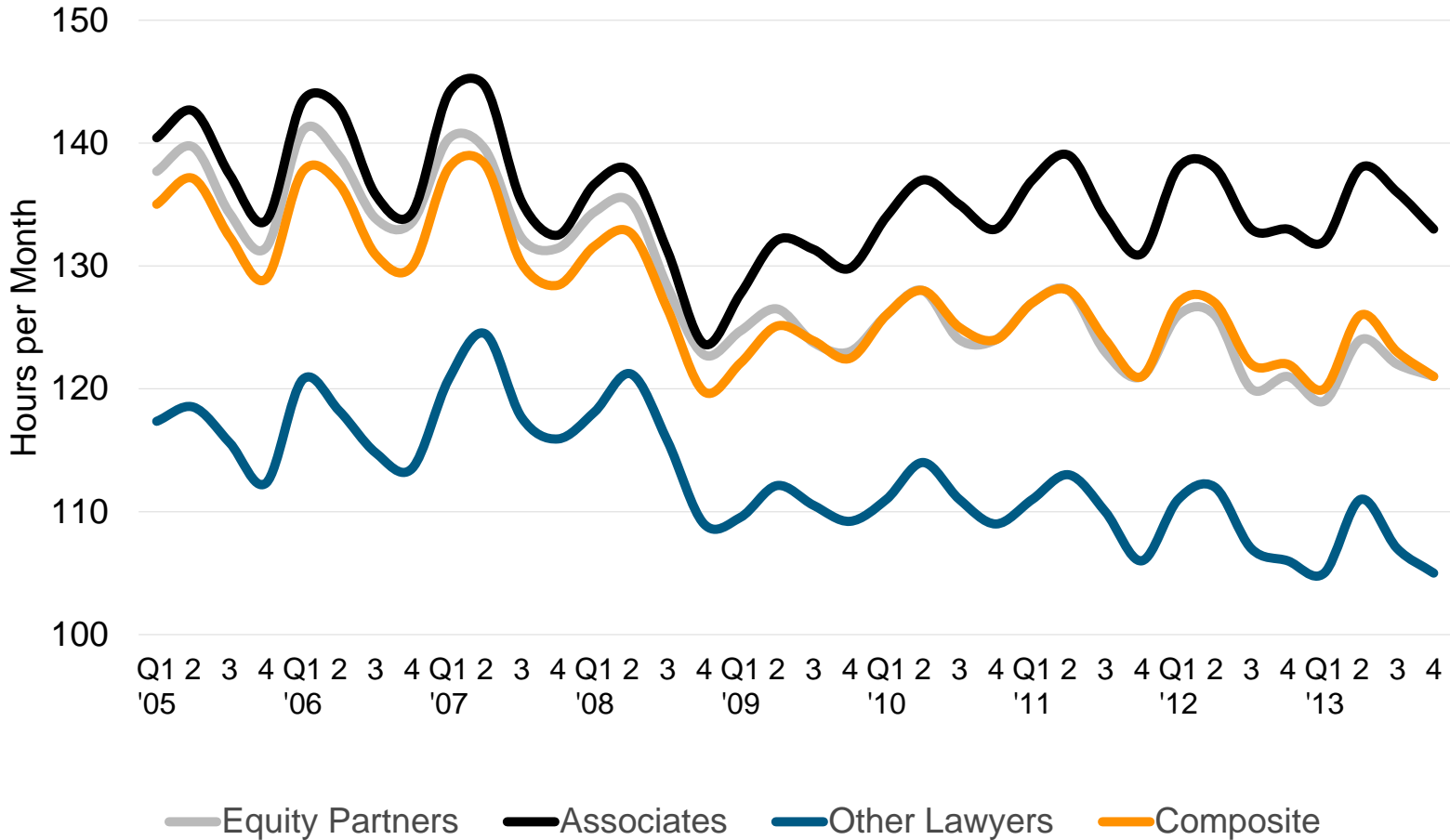
Productivity (Billable Hours/Lawyer)



Lawyers only

Source: Thomson Reuters Peer Monitor

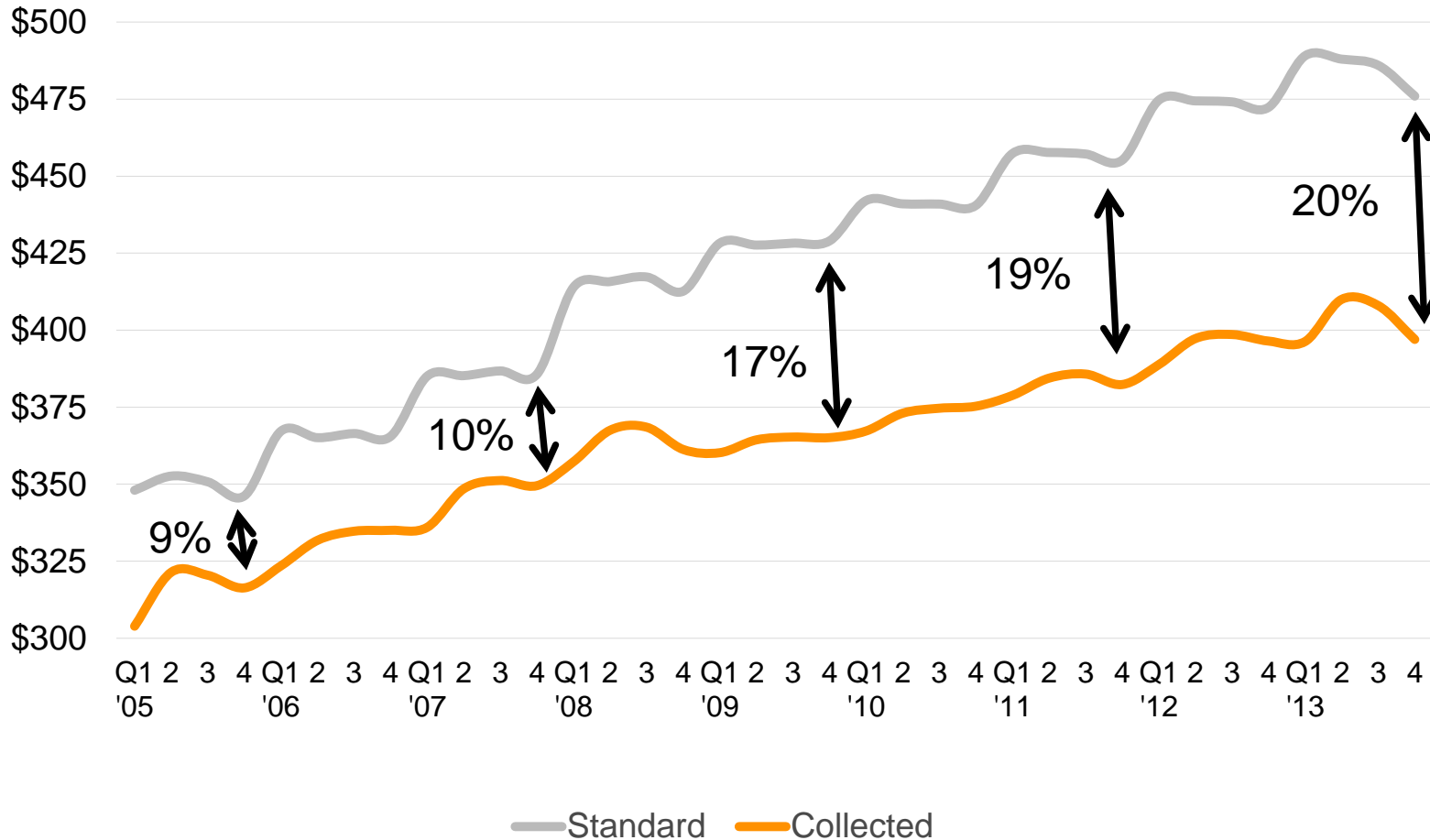
Productivity (Billable Hours/Lawyer)



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Lawyers only

Realization

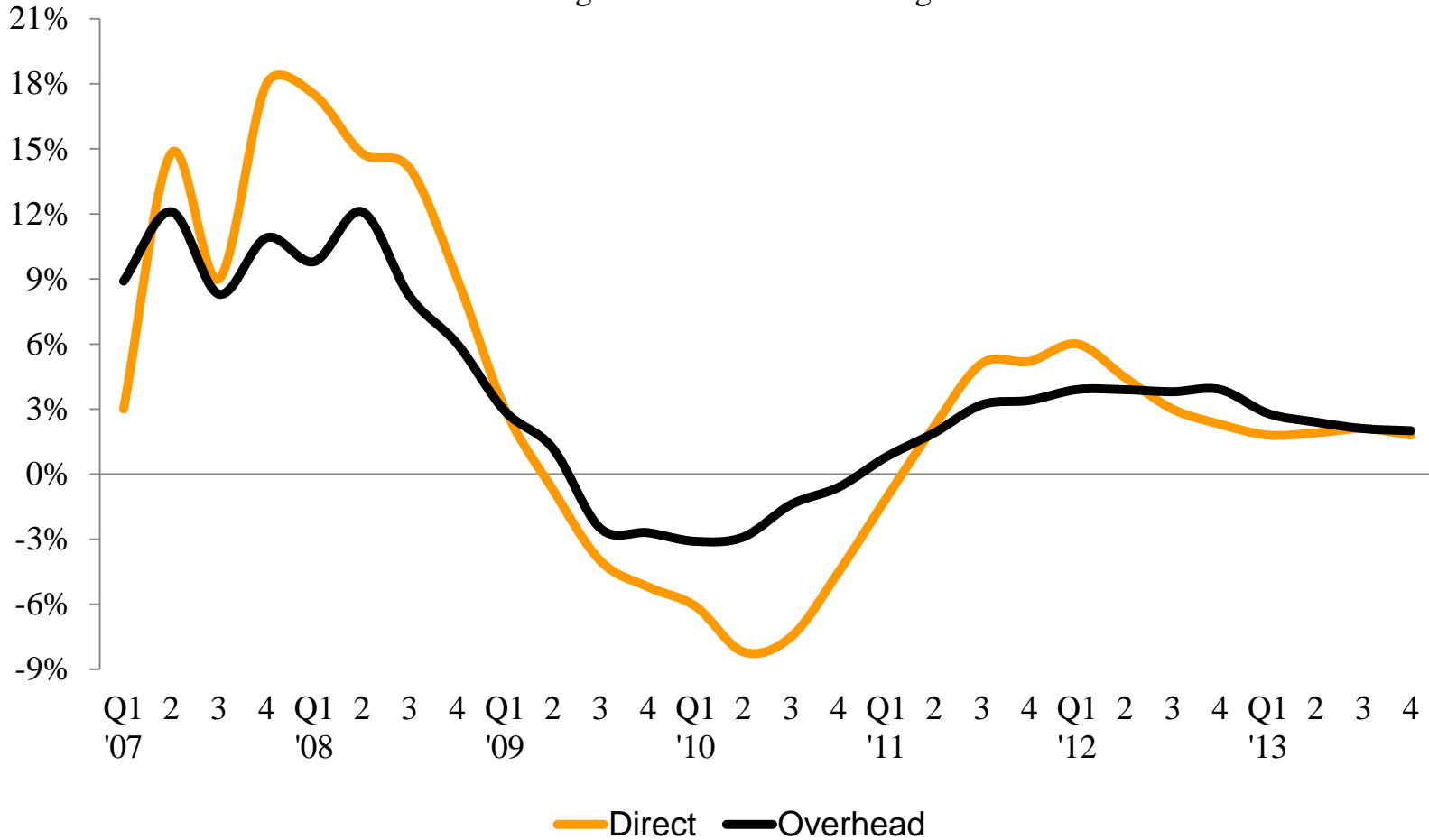


Source: Thomson Reuters Peer Monitor

Lawyers only

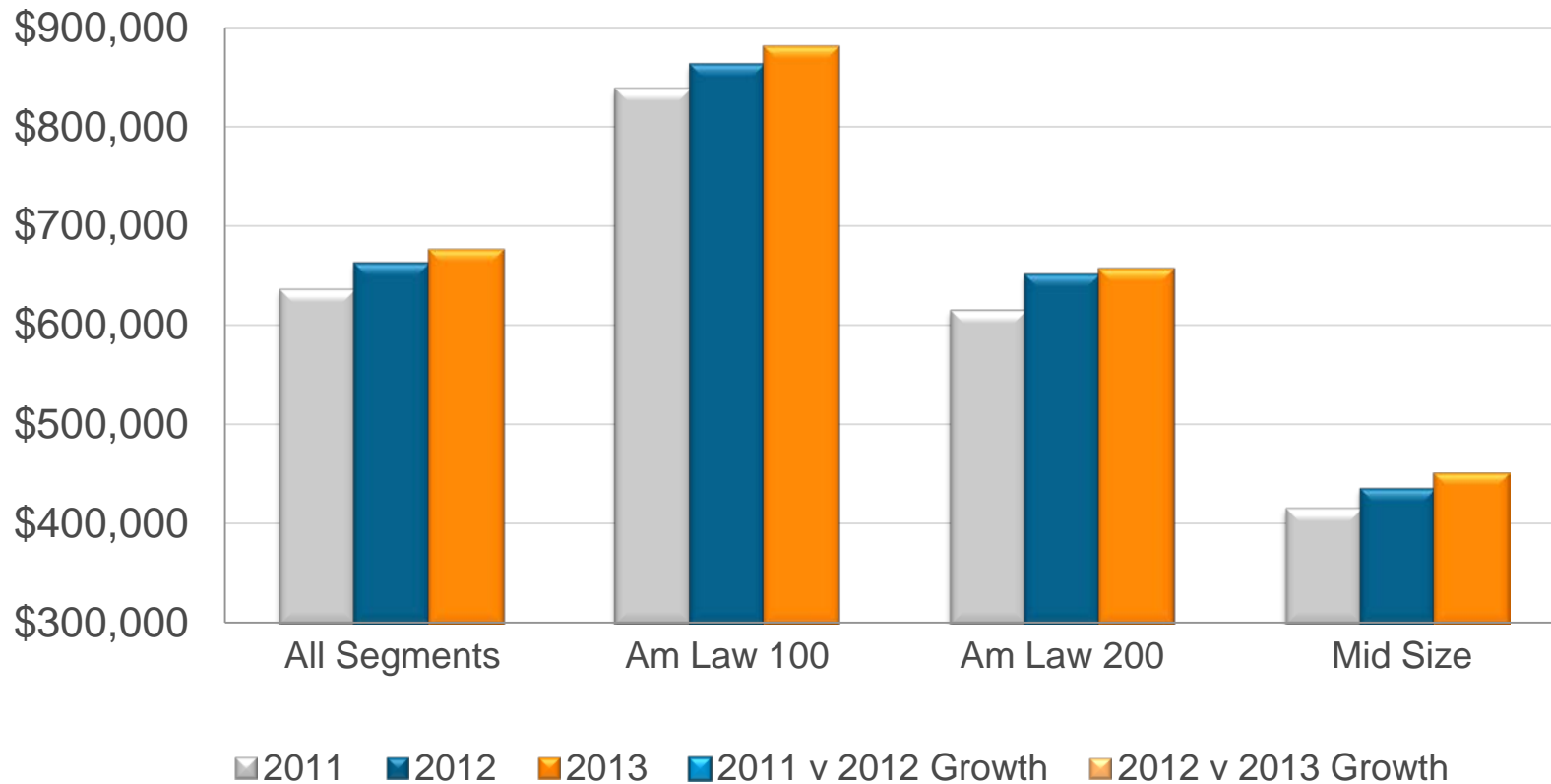
Expense Growth

Rolling 12-Month Y/Y % Change



Source: Thomson Reuters Peer Monitor

Profit per Partner



Source: Thomson Reuters Peer Monitor

A Quick Review

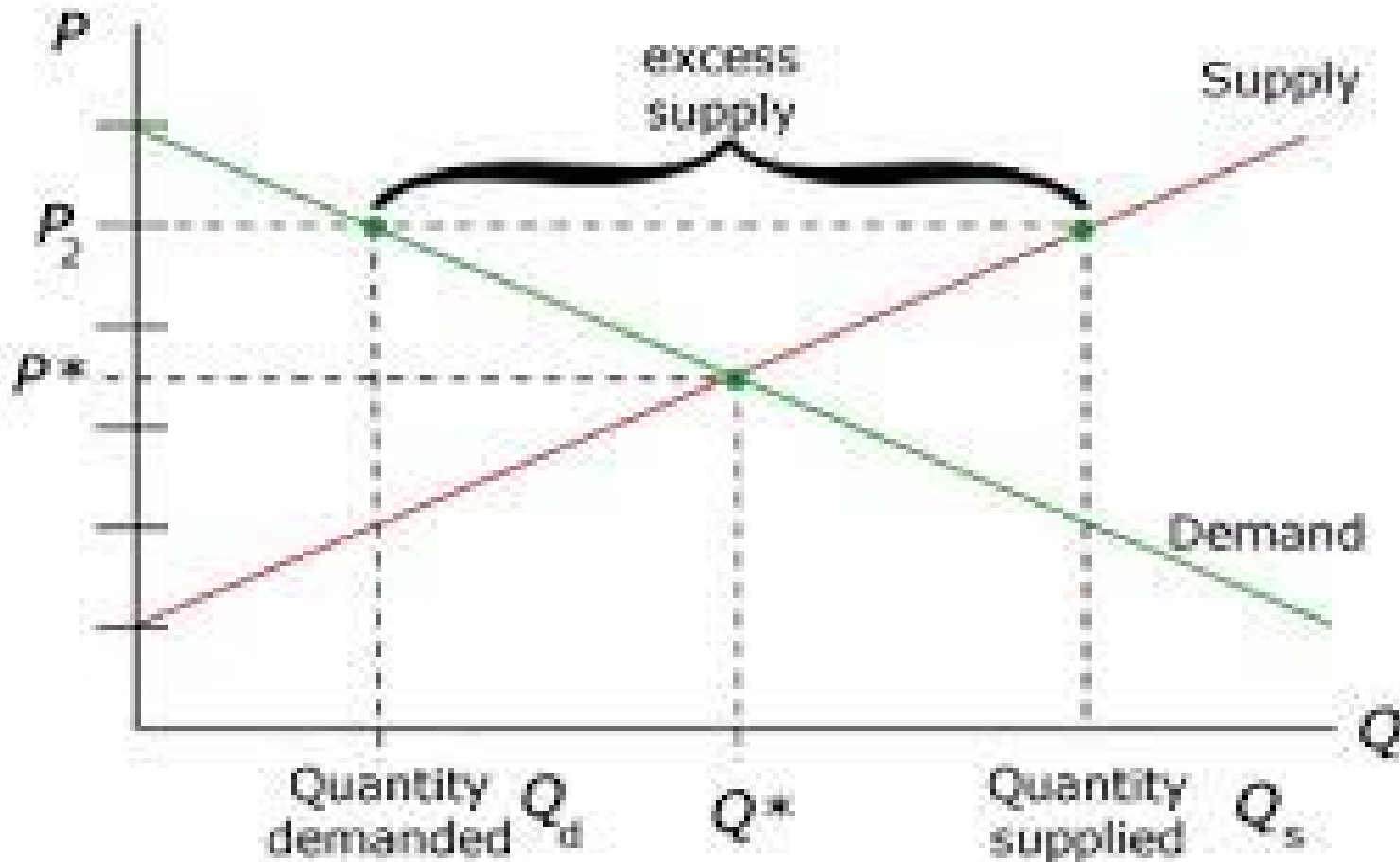
- **Stagnant Demand**
- **Stagnant Productivity**
- **Stagnant Profits per Partner**
- **Declining Realization**
- **Challenging expense management**

Broader Trends

- **Role of general counsel**
- **Wider access to legal information**
- **More use of technology**
- **Commodity pressures**
- **Non-traditional providers**

Supply Exceeds Demand

Excess Supply



Redefinition of Value



Growth as a Law Firm Strategy



Does Growth as a Strategy Make Sense?

- **Six straight years of declining or flat demand**
- **Six straight years of flat profit growth**
- **Almost a decade of declining productivity**
- **Declining realization**

Common Rationales for Growth

- **Economies of scale**
- **Expand pie for younger partners**
- **Diversification**
- **Larger footprint to serve clients**

Economies of Scale?

- **Hourly billing model**
- **Multiple offices**
- **Limited economies in law firms**
- **Low correlation of size and profitability in AmLaw 200**
- **Peer Monitor data**

(Dis)economies of Scale

- **Difficult to manage multiple offices**
- **Quality control challenges**
- **Cultural challenges**

Expanding the Pie?

- **Potential brand benefits but . . .**
- **Clients less influenced by brand**
- **Willing to move high-stakes work from AmLaw 20 and Magic Circle for 30% cost savings?**
 - 74% yes -- 13% no
- **AmLaw 20 and Magic Circle more or less responsive?**
 - 57% less -- 11% more

Expanding the Pie?

- **Altman Weil survey:**
 - **40.5% GCs shifted work to lower-priced firm in last 12 months**
- **CounselLink billing data 2010-2013:**
 - **“Large enough” firms (200-500 lawyers) jumped from 18% to 22% of total market billings ;**
 - **The largest firms (750+ lawyers) dropped from 26% to 20%; and**
 - **“Large enough” firms doubled share of high value litigation work: 22% to 41%.**

Diversify Practices?

- **Good idea in principle**
- **Challenge in moving outside traditional market or expertise**
- **Trend toward weeding out “underperforming” partners and practices.**

Larger Market Footprint?

- **Sensible if clear strategic vision**
- **One-stop shopping questionable:**
 - **Cost-efficiency concerns**
 - **Disaggregation**
 - **Some degree of brand erosion**

Real Strategy



What Is Strategy?

- From the Greek word *stratēgia*, meaning “generalship” – *stratos* (army) + *agein* (to lead).
- In military terms, strategy is the large scale plan for fighting and winning a war.

What Is the Purpose of Strategy?

To Win!



Strategy Growth

- For some firms, growth is clearly important, but *strategy should drive growth* and not the other way around.
- Goals other than growth:
 - Better service delivery
 - Better pricing
 - Better collaboration with clients and other service providers

Why Do We Need Strategy?

- **Resources are limited.**
 - **Strategy involves deciding how to use each of your resources for maximum competitive advantage**
- **Difficult choices:**
 - *Where* will we focus our scarce resources?
 - *How* will we focus our scarce resources?

Why Do We Need Strategy?

- **Other reasons having a strategy is important:**
 - **Direction**
 - **Decision-Making Framework**
 - **Alignment**
 - **Inspiration and Motivation**

STRATEGY AS LEARNING CAPABILITY



Strategy as Learning Capability

- **Insight**
- **Focus**
- **Alignment**
- **Execution**
- **Renewal**

Insight

- **Take stock of where you are**
- **Internal environment**
- **External environment**
- **Trends**
- **Law Firms: practices, clients, competitors**
- **Must be brutally honest**

Insight: Some Good Examples



Linklaters

Morgan Lewis

Focus

- **Synthesize insight information into vision of direction**
- **Non-linear, creative, “thinking outside the box.”**
- **Where do we place our bets?**
- **Especially difficult process for lawyers**
- **This is where strategy often breaks down in law firms**

Focus: Taking Risks

New Practices Since 1970

- Class action litigation
- Product liability litigation
- IP litigation
- White collar criminal law
- Securities fraud litigation
- Employment law
- Privacy law
- Healthcare law
- Elder law
- Telecommunications law
- Securitizations
- Privitizations
- Hostile takeovers
- Cross-border transactions
- Environmental law
- Energy & natural resources law
- Land use law
- Endangered species law
- Internet law
- Law of toxic substances
- Internet law

Focus: Some Good Examples

Skadden

SLAUGHTER AND MAY

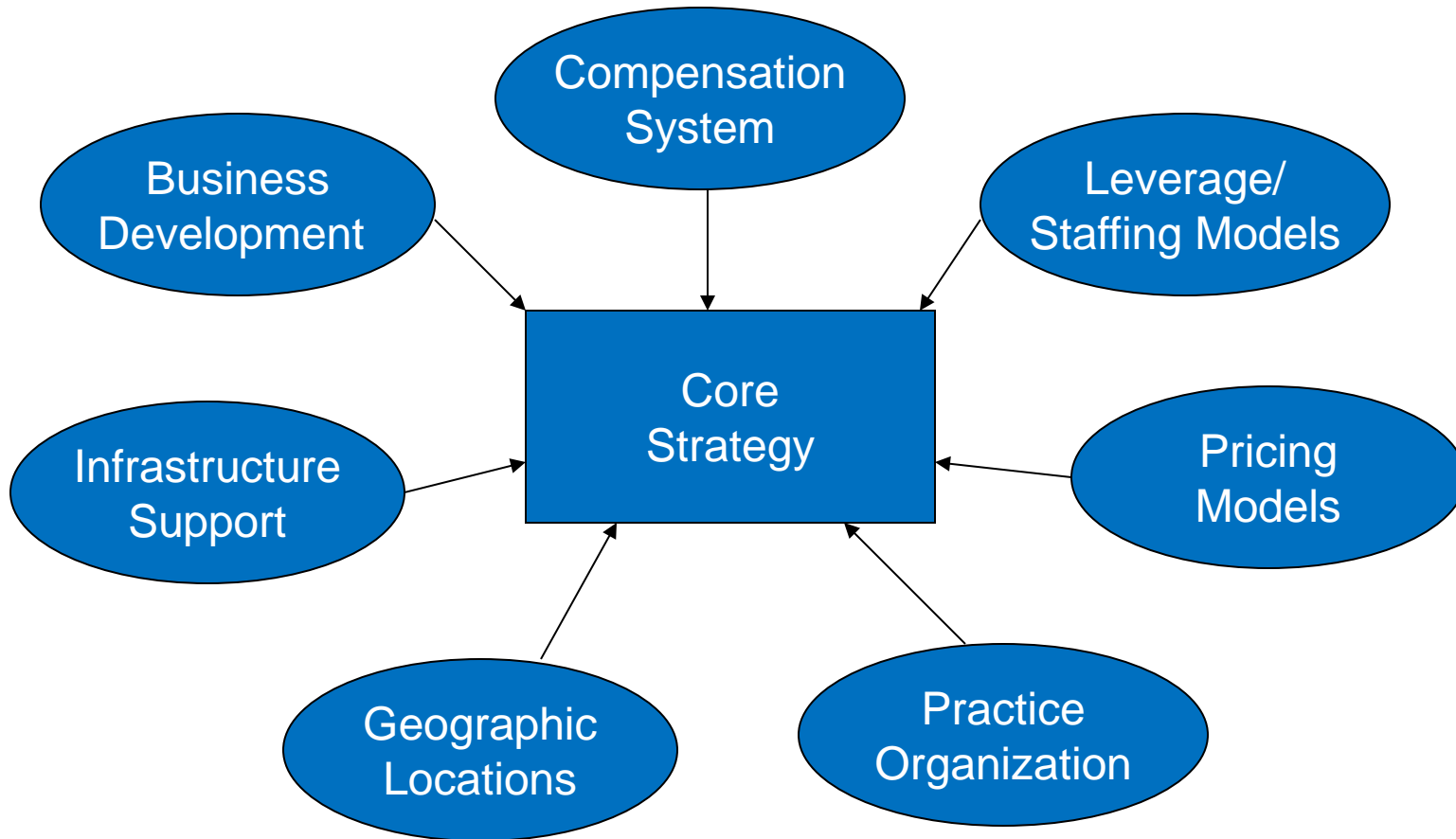
 NORTON ROSE

BAKER & MCKENZIE

Alignment



Alignment: Entire Business System



Alignment: Some Good Examples



Execution



Execution: Some Good Examples

WACHTELL, LIPTON, ROSEN & KATZ

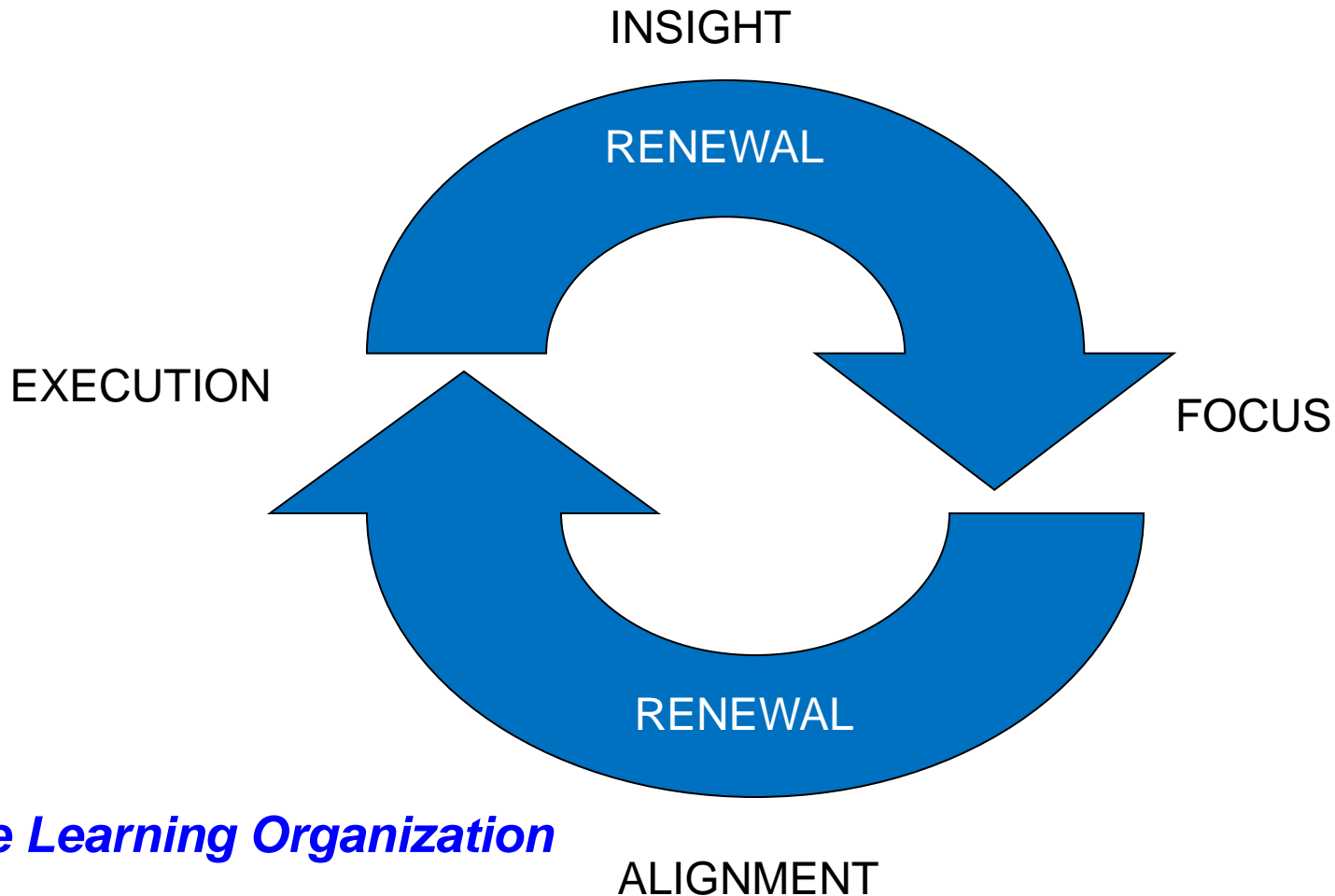
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quinn emanuel
trial lawyers

W&R

Wilson Sonsini Goodrich & Rosati
PROFESSIONAL CORPORATION

Renewal: Strategy as Continuous Learning



The Learning Organization

Common Deficiencies in Law Firm Strategies

- **Too long and complex**
- **No real effort at differentiation**
- **Too little client input**
- **Too many goals**
- **Avoidance of hard choices**
- **No metrics**

Common Deficiencies in Law Firm Strategies

- No “learning loop” step
- No specific assignments and deadlines – *i.e.*, no effective execution

A FINAL THOUGHT

“It is not the strongest of the species that survive, nor the most intelligent, but the ones most responsive to change.”

