Law Firm Strategy in Turbulent Times

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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

Y/Y % Change
All Timekeepers

Source: Thomson Reuters Peer Monitor
Law Firm Demand Growth

Y/Y % Change
All Timekeepers

Pre-recession level

Weakest Q1 growth since 2009

Source: Thomson Reuters Peer Monitor
Law Firm Demand Growth

Of the 130 firms included in the Peer Monitor data base, 61% reported negative demand growth in 2013. That compares to 49% in 2012.

Source: Thomson Reuters Peer Monitor
Productivity (Billable Hours/Lawyer)

Source: Thomson Reuters Peer Monitor
Productivity (Billable Hours/Lawyer)

Hours per Month

Equity Partners
Associates
Other Lawyers
Composite

Source: Thomson Reuters Peer Monitor

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
Redefinition of Value

QUALITY
SPEED
EFFICIENCY
COST
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!
• 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
- Privatizations
- 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: Some Good Examples
Execution
Execution: Some Good Examples
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.”

[Image of Charles Darwin]