

A Midyear Report:

The business outlook for the rest of 2004: More of the same, with a rise in demand that will push billing rates toward the thousand-dollar barrier.

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1. The numbers are out for 2003, and it turns out to have been a strong year for some firms and a flat year for others. What can we expect for 2004, and what will firms be doing about it?

Last year was a turnaround period in which the economy emerged from recession and corporate practices worked up a head of steam (at least during the last six months). This year promises to be even better. At the six month mark, litigation is continuing its long, strong run, and corporate departments' momentum is accelerating. Even Silicon Valley, which has lagged behind other major markets by about 18 months, is awakening. IPOs are in the pipeline. Despite business-press predictions to the contrary, I believe that Google's offering will fuel more; after all, this is the Valley.

High-profile white-collar prosecutions in 2003 were followed by countless complex civil litigation filings. This year prosecutors have already obtained a conviction against Frank Quattrone. If they can take a few more scalps, such as those of Dennis Kozlowski and Jeffrey Skilling, they will be emboldened to go after more, and litigation will continue to be strong. If those prosecutions fail, the wind may be knocked out of corporate financial fraud structures.

Increased demand is likely to push hourly billing rates at top firms a bump away from \$1,000 by 2005. But that psychological barrier may prove hard for firms and clients alike to break. If the barrier proves substantial, some firms will capitalize on the opportunity by moving to premium billing structures.

The Wilmer Cutler Pickering-Hale and Dorr merger will lead many strong firms to revisit their merger postures. For them, a crucial question will be what size they will need to be to compete effectively, both on a national and global level, over the next five to ten years. Another question will be how they can dominate practice areas through combinations with other firms in an otherwise fragmented industry.

There will undoubtedly be one or more additional strong-on-strong firm combinations. The desire for “platform”—the combination of financial strength, practice mix and depth, geographic reach, and market position—will continue to drive lateral movement and cherry-picking across a broad array of firms. Although most firms are increasingly frustrated by the incremental nature of expanding by onesies and twosies, that will continue to be the strategy of the most successful firms seeking to build depth in core practices. To more successfully compete on the financials, aspiring firms will accelerate the winnowing and divestiture of noncore practices and the raising of their ratio of nonequity to equity partners.

Finally, there is the question of what happens to the IP boutiques. Essentially, we have seen continued segmentation of this market. The stronger firms will build strength in IP litigation, which is likely to continue to be strong, although perhaps not at the breakneck pace of the past several years. The weaker players—conflict-prone prosecution-dominated practices that are declining in strength—will keep suffering from the cherry-picking of their star litigators. Ultimately they will fold or be forced to look for a similarly situated combination partner. We may see national or regional roll-ups among these firms in the not-too-distant future.

2. Our firm is revamping its practice group structure and reconsidering what we want from our group leaders need. What are the skill sets that practice group leaders play in leading firms today?

Over the past decade, practice group leaders have become increasingly important players in driving firm strategy and profitability. As senior firm managers give up their clients and practices in favor of full-time management duties, practice group leaders—who typically carry full or nearly full billables loads—play a role akin to that of factory floor managers, close to clients and lawyers who service them.

As the key link between firm’s management and its clients and lawyers, successful practice group leaders need a broad array of managerial, client service and people skills as well as rainmaking and longevity, the hallmarks of yesterday’s leaders. To function effectively today, practice group leaders must knit client’s needs to their firms’ service offerings. That means they need a keen sense of where their groups fit in the fabric of their firms’ practice group mixes, both strategically and financially. Group leaders in a core practices must be able to lead the upgrading and growth of the client base and to push billing rates. Leaders in service practices need strong right-sizing skills and the ability to place hammer-locks on client and matter intake.

On the people-skills side of the equation, successful practice group leaders must have a strong sense of personal responsibility for the success of their own, the group’s, and the firm’s practice. They also need the ability to motivate and derive enjoyment from the success of others. A straightforward communication style, strong listening skills, and the ability to leave some things unsaid are critical; those typically require a high level of self-awareness and confidence.

Practice group leaders must also ensure and drive the quality of the firm's work product, both by example and by implementing practice development programs for their groups. To do so, they must have a passion for the excellence of the group's work product.

As managers, the most important job of a practice group leader may be grooming a successor. Leaders must be able to fairly evaluate and review the managerial talent in their groups. That means being able to trust and delegate to others, having a strong sense of what's important and what's not. Managers also need to have the ability to set priorities for themselves and others in the group, to intervene, and to criticize constructively, and they must know how to measure the outcome of their effort.

I recently read a piece in *Fast Track* magazine, detailing General Electric Company chairman Jeffrey Immelt's views on the skills that top GE managers need. Many of them overlap with the skills that a practice group leader needs. I was particularly struck by the applicability of his last one: the ability to understand people, to always be fair, and to want and expect the best from people, but to know that when something doesn't work, it isn't personal.

3. We are a very strong midsize, middle-market regional firm with a principal office in a major city and several outlying offices nearby. We believe that we are at a crossroads in our growth: Should we open an office in a second major city, or hook up with another firm that wants to enter our principal market and is further along in building a national or even global practice? Is it realistic for us to think that we can continue to grow on our own? Must we merge or be acquired?

This is probably the most vexing topic for strong regional middle-market firms today. It deserves more treatment than I can give it here, but it is worth highlighting the strategic considerations.

The market forces of growth, globalization, and consolidation are inexorable. Although many firms combine for the wrong reasons, there is no doubt that servicing the most important needs of global companies and industries will require leading law firms to have global reach. To grow, firms must be financially strong, and that includes having sufficient net operating income to expand—all of which means being big. If your firm ultimately wants to compete for the best work from the best clients, it will almost surely have to grow big, either by making acquisitions or by being acquired.

Your firm can probably maintain its independence for the foreseeable future, if that is important to your partners, by balancing growth initiatives with strong financial performance. Too many firms spend too much money opening offices in non-strategic markets. Those offices dilute the firm's profitability. They wind up attracting and turning out underperforming partners. Under the worst of circumstances, these partners and offices dilute firm's performance so much that its most productive partners start to look elsewhere. This is the cycle that you want to avoid.

Given the position you're in, growth only makes sense if it can be accomplished without weakening your numbers. Short-term investments are fine; prospective offices that won't turn a profit (after partner draws) in the short-term shouldn't be opened. This may mean strengthening your core, most profitable practices and expanding them from your current locations before growing geographically. It certainly means expanding into new geographic markets only if it is accretive to your profits. It also likely means that you will need to hone your practice down to its most profitable core while building or maintaining some countercyclical practices.

Today, the choice for mid-size, regional firms who want to compete at the top really isn't primarily about building a geographic footprint. Rather, it is about building financial strength. A strong balance sheet with top-tier profits will give midsize firms a better position for the future than will a network of offices performing at midmarket profitability.