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# 2009 Legal Industry Trends and Best Practices in the Downturn

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# Agenda

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# 8 FAQs

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1. Will associate salaries be rolled back?
  - A. Regionals will have to lead
2. Will associates salaries be frozen?
  - A. Already happening
3. Will associate lockstep pay be broken?
  - A. Already happening
4. Will first year offers be deferred?
  - A. Yes
5. Will first year offers be withdrawn?
  - A. Yes
6. Will there be more lay-offs?
  - A. Yes
7. Will more firms fail?
  - A. Yes
8. Why is all of this happening now?
  - A. Its different this time
  - B. Nothing you've yet seen reflects Q4 08

# 2008 AmLaw 200 financial preview

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## Key Metrics

- ❑ Gross Revenue up 3% - 5%
- ❑ RPL up 3% - 5%
- ❑ PPEP down 3% - 5%

## 4<sup>th</sup> Quarter

- ❑ Many firms hit the wall
  - Not yet in Citi numbers

# AmLaw 200 footprint snapshot

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## 2006

- ❑ 3 International firms
- ❑ 21 National firms

## 2008

- ❑ 3 International firms
- ❑ 33 National firms

Conclusion from Citibank study: Global firms enjoying strong advantage in the down economy

Reason: Globalization and the growing interdependence of the capital markets

# Emerging hierarchy

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- ❑ Top 30 - 50 global firms
  - 60 - 75 competing
  - Will need minimum of \$2 billion revenue; \$2 million PPP
  - Among them will be
    - ✓ 10 - 12 NY powerhouse financial center boutiques
      - ❖ Nationalization of the banks may change the pecking order
      - ❖ Private and state-owned enterprises will rise in importance
    - ✓ 15 - 20 full-service global mega-firms
- ❑ National, regional and super-regionals

# Ten trends in the downturn

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1. ↓ Globalization - possibly some shrinkage
2. ↑ Consolidation - distressed firms merge and fold
3. ↑ Convergence - client seek efficiency and discounts
4. ↑ Segmentation - clients match rates and value
5. ↑ Increased pressure on PPEP - keep partners in seats
  - Regional firms gain on pack
6. ↑ Increased ratios - stickier seats for top performers
7. ↑ Non-equity partner shrinkage - extraordinary shrinkage
8. ↑ Equity partner sinecure - probably some shrinkage
9. ↑ Layoffs - second and third rounds
10. ↑ Alternative fee arrangements

# Market is segmenting

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## Clients making choices

- Unbundling portfolios of work
- Unbundling matters
- Outsourcing

## Firms forced to make choices

- Full service corporate
- Regional
- National
- International
- Global
- Niche players
  - Industry and practice area boutiques

# Best practices of top competitors: How the six drivers work in the downturn

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## Six Drivers

- I. Clear vision/strategy to match
- II. Disciplined growth
- III. Client management
- IV. Talent management
- V. Communications management
- VI. Governance

# Vision

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## Clear vision

- ❑ Aspirational and credible
- ❑ Speaks to core constituents
- ❑ Communicates brand and position

## In the downturn

- ❑ Make it distinctive
  - Find a niche
  - Consider the middle market
- ❑ Craft a value proposition
  - WYSIWYG
  - Low overhead lower cost

# Growth

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## Disciplined growth

- ❑ Balance reach and profitability
- ❑ Build in strategic jurisdictions
- ❑ Breadth and depth in core practices

## In the downturn

- ❑ Get lean; stay lean
- ❑ Close non-core underperforming offices
- ❑ Shed underperforming practices
- ❑ Beware of tempting opportunities to build non-core practices and offices
- ❑ Vet carefully

# Clients

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## Client management

- ❑ Focus on top clients
- ❑ Strict client intake
- ❑ Constant client feedback

## In the downturn

- ❑ Shift emphasis
  - ❑ Marketing to biz dev
- ❑ Create a preferred client list
  - Measure profitability
  - Incentivize growing these clients across platform
- ❑ Alternative fee arrangements
  - Don't miss a rate increase
- ❑ Client needs assessments
- ❑ Client service interviews
- ❑ Client loyalty programs
  - Tailored CEB and publications
- ❑ Sales contests
- ❑ Second excess talent

# Talent

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## Talent Management

- ❑ Best team on the field
  - Managing the matrix
- ❑ Competency model
  - Align competency, value and compensation
- ❑ Work allocation
- ❑ Create leverage
- ❑ Eliminate the fat middle

## In the downturn

- ❑ Associate meritocracy
  - Eliminate the lockstep
  - Roll back comp
- ❑ Adjust leverage
- ❑ Defer start dates
- ❑ Withdraw offers
  - Offer stipends
- ❑ Right size partnership

# Communications management

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## Internal/External Talent/Clients

- ❑ Limited number of clear, consistent and aligned messages
  - Focus on value proposition
    - ✓ Integrate into all internal and external communications
- ❑ Align messages and compensation

## In the downturn

- ❑ External: Inculcate the value proposition
- ❑ Internal: Focus on profitability

# Governance

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## Leading the firm

- ❑ Full-time management
- ❑ C-Suite
- ❑ Dedicated MBAs

## In the downturn

- ❑ Plan for the firm
  - Job description for the chairman
  - Clear roles and responsibilities of the practice group and office leaders
    - Building the business
    - Making the matrix work
      - ✓ Best team on the field

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Break

# Alternative fee arrangements

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## Clients' risks and interests

### □ Risks

- Bad Result
- Cost overruns

### □ Interests

- Predictability
- Results
- Efficiency
- Cheaper

## Law firms' risks and interests

### □ Risks

- Brand dilution
- Profit dilution

### □ Interests

- Predictability
- Profitability
- Efficiency

ACC Value Challenge: align cost and value

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# Aligning Interests

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## Two profit pools

- ❑ Savings pool
- ❑ Results pool

## Structure the fee

- ❑ Create hybrids
- ❑ Use both pools
- ❑ Allocate risk and reward
- ❑ No windfalls

# Top ten downturn do's and don'ts

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## Do

1. Update your plan
2. Focus on your vision
3. Choose and own a position
4. Ratchet up the “all-in” work ethic
5. Evaluate and manage talent aggressively
6. Closely align compensation and contribution
7. Cherry pick, but with extra caution
8. Manage billing and collections aggressively
9. Transparent communications on financial performance
10. Focus on building new and stronger client relationships

## Don't

1. Take client relationships for granted
2. Operate a “big tent”
3. Use culture as an excuse for hard decisions
4. Miss a rate increase
5. Underpay performers
6. Overpay underperformers
7. Crimp on p.r. or underestimate the importance of good press
8. Rely on low rate work to keep people busy
9. Invest in non-core practices and offices
10. Think mergers come easy

# Biz Dev in the downturn

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- ❑ Strategic biz dev for partners
  - Where their practice is and where they want it to be
- ❑ Focus on
  - Integrated use of non-billable time
  - Past and current clients
  - Robust contact management
  - Referral sources
- ❑ Articulate a value proposition
- ❑ Customized bios and practice group descriptions
  - Updated deal/litigation experience lists
- ❑ Raise profile (speaking, publishing)

# Marketing wheel of fortune

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# Benchmarking

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1. Do you have a CMO
  1. For how long
2. Title
3. CMOs tenure
4. Reporting relationship
5. Do you have a marketing partner
6. Does CMO have client contact
7. Do you use metrics for CMO performance

# Long term: golden era continues

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- ❑ Strong demand for U.S. style law
- ❑ Slowly accelerating consolidation
  - Battle for market share
- ❑ Strong will get stronger at the expense of the weaker



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The end.

Thank you