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How to Succeed in BigLaw While Really Trying: A Four Act Unfinished Play, Now Playing at a Law Firm Near You

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Dramatis personae:

Herman Laforge; 64 year old chairman of Biglaw, Global and Powers, an international law firm with roots in the Midwest.

Marvin Shades; managing partner of BG&P;

Sheila Shuster; CFO of BG&P;

Setting:

Tower floor of Manhattan skyscraper overlooking the canyons of Manhattan. Act I takes place in late January 2009.

Act I

Laforge:

I am still breathless. What a year 2008 has been! Those banks going out of business weren't as harmful to our business as I feared.

Shuster:

I don't know Herman. We had some deals and some litigation work from these banks for which we collected fees through the third quarter, but then new deal flow stopped and the lawsuits were then stayed by the bankruptcy filings. New matter openings in the firm slowed by about 40% in the fourth quarter and hourly billings were down about the same in Q4. I don't see those picking up during the first few weeks of this year. We could be in for a disaster this year. We just don't have enough work to keep everybody busy. If this continues, we may be in for a disaster this year.

Laforge:

Have we got the preliminary numbers for 2008 yet?

Shuster:

Yes, Herman, they are in your packet. Be careful about these – these are the real numbers – [not what we release to the media](#). As you can see, our gross was down 11% and our net was down by 14%. The net might have been worse, but, fortunately, we laid off about 60 lawyers and about 100 support staff.

Laforge:

How does our profits per equity partner look?

Shuster:

We took a pretty big hit here. PPEP was down about 16%. We may take a beating from the media on this one, but from what I hear, there are lots of firms that are in the same shape.

Laforge:

That doesn't make me any happier. Look, I built this firm by growing, merging and opening offices in the major US markets. I was only able to do that by boasting about our growing PPEP and showing potential acquisitions that our PPEP was up there with the top New York, California and Washington firms. I had to get it out of everybody's head that we were just another sleepy Midwestern law firm. That's why I move to New York. If our PPEP takes a dip, I am afraid that we're going to have trouble growing. We've got to get our PPEP back up there. Sheila – you got any bright ideas?

Shuster:

Well, Herman, PPEP is just a function of dividing up profits among our equity partners. We could increase PPEP by either raining profits, which are is going to pretty impossible in this economy or having fewer equity partners.

Laforge:

You may be on to something there, Shirley. Look, our partners are actually paid pretty much what I tell them they are going to be paid. Our budgeting is pretty good in stable years. Why don't we take a bunch of our equity partners and take them out of the equity class – we'll de-equitize them. We'll just call them income partners. We'll just explain to them that at the end of the year, they'll make as much money as before and that we just have to make this adjustment temporarily to please the media. We'll give them contracts so that their incomes will be protected.

Shuster:

But, Herman, we already have a problem with our non-equity partners. They weren't as busy as they had been in the past. In fact, their hours billed were down about 20% last year.

Laforge:

Tough times require tough decisions. Let's lay off about 10% of our income partners. That should seal the deal. And as long as we're at it, let's take another look at our associates and support staff and see if more cuts should be made there. If we're going to take on some hard nasty news, let's do it all at once. Get O'Brien in the media department to have a press release ready if word about this gets out to Above the Law. Say something about aligning our partnership and support structures to an ever changing and challenging economy. And throw something about how we are very strong and confident. Oh – and say something about how we're looking forward to a great year.

Shades:

Can we do all of this? I mean, legally. These guys are partners, after all.

Laforge:

These are tough decisions, but we get paid big bucks to make these tough decisions. [We made these folks partners and I guess we can unmake them as partners.](#) Everybody will understand that we are doing this for the good of the firm. Let's also be strict about our [mandatory retirement policy](#). No waivers. Period.

Act II

January 2010.

Laforge:

It's been another doozie this year.

Shades:

At least cutting some of our equity partners last year kept our PPEP respectable.

Laforge:

But our gross still keeps slipping. We have to pump that up.

Shades:

Any ideas, Herman?

Laforge:

Let's get back to our game plan for growth. We got to 1,200 lawyers by lateral hiring. Lots of it. A lot of other law firms have done what we have done – de-equitize partners. [Partners at law firms are just free agents.](#) Let's now hire some real big producers and shell out some real money for these guys. Real money invested begets real returns if you [hire carefully](#). If necessary, we'll lean on some of our partners to defer some of their comp to cover these costs. After all, it's for the good of the firm. Make sure O'Brien sends out a great release saying how we are continuing to grow.

Shades:

Sounds like a plan.

Act III

January 2011

Shades:

It looks like we are beginning to bounce back. We got some really good talent and bought some nice business. Even after paying for our ramp up expenses, we are showing some real improvement in gross, net and PPEP.

Shuster:

Yes, but the expense side keeps going up at a higher rate than the profit margin.

Laforge:

Sheila – you’re going to have to cut some support staff again.

Shuster:

I’m on it, Herman.

Laforge:

What are we going to grow the revenue side this year, Marvin?

Shades:

We are going to continue to buy talent and business. I’ve also been speaking to a bunch of other managing partners whose firms have pretty good numbers. A lot of these guys have pretty good [networks of international offices](#). They say that these networks of international branches are great for servicing clients with global needs. They also say that having these networks gets them on the short lists for big ticket items where clients have the needs for international resources on matters where the stakes are high and they can charge big bucks. They also say that these international offices are pretty good feeders of business to the US offices.

Laforge:

You’re saying –

Shades (*Interrupting*):

Yes, let’s go global big time.

Laforge:

Sounds like a plan.

Act IV

January, 2012

Shades:

Hermann, on paper, we're looking pretty good. Our gross is up 4%; Sheila got our net up by 11% but we are still getting killed with expenses rising quicker than revenues. On top of that, in order to get the cash in the bank, we have squeezed our clients to pay every bill possible before year end. We did a pretty good job on that with the help of Sheila's staff. Sheila also did a great job on juggling our accounts payable, deferring payments until 2012 to keep our net as high as possible.

Shuster:

Thanks you, Marvin. But, we now have some new problems. Getting those clients to pay quickly ate in to our inventory. Our accounts receivable are at an almost unacceptable level. The [banks have noticed that](#) and have raised some questions. On the expense side, we are cutting and pruning and we are way down on what we can cut. Our accounts payable numbers are much higher as a percentage of revenue than they ever have been. And while a 4% increase in revenue seems commendable, it is only slighter better than flat. We still need to increase the revenue side.

Laforge:

Look, guys – this isn't a complicated business- we put in hours, charge by the hour and get paid by the hour. Just tell everybody to bill more hours. I've read that a couple of [firms are doing that](#).

Shuster:

We have another problem, Herman. We lost a couple of our old time producers last year. They took a chunk of business with them and the press is starting to ask questions. The truth is that I tool this pretty hard – after all I've known these lawyers for thirty years and I found it hard to believe that they didn't appreciate what we were doing for them in building the firm.

Laforge:

I don't get it. What ever happened to loyalty?

Shuster:

It's just not like the good old days, is it, Herman, is it?

But we have another problem brewing, you know when we went on that lateral hiring spree a couple of years ago, we asked some of our second and third tier partners to defer their comp to help pay for the new business. Well the total of deferred comp is getting a little out of hand and some of our partners and the banks are beginning to worry about that. Some of the guys leaving are telling me that the whole deferred comp idea is one of the reasons they decided to bail out. And the press is starting to ask some hard questions.

Lafarge:

Look, Marvin, you get O'Brien to prepare another press release saying how we're really doing well and that these partners leaving is part of our ongoing efforts to align ourselves with market realities. And you may as well let everybody know that we're going to be laying off some more lawyers and support staff. You know, the alignment thing. [We're not the only ones going through this.](#)

Shades:

Herman – with all due respect, I think we need [a more comprehensive approach on the media side.](#) Look, we saw Howrey go down last year. [The leadership there just didn't appreciate how what they were telling the media helped sink them.](#)

Lafarge (*rising, very agitated*):

Are you saying that we're in danger of sinking? Is that what you're saying?

Shades:

No Herman. Calm down. [Every law firm is at its essence a fragile business.](#) The point is that we need to recognize the realities. We must level with all of our partners. [We need to make sure we are all working together as a team for a common purpose.](#)

We also need to make sure that our partners understand that if we continue to get bad press and they continue to bail, we could, heaven forbid, be this year's Howrey. We need to make sure that every partner understands that [the personal consequences to the partners if we tank are extremely dire.](#)

Let's take our own statements seriously. Let's really make sure that [all of our partners are actually properly aligned and that all are compensated fairly.](#)

Lafarge:

Sounds like a plan.

Curtains Draw to a Close

Author's Curtain Call invitation to his audience: Please help me with writing the fifth act. How do you think this production should end?

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