

2016

Legal Marketing Association
Annual Conference



Lateral Partner Due Diligence & Integration

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#LMA16

Informal Survey:

Would you invest
\$1,000,000.

if there was an 50% chance
you'd lose money on the
deal?



Learning Objectives:

1. Understand how marketing and BD can help **define** which lateral partner investments are **most likely to succeed**.
2. Identify **ways to improve** the return on the investment in lateral hires.
3. Be able to **design a performance measurement system** to track lateral performance and ROI.



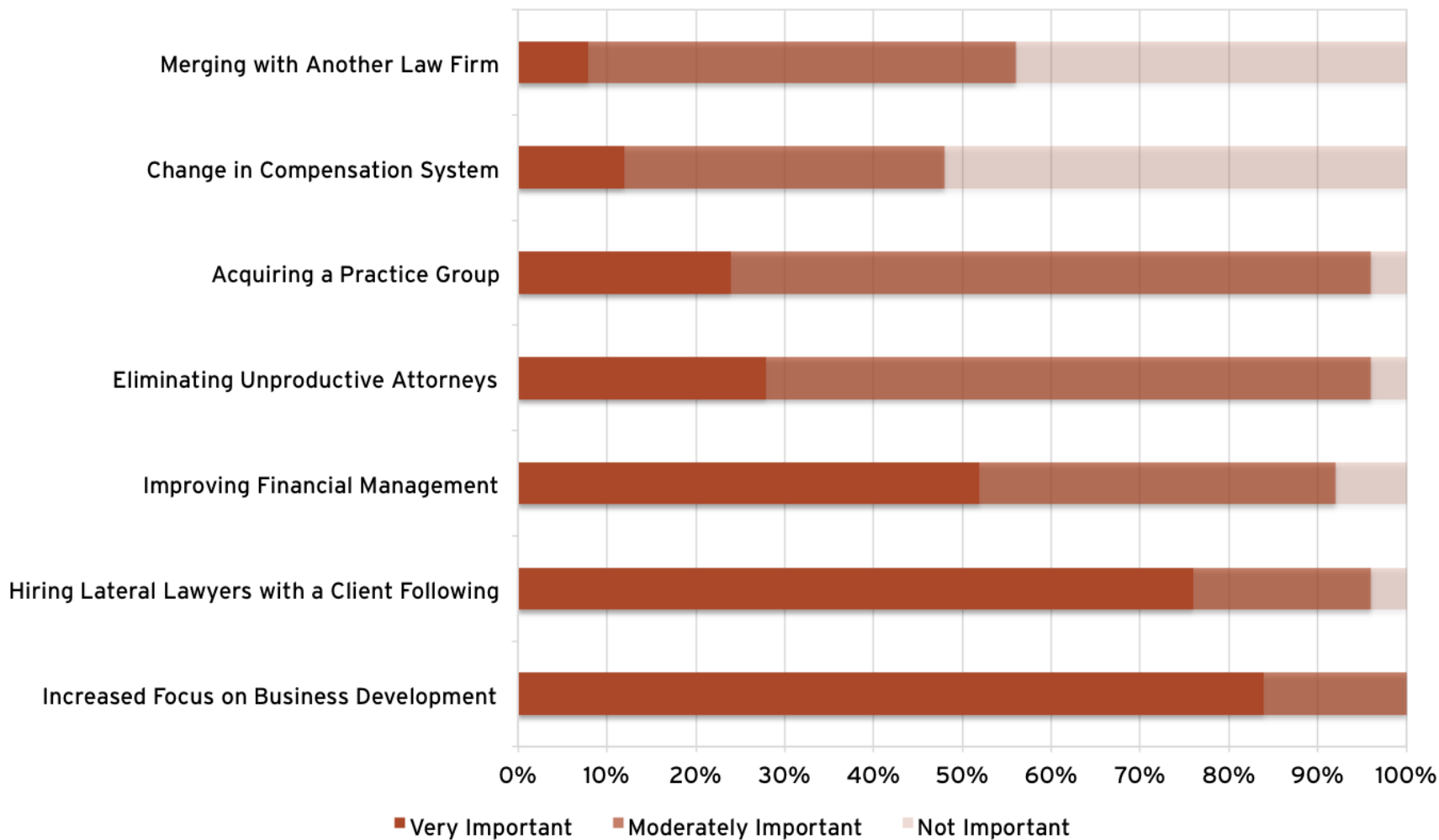
Surmounting the Lateral Partner Hiring Challenge: Lessons Learned, Best Practices, and Tools for Success



Eric Dewey, MBA, Study Co-author



Key Growth Strategy?



State of Lateral Partner Hiring- Am Law 200

- 2015 = 2,970 lateral partner moves among the AmLaw 200
- More than 50 moves every week
- 5.5% of the total partner population (EQ + Non-EQ)
- 8.2% growth rate in moves since 2010
- Estimated \$5.8B in client revenues in play



Is Lateral Hiring a Successful Client Acquisition Strategy?



Comparative Cost Analysis Considerations:

- Cost Capture: Hard Costs; Imputed Costs
- Amortization: Costs; Time Frame; Phase
- Revenue Types : Originations Vs. Production
- Acquisition Strategy: 'Bolt On' vs. 'Mix In'



What is the True Cost of a Lateral Partner Acquisition?

Partner Average Compensation*	\$716,000
Avg. Recruiting Fee (25%)	+ <u>\$179,000</u>
First Year Investment	\$895,000

Fully Loaded Costs (est.) = +\$170,000

Include BD expense, T & E; training; partner and staff time; etc.

Adjusted Investment = \$1,065,000

*2014 MLA Lateral Compensation Survey



How Much New Business is Required to Cover that Investment?

According to MLA, average reported annual
originations

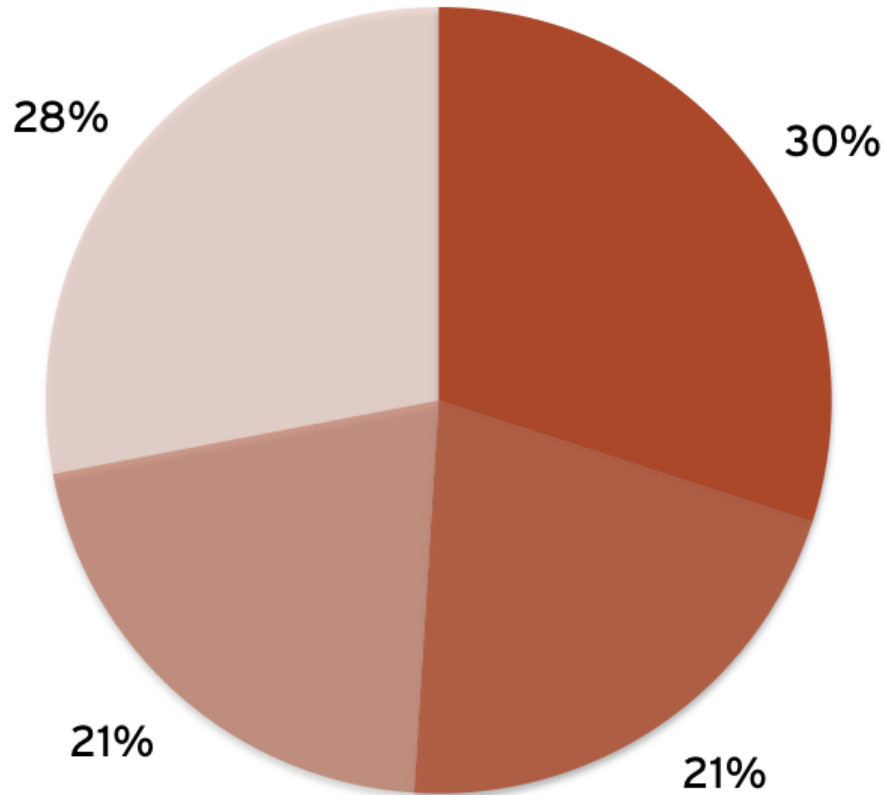
= \$1,957,000

Based on 35% gross margin



Lateral Hiring Performance

Percentage of Expected Book Realized



■ 50% or Less ■ 51% to 75% ■ 76% to 100% ■ 101%+



How Much New Business is Required to Cover that Investment?

Avg. Comp + Fees

Originations break even = \$1,377,000

(70% of book must port)

Avg. Comp. + Fees + Costs

Adjust break even = \$1,638,000

(84% of book must port)



Increasing Evidence of Churn

- 8.2% = Annual growth in lateral moves since 2010
- 5.3% = Churn among partner ranks in AmLaw 200 (2014)
- 10% = Projected annual partner churn by 2020
- 30% = Lateral partners that leave within 3 years
- 50% = Lateral partners that leave within 5 years



Impact on Profitability

Lateral Hires as a Percentage of Total Partnership 3% to 8%

Lateral Hires per Am Law Firm 5 to 50

Investment in Lateral Partner Compensation \$2M to \$19M

Potential Impact of Lateral Partner Investment on Profit Margin -1% to -3%

Potential Impact of Lateral Partner Investment on Profits Per Equity Partner -2% to -6%



What can Be Done To Improve Return on Investment (ROI)?



Hiring Stages	Examples of Potential Challenges
Needs Assessment	<ul style="list-style-type: none"> Identifying genuine, market-driven opportunities for growth Creating an infrastructure to operationalize the strategic plan
Candidate Sourcing	<ul style="list-style-type: none"> Balancing opportunistic and strategic hires Developing strong relationships with search firms Developing reliable alternative sources of candidates
Due Diligence and Interviewing	<ul style="list-style-type: none"> Ensuring a defined and thorough due diligence process is followed Maintaining objective analysis of candidates Accurately determining client “portables”
Structuring the Offer	<ul style="list-style-type: none"> Developing a compensation model that shares risk appropriately Ensuring a business plan is created for every incoming partner
Post-Hire Integration and Perf. Mngmt	<ul style="list-style-type: none"> Coordinating administrative tasks to ensure smooth day-one transition Managing performance to ensure the business plan is realized



Four Key Strategies for Improvement

1. Improve strategic focus
2. Improve sourcing of candidates
3. Improve due diligence on candidates
4. Improve integration of candidates



1. Improve Strategic Focus



Improve Strategic Focus

- Assess needs based on **market driven strategy**
- **Embed Marketing** and BD early and throughout
- Multi-disciplinary, standing **lateral hiring committee**
- **Heightened Due Diligence** on opportunistic hires
- **Institutionalize the entire process**
- Define needs with detailed **candidate profiles**

Key: Creating a formal, standardized process with dedicated personnel.



Define Candidate Profiles

Old Description: Practice area + Minimum book

New Description: Old Plus the Following

Client Mix Fit

- Concentration
- Conflicts
- Duration
- Discounts / Alt. Fees

Cultural Fit

- Attitude
- Firm Oriented
- Service Orientation
- Team Oriented

Economic Fit

- Book volume
- Billing rates
- Productivity
- Originations

Practice Fit

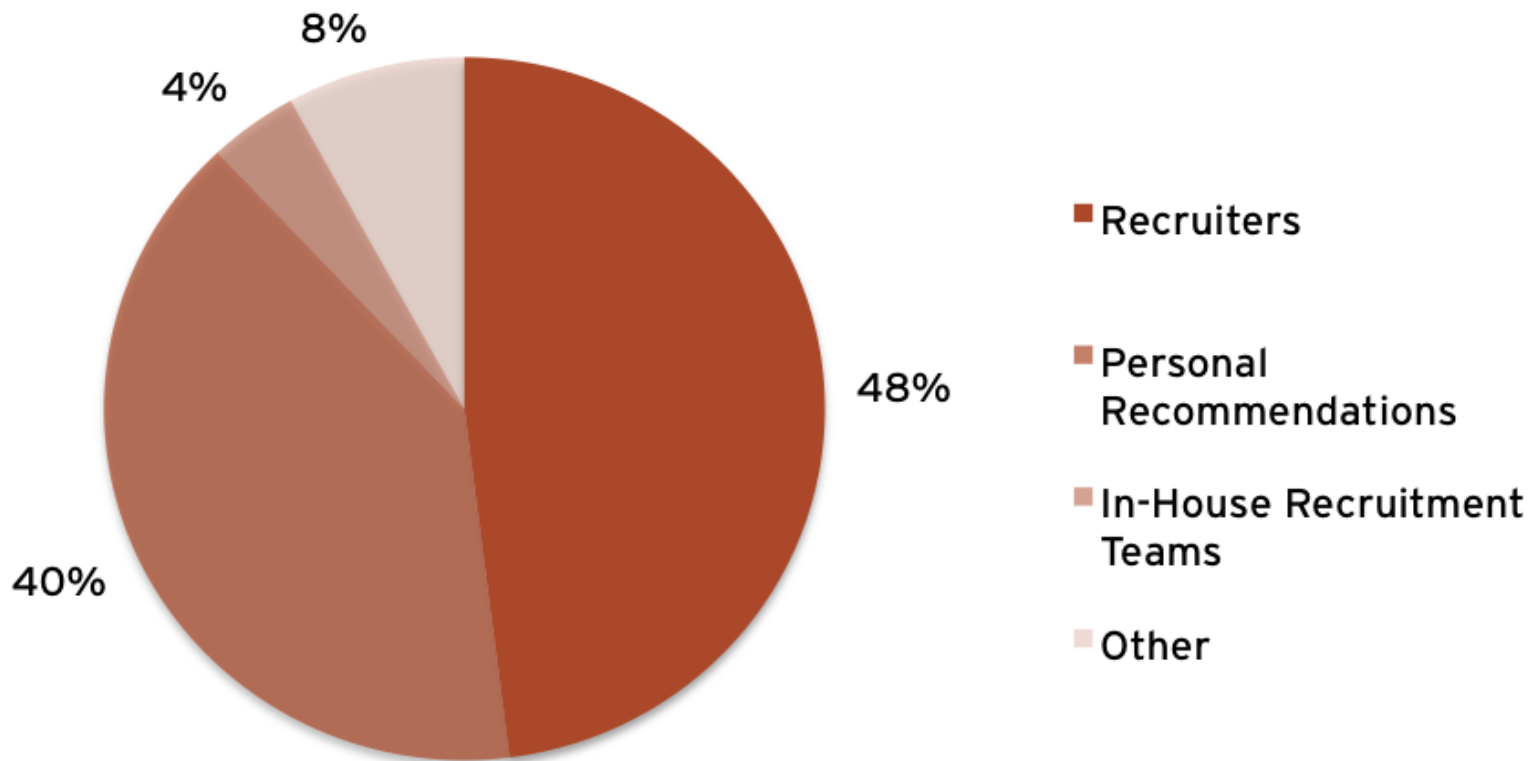
- Depth / Volume
- Synergy / Gap Filled
- Industry
- Specialty Knowledge or Expertise



2. Improve Sourcing of Candidates



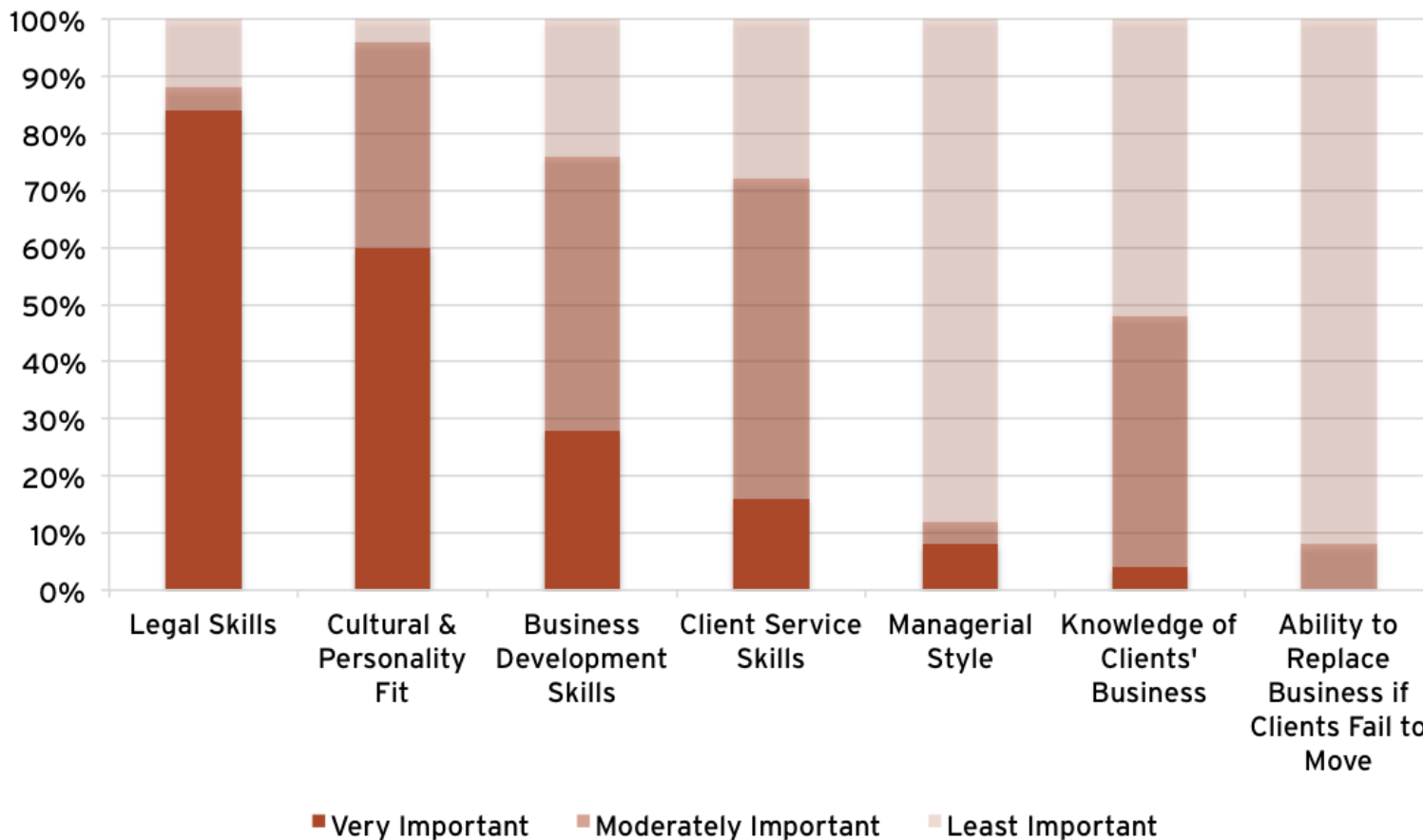
Improve Sourcing of Candidates



3. Improve Due Diligence



What Do You Look For in Candidates?



Due Diligence has Three Parts

1. Objective Data

Ex. Lateral Partner Questionnaire data

2. Professional Information

Ex. Insurance, conflicts and disciplinary information

3. Subjective Analysis

Ex. Cultural fit, expertise, BD, Client Relationships

Key Point:

A formal process ensures consistent execution and comparative analysis



Type 1 : Lateral Partner Questionnaire (LPQ), Common Questions Include:

80% of firms reported always using LPQ.

- Hourly billing rates (96%)
- Compensation (91%)
- Portable Billings (87%)
- Total Fees Billed and Collected (87%)
- Originations (83%)
- Fees Billed and Collected by Clients (78%)



Lateral Partner Questionnaire (LPQ)

Less Common Questions:

- Description of business development activities (48%)
- Explanation for why clients will move (17%)

Key Point:

Ask ‘Which clients are most likely to move with you and why?’



Professional Information

- Prior claims, disciplinary actions
- Insurance coverage
- Relationships with other entities
- Prior litigation or proceedings
- Actual or potential conflicts
- Criminal and credit checks

Factoid:

Many firms rely on bar admission as a proxy for this info.



Subjective Analysis

Lawyers best at:

- ✓ Culture and Personality Fit
- ✓ Legal Expertise and Work Product Quality
- ✓ Reputation

Marketing, BD or consultant best at:

- × Marketing and Business Development Skills
- × Client Relationships / Loyalty / Service
- × Behavioral and Managerial Style

Key Point:

Expand scope of subjective analysis . Leave less to chance.



Evaluate BD Skills of Laterals

Understand their practice:

Who They Know

What They Know

How They Are

Understand their activities:

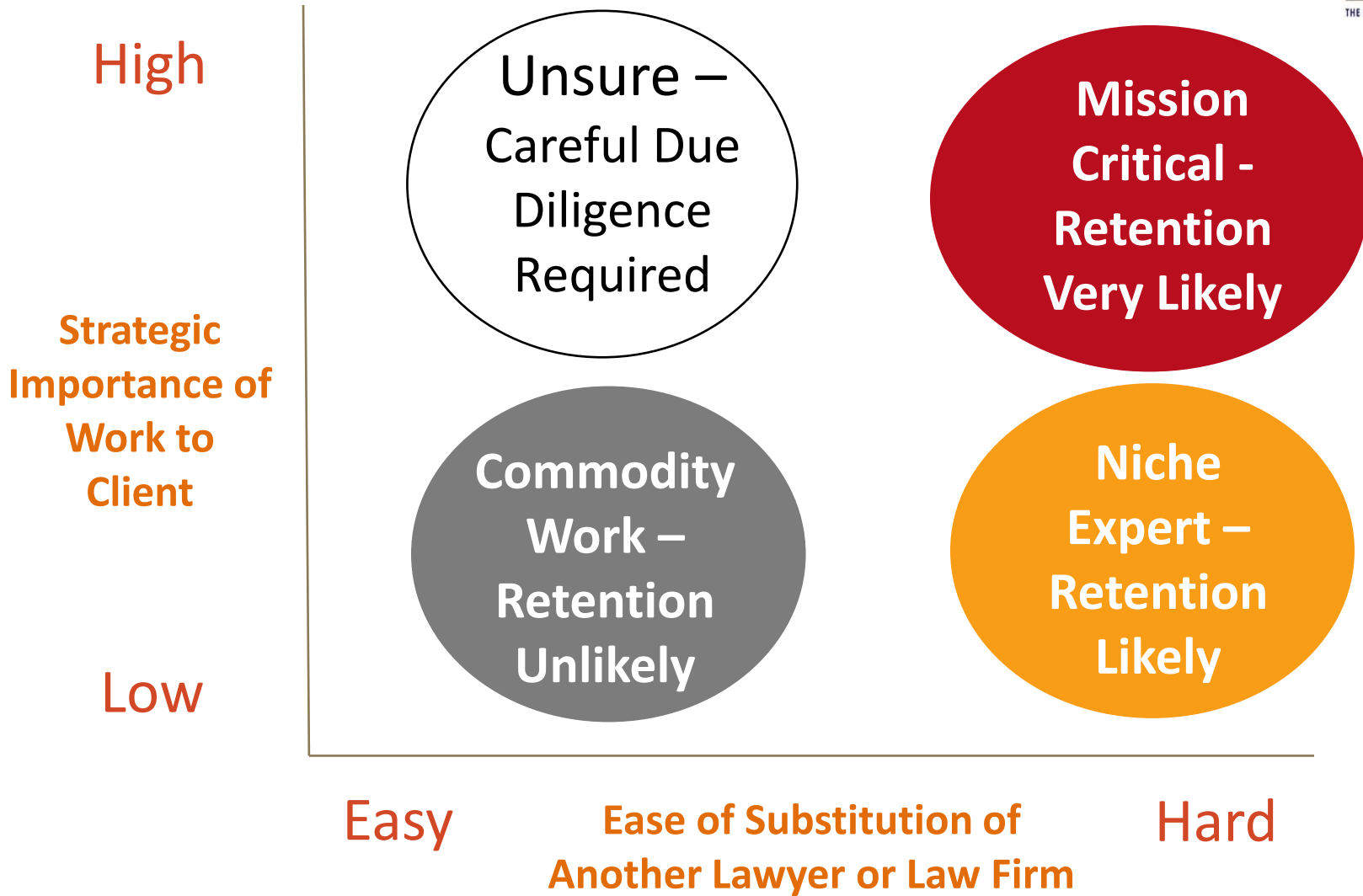
What are their Marketing
& BD Preferences

What are the sources of
their work

Best Practice: Marketing / BD professionals should be involved in every phase of the recruiting process .



Client Relationship Quick Test



Client Book Due Diligence: Client Relationship / Mobility Markers

Strategic Importance

Switching Costs

Institutional Knowledge

Quality of Personal Bonds

Incumbent Reach

Conditions and Timing

Substitutes /
Alternatives

Likely Incentives

Best Practice: Define client relationship markers . Build a model. Interview candidate about top clients. Track markers among hires. Build predictive capabilities.



Behavioral / Managerial Characteristics / Traits

What are the behavioral norms required to thrive in your firm's culture? Which management skills are most in need?

Behavioral

Empathy

Self awareness

Resilience

Listening

Managerial

Leadership and people skills

Communication and client service

Time and project management

Influence and negotiation

Tip: Report in American Lawyer suggests 20% of firms are building performance metrics.



4. Partner Integration Best Practices



Formalize the Integration Process

- a) Set integration objectives and strategy
- b) Customize integration plans
- c) On boarding vs. integration
- d) Plan for sustained support
- e) Align cultural with practice and client integration



Define the Primary Integration Strategy

‘Bolt On’ = The addition creates new opportunities

Ex.: New clients, new expertise, new geography, etc.

‘Mix In’ = The addition creates greater stability

Ex.: Deeper bench in practice area, depth in client type / work type, weakening of competitors, etc.



Provide Support for the Integration Process

- Attend interviews and catalog opportunities
- Develop integration plans early and get buy in
- Use lateral coaches in addition to mentors
- Ensure adequate resources
- Balance import and export cross promotion
- Meet regularly to troubleshoot issues / opportunities
- Find ways to build familiarity and trust



Monitor / Refine / Improve

Monitor Performance and Build the Model

1. Client movement and billings
2. Business characteristics
3. Relationships characteristics
4. Practice characteristics
5. Situational characteristics
6. Personality and behavioral traits



Best Recruiting Practices

- Identify Market Driven Opportunities for Growth
- Shoot for Strategic vs. Opportunistic Hires
- Emphasize Internal Sourcing of Candidates
- Dedicated Team / Formal Process
- Embed Marketing
- Client Book Due Diligence / Relationships Analysis
- Use Lateral Coaches and Mentors
- Customize Integration Plans Based on Recruiting Strategy
- Develop Performance Metrics / Predictive Models



GDC Lateral Hiring Services

- Lateral and Client Book Due Diligence
- Lateral Program Assessments
- Lateral Coaching
- Needs Analysis
- Recruiting Materials
- Lateral Growth Strategy
- Lateral Partner Research



Thank you.

Please complete the session survey.



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