



Managing From 30,000 Feet

Using Simple Models to Understand and Manage Complex Law Firms

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Law firms are complex, dynamic organizations that, as much as we would like, do not always fit the traditional business models of the corporate world. With roughly 30% - 40% of the workers also owners of the typical law firm, they are flat, loose coalitions of entrepreneurs. Law firms are busy, vibrant, noisy, distracting, sometimes frustrating places with layer upon layer of issues and problems which demand immediate attention. Focus is tough in any busy environment- tougher still among the leaders of the business. It is toughest of all, in my opinion, at the helm of a law firm.

Law firm leaders must maintain a vision of the big picture while affecting change where the rubber hits the road. Managing from 30,000 feet is difficult without the aid of tools which allow you to interpret what's going in the firm, how it is likely to affect the firm and how best to address the issue. Most importantly, leaders need to be adept at simplifying complex issues into bite size, consumable directives which enables the loose coalition of entrepreneurs to make decisions consistent with the overall direction of the firm.

This presentation will help firm leadership use simple models to better understand their firms, communicate direction and facilitate strategy and marketing discussions. Understanding these tools below will significantly improve leaders' ability to manage growth.

The Three Practice Disciplines of Attorneys

Spend a little time in this industry and you will hear about the three types of attorneys: Finders, Minders and Grinders. For those unfamiliar with the concept, 'Finders' can be defined as the attorneys in the firm who attract prospects through personal relationships which they build through trust, expertise, knowledge and their network of contacts. About 10-20% of the lawyers in the firm can be categorized as Finders.

'Minders' are the relationship managers in the firms. They are not as good at bringing prospective clients into the firm but are very good at maintaining client relationships, expanding work from existing clients and cross selling among practice areas. The group represents about 20-30% of the firm's attorneys.

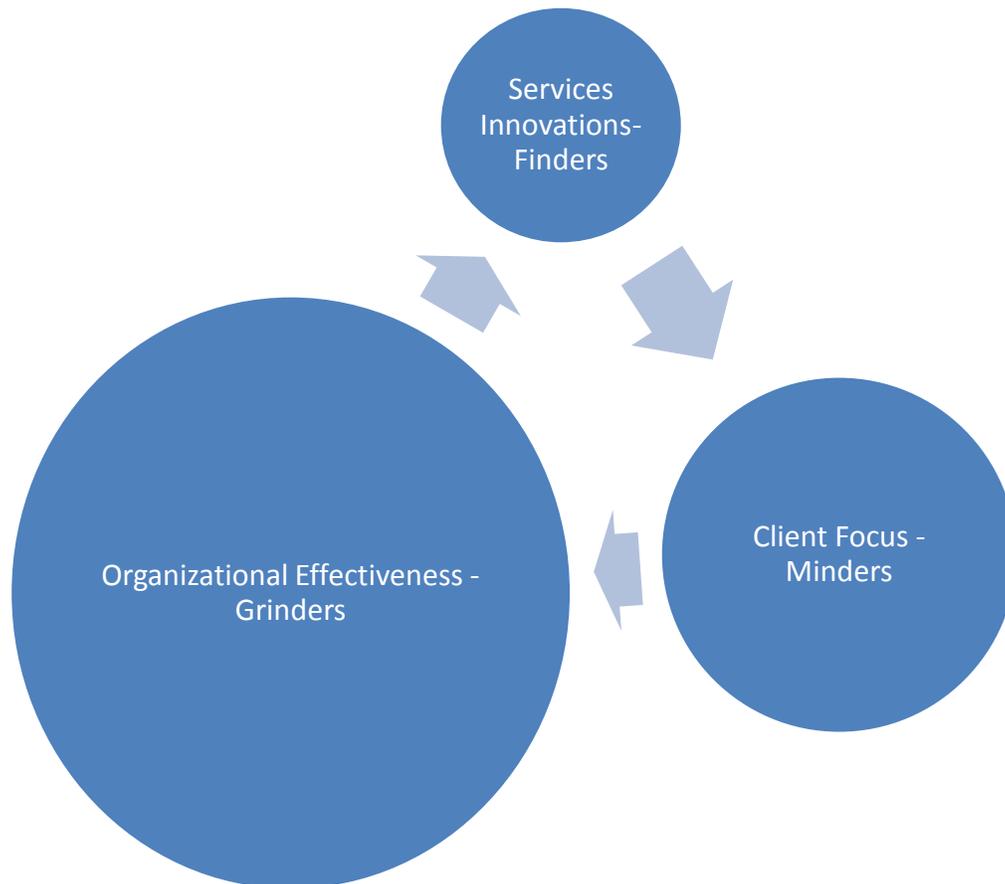
'Grinders' are the work horses of the firm. These are the lawyers that produce the routine work of the firm and often represent 50% or more of the attorney population.

Managing these three types of lawyers present many challenges for firm leaders. Without going into war stories, suffice it say that every lawyer is expected to master each of the three disciplines of practicing law: 1. knowledge of your craft, 2. serving clients interests and 3. producing a high volume of quality work. Ideally, each of the three must be done in ways that attract clients and additional work to the firm.

The Three Value Disciplines of the Law Firm

Interestingly, the three disciplines of practicing law for attorneys aligns well with the three core value disciplines (also called competencies) that law firms use to attract clients to the firm. These are 1) Services Innovations, 2) Client Focus and, 3) Organizational Effectiveness. (See Chart #1)

Chart #1



‘Services innovation’ refers to the degree to which a firm is able to manage specialization and expertise in various subject areas of the firm, whether that is by practice area or industry, and its ability to communicate these capabilities internally and to clients and prospects. The firm’s ability to identify emerging trends and issues, identify the main risks of the issue, determine how to resolve the issue and develop methods for preventing future problems are the goals of the services innovators in the firm.

Evidence of this activity in the firm can be seen in the firm’s research tools, the quality of its analysis, its trends spotting processes, its coaching and mentoring programs, and its publishing, speaking and writing activities, among others.

‘Client Focus’ is the firm’s ability to identify, understand and respond to client interests, issues and risks including client goals and objectives, the forces shaping the client’s business or industry, the firm’s competitive standing with the client, and the client’s culture and business model. Firms which are client

focused are adept at molding the firm’s skills and capabilities to the client’s needs on a one-to-one basis. Client focus is the challenge of making the attractiveness of the firm as strong as the attractiveness of any single or group of lawyers in the firm.

Activities in the firm which evidence a firm’s client focus capabilities include client feedback and interviewing programs, cross selling effectiveness, compensation systems that reward client entrenchment and/or satisfaction, firm involvement in industry trade groups, the depth of clients in firm industry segments, and close linkages with client businesses, are just a few examples.

‘**Organizational Effectiveness**’ refers to the firm’s ability to manage work efficiently, produce consistent and high quality work, attract talent and clients, comply with varied and conflicting requirements, and evolve to meet the changing needs of the marketplace.

Activities which evidence a firm’s grasp of organizational effectiveness include use of technology, process improvement initiatives, monitoring and reporting systems, the depth and transparency of internal firm communications, knowledge management capabilities, e-billing services, alternative arrangements, etc.

Each of the three value disciplines of the law firm have different growth drivers, organizational and cultural challenges and different competitive advantages or value propositions. They are summarized in Chart #2.

Chart #2 Value Drivers of Law Firms

	Service innovation	Client Intimacy	Organizational Effectiveness
Growth Driver	<p>Early command of emerging issues enables premium rates and client entrance:</p> <p><i>Achieving speed is key</i></p>	<p>High cost of acquisition and low switching costs makes it imperative to gain large share of client’s legal spend (wallet):</p> <p><i>Improving scope is key</i></p>	<p>High fixed costs make large volumes essential; Process improvements protect profit margins and improve predictability:</p> <p><i>Managing scale is key</i></p>
Key Cultural /Organizational Challenges	<p>Battle for talent and expertise; low barriers to exit requires coddling of stars</p>	<p>Improved service orientation; need to cross sell; effective comp. sys.</p>	<p>Improving efficiency; improved marketing effectiveness; best strategic investments; M&A and lift outs</p>
Competitive Advantage / Value Proposition	<p>Specialists and Experts</p>	<p>Client Focused</p>	<p>Best Value Option</p>

Bringing the two discipline challenges together

The challenge is to identify the attorney types in the firm, identify the value disciplines which create client and financial results for the firm and align these two in a way which optimizes the firm's return on its investment. This must be done in a dynamic market which is constantly evolving. To understand this, it's helpful to review how the legal market works. (see chart #3)

Chart #3

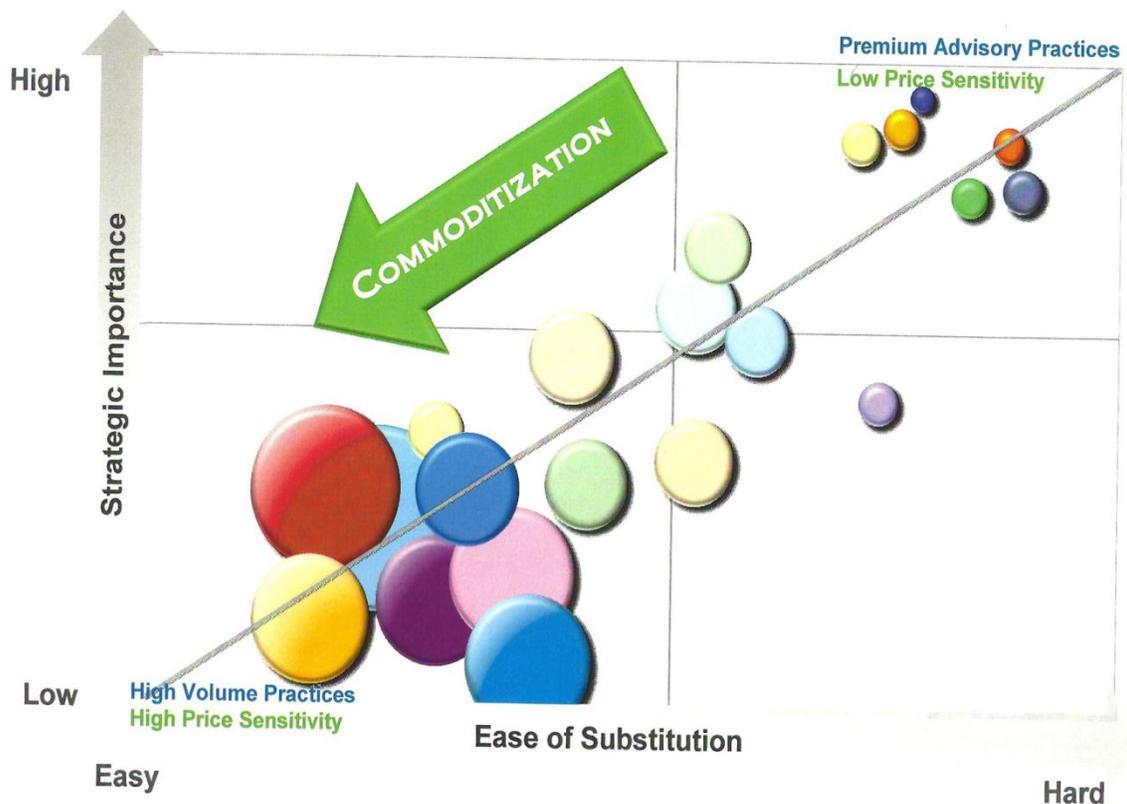


Chart #3 is a model of the legal services industry *from the perspective of clients*. Each bubble is a legal practice. The size of the bubble indicates the volume of hours (or revenues) in each practice.

In reviewing outside counsel, clients evaluate firms' ability to handle matters or cases at the level appropriate to the strategic importance to the company. As such, highly important issues warrant firms or attorneys with reputations that provide 'insurance' for the results (good or bad). Conversely, clients gravitate toward low cost options in highly routine matters with low importance to the company.

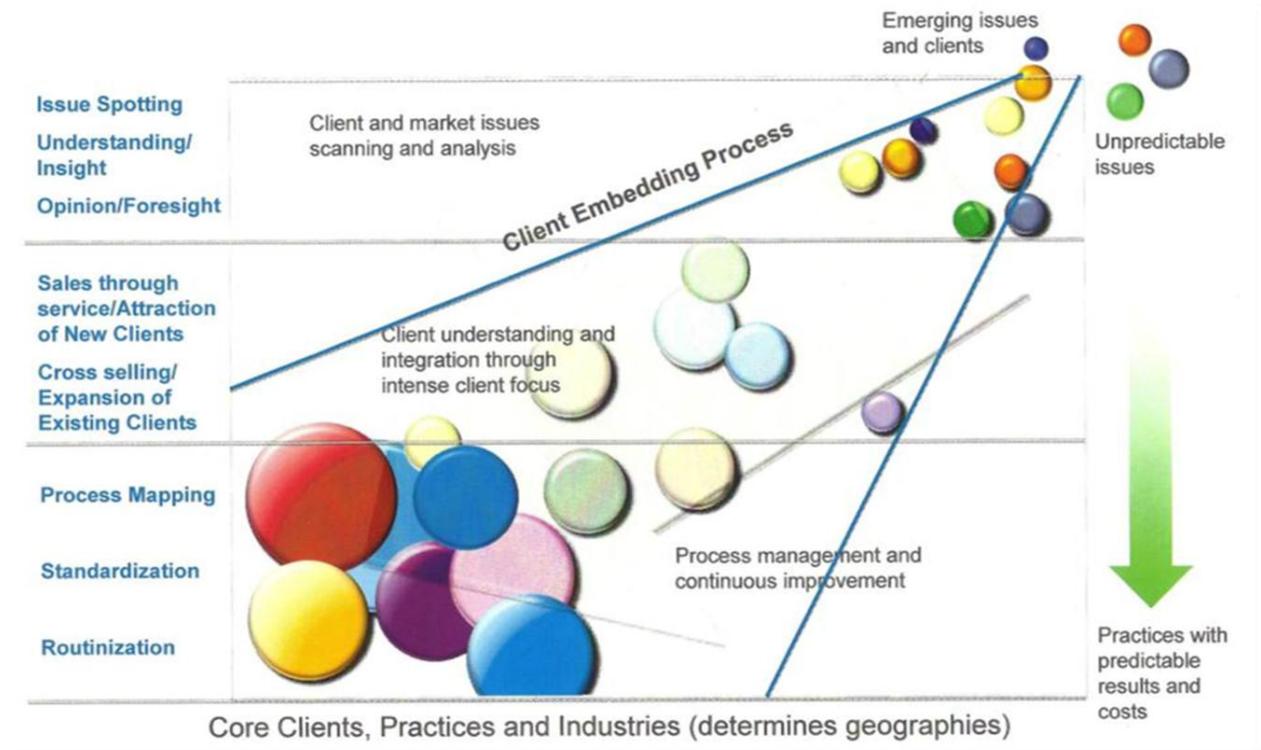
The horizontal axis indicates how easily clients see their ability to substitute another lawyer, practice or law firm to do the work. Where it's hard to find viable substitutes, attorneys can charge premium rates. Conversely, a high degree of competition drives prices down creating high price sensitivity. So, the price sensitivity curve runs from high price sensitivity in the lower left hand quadrant to low price sensitivity in the upper right hand quadrant.

This model can be used to evaluate legal services at a granular level (for example specific legal tasks like filing a motion to dismiss) as well as up through to a global perspective (such as a global client's

perception of the relative position of each of its outside counsel). The bubbles can represent a specific task, an attorney, a practice, the firm or the industry as a whole depending on the nature of the analysis. This model is extraordinarily helpful as a strategy assessment tool to help attorneys evaluate their practice by polling attorneys on their views of the practice and where their clients would plot their position on the graph. The second phase asks the practice group's clients to plot the practice based on their view. The gap between attorney perception and the client's reality is often significant and enlightening.

Law firm leaders must do three things very well. They must 1. Manage practice groups and attorneys to seek premium rates through specialization and the early mastery of emerging trends, 2. Manage client focus through client service, knowledge integration and cross pollinating initiatives and, 3. Manage improved profit margins through process efficiency and increasing scale. When viewed against the backdrop of the legal industry model, the dynamics of the industry become more apparent. The next graph depicts the Generic Strategy Model of Partnerships© and combines the three value drivers of law firms with the legal services industry model to show the interrelationships of drivers in the professional services market. (Chart #4).

Chart #4



The Generic Strategy Model of Law Firms shows how clients are motivated to manage risk and improve the predictability of the impact of legal issues on their business. (As they do so, the price sensitivity increases and rate competition intensifies.) Firms serve client needs by 1. Identifying the emerging issues and clarifying the risks and opportunities to clients, 2. Managing integration with the client as a

partner through intense client focus and 3. providing increasingly efficient services and improved value by managing the work more effectively than competitors as the issue or practice matures.

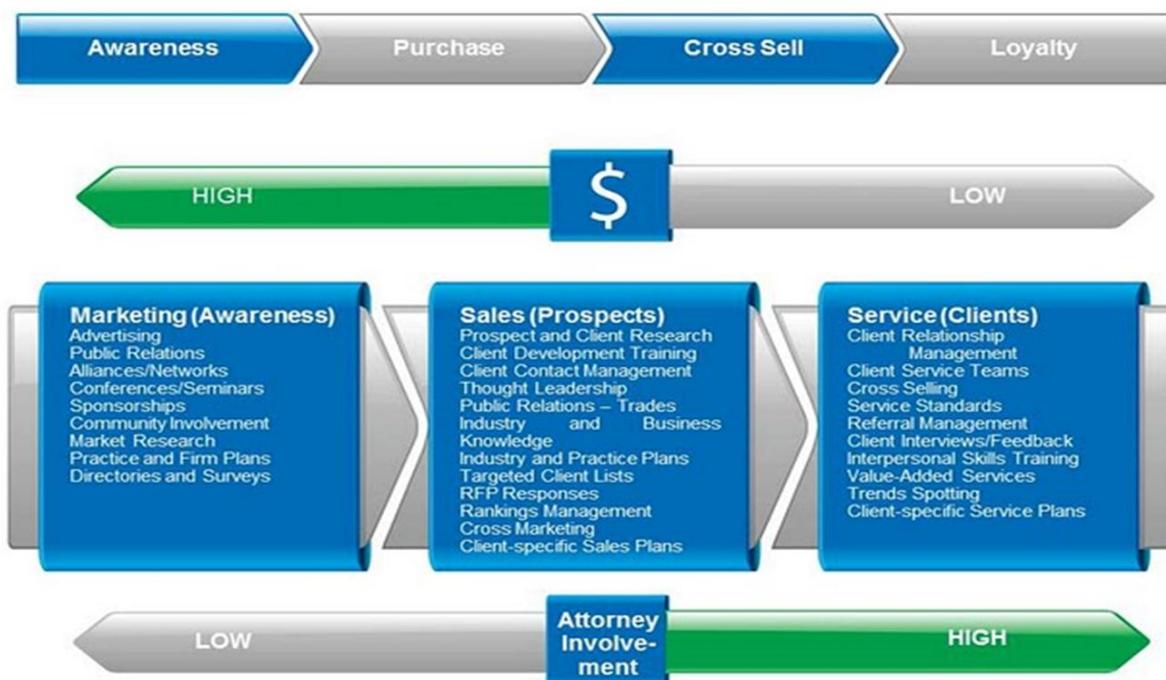
The above model is a snapshot in time. Issues are in constant motion and cycle through this process as legislation is enacted, judicial rulings are published, and demographic, political, economic and technology trends emerge. Firms can attract clients at any one of the three stages of the model using a unique set of strategic marketing tactics in each stage.

How marketing fits in

Communication of a firm’s specialization and expertise begins by creating awareness among an audience who is in the market for its capabilities. Generating awareness leads to interest which develops into familiarity and, eventually, leads to action- that is, an actual purchase of services. This process can take more time than most attorneys expect but can be sped up through effective selling. Some studies estimate it takes 12 to 18 contacts with a client to generate new work. Strong consultative selling skills can lower this to as few as 3-4 contacts. Regardless, the intensity of trust in the relationship enables new work to be brought in and facilitates the strengthening of the client-attorney relationship. Strong trust values eventually lead to cross practice penetration and client loyalty.

Understanding the process is one thing. Managing a marketing program effectively is another. Here again, a model is worth a thousand words. The following model demonstrates the three main activities of any marketing program, where these tools stand in relation to the buying cycle of clients and their relative costs in attorney time or marketing investment. See the marketing tool kit model below.

(Chart5). **Chart #5**



Ironically, many firms and attorneys are lacking in the most critical and efficient tactics in client development and grossly overspend in the least effective tactics for attracting clients and work. Why this is so is not the purpose of this paper. However, understanding the relative weight the firm places on each is a worthwhile investigation- one that will clearly reveal ways to quickly improve the traction firms get in their marketing investments.

Marketing programs can be understood (and organized) in terms of the effectiveness of each marketing tool in moving clients through the buying process from 'awareness' of the firm's capabilities through 'purchase' of the firm's services and into 'client loyalty' to the firm. Each tool offers a balance of cost and time with 'traditional' marketing tools (like advertising and sponsorships) requiring more cost than attorney time and more 'service-related' activities (like client service teams and referral management) requiring more attorney time than hard cost.

Effectively managing each of these three disciplines improves the efficiency of the marketing program. The department can be structured to align skills in the department with each of the three main areas of the marketing tool box in order to enable each person to become expert in their area and gain knowledge in how to best impact that phase of the client's purchase cycle.

Three questions you must ask your partners, clients and staff

Law firm leaders often see themselves as first being the consensus builders in the firm and second, as leaders of change in the firm. Both of these important roles require law firm leaders to be exceptional communicators and educators in the strategy and business model of the firm. While most leaders come well equipped in their knowledge of the culture of the firm, the big personalities and the pools of influence which must be coddled, few have command of the models to assess, interpret and address the daily challenges and opportunities they face in the role. Law firm leaders who have a vision for change are often constrained by the sheer complexity of their medium. So, leaders are well advised to adopt these simple models to assist them in effectively controlling the velocity of the firm's services innovation, its depth of client focus and its organizational effectiveness.

Three questions can help spark the conversation and focus the firm on the drivers of the firm's growth.

1. In what areas of the law are we specialists deserving of premium rates?
2. In what ways do we bind clients and referral sources to the firm?
3. In what ways have we protected our profit margin or improved the value delivered through organizational effectiveness?

While law firm leaders will need to continue to draw on their abilities to build consensus and lead change, the above models will give them the tools to explain, examine, manage and communicate the most important drivers of value in the firm: expertise, service and efficiency.



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