# The Evolving Law Firm Business Model –

## Changes in Common Market-Driven Strategies to Increase Revenue©

To increase revenue in 2010, earn a desired share of the approximately $58B dollar market for outside legal services, and maintain and grow business into the future, it is critical that law firms, leaders and partners (or partner equivalents) pay careful attention to adapting their firms' strategy or strategies. Most law firms are frustrated by trying to implement too many market-driven strategies simultaneously, with minimal and/or inconsistent investment, which results in less than the desired results. To prosper, thrive and grow in this era of rapid change, all law firms must do some things better and/or differently than they have done in the past.

Compared to major corporations, most law firms have limited funds with which to invest, and compound that problem by falling into the trap of investing too little in too many areas. This results in investments that are a "mile wide and inch deep" – which often will yield less ROI than originally planned. In recent years, funds to invest are further limited because, on the buyers' side, the majority of sophisticated clients who use outside counsel services on a significant volume basis rarely pay full, standard or rack billing rates anymore. The fact is that discounts off standard rates are becoming the norm, reducing the billable hour's remaining utility to that of mainly an internal productivity metric.

Simply following what other firms are doing is not a strategy. Renowned law firm consultant, Ralph Savarese of McMorrowSavarese, shares these thoughts, "Strategy is quintessentially about making choices. Without choices, you don't have a strategy. It's about exclusion, not inclusion. It's about recognizing that resources are always limited and that therefore only relatively few things can be done with sustained competitive superiority. Most law firms operate in total disregard of these fundamental propositions. Instead the mindset is: all revenue is good, all clients are good (if we think they might pay), all practices are good, all business development initiatives are good and all are to be treated equally. All associates should be advanced and become income partners. On and on. Ok, this is an exaggeration but not extravagantly so."

**Most Common Past and Current Strategies to Increase Revenue –**

In this buyers' market, the primary strategies most law firms used to increase revenue in the last decade or so are becoming less viable to drive revenue growth. Many firms planning for 2010 are simply preparing to continue to cut costs, encourage harder work, eliminate "dead wood" and wait – hoping to raise rates once again. Firms that do not embrace the reality of a changing market may be in two of the early stages of firm decline – hubris and denying risk. The four primary strategies used in the recent past and that yielded great success for most law firms were:

1. Billing rate increases
2. Controlling costs and cash flow
3. Increasing lawyers' productivity
4. Implementing various growth strategies

All of the four primary strategies listed above are still viable to some degree, but in and of themselves they are no longer enough to consistently increase revenue. First, recent events suggest that the era of annual double-digit increases in hourly rates is over. If rate increases average only 5% or less for the next 3-5 years, the only way most firms can ensure double-digit growth is to have a percentage of revenue growth come from other strategic and/or organic efforts. It is not reasonable to think the difference can be made up by requiring more billable hours -- after all, just how many hours can most lawyers work and deliver true value/productivity without burnout? Compared to other professions, lawyers are already experiencing some of the highest levels of depression, substance abuse and divorce. Simply requiring more work and billable hours to increase revenue is a finite proposition that has variable, inconsistent returns and that causes other costs. Savarese adds, "Approximately 20% of the billing staff at most law firms - partners, associates, paralegals, etc - are producing at appallingly low levels. It's not that law firms are doing nothing well. They are. It's the unevenness, the anomalies and the incoherence in all areas of activity that needs to be addressed, whether it be productivity, client relationship management, sales, marketing etc. And it's the lack of understanding of and alignment with the client that are the main issues."

Second, controlling administrative costs/expenses in some firms has gone way overboard. Certainly, reducing headcount in many firms was necessary, but penny- pinching every single administrative cost has become pound-foolish in too many firms. If more firms took the same amount of time they spend reviewing and cutting expenses to the bone and instead applied that time to upgrading their collection systems, process and routine and/or on tightening up their revenue producing strategies and programs, the payback would be higher. Saving on expenses is not a viable growth strategy unless the proceeds are wisely and prudently invested. For the vast majority of law firms, the #1 highest cost center is lawyers' salaries. In addition to de-equitizing, some firms have reduced non-equity partners' salaries this year by 10% or more. A few firms have wisely diverted in increased percentage of owners' salaries towards a greater investment in future R&D and related initiatives designed to increase revenue.

Third, for the near term, continuing consolidation within the legal industry is here to stay. In the past decade or so, mergers, acquisitions of laterals, opening new offices, joining affiliations and networks have been common growth strategies implemented by many law firms. However, truly effective integration has been less common. While consolidation-type activity slowed in 2009, it remains consistent and will continue due to the fact that the overall supply of lawyers exceeds demand and is projected to do so until at least 2015.

Savarese adds, "All the dysfunctionality has been facilitated by the increasing billing rates of the last decade. Now, however, the times of profit by accident are over and law firms must fully professionalize their decisions and this means paying much more attention to choosing the strategically optimal over the suboptimal and understanding which is which. It means embracing a coherent set of practice areas and business models and rejecting those that are not. It means eliminating the inefficiencies and unevenness. It means that depth is more important than breadth and that market share and brand must become paramount. Finally, financial management must be given its rightful place. Firms must understand and mobilize according to its sources of profitability and in recognition of the variability in profit by practice, geographic location, client and billing personnel category. And one more thought - firms must reshape and bring their professional staffing profile in alignment with client preference. Alignment with the client is a good thing - a very good thing. Less time and effort from inexperienced attorneys and more attention per client and matter from the senior experienced attorneys will be celebrated with joy and rewarded with continuing business."

**Evolving and Future Strategies to Increase Revenue -**

In this challenging market, other strategies to generate revenue are becoming higher priorities for many firms. The evolution toward alternative billing has been occurring now for decades, but is increasing in importance and necessity more than at any other time since the initiation of the billable hour. This is simply a function of current and projected demand. The majority of top clients no longer pay based on standard hourly rates and the percentage of revenue in most firms collected based on standard hourly rates has vastly decreased, so by definition, standard hourly rates are becoming more and more obsolete as a measure of profitability. However, simply adding alternative fees/billing options without any other fundamental business adaptation will not solve the problem of maintaining profitability in the long run. The following are some of the strategy tools that firms may want to consider to enhance revenue.

*Technology*
For approximately 15 years now, progressive firms have been using technology to create efficiencies in the delivery of routine tasks, motions, briefs, documents and commoditized practice areas. Unfortunately, truly operational knowledge management systems are still the exception rather than the norm, but when properly implemented, these systems reduce the waste of time, effort, redundancy and money. A few progressive firms are delving into applying standardized quality metrics (such as Six Sigma, LEAN, etc.) to certain areas of their practice. In addition to the systems-level, efficiency improvements can also be made at the lawyer-level, with proper mentoring, processes, support systems, communications, training, follow-up and coaching.

*New and Repackaged Services*
Another competitive advantage can arise from combining alternative fees/rates with re-packaged services and then effectively marketing them. This does not mean re-tooling lawyers to practice in a booming area (i.e. turning real estate lawyers into litigators). It means creating task- or project-based services, along with document management systems and/or accompanying advisory services for fixed fees or other fee structures instead of the billable hour. Similar opportunities lie in creating new services, for example adding lobbying or consulting services as allowable by law, and/or re-packaging mature and/or counter-cyclical services by creating multidisciplinary groups around an industry, client or current problem. Opportunities abound in these areas, but require investment over time, including time, money, experienced support and significant planning, execution, packaging, follow-up and communication.

*Integrating Marketing and Business Development*
Although law firm marketing as a profession has been in existence for over 30 years now, too few firms have a truly integrated and aligned marketing or business development department or program. Too many such programs/departments operate as silos with way too much emphasis on production – i.e. activity for activity's sake (such as speeches, writing, lists, events, conferences, advertising, etc). There is often an illusion of progress through activity, and way too little focus on the actual clients, market and client research, the client development process (i.e. effective selling) and an associated pipeline, ROI and especially metrics to track and measure actual new revenue results. The key to success is not the activity, event or meal; it's in what is communicated, how it's communicated and especially the follow-up. To be truly integrated and effective, future marketing and business development departments and programs should have as their objectives (in addition to assisting with other strategies outlined above) helping the firm and its lawyers (depending upon the firm/practice) to:

- Maintain, secure and develop key existing relationships (current and past clients and referral sources – both internal and external);
- Secure all of the existing work that clients are currently giving the lawyer/firm;
- Increase the volume and margins from the most profitable clients and from growing clients;
- Ensure that clients who use the services of specific practice areas are giving the firm all of their work in that area (increasing depth of market share);

- Expand beyond practice areas (increasing breadth of client share), for example by turning litigation-only, corporate-only, employment-only, and other single practice area clients into “firm clients” that work with other practice areas in the firm;
- Ensure that clients and other contacts are referring other clients without qualification;
- Increase and maximize the profit margin/realization from all work, and
- Assist in re-packaging and re-pricing existing services and finally to identify and develop selective new clients.

To accomplish the objectives above, it is rarely enough to hire one, single person or (depending upon firm size) a few people and hope for the best. Nor is it enough to invest in an advertising/branding campaign and hope for a revenue increase. Nor is it enough (let alone cost-effective or appropriate) to simply hire a ‘sales’ person to develop new clients and expand existing relationships. Rather a concerted, firm-wide, leadership-driven, team effort needs to be made in key strategic areas, including a specific plan that encompasses measurable metrics, responsibilities, tracking, deliverables, reporting, timing and other elements.

Some firms now have relatively successful key client team programs, yet they are too often superficially supported: there is not enough investment of time, and efforts are often of the “push” variety that involves lawyer/firm-centered offers (i.e., “come to our seminar, come to our Saints’ suite for a game or, we will come to your office and give you a seminar”). With major investments in client team programs, many firms have overlooked supporting lawyers’ abilities and processes to convert “first-time, one-time” clients with growth potential into future work (“get one case/matter, develop it into a relationship”). Since the beginning of law firms, this is one of the single most effective and time tested strategies for lawyers and firms to increase revenue, yet most firms just “hope” for the best without any dedicated support.

*Firm-Wide Involvement*
Too many firms perceive marketing and business development as simply something one person (or a few) can do/be responsible for and operate it as a separate department. This perception and practice is a mistake. Without business (i.e. legal work) there is nothing for anyone in any law firm to do – there are no jobs, no firms - there is no legal industry! So, business development is an imperative for every firm, and every lawyer/firm staff member has some level of responsibility for business development and/or client service. <u>All</u> substantive and administrative areas within a law firm impact and affect revenue growth, marketing and business development including: accounting, financial analysis, billing, HR, professional development, library/research, facilities, technology, and more.

Unfortunately, due to most firms’ unwillingness to invest what is necessary, plus limited leadership and staff time, along with the silo effect, few of the objectives defined above ever get accomplished in any meaningful and revenue-increasing manner. Interestingly, some of the few firms that have fared best in this current recession have had the most effective, integrated marketing, business and client development programs operating for several years now. In some firms that do not have a solid program, sections of the litigation, corporate, IP, and/or employment department(s) have been splintering off from the firm and will continue to do so because they have few common clients or other “glue” that traditionally holds firms together.

**Commitment and Meaningful Focus -**

From market necessity, the majority of law firms will continue to pursue multiple revenue-increasing strategies simultaneously. Hopefully more firms will abandon less-than-successful past strategies, select only a few proactive strategies to truly and meaningfully focus on at any one time, avoid jumping attention/effort from strategy to strategy (i.e. the “idea of the moment” approach), and make an increased commitment (in terms of leadership, partner buy-in, communication, planning, investment, tracking methods, follow-up and time) to get more traction and results from their chosen strategies.

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