Is Your Firm Among the 13%?
Emulating the Fastest-Growing Firms in the New Legal World

The November 2014 issue of *The American Lawyer* headlined with an engrossing article by Aric Press entitled “BigLaw’s Reality Check.” In addition to covering critical shifts in the legal landscape, the author singled out elite law firm performers – those with more than $1M in Revenue per Lawyer (RPL) and $2M in Profits per Equity Partner (PPEP) in 2013 – who Press dubbed the “Superrich.” In this article, Press demonstrated how these firms are pulling away from the pack. Press’s analysis first split the AmLaw 200 into four segments based on 2013 financials – one group each for those above or below the defined RPL and PPEP thresholds – then evaluated how each of these groups, on average, compared to the group’s performance in 2008. The Superrich fared very well and better than the other segments.

Yet we couldn’t help but wonder, is being Superrich really the only way to think about “pulling away from the pack.” Or are there other measures of success – such as longitudinal growth metrics – that are equally compelling when evaluating whether or not a firm is truly outperforming its peers. Years of experience talking to clients and analyzing client perspectives and law firm performance made us reluctant to believe that the only law firms truly winning in today’s marketplace were those bubbling over with cash. It just didn’t jive with the market and client feedback. So we did what any good analyst would do – we went back to the drawing board to redefine what it means for a law firm to be successful.

Our analysis started not with the firms that are wealthiest today but with those that have come the farthest and achieved the most in challenging times. What we discovered is that the *American Lawyer* article only told half the story. While some elite performers are doing better than the 161 firms that as a group have lower financial metrics (below $1M in RPL and below $2M in PPEP) there are also members of this group – let’s call them the “non-Superrich” – that are outpacing their peers (including many of the Superrich) in this changing legal environment.

First, let me point out that none of what I am about to say contradicts Press’s main points. The world is still round, the legal market is contracting in real dollars and Superrich firms enjoy distinct advantages simply by being the wealthiest kids on the block. Our analysis just offers an alternative perspective, starting from a different vantage point. This “non-Superrich” analysis posits a different definition of what it means to be successful with an inherent belief that quickly climbing the mountain is equally as exhilarating as basking in the reward of being on top.

Introducing the Superfast

Between 2008 and 2013, against a backdrop of slow- to no growth in demand for legal services, 25 firms not only got bigger, but also got better. Each of these 25 firms met two precise criteria to qualify as one of the designated fastest-growing law firms:

1. Revenue growth at a compound annual growth rate (CAGR) of 5% or more – Is the firm growing more quickly than other firms in a market predicated on taking business from competitors?

2. Increases in profits per equity partner at a CAGR of 5% or more – Is the firm able to translate that increased revenue into higher profitability for the firm's key stakeholders?

These were the only two criteria for selection. Yet it quickly became clear to us that this group was unique in many other ways. This group outperformed other firms along not just these but virtually every financial and operational metric. Instead of starting rich and getting richer, they honed their ability to make more out of what they had to outpace their competitors. Some of these firms are among the Superrich as defined by Press. The majority, however, are not. As a group, we dub these firms the Superfast.

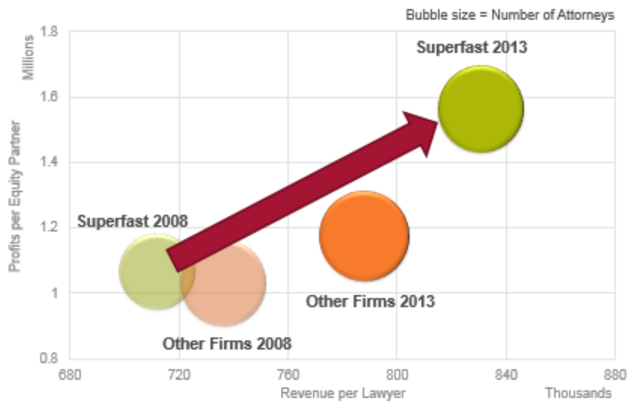
The Superfast	
Adams and Reese	Honigman Miller Schwartz and Cohn
Arnold & Porter	Hughes Hubbard & Reed
Baker & Hostetler	King & Spalding
Barnes & Thornburg	Kirkland & Ellis
Bradley Arant Boult Cummings	Lewis Brisbois Bisgaard & Smith
Cahill Gordon & Reindel	Nelson Mullins Riley & Scarborough
Cozen O'Connor	Paul, Weiss, Rifkind, Wharton & Garrison
Curtis, Mallet-Prevost, Colt & Mosle	Perkins Coie
Dinsmore & Shohl	Polsinelli
Faegre Baker Daniels	Quinn Emanuel Urquhart & Sullivan
Fenwick & West	Williams & Connolly
Fragomen, Del Rey, Bernsen & Loewy	Winstead
Gibson, Dunn & Crutcher	

The Superfast are a sundry mix of regional, national and global firms ranging from fewer than 250 to more than 1,500 attorneys. As a group, the Superfast have:

1. Grown revenue more than 4 times faster, on average, than other AmLaw 200 firms
2. Increased their profits per equity partner over 3 times more quickly
3. Added, on average, 4 times more partners to their ranks, growing equity partner numbers an average of 18% since 2008
4. Boosted overall attorney numbers by 30%, on average, since 2008 (compared to 0% for other AmLaw 200 firms, excluding vereins)

In addition to these impressive growth metrics, the Superfast firms also made strides in numerous other areas including revenue per lawyer, leverage and profit margin.

A Lot Can Change in 5 Years…



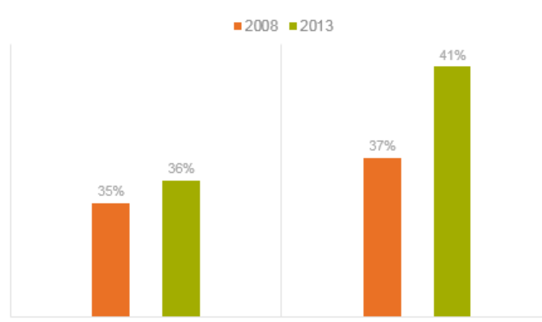
In 2008, most of the designated Superfast firms looked quite different than they do today. On average, the group had 22% fewer attorneys than their peers in the AmLaw 200. Almost half of them (12) had under 350 attorneys. They had 80 fewer offices in the US and abroad. Compared to other AmLaw 200 firms these firms were typically smaller – both in headcount and revenue – and generated about the same on a revenue per lawyer basis. Their profits per equity partner were similarly on par.

Fast-forward 5 years – 5 years that, incidentally, have redefined the legal industry. During a time when value trumped reputation for the bulk of matters, technology transformed entire swaths of legal work and some storied, big names in law firms faded into history, this motley crew thrived. Though no one path to success is evident across the firms, a handful of similarities – and differences – serve to educate us on some of the moves that helped get these firms from "Point A" (where they were in 2008) to "Point B" (where they are now).

Show Me the Money

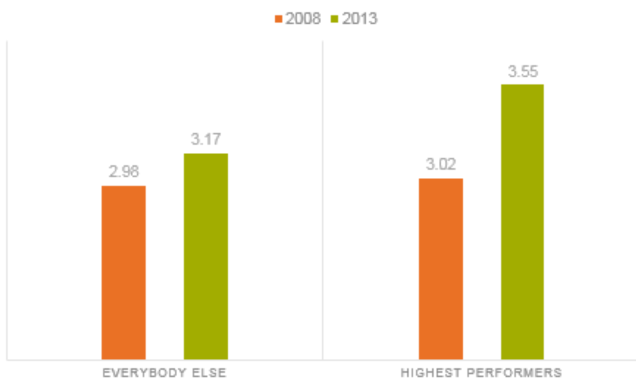
Perhaps one of the most striking aspects of this group as a whole is their ability to turn a single dollar into 14% more than their peers. Since 2008, Superfast law firms increased their profit margins by 4 percentage points, on average. Their slower moving counterparts grew profit margins by just 1 points. Sounds like a small distinction, but just one or two percentage points can have a significant impact when it comes to profits.

For illustration purposes, let's translate this difference into hard dollars – or, more specifically, profits per equity partner. A 500-lawyer firm generating $600,000 per lawyer earns $300M in total revenue. There are 150 equity partners at this firm. If this firm is among the typical AmLaw 200 firms in our analysis, performing at a profit margin of 36%, an equity partner would take home $720,000, on average. If, however, this equity



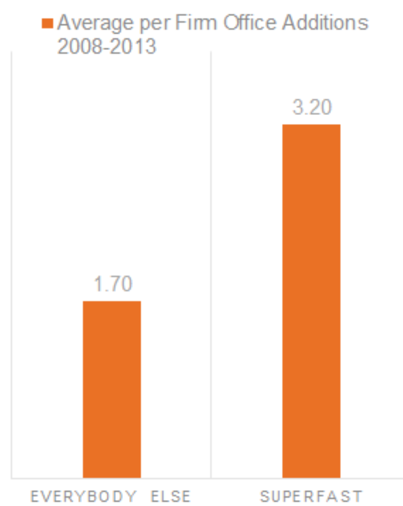
partner were lucky/smart/bold enough to be at one of the Superfast firms, the profits per equity partner would jump $100,000 to $820,000. How's that for a bonus?

In actuality, the average profits per equity partner of the Superfast firms, as a group, rose $496,400. That kind of increase in profits isn't coming from cost-cutting measures alone. The Superfast firms had to be engaging in activities to increase their top line while simultaneously restructuring, revamping and reforming how they do business. Which brings us to our next major finding: leverage.



Between 2008 and 2013, Superfast firms increased their leverage ratios dramatically compared to their peers. In an era of cutbacks and layoffs, these firms not only added to their ranks, they did so in a way that boosted their ratio of all attorneys to equity partners almost 3 times more than other firms. While higher leverage doesn't always translate into higher profitability, the Superfast firms appear to have balanced this increased overhead with staffing, management and compensation structures that helped boost margins.

Location, Location, Location



One of the ways Superfast firms managed to accomplish this is evident in their choices for where to invest in growth. As referenced earlier, attorney ranks at Superfast firms grew an average of 30% between 2008 and 2013. During that same timeframe, the other AmLaw 200 firms included in the analysis grew just 9% on average – or not at all if you exclude the vereins. In essence, the Superfast firms doubled-down on their investments in new attorneys at a time when many larger firms were cleaning house, trimming ranks and, quite frankly, trying to come to grips with drastic changes affecting how they do business. For many firms, this was a time of regrouping. For the Superfast, it was a time of opportunity.

Superfast firms gained 80 offices in total over the 5-year time span, 49 domestic and 31 international. This equates to an average of 3.2 new offices per firm. Their brethren, in contrast, added an average of 1.7 offices per firm, including US and abroad. Excluding the vereins, this figure drops to 1.4 average office adds per firm. New offices in both groups came from a combination of organic growth (office openings) and mergers or acquisitions.

Everybody Else	
CA	26.9%
TX	10.3%
FL	6.2%
NY	4.8%
NC	4.1%
CO	3.4%
IL	3.4%
OH	3.4%
WA	3.4%
NV	2.7%

Superfast	
CA	10.0%
TX	10.0%
FL	10.0%
MO	8.0%
DC	6.0%
IL	6.0%
WV	6.0%
IN	6.0%
GA	4.0%
TN	4.0%
AZ	4.0%
DE	4.0%
PA	4.0%

By far the greatest number of office additions in both groups were concentrated in California, Texas and Florida. (In fact, 1 in 4 office additions for the combined group of AmLaw 200 firms was in California. The state's techology sector helped to attract this investment, as did the desire for many firms to strengthen their bi-coastal footprint.) It is important to note that these fast-paced markets were attractive to both groups, as was Chicago's traditional hub.

The similarities, however, end there. The distribution of state-by-state investment overall was far from even. Superfast firms expanded in different secondary markets than their peers. States like Missouri, Indiana, West Virgina, Arizona and Tennessee experienced growth as Superfast firms either merged, acquired or opened their doors. Comparatively, other AmLaw 200 firms added in New York, North Carolina, Colorado, Ohio, Washington and Nevada.

At first glance, these two seemingly random lists of states don't seem to offer much insight. Yet if you dig deeper, there are two distinctions that work to the advantage of the Superfast firms:

1. **Superfast firms are growing in markets with lower cost bases**
2. **Superfast firms are growing disproportionately in less crowded legal markets**

Keeping Overhead Low

If you look only at the non-traditional markets (excluding DC, New York, Illinois and California), the average median income of the top states in which Superfast firms are adding offices is more than 4% lower than the list of top locales where other firms are choosing to expand. This cost-basis differential helps to explain *some* of the benefits Superfast firms have enjoyed in profit margins and profits per equity partner. Yet as we said previously, lower overhead can only get you so far (especially if the markets won't bear similar billing rates to other markets).

Avoiding Saturated Markets

The other apparent distinction of the markets in which Superfast firms are expanding is that these markets, on average, have a lower concentration of attorneys and firms. A weighted average of the number of firms in the states where each group invested (weighted by number of office additions per state) shows the states in which Superfast firms expanded have 51 competitive AmLaw 200 firms, on average, compared to 66 in the states where other firms grew. Furthermore, the number of lawyers per 10,000 residents in the states where each group added the most offices averaged 14% lower (excluding DC which has an extraordinarily high lawyer per capita figure of 803) with Superfast firms growing in states averaging 33 lawyers per 10,000 residents (v. 38 for other AmLaw 200 firms).

To Merge or Not To Merge

Superfast firms tapped into a variety of growth strategies to register strong year-over-year increases in billings and profits. Some grew organically while others engaged in mergers, acquisitions or ambitious lateral hiring campaigns. Proportionally, Superfast firms are equally – but not more – likely than other AmLaw firms to have undertaken a large-scale merger or acquisition. Yet unlike their peers, Superfast firms managed to parlay their combinations into almost immediate growth in both revenue and profits per equity partner over the 2008 to 2013 timeframe.

Does this mean the Superfast mergers outperformed the others'? Not necessarily. While profitable growth is one potential success factor, some mergers forge combinations with a longer horizon in mind or undertake a period of "shrinking to grow" to achieve their objectives. Neither of these alternatives is on its face a bad outcome. What the Superfast did do differently is engage in mergers or acquisitions that were almost immediately accretive. Typically, this accomplishment demands not just an alignment of financials and culture – two of the most commonly evaluated aspects when wooing potential candidates – but also a critical eye toward ensuring that the client base, vision, leadership and key stakeholders – clients, attorneys and professionals – are in sync. Accretive mergers are the result of a shared mission. They are intentional and often tied explicitly to the needs and demands of clients.

Lateral Hiring a Winning Proposition

In addition to mergers, another primary growth strategy of Superfast firms is lateral hiring. Superfast firms are proportionately much more likely to be listed among the most prolific lateral hiring firms during the time period (2008-2013). They are less likely to have targeted international growth (even when excluding the vereins) or to have lost large numbers of partners to lateral moves. The apparent success of the mergers, acquisitions and lateral hires among this group begs the question – what is it these firms are doing differently to make their combinations effective or to compel others to join them?

The answer, we can surmise from experience, observation and market feedback, is in the underpinnings of their strategies and cultural foundations, plus perhaps a dose of luck. These are likely the same factors that are helping those Superfast firms who chose *not* to pursue acquisitive growth to deliver super-sized results as well.

What's in a Strategy?

The strategic fundamentals of the firms whose growth outpaces the competition is wide and varied. Some of the firms, like Kirkland & Ellis, are global powerhouses. Whereas others, such as Quinn Emanuel and Williams & Connolly, are boutiques tailored to tackling clients' biggest litigation woes. Whether full-service or specialized, global or regional, highly acclaimed or playing under the radar, one thing is clear. All of these firms have mastered a formula that works best for them – for their markets, their circumstances, their resources and – most of all – their people.

Marcie Borgal Shunk
Senior Consultant
mshunk@lawvisiongroup.com
617-596-1315 mobile

With special thanks to my talented colleague, Geoff Schuler who tirelessly joined me in analyzing vast amounts of data and to the sources of data for this analysis including The American Lawyer, National Law Journal, American Bar Foundation, www.lawschooltuitionbubble.wordpress.com and U.S. Census Bureau, Current Population Survey, 2012 to 2014 Annual Social and Economic Supplements.