

Definitely Mabey

Law firm management by the numbers

On May 8, the Managing Partner Forum 2014 Leadership Conference was held in Atlanta, Ga. The conference was hosted by John Remsen Jr., president and CEO of The Managing Partner Forum. Karen MacKay of Phoenix Legal and I were fortunate enough to be part of the faculty. Approximately 85 participants from more than 75 law firms (one Canadian firm attended) participated in the day-long session that began with an address by Timothy Corcoran, president of Legal Marketing Association and Principal of Corcoran Consulting Group.

While Corcoran's presentation was well done, the three memorable quotes for me were:



Stephen Mabey, CA
Principal & Managing Director

1. If you are negotiating rates one of two parties does not have confidence in the value of your service: your client or you;
2. Pricing is not the same as rates; and
3. Law firms should not fear the changes taking place in the marketplace, but should fear firms' inability to change!

The rough demographics of the firms attending were:

- Less than 20 lawyers: 17 per cent
- 20-40 lawyers: 46 per cent
- 41-75 lawyers: 12 per cent
- 76-150 lawyers: 19 per cent
- More than 150 lawyers: seven per cent

The biggest changes in the participation mix this year was the increase in firms with 20 to 40 lawyers, which was up from 33 per cent last year and the drop in firms with 21 to 75 lawyers, which was down from 30 per cent last year.

The managing partners were almost split in the length of time they had been in the role with 58 per cent having been in the position less than 5 years and 42 per cent having been managing partner for six or more years.

The participants' responses to two questions about 2014 re-enforced the belief the legal marketplace is perhaps best described as being in a “steady state” with responses showing an embracing of “it is what it is” mentality (2013 responses in brackets):

- Much better than expected. We had a very good year so far: seven per cent (21 per cent)
- Somewhat better than expected. A solid, relatively good year: 29 per cent (not asked in 2013)

- About what we expected. A relatively good year: 42 per cent (44 per cent)
- Ok, but not where we want to be: 19 per cent (27 per cent)
- Not good at all. It's been a tough year: three per cent (eight per cent)

The above opinion is supported by the answers to the second question about results for 2014 to date, where participants were asked:

What is your firm's revenue per lawyer compared to a year ago?

- Up by more than 10 per cent on average: seven per cent
- Up by five-10 per cent on average: 17 per cent
- Up by one-5 per cent on average: 32 per cent
- About the same as last year: 35 per cent
- Down from last year: nine per cent

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The 2014 responses by participants to the two questions on alternative fee arrangements continue to support American Lawyer Media's Aric Press' take on the move to AFAs as the “slowest damn revolution he has ever seen”:

1. What percentage of revenue does your firm achieve through AFAs?

- Less than five per cent: 48 per cent
- Six-10 per cent: 21 per cent
- 11-20 per cent: 15 per cent
- 20+ per cent: 13 per cent
- Not sure: three per cent

2. What's your firm's strategy with regard to AFAs?

- We're proactively pitching AFAs to clients and they like it: eight per cent
- We've proactively pitched AFAs, but clients aren't interested: 19 per cent
- We offer AFAs only when clients initiate the discussion: 46 per cent
- We haven't had to deal with it all that much: 25 per cent
- Other: two per cent

The participants were asked to rank the top three steps/actions they were taking to maintain and grow their firms' profitability. This year's rankings may be a surprise for some lawyers and firms but when taken in conjunction with the participants' responses to the following questions the rankings make more sense (not addressing appropriateness):

1. Do you believe the business of law has fundamentally and permanently changed in the past 10 years?

- Yes, the changes are profound and permanent: 68 per cent
- Yes, but the changes are mostly around the edges: 24 per cent
- No, the legal industry will remain fundamentally the same: three per cent
- Not sure: five per cent

2. How hard is it to “sell” your partners on the idea of real, meaningful change in processes, practice, or the nature of their roles as partners?

- Piece of cake: eight per cent
- Only if someone else at our level is already doing it (whatever “it” is): 38 per cent
- Only if it has an unequivocal, indisputable, positive bottom-line effect: 27 per cent
- Harder than pushing a camel through the eye of a needle. Change is a four letter word in our firm: 27 per cent

So the weighted average ranking of steps being taken from most frequent to least frequent:

- Ramp up marketing and business development program: 5.80
- Increase efficiency, internal processes, and procedures: 5.32
- Pursue laterals with books of business: 3.38
- Raise/enforce expectations for production for equity partners: 3.29
- Improve associate development program: 2.30
- Across-the-board cuts in overhead and expenses: 1.72
- Trim the fat among partners: 1.19
- Trim the fat among associates and paralegals: 0.78
- Merge/acquire other firms/groups of lawyers: 0.51

Key performance indicators are becoming more engrained in lawyers' conversations when they meet (not always with a full understanding of the ratios being discussed but don't confuse them with the facts). So the participants were asked:

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If you had to pick just one metric, what do you believe to be the best barometer of your firm's overall financial health?

- Firm-wide revenue: nine per cent
- Revenue per lawyer: 21 per cent
- Firm-wide profit: 25 per cent
- Profit per partner: 15 per cent (note, the move away from this metric should be seen as a very positive development)
- Profit as a percentage of revenue: 19 per cent
- Average realization rate per lawyer: nine per cent
- Other: one per cent

The last question I have selected to include in this month's column was more of a philosophical nature and one you instinctively think might reflect the degree of skepticism and pessimism associated with lawyers and law firms (not many firms and lawyers are comfortable predicting next year's revenue because you know clients could stop sending them despite a historical track record) so the answers were surprisingly positive.

What level of concern do you have about your firm's long-term viability?

- Very concerned, but my partners feel little sense of urgency: 15 per cent
- Very concerned, and so are most of my partners: 17 per cent
- Some concern, but nothing we can't get through: 42 per cent
- Little concern. We've got a plan and the future looks good: eight per cent
- Very optimistic about the future. Our firm is well-positioned: 18 per cent

The full set of responses is available from this site as a pdf download [Managing Partners Forum - Audience Polling Results](#).

Until next month, for all those firms fighting or not embracing change to align their firms with the “new” marketplace, I would simply leave them with this unattributed quote:

“The cost of doing nothing has never been higher!”

Comments or Questions?

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