

Report to Legal Management

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EDITOR

James Wilber
Principal
Altman Weil

CONTRIBUTING EDITORS

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Principal
Altman Weil

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Altman Weil

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Legal Profession Trends and Outlook



James Wilber

By James Wilber

In October and November 2006, Altman Weil, Inc. conducted interviews with two dozen thought leaders in the legal profession. Those we spoke to were chiefly managing partners and chairs of large and mid-sized U.S. law firms, along with some other key firm leaders. We also heard from general counsel, law department administrators, legal vendors and the president of a prestigious law firm network.

We spoke with them about the current state of the legal profession, its future course and the key challenges they're facing. We asked about critical concerns, key market trends and what each organization was doing to position itself for success over the long term. Naturally, we heard a lot of ideas, but several emerged as common themes:

- Growth
- People
- Competition
- Client Service
- Pricing

The comments we heard are summarized here. For each topic, Altman Weil consultants have added their insights on what legal organizations should be thinking as they plan for 2007.

Growth

"We are concerned that if we don't grow we will never be able to catch up."

Growth was a universal theme and one generating a good deal of uncertainty if not outright anxiety. Consolidation in the industry was on nearly everyone's mind. Most law firms felt they must grow to survive. Even those from firms with 500 or more lawyers wondered if they were big enough to compete. Some firms identified specialization strategies that they hoped would let them maintain their independence in a sea of mega-firms. Others bemoaned the tendency they saw for corporate clients and general counsel to insist on hiring national, brand name firms as the "safe" choice.

The internal implications of rapid growth were also mentioned. Newly merged firms, as well as those with significant lateral additions, wrestle with cultural, office and practice integration. Also, increasing head count does not always translate easily into greater profitability.

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Interestingly, corporate law departments do not see law firm growth as affecting them, although one general counsel noted that mega firms should be “more creative and aggressively priced.” The representative of a law firm network commented that they provide an alternative to growth, allowing law firms to “act bigger and reach farther without having to merge.”

Altman Weil comments:

We believe there is a growth imperative. Law firms need to grow in order to meet the growing needs of their clients as well as providing opportunities internally for their professionals. But the key is to get bigger and better. Firms should grow strategically, controlling the pace and method of growth while maintaining their practice focus. Smart growth and strategic specialization will result in better opportunities, better clients and better performance.

People

“I go to sleep at night worrying about who might be leaving tomorrow.”

How to attract, retain and motivate high-quality lawyers was cited as a high priority in almost every interview of both law firm and law department leaders. There is consensus that good people equate to a strong organization and a clear competitive advantage. Several law firm leaders also noted that the pool of quality law school graduates was just not big enough, as they found themselves competing with brand name firms for new talent.

Many commented on the “free-agent mentality” among partners as well as the struggle to come up with a new career model for Gen-X lawyers who are seeking work/life balance, and who admittedly feel less loyalty to their firms than did previous generations of associates.

Diversity is on the minds of law firm leaders. One commented that

achieving true diversity would potentially be a “big differentiator” for a firm that could get it right. Law department leaders emphasized diversity both internally in their own departments and externally in the law firms they retain.

Altman Weil comments:

Law firms and law departments need to get serious about sophisticated, ongoing training and development programs for every lawyer. This does not mean just giving each lawyer a CLE budget, but instead devoting time and resources to true professional development. These efforts will have a positive impact on retention, including the retention of diverse lawyers.

We have also found that strong, strategically focused organizations suffer far less attrition of key lawyers. If a law firm or law department is suffering from the loss of

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key people, the problem may lie in a lack of vision and mission within the organization.

Competition

“Our clients are in play; our lawyers are in play; and our market position is in play.”

Competition among law firms is fierce — that much is clear. Opinions on the chief drivers of competition varied. Some saw firm growth as the main driver and national, brand name firms as the biggest threat. Others talked about clients’ convergence programs with associated pricing pressures pushing them out of contention for prime work. The war for talent is being fought for new graduates right on up the ladder to senior rainmakers, creating another pressure point.

Firms identified a number of factors that they believe provide a competitive advantage, including practice specialization, quality people, strong internal training and development, strategic pricing, and enhanced technology. But the primary differentiating factor named by most was superior client service.

Altman Weil comments:

We endorse all of the ideas mentioned as important differentiators, but we believe that the defining competitive factor for law firms is execution — the ability to focus on a few key strategies and execute them very well. An unwavering focus on and commitment to a clearly drawn and well-understood strategy will make your firm stand out.

Client service

“Clients are more and more demanding.”

Clients today are less loyal and more demanding than ever before. Several firms commented on the “backbreaking RFPs” that clients require. For some firms, client convergence programs create significant pricing pressure.

Firms work to make and remain on a client’s “short list” as a preferred provider. This requires flexible billing practices, improved project staffing, and better communication.

Legal vendors also commented on the increased value expectations among their lawyer-customers. Lawyers “expect quick results” and are “service driven.” One vendor remarked on the need to “actively manage” relationships and “articulate and quantify” the benefits of their services.

Corporate law departments have their own internal clients to answer to, and face pressure to justify their own value to the corporate board and CEO, as well as the value of their outside counsel expenditures.

Altman Weil comments:

As clients become more sophisticated, law firms are being held to ever-increasing standards. Some firms have balked at this change in the relationship, while others have embraced the change as the opportunity that it is to gain competitive advantage.

In corporate law departments, lawyers are taking on a more strategic role as leaders and business partners in their organizations. Law firms that can help them with this will be most likely to solidify and grow their relationships.

Pricing

“How long can law firms drive higher and higher profits with successive rate increases each year?”

Pricing is a perennial concern. Firms are aware that their profitability has been largely driven by rate increases, not by increased productivity or improved leverage.

Alternative pricing was mentioned, but one managing partner observed that clients are reluctant to get away from hourly rates. They

don’t want to change the “pricing paradigm;” they only want lower rates.

Clearly cost control is a big issue for corporate law departments who need to demonstrate the value of their outside counsel spend. One law department, however, noted that negotiating discounts with some law firms had backfired on them as those firms subsequently declined new matters. Some law firms are so busy, that “they will not work for us at these reduced rate structures.”

Altman Weil comments:

Price is important, but it is still secondary to quality of work and service. Law firms must focus on the value proposition behind the pricing. Firms need to understand what their clients need and where their services fall on the value chain. At the same time, clients need to recognize — and pay for — quality, or run the risk of being under-represented. The key is to match the right work with the right firm.

There is more talk than action in the area of alternative fees — because law departments either don’t have the data to make good decisions, or don’t have the time or resources to analyze the data they do have. The advent and growing prevalence of e-billing software may change this equation in the near future. Law firms that get alternative pricing right and get it to the marketplace first will have a significant competitive advantage. ♦

James Wilber is a principal with Altman Weil working out of the firm’s Midwest Office in Milwaukee. As the firm’s managing director, he conducted the majority of the interviews for this project. Mr. Wilber can be reached at (414) 427-5400 or jswilber@altmanweil.com.