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FEBRUARY 1-3, 2010
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Law Firms Need a Focused Strategy for the New Economy

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10-02-2009

During the early days of this year, not a single business day would pass without the legal press parading the names of new entries to the [list of firms that announced attorney layoffs](#). With the severe decline in the capital and equity markets and corresponding collapse of merger and acquisition, public offering, financing and litigation work, it seemed that nearly every large law firm (and many medium-size and small ones too) responded to the market decline by aggressively reducing the number of lawyers on their letterhead in order to "right size" relative to their anticipated workflows and reduce costs related to compensation. Partners, associates and staff were all subject to "downsizing" and the toll continued to grow every day.

Following layoffs, most firms went even further to try to reduce costs, recognizing that revenue would likely decline or, at very best, remain constant to the prior year, and that the only way to maintain acceptable levels of profitability was to cut costs aggressively. Thus, excess space was sublet (often at a loss), non-essential travel was reduced and items considered routine by many law firm partners -- gourmet dining, lavish firm events, summer associate programs -- were swiftly curtailed or eliminated.

At the same time, clients have pursued their own cost-cutting initiatives, seeking to manage external costs and obtain great control over the outside legal spend. As clients have become more sophisticated consumers of legal services, they have required [alternative billing systems](#), fee auditors and greater oversight for work assigned to their outside counsel. Lately, many clients have come to resist and, in many cases, reject the notion of the "billable hour" in favor of other, "incentive-aligned" billing systems.

Many legal strategists have gone on record recently that the business of law is changing and firms will need to adapt to survive and thrive in this "new legal economy." In order to do so, law firms need to revisit their strategic plans and make adjustments to respond to the new business imperatives they face.

In many ways, the current economy and legal market present unique and unparalleled opportunities for nimble and opportunistic firms to achieve new levels of success. However, as in most business cycles, many of the "old ways" may



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no longer work and firms need to become more entrepreneurial and flexible to take advantage of the new economy.

Below are some of the issues law firms should consider as they review and adjust their strategic plans for the future:

Invest in Business Development. Effective business development is the core of any marketing plan for successful firms. While this should go without saying, many firms, in their haste to radically cut costs, have also limited business development activity to a point that impairs effective client interaction. Successful business development can be substantive or purely social (or a combination of both), but personal interaction with clients is mandatory.

Firms should encourage effective, targeted business development. While the specifics of any business development activity depend on the unique goals of each firm, it should be team-based with measurable and tracked return-on-investment.

Stay Close to Your Best Clients. Lawyers are a competitive bunch, and in the current market with reduced work allocation and fewer transactions, it is more important than ever for firms to stay close to their best clients. This goes beyond routine business development and requires regular communication at all levels with a focus on gaining a keen understanding of the clients' business and business needs. Legal pundits constantly write about the need to be "partners with your clients" and that mantra is particularly important in the current economy.

Promote the Team. Star lawyers often attain success by individual accomplishment. The great trial lawyer, the master of the boardroom, the brilliant tax strategist -- they are all known for their own resumes. However, for most firms, the bulk of revenue is generated from clients serviced by a diverse team of professionals within the firm. In the current market, it is more important than ever for firms to work together as a team (or to work as teams within the larger team) to develop, advance and foster client relationships. This notion of teamwork applies to business development, communication, cross-selling and every facet of the client relationship with the ultimate goal to create "institutional" relationships. Partners will be best served if they view themselves as stewards of firm client relationships, rather than individual "relationship partners."

Create a Culture of Winning. Altering a firm culture is among the most difficult activities. Many firms have developed long-standing cultures that are a source of pride among the partnership. However, where necessary, an adjustment to an existing firm "personality" to create a culture of winning is worthwhile. With less work available and more competition chasing the same relationships and engagements, firms need to view the current market as an opportunity to win, and need to believe and act in a manner geared toward gaining the biggest share possible of the available work. This "culture of winning" will manifest itself in different ways in different firms, but it goes to the core of strategic planning for the new economy.

Expense Cuts Are Only Half the Equation. As firms responded to the rapid market collapse, the default reaction was to reduce expenses as aggressively as possible. Much effort was devoted to what and where to cut, but scant attention was paid in the early days to how to maintain and grow revenue. Many expense cuts were necessary and critical, and in many cases addressed residual excess from the prior growth years, but cost reductions should always be considered in conjunction with top line maintenance and expansion. Since revenue less expenses equals profits, any strategic plan must focus on both inputs to the equation. During the past several months, however, too little attention was devoted by many firms to the hard work of growing revenue during a time of reduced availability of work.

Retain Top Talent. In this era of frequent lateral moves and declining institutional loyalty, it is particularly important for firms to take meaningful steps to retain their top talent at all levels. This effort applies not only to the best rainmakers in a firm, but also to key associates and senior staff, as well as women and other groups who may be under-represented in a partnership. Further, while retention is often correlated primarily with compensation, it also relates just as much to intangible benefits of a particular firm including collegiality, firm culture, alternative work arrangements and internal and external opportunities for leadership, advancement and community involvement. The specific retention techniques will vary among firms, but the focus on this effort will be invaluable for the long-term success of a firm.

Revisit Past Investments. During the past decade of increasing profits and work abundance, many law firms pursued a course of rapid growth, expanding both geographically and substantively. With new foreign offices in far-away places and investments in new "cutting edge" practices, firms sought to be on the vanguard of expansion. The "global, full service" firm became the model for success and many firms of all sizes sought to capitalize on their place in the world.

Many firms enjoyed great success with foreign offices and new practice areas, all of which required significant long-term capital investments. However, many firms did not achieve the levels of success they hoped for with these investments. In more robust times, firms could justify maintenance of these offices and practices, but in the new economy, firms need to resist the urge to maintain the status quo and instead take the time to critically evaluate these initiatives and make adjustments where strategically necessary.

Be Famous for Something. Every firm needs to be famous for something. Larger firms can and should be famous for a few or several things. However, a "full service" firm does not necessarily mean it is everything to all clients. Rather,

even the most successful large, full-service firms have become known for being great in certain areas. There are many examples of large, full-service firms considered as the "go-to" M&A shop, the "bet-the-company" litigation firm and the "cutting edge" IP practice. Those firms have made strategic decisions to invest in those practices, build those practices and market those practices. They tell the world that they exist to serve all of their clients' legal needs, but for these particular areas, they are truly the best. And in many instances, the market believes and rewards them.

A critical aspect of strategic planning is that firms must ask themselves what they want to be famous for, and must create and act on a plan designed to get there. A successful plan will be premised on a team approach to fame, and there is no one-size-fits-all formula. However, it is this exercise, more than any other, that will define and shape a firm's strategic priorities.

Listen to the Clients. While this should go without saying, it is far too often that firms do not take the time to truly listen to and appreciate the needs of their clients. Many lawyers devote much effort to reminding their clients how skilled they are and why they should be hired for the next important engagement, but do not take the time to genuinely understand and appreciate what is important for the clients and their business. In the new economy of alternative billing methods, heightened scrutiny on legal fees and client focus on "alignment of interests" with their lawyers, the simple act of listening to clients is particularly insightful and rewarding. If lawyers are to adapt successfully to the needs of their clients, they need to take the time to listen and understand those needs.

Every strategic planning effort is unique and ultimately depends upon the needs and goals of each individual firm. However, there are certain macro-issues that should be considered by every firm as they advance their strategic planning efforts in the current market environment. With keen focus on these strategic imperatives, every firm can position itself for great success in the new economy.

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