

Uncertainties in the Legal Profession: Law Firms in Transition

NABRICO
Asheville, NC
September 29, 2011

Presented by Thomas S. Clay
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Presentation Objectives

- Identify the most important dynamics that will affect law firm business models
- Distinguish between *Hard Facts, Dangerous- Half Truths & Total Nonsense* (Pfeffer and Sutton)
- Examine the impact of clear trends
- A resource for you.

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Great Companies Fail Because of One or More of the Following Reasons...

- Corporate arrogance and hubris
- Insufficient attention to weak signals
- Lack of vision and risk taking
- Trapped in yesterday's business models
- Biases of internal decision processes
- Wrong incentives: short-term and risk-adverse

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" Preparing Lawyers for Tomorrow's Profession

Failures of Strategy are often failures to anticipate a reality different than what we are **prepared** or **willing** to see

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What state are we in?

- Evolution - A gradual process...
- Revolution - A sudden or momentous change...
- Transition – The process of changing from one form, state activity...

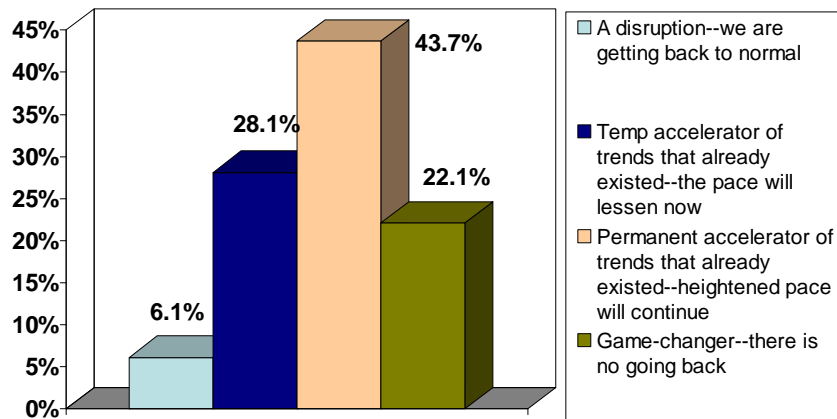
What Does the Profession Think About Change and Pace?

As economy stabilizes, imperative for change in the profession may seem less urgent. In retrospect, do you think the recession was:

- **A disruption—we are getting back to normal.**
- **A temporary accelerator of trends that already existed—the pace will lessen now.**
- **A permanent accelerator of trends that already existed—the heightened pace will continue.**
- **A game-changer—there is no going back.**



As economy stabilizes, imperative for change in the profession may seem less urgent. In retrospect, do you think the recession was:



Transition

- Change is clear... to almost everyone.
- Pace and magnitude is in dispute.
- Solutions are “somewhat” evident , but not always.

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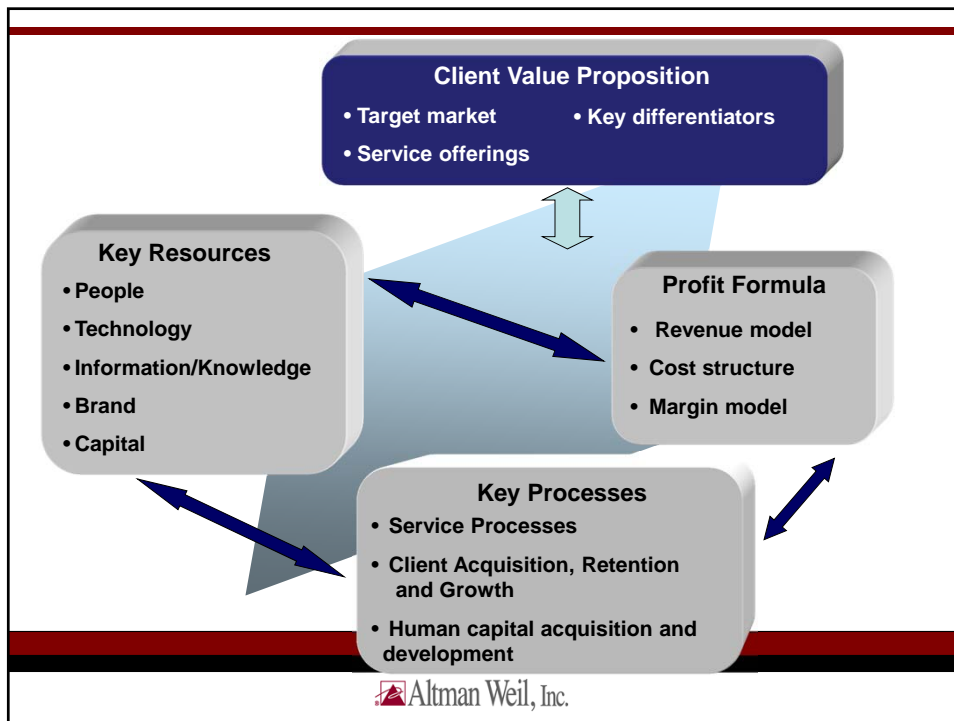
The Law Firm Business Model



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Elements of a Business Model

- **Client Value Proposition**
- **Profit Formula**
- **Key Resources**
- **Key Processes**



When is a New Model Needed?

- Pursue opportunity—that is large enough to warrant the effort
- Is game changing - **Name something**
- Disruptive technology threatens equilibrium – **Name something**
- Losing competitive footing

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Some new, “relevant,” competitors

- Clearspire
- Axiom
- Myriad of outsourcing/off-shoring firms/companies

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Game Changers ?

- Legal Services Act
- ABA “evaluation” of outside ownership of law firms
- Jacoby and Meyers law suit
- North Carolina legislative initiative

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What is Affecting the Business Model?

- **Client Value Proposition.** Clearly changing for some clients, but not all!
- **Profit Formula.** AFAs, discounts, efficiency drive etc. Changing with many clients.
- **Key Resources.** Hierarchy changing.
- **Key Processes.** Some in need of better alignment.

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Dynamics that will clearly affect law firm labor models? FACTS

- Law firm profitability needs and drivers
- Market perception of labor's value and its willingness to pay
- New entrants (law firms) and alternative providers (LPOs)
- Increased use/availability of efficiency processes and tools
 - Legal project management
 - Knowledge management
 - Disruptive technologies
- The irresistible force of commoditization

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The Future “Model” of the Profession

- Will not be found by looking backwards
- Will not be derived along a linear path
- Is contingent upon as many uncertainties as on current, clear trends (LTS 2020)

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Client Value Proposition



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Clients Preferences Real Hard Facts

- Purchasing preferences – Clients ARE NOT monolithic in their views, needs and strategy. Not even in “Big Law”
- Value propositions are in transition and not totally clear.
- Revolution is probably not the current state re: “relationships”.

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ACC Value Index

Criteria	This Firm		AVI Overall	
	Avg. Score	# of Evals	Avg. Score	# of Evals
Understands objectives/ expectations			4.5	
Legal expertise			4.6	
Efficiency / process management			4.2	
Responsiveness / communication			4.4	
Predictable cost / budgeting skills			4.0	
Results delivered / execution			4.4	

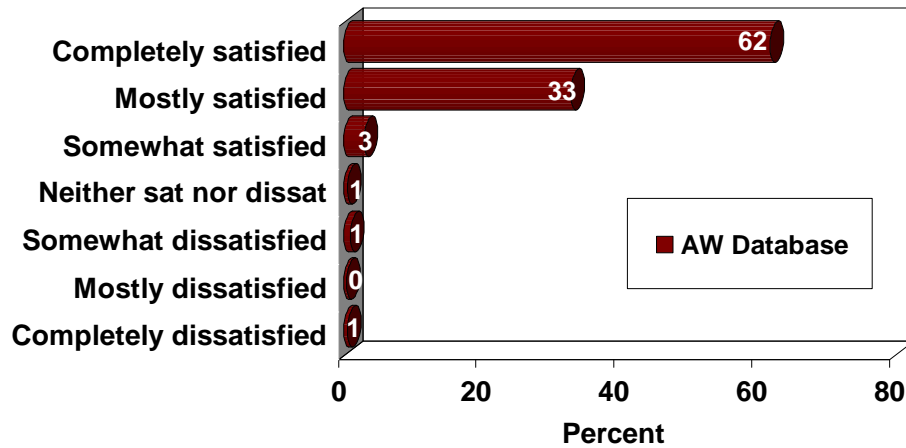
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Client Satisfaction The Real Reality ?

Completely satisfied
 Mostly satisfied
 Somewhat satisfied
 Neither
 Somewhat dissatisfied
 Mostly dissatisfied
 Completely dissatisfied

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Overall Satisfaction - 2011



Source: AW Client Survey Database

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Clear Megatrend and Hard Fact

Commoditization of Services



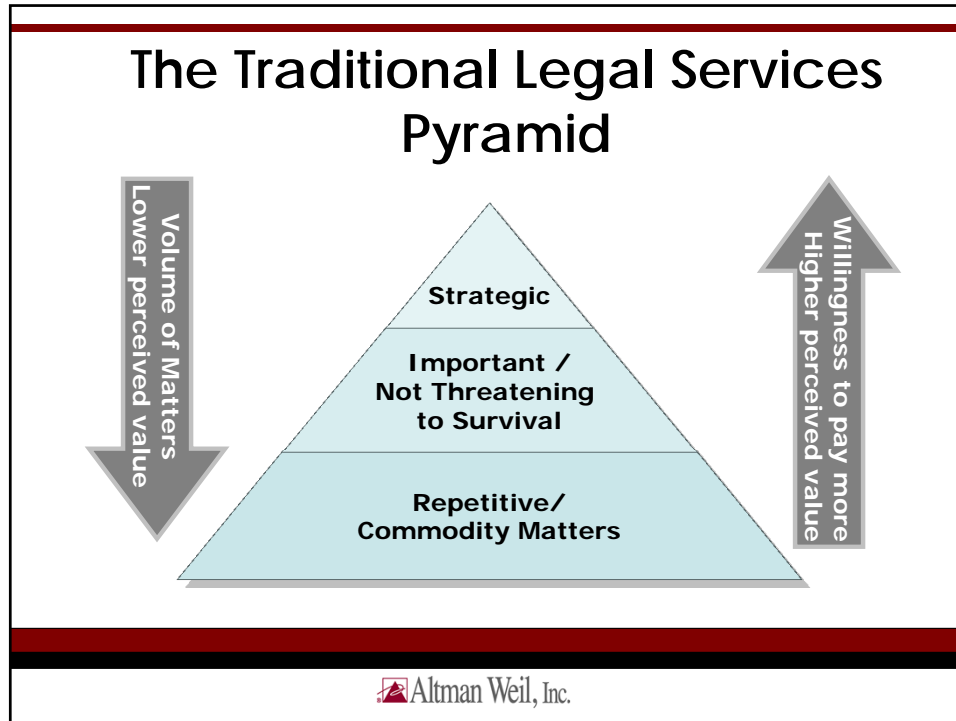
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Who are these people?

- Freelegalforms.net
- Giveawaylegalforms.com
- Yourfreelegalforms.com
- Findforms.com
- Legaldocs.com
- Ilrg.com - 2000+ forms
- Allaboutforms.com
- Legalzoom.com
- Rocketlawyer.com

Key Implications

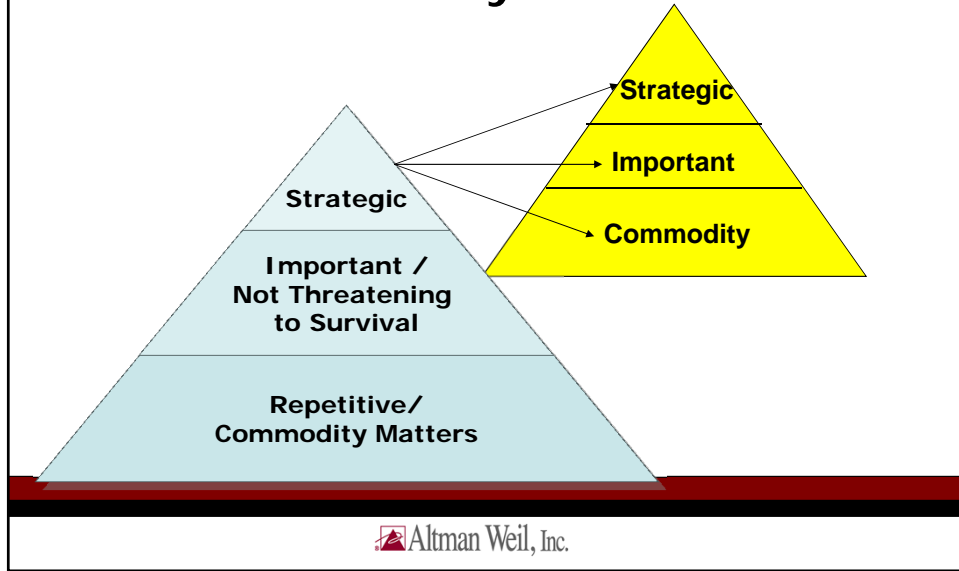
- Even if legal volume increases the labor delivery model will not remain the same
- “Commoditized” services will be delivered by other than traditional lawyering



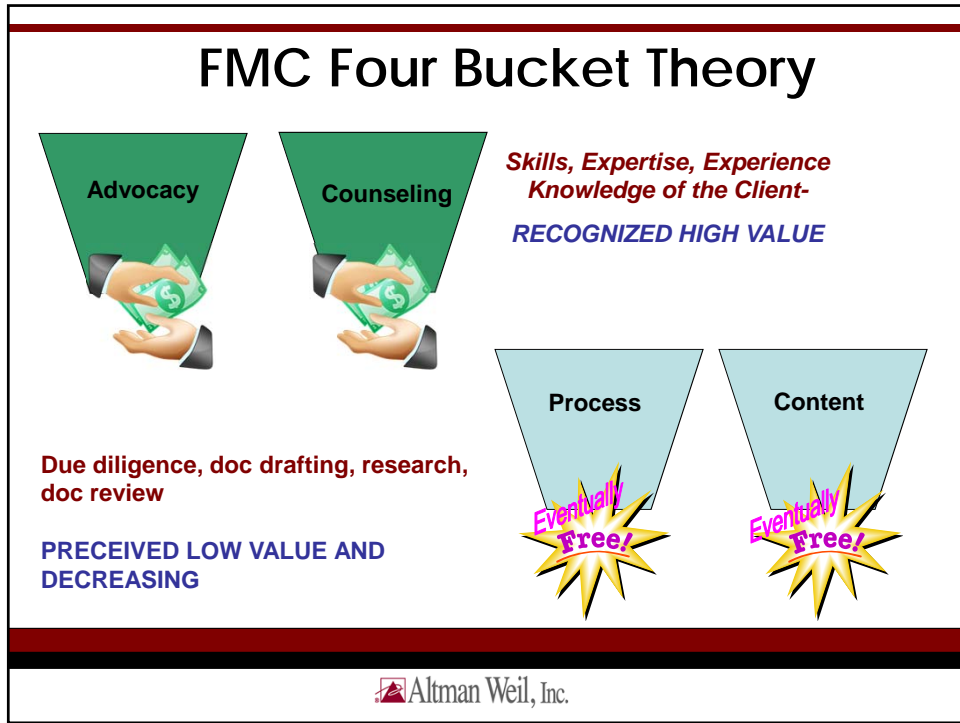
Implications of Commoditization

- Law firm labor models (staffing)
- Heightened use of project management, technology and other “efficiency” devices in service delivery
- Pricing of services

A Further Segmentation of the Pyramid



Okay, you say, so what's different?



Profit Formula

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Law Firms' Profitability Effect

Some FACTS

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Available Profitability Tactics

(In descending order of impact on profit health!)

- Raise prices (fees)
- Lower delivery costs (cost of services sold)
- Fix underperformers (people, services and clients)
- Increase volume (billable hours per person)
- Lower overhead costs

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Traditional Economic Model

- Revenue drivers
 - Rate increases well in excess of inflation
 - High utilization, even first and second years, driven by strong demand growth
 - Discounts and write-offs rare, often premiums
- Leverage – large teams of lawyers (multiples of associates per partner)
- Margin – labor-heavy expense structures with rapidly increasing labor costs

Rank Order Options

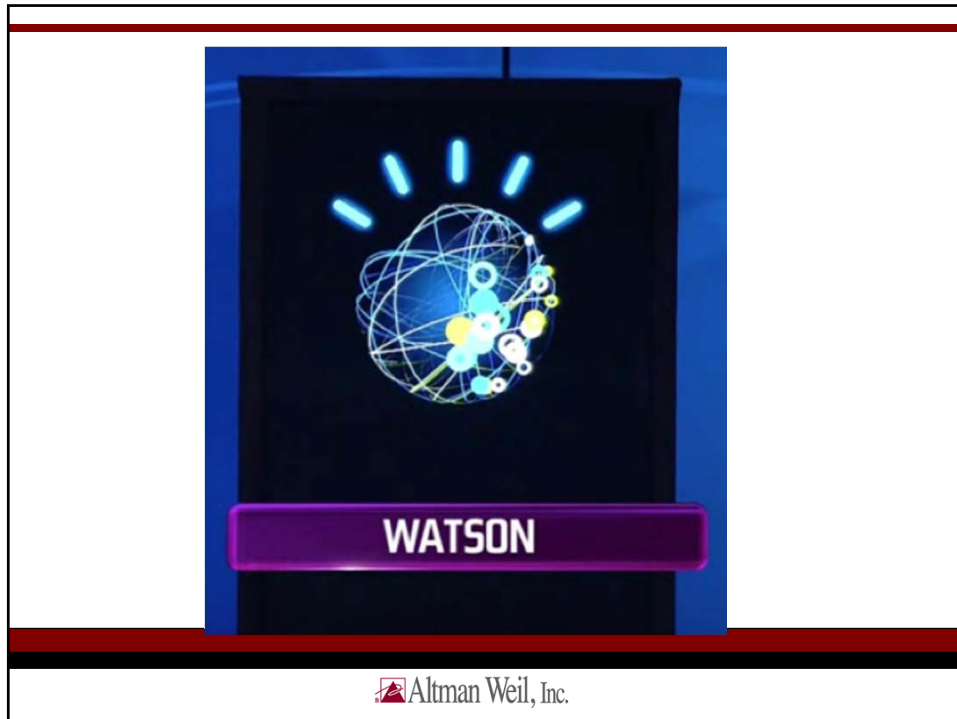
- **Raise prices** – Difficult environment, historic rate increases unlikely (at least for now)
- **Lower variable costs** – Essentially reducing the cost to deliver services, which is dominated by labor, LPM could drive this forward with AFA capturing some of the savings for the firm
- **Fix underperformers** – Improve utilization, reconfigure staffing to align more closely with work needs
- **Increase volume** – Increase market share in difficult market conditions
- **Lower overhead costs** – After three years of aggressive layoffs, wage/benefit reductions and general cost cutting – what is left? Must leverage technology better, reduce dependence on physical space and remain vigilant on everything else

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Key Resources in Law Firms

- **People**
- **Knowledge/Experience/Information**
- **Technology**
- **Partnerships – Alliances**
- **Capital**

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Conclusions

- **Knowledge is probably the most underdeveloped asset in law firms and the one that can improve efficiency tremendously in any firm.**
- **The “Watson Effect” can clearly be a game changer. It is that important.**

Key Processes in Law Firms

- **Service Delivery/Production**
- **Client Acquisition, Retention and Growth**
- **Financial Systems and Procedures**
- **Professional Personnel Acquisition and Development**
- **Service R&D Innovation!**

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Conclusions

- **Professional personnel development is being undervalued in favor of other initiatives. This goes hand in glove with staffing strategies.**
- **Innovation through systemic research and development initiatives is far better than trying to “invent something new.”**

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How will law firms respond to these pressures on their business model?

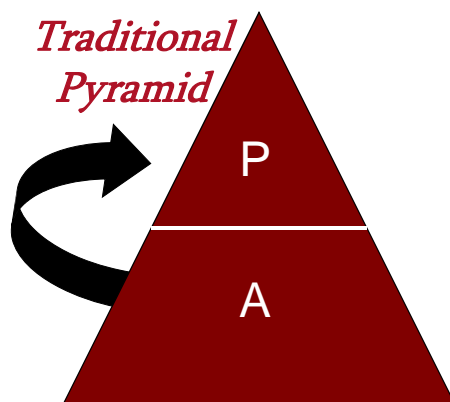
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What might a viable/
scalable Business Model
look like?

Leverage Strategies

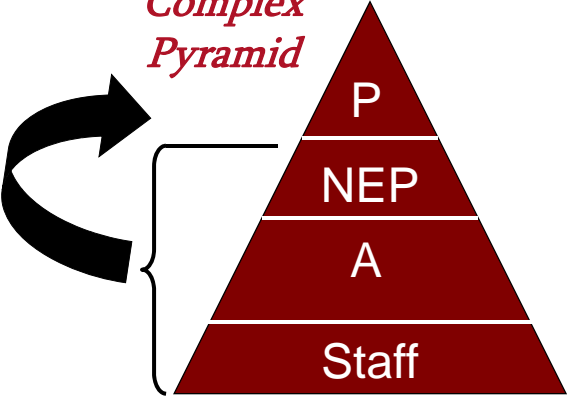


- Rationale for group law practice
- Great in exponential growth markets
- Threatened by client sophistication
- Few remaining examples


Leverage Strategies *continued*

Complex Pyramid

- Delayed equity
- Tiers of partners
- Non-partner track
- Some outsourced work (contract)
- Requires growth



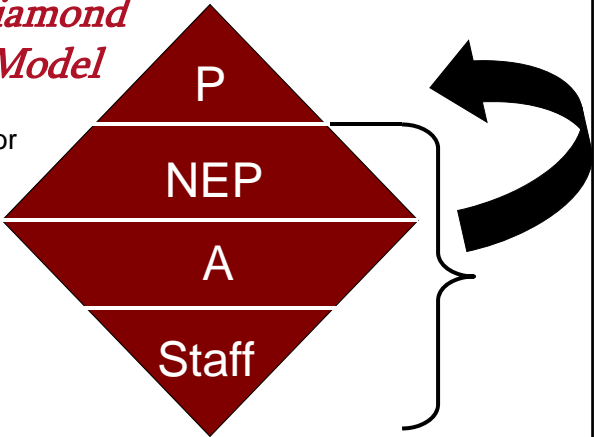
The diagram shows a red pyramid divided into four horizontal sections. From top to bottom, the sections are labeled 'P', 'NEP', 'A', and 'Staff'. A large black arrow on the left points from the 'A' and 'Staff' sections towards the 'P' section. A bracket on the right side of the pyramid encompasses the 'NEP', 'A', and 'Staff' sections.

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Leverage Strategies *continued*

Diamond Model

- Leverage from NEP, senior associates
- More outsourcing
- Fewer associates



The diagram shows a red diamond shape divided into four horizontal sections. From top to bottom, the sections are labeled 'P', 'NEP', 'A', and 'Staff'. A large black arrow on the right points from the 'NEP', 'A', and 'Staff' sections towards the 'P' section. A bracket on the right side of the diamond encompasses the 'NEP', 'A', and 'Staff' sections.

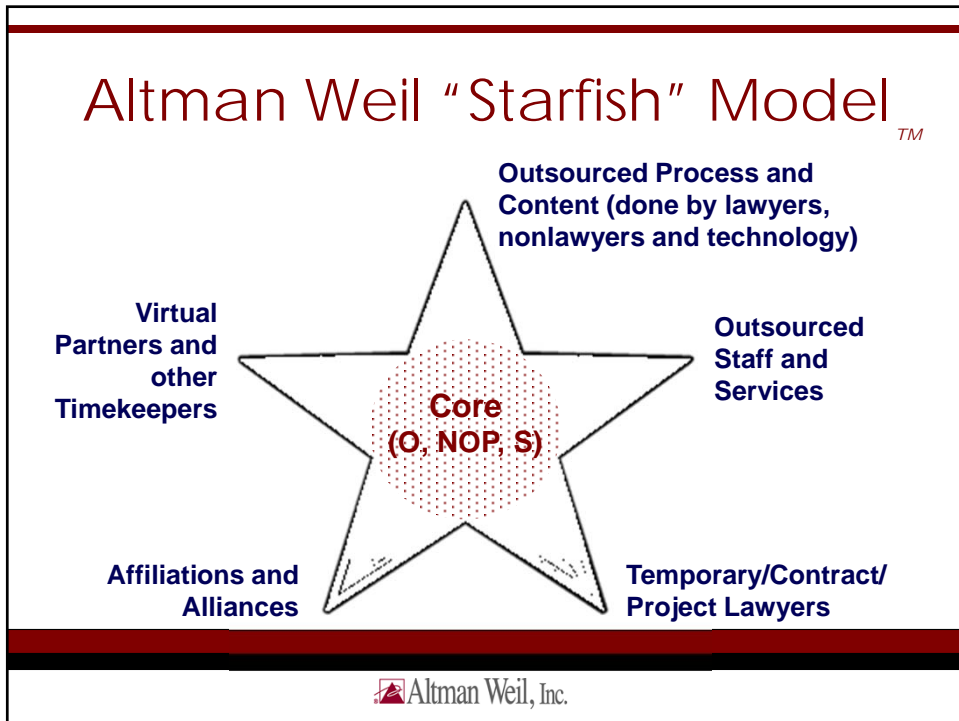
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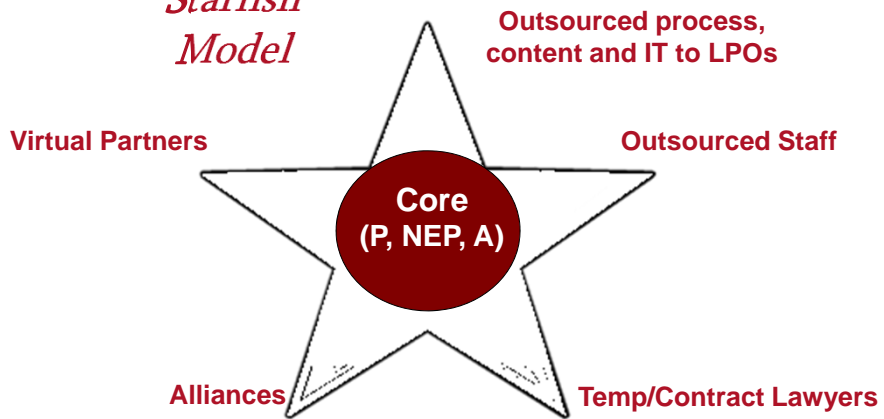


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Starfish Benefits and Implications?

Starfish Model



Three approaches to the change imperative.

- Those who make things happen – adapt
- Those who watch things happen – fast followers maybe
- Those who say “ What happened” or “Who moved my cheese?”

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*“You might be on the right track ,
when the train runs over you.”*

— Will Rogers

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Summary

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