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LAW FIRM CONSULTANTS

SOME VERY GOOD RESULTS, BUT STILL TOO MUCH FOCUS ON THE SHORT TERM

SMOCK LAW FIRM CONSULTANTS' LEGAL MARKETPLACE OUTLOOK FOR 2015 AND BEYOND

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This monograph presents the results of Smock Law Firm Consultants' (SLFC) annual survey of the legal marketplace conducted in early 2015.

- As such, it is similar in scope (and questions) to *start of the calendar year* surveys we have conducted in prior years.
- The survey also asked the respondents to make qualitative comments on each of its questions – thus, we received comprehensive quantitative responses in all areas of questioning.
- To add context, we augmented the quantitative results of the survey with personal and phone interviews with additional managing partners and executive directors. We asked three things – how these firms and their competitors did in 2014, what they expect for 2015, and what they see for the next few years and beyond.

This monograph is presented in the following sections – an overall summary, 2014 performance and results; expectations for 2015, SLFC's comments and recommendations, and the demographics of the survey participants.

SUMMARY

In late January, over 100 law firms (across the country and of various sizes) participated in our annual survey and we, in turn, analyzed what they had to say, drew conclusions, and developed – we hope – some cogent suggestions. This section summarizes the material contained in the rest of this monograph.

2014 Results

The firms responding reported a very good 2014 – when asked, the responses *extremely good* or *good results* were made by 75% of the firms responding and greater than 90% said the results were at least *acceptable.*

- The highest rated practice for 2014 was intellectual property litigation followed by a number of transactions and industry practices (health care and energy). As last year, bankruptcy and antitrust were the two lowest rated practices.
- As in the preceding year, 99% the firms raised their rates for 2014 (36% significantly, the highest % in four years; 40% slightly; and 23% selectively).
- Alternative fee arrangements – interest in and use of – jumped dramatically in 2014 from 2013. Apparently, AFAs are back in clients' sights and firms are having to respond and, importantly, AFAs, as a percentage of overall fees, are growing.
- In our question about the use of specific strategic/operational improvements, *dealing with underperforming partners* finished at the top of the list for the fifth year in a row (tied with *technology and technological advancements*) and *a larger transformative merger* finished last (no one wants to admit they want to do a large merger in any given year, but some of them will – each year).

Expectations for 2015

We asked essentially the same set of questions regarding the responding firms' expectations for 2015.

- Most responses were optimistic and more bullish than early 2014 or 2014. 26% thought it will be *a very good year,* which when combined with the *cautiously optimistic* responses were over 82%. These were the most bullish projections of the last four years.
- When it came to rate increases for 2015, 45% raised them significantly, up from 31% in 2015, and from the two years preceding that.

- Practice group expectations for 2015 were also positive for 21 of the 23 practice groups listed – the highest rated were health care, mergers and acquisitions, and general corporate representation – extending the bullish view of the transactions market.

- Strategic/operational improvements to be used in 2015 did see a shift – *dealing with underperforming partners* dropped from first to a tie for fourth among the 28 improvements listed. *Practice group planning and plan execution* finished at the top with *industry focused marketing* and *practice group management improvements* – a very positive sign that firms have shifted to looking at growing the pie from controlling the diners.

- Most firms expected in 2015 to grow in terms of the number of attorneys with a focus on associates. But, this desire for growth has been stated in prior years and most firms have not grown – or if so, only slightly.

As in prior years, we asked the firms to rate 25 written and talked about future legal marketplace management trends. Rated highest, as it has been the last few years was *clients' continuing and increasing focus on value (i.e. – results/cost).*

Smock Law Firm Consultants' Comments and Recommendations

We listed a number of takeaways from the quantitative responses, the qualitative responses (the survey had room for comments on each question), and the interviews of CEOs/COOs.

- First, it is apparent that law firms are doing very well and benefitting from pursuing a tried and true strategy of simultaneously raising rates and controlling expenses. We did commend firms for making real progress against a wide range of strategic issues (i.e. – better recruiting, planning, practice team organization, partner evaluation, etc.), but we faulted firms' over-focus on the short term (e.g. – making the annual budget at all costs) as opposed to the longer term.

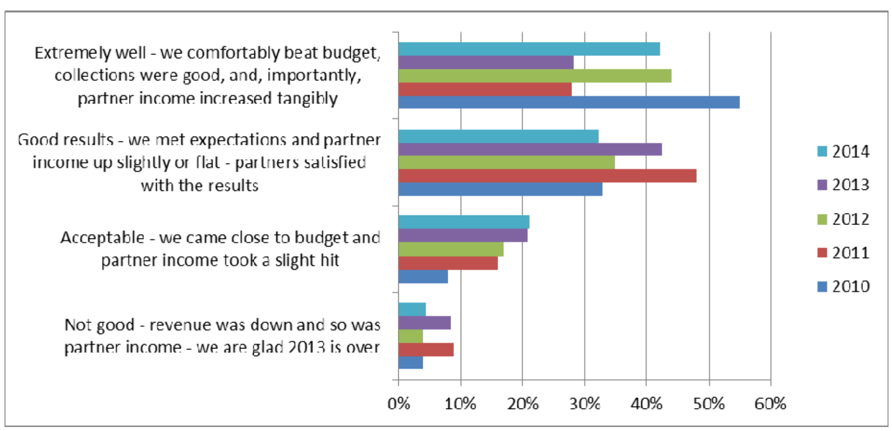
- We also commented on law firms positive adjustment to their clients being in the driver's seat (since the *great recession*) and to other continuing trends.

- We pointed out the lack of real business growth over the past few years and the generally unsuccessful reliance on *laterals with books of business as the primary growth strategy.*

In our recommendations, we have focused on those strategic (and long term) areas that need to be addressed for firms to both grow and deal with future challenges – namely, the *big four* strategic ways to grow, ensuring that partners behave like partners and owners (possibly the most important area of focus for the next 10 to 15 years), the need for a focus on excellence in everything a firm does, taking a long term view of technology improvements, succession planning and execution, and, very importantly, comprehensive process improvement in the actual practice of law (not just in monitoring what secretaries do).

HOW DID YOUR FIRM DO IN 2014?

The results of the prior year performance question for 2014 were markedly better than 2013 – in fact, they were quite good. The combination of *extremely well* (42.2%) and *good* (32.2%) combines to 74.4% – as opposed to a combined *acceptable* and *not good* at 25.6%. The *extremely well* respondents jumped dramatically from last year's 28.3% to this year's 42.2%. It is interesting that the legal marketplace – year in and year outcomes in with greater than 70% of the firms responding feeling their results were excellent (and greater than 90%, call these results *acceptable*). That surely does not happen in most industries.



The qualitative comments reflected the positive nature of 2014 results – *record revenues in 2014; our firm had its best year ever, transactional work returned in a big way;* and *a perfect storm – all of our transactional practices had a big year.* There were some negative comments – *volume of work was down and difficult to get rate increases* and *no year can be deemed to be extremely successful if you have lower revenue (which we had).*

As in prior years, we drilled down a bit deeper to see how the responding firms individual practices did in 2014 by rating 23 separate legal practices in one of three categories (3=*solid increase, 2=flat, and 1=down*) – so, the higher the score, the better. These results are shown below.

Practice	2013 Rank	Rating Score
Intellectual Property	**1**	**2.6**
Energy	**2 (tie)**	**2.5**
General Corporate Representation	**2 (tie)**	**2.5**
Health Care/Life Sciences	**2 (tie)**	**2.5**
Mergers & Acquisitions	**2 (tie)**	**2.5**
Patent Prosecution/Trademarks/ Copyrights	**2 (tie)**	**2.5**
Real Estate	**2 (tie)**	**2.5**
Financial Services	8 (tie)	2.4
Immigration	8 (tie)	2.4
Corporate Securities	10 (tie)	2.3
Labor and Employment	10 (tie)	2.3
Public Finance	10 (tie)	2.3

Practice	2013 Rank	Rating Score
Regulatory/Government Affairs	10 (tie)	2.3
White Collar Litigation	10 (tie)	2.3
Commercial Litigation	15 (tie)	2.2
ERISA/Employee Benefits	15 (tie)	2.2
Insurance Defense	15 (tie)	2.2
Trusts and Estates/Wealth Management	15 (tie)	2.2
Environment	**19 (tie)**	**2.1**
Alternative dispute resolution	**19 (tie)**	**2.1**
International arbitration	**19 (tie)**	**2.1**
Antitrust	**22**	**1.9**
Bankruptcy/Financial Restructuring	**23**	**1.6**

**The Rating Score is the weighted average calculated by dividing the sum of all ratings by the number of total responses*

We usually find a reasonable amount of shifting among individual practice priority from year-to-year, based on changing market conditions and the practices of importance to the firms who responded.

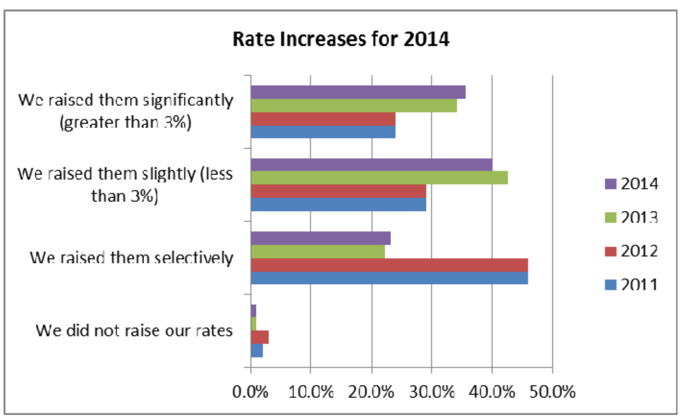
- The highest-rated practice was **intellectual property litigation** followed by a six way tie for second – **energy, general corporate representation, healthcare/life sciences, mergers & acquisitions, patent prosecution/trademarks/copyrights, and real estate**.

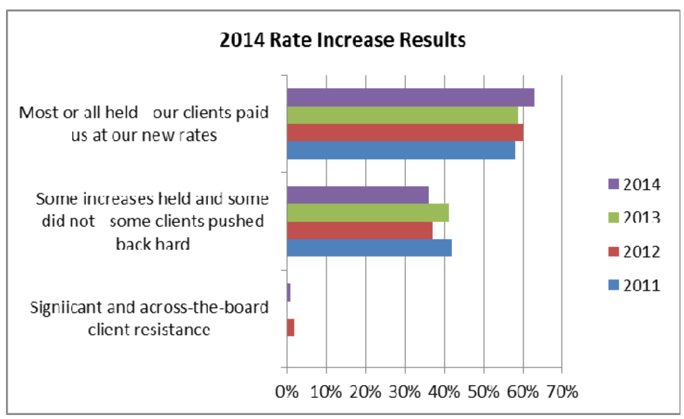
- **Bankruptcy/financial restructuring** finished as lowest rated (as it did last year). Many firms' bankruptcy practices have been in a multiyear doldrum. Second from the lowest was **antitrust** and there was a three-way tie for third lowest – **international arbitration, alternative dispute resolution, and environment**.

On the individual practices, we received a variety of mostly positive and some negative comments. On the positive side – *government investigation and white collar defense have done well, transactional practices way up, energy group very strong (but fall off began in November, due to commodity prices), strong in real estate, and getting real results with industry teams.* On the negative side – *litigation continued soft, bankruptcy was a disaster this year,* and our favorite, *trusts and estates were down, because not enough high net worth clients died.*

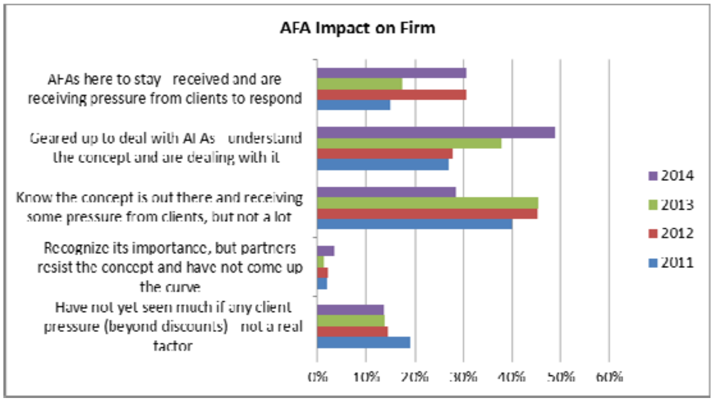
Relative to rates and as in prior years, the broad cross-section of responding firms raised their rates for 2014 both as a continuing strategic move (that is, to grow revenue) and as a defensive move, as their competitors were also raising their rates (and most firms do not want to get caught in a rate differential situation where they are considered less capable). As in the preceding year, 99% raised their rates – but this year those who increased their rates significantly for 2014 rose to 36%**, the highest in the last four years**. Also, 63% of those firms responding stated that most or all of their rate increases held – also the highest level in four years. This indicates that rate increases are growing annually, they are holding, and revenue is back rising as a function of these rate increases.

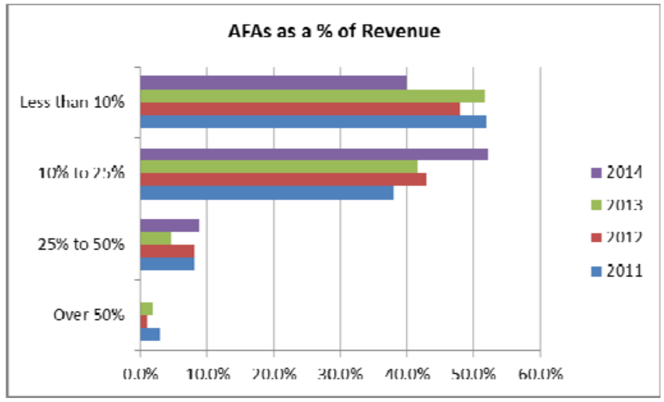
Our 2014 goal was a 5% increase and we achieved 3 to 3.5% - for 2015, we are again targeting 5%. We are holding energy clients rates flat. Our lawyers went crazy when we announced our rate increases, but we ended up increasing our realization and profits significantly.





Last year (at the beginning of 2014), we noted that the trend to alternative fee arrangements (AFAs) had stalled in 2013. Simply put, that meant that clients were not asking for or paying as much attention to AFAs as they had in the immediate prior years. But that trend clearly reversed itself in 2014 – (1) those who felt AFAs were here to stay jumped from 18% to 31% and (2) the percentage of overall fees in AFA arrangements increased from 42% to 52% in the 10% to 25% range – a significant increase. Also, we continue to hear in client interviews that an ability to deal and *be flexible* with AFAs (even if they are not used) is an important factor in outside counsel selection and retention.





We are having success using AFAs (of various formats) in…commercial litigation. Flat fees are growing in popularity. But, the refrain still exists – *our clients typically ask for a discount, because it is easier for them to manage it.*

Also as in prior surveys, we asked the respondents to rate specific strategic operational improvements from a list of 26 of those improvements. (*3=high priority – have and are addressing, 2=know it needs addressing – but not a top priority, and 1=not on our radar screen*). So, **any score above 2.0** can be viewed as a positive response. The responses are shown in the below table (with those improvements which rated above 2.0 in bold).

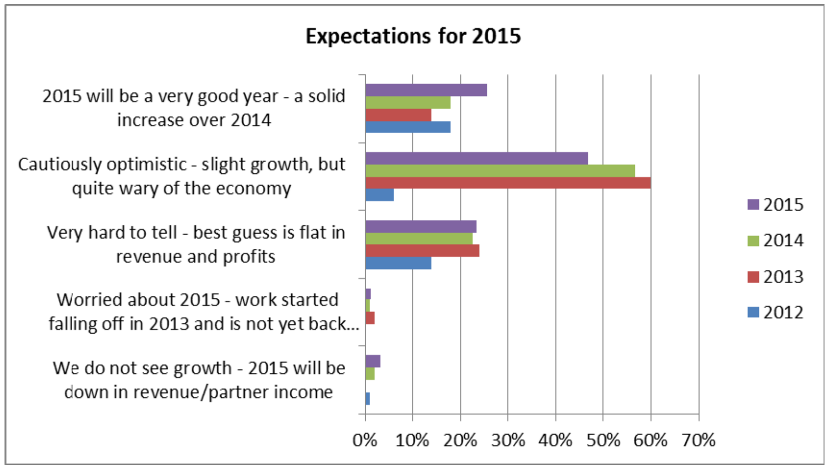
Operational Improvement	Rank	Rating Score
Dealing with underperforming partners	**1 (tie)**	**2.7**
Technology and technological advancements	**1 (tie)**	**2.7**
Practice group planning and execution	**3 (tie)**	**2.6**
Increased attraction of laterals with books of business	**3 (tie)**	**2.6**
Industry focused marketing	**3 (tie)**	**2.6**
Practice group management improvements	**6(tie)**	**2.5**
Website revision/improvement	**6(tie)**	**2.5**
Individual partner business development planning and execution	**8 (tie)**	**2.4**
Better firm strategic plan implementation	**8 (tie)**	**2.4**
Client and firm management succession planning and transition	**8 (tie)**	**2.4**
Better associate training and development	**8 (tie)**	**2.4**
Regular, formal client feedback	**8 (tie)**	**2.4**
Firm strategic plan development/ revision	**13 (tie)**	**2.3**

Operational Improvement	Rank	Rating Score
Alternative fee approaches (AFAs)	**13 (tie)**	**2.3**
Focus on improving profitability	**15 (tie)**	**2.2**
Management on achieving specific metrics, goals, and objectives	**15 (tie)**	**2.2**
Process improvement/reengineering process	**17**	**2.1**
Project management techniques/training	**18**	**2.0**
Smaller mergers/acquisitions	19	1.9
Creative space deployment (to facilitate teams and collaboration)	20	1.8
Cutting back on practices and/or people to restore and/or maximize profit	21 (tie)	1.7
Revising the associate salary and reward structure	21 (tie)	1.7
Revising the partner compensation and reward system	23 (tie)	1.6
Revising partner structure – equity/income	23 (tie)	1.6
Firm governance restructuring	25 (tie)	1.4
A large transformative merger	25 (tie)	1.4

The results of this forced ranking of strategic/operational improvements tracks very closely with the results of the last few years. Tied for first place, if you will, were **dealing with underperforming partners** (literally the fifth year in a row that this improvement has been ranked at the top of the list) and, for the second year in a row, **technology and technological advancements**. There was a three-way tie for third place, a two way tie for sixth place, and a four-way tie for eighth place. The rating score results were very close – 18 of 26 suggested strategic/operational improvements finish with a rating score above 2.0. As said above, this is a positive response.

The qualitative comments on these strategic/operational improvements were also instructive and can probably best be summed up in the following comment. *Our focus tends to stay fairly consistent – communicate with clients, focus on their needs, hire and train good people and work to keep them, and keep improving the practices to serve clients – all the rest of it is just parts of doing these things.*

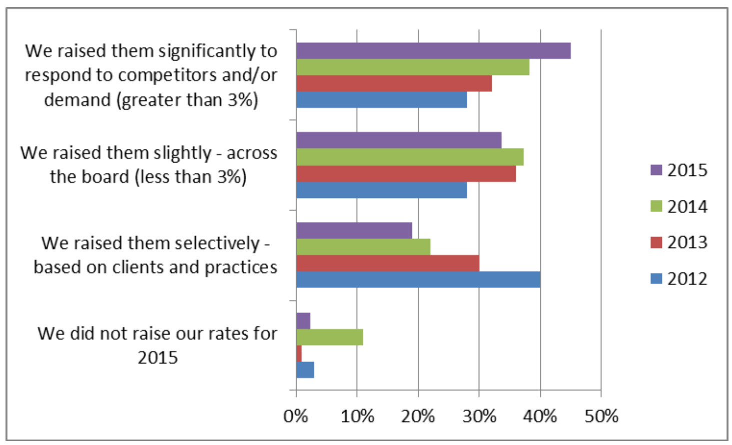
EXPECTATIONS FOR 2015



As we have for the last four years, we asked about firms' general expectations for the year that had just begun (2015). The last two years had seen the majority of the respondents take a *cautiously optimistic* approach for the coming year. However, this year (looking forward to 2015) saw an increase in the *it will be a very good year* response for 2015/2014 – from 14% to 26%. So, the *bulls* have returned. The positive responses (that is, the responses of *a very good year* and *cautiously optimistic*) combined to greater that 82% – the strongest set of positive expectation responses in the last four years.

The qualitiative comemnts underscored this optimism. *Just a few weeks into 2015 and all departments are busy; we expect great things in 2015;*and *the best business environment in ten years*. But, some voiced concern about 2015 and beyond – *lack of increased demand and little or no revenue growth threatens us.* And, there are *creeping expense concerns this year.*

While law firms and their revenue are not dramatically growing (more about this later), law firm managements have figured out how to keep increasing partner income in a flat market. Their strategies are not difficult to figure out – a combination of continuing and increasing annual rate increases, while at the same time keeping expenses tamped down. While there is a long-term limit to being able to do this, this short-term focus of law firm financial management clearly indicates that this combination of rate increases and expense control will remain prevalent in 2015. There is somewhat of a conundrum here – while we believe that annual rate increases are not a very creative way to increase revenue, we recognize that business law firms have to raise rates annually – because, if they do not, their competitors surely will and the market still (although they complain about it) equates higher rates with higher quality. We should note that our continuing client interviews, as part of 2014 and early 2015 strategic planning assignments, reveal that, to a degree, the marketplace equation of the level of rates to the level of quality is eroding. Large institutional clients are giving more and more work to firms who can clearly demonstrate value. That change is slow in coming, but it is clear and compelling.



In that context, the results of our question regarding 2015 rates (which virtually all business firms are already charging) saw a continuing shift to more aggressive rate setting – the percent of respondents who said they are raising rates **significantly** jumped from 38% to 45%. So, nearly half of the firms responding are back on a significant rate hike path (last year, that jump was from 31% to 38%). *We raised our standard rates by 5.8% for 2015, which will translate to a real increase of 3.1%.*

We asked the same question for 2015 expectations on individual legal practices that we asked for 2014 results *(3=solid increase, 2=flat, 1=down)* and there were some differences. There was a three-way tie for first in terms of positive expectations (**health care/life sciences**, which tied for first last year; **mergers and acquisitions; and general corporate representation). This was followed by a four-way tie for fourth (intellectual property litigation; patent prosecution, trademarks, and copyrights, or intellectual property; real estate; and financial services**). We certainly concluded that most practices were viewed positively (relative to expected growth in 2015), as 20 of the 23 practices had a rating score above 2.0. Only **insurance defense** was expected to be flat flat (a rating score of 2.0) and two practices had *down* expectations with a rating score of below 2.0 (**antitrust** and **bankruptcy/financial** restructuring).

Practice	Rank	Rating Score
Health Care/Life Sciences	**1 (tie)**	**2.6**
Mergers & Acquisitions	**1 (tie)**	**2.6**
General Corporate Representation	**1 (tie)**	**2.6**
Intellectual Property Litigation	**4 (tie)**	**2.5**
Patent Prosecution, Trademarks, and Copyrights	**4 (tie)**	**2.5**
Real Estate	**4 (tie)**	**2.5**
Financial Services	**4 (tie)**	**2.5**
Energy	**8 (tie)**	**2.4**
Commercial Litigation	**8 (tie)**	**2.4**
Regulatory	**8 (tie)**	**2.4**
White Collar Litigation	**8 (tie)**	**2.4**
Corporate Securities	**12 (tie)**	**2.3**

Practice	Rank	Rating Score
ERISA/Employee Benefits	**12 (tie)**	**2.3**
Immigration	**12 (tie)**	**2.3**
Alternative dispute resolution	**12 (tie)**	**2.3**
Labor and Employment	**16 (tie)**	**2.2**
Trusts and estates/wealth management	**16 (tie)**	**2.2**
Public Finance	**16 (tie)**	**2.2**
International arbitration	**16 (tie)**	**2.2**
Environment	**20**	**2.1**
Insurance Defense	**21**	**2.0**
Antitrust	22	1.9
Bankruptcy/Financial Restructuring	23	1.8

We asked the respondents to rate each of the 28 listed strategic/operational improvements relative to their expected focus for 2015 (*3= at the top of our list – a top priority, 2= may be addressed but not a top priority,1= will probably receive no attention*). While generally, the responses to these strategic/operational improvements for 2015 resembled very much the ones used in 2014, there were some unusual exceptions. Probably most significant is that, for the first time in five years**, dealing with underperforming partners** was booted from the top spot. Although it remains highly rated, it has fallen down to a tie for fourth. There may be one of two reasons for that – many firms have dealt (or thought they have dealt) with underperforming partners and, while it is a condition that will always exist (because it is statistically unavoidable), they may have moved on to other things. Another reason is that some firms have not done well in dealing with underperforming partners and have just given up. The firms responding put practice groups or teams at the top of the list – the highest rated improvement was **practice group/team planning and plan implementation.** Tied for second were **practice group team management improvements** and **industry focused marketing** (in essence, another practice group/team improvement).

Strategic/Operational Improvement	Rank	Rating Score
Practice group planning and plan execution	**1**	**2.7**
Industry focused marketing	**2 (tie)**	**2.6**
Practice group management improvements	**2 (tie)**	**2.6**
Dealing with underperforming partners	**4 (tie)**	**2.5**
Technology and technological advances	**4 (tie)**	**2.5**
Individual partner business development planning and execution	**4 (tie)**	**2.5**
Increased lateral hiring (with books of business)	**4 (tie)**	**2.5**
Better firm strategic plan implementation	**4 (tie)**	**2.5**
Growing by attracting high quality laterals with books of business	**4 (tie)**	**2.5**
Regular, formal client feedback	10 (tie)	2.4
Client and firm management succession planning and transition	10 (tie)	2.4
Better firm strategic plan implementation	10(tie)	2.4
Better associate training and development	13 (tie)	2.3
Firm strategic plan development/ revision	13 (tie)	2.3

Strategic/Operational Improvement	Rank	Rating Score
Management focused on achieving specific metrics, goals, and objectives	13 (tie)	2.3
A laser-like focus on improving profitability	13 (tie)	2.3
Process improvement/reengineering processes	13 (tie)	2.3
Website revision/improvement	18 (tie)	2.1
Alternative fee approaches	18 (tie)	2.1
Project management techniques/ training	18 (tie)	2.1
Have made it more difficult to make partner	18 (tie)	2.1
Smaller mergers/acquisitions	22	2.0
Creative space deployment	23	1.8
Cutting back on practices and people to restore and/or maximize profitability	24	1.6
Revising partner compensation	25 (tie)	1.4
Revising the associate salary structure	25 (tie)	1.4
A large transformative merger	25 (tie)	1.4
Revising partner structure – equity/ income	28	1.3

As we said last year and it clearly holds for this year, we believe that law firms are focusing on those things that can have a solid impact on market position and profitability. If implemented well, these strategic/operational improvements will have an impact on law firms. And, we also asked whether there were other or new strategic/operational improvements that firms had considered or tried. Responses included *our long term capital structure; shifting marketing $ from practice groups to client and industry teams; ensuring all partners are focusing on bringing in work, not just billing hours; and knowledge management to achieve greater efficiency*.

As in prior years, we also asked about expected growth in each attorney component (*3=growth, 2=same number, 1=decrease*).The comparison for the last six years is shown in the following table. As in most years, the highest rated timekeeper growth expectation is associates. However and to a degree, this is wishful thinking. The associate count in virtually every category of law firms is going down. There are lots of reasons – general counsel are hiring associates away, associates are leaving for a variety of personal reasons, and, in many firms, the partners are still hoarding work (which has consistently happened since the *great recession*).

	2015		**2014**		**2013**		**2012**		**2011**		**2010**	
	Rank	**Rating Score**	**Rank**	**Rating Score**	**Rank**	**Rating Score**	**Rank**	**Rating Score**	**Rank**	**Rating Score**	**Rank**	**Rating Score**
Associates	1	2.7	1	2.7	3 (tie)	2.2	1	2.8	1	2.7	1	2.6
Equity Partners	3	2.3	2 (tie)	2.2	2	2.5	2 (tie)	2.4	3	2.4	2 (tie)	2.4
Income Partners	2	2.4	2 (tie)	2.2	4	2.1	2 (tie)	2.4	2	2.6	2 (tie)	2.4
Of Counsel	5	2.1	5	2.1	1	2.7	5	2.2	4 (tie)	2.2	4 (tie)	2.1
Paralegals	4	2.2	2 (tie)	2.2	3 (tie)	2.2	4	2.3	4 (tie)	2.2	4 (tie)	2.1
Staff	6	1.8	6	1.7	6	1.9	6	2.0	6	2.1	6	1.8

LONGER TERM MANAGEMENT TRENDS

Finally, we asked the responding firms to *look over the horizon* and rate 25 talked and written about future trends in the legal marketplace. As last year, this list has been revised somewhat to reflect new trends that have appeared in legal publications and spouted by the pundits. *(4= a significant trend that will impact our future, 3= a trend of significance it will not greatly impact us, 2= this trend may or may not happen but will have little impact, 1= this trend will not occur and/or impact the US legal market)*

Longer Term Legal Management Trends	Rank	Rating Score
Clients' continuing and increasing focus on value (i.e. – results/cost)	**1**	**3.8**
Need for improved skill sets in attorneys (and non-attorneys) in project management, fee estimation, and related skills	**2 (tie)**	**3.6**
A focus on reengineering the way that law is practiced so that clients (and firms) benefit from improved cost benefits and predictability	**2 (tie)**	**3.6**
The rise in the overall importance of teams – reflected in revised partner compensation systems to reflect multiple attorney performance (client teams, group marketing, etc.)	**2 (tie)**	**3.6**
A continually increasing focus on profitability at the Firm, practice, client, matter, and attorney levels and an increase in management and compensation decisions based on those results	**2 (tie)**	**3.6**
An increased emphasis on effective ways to transfer client responsibility to younger partners from those approaching retirement	**6**	**3.4**
More legal work from larger companies to medium sized firms across the country and less to the much larger firms	**7**	**3.3**
Reductions in equity partners to those who *"really bring in the bacon"* and function as true owners	8 (tie)	3.1
Less large company/client market share to the large, multi-office, highly leveraged firms and more to smaller and/or mid-size firms	8 (tie)	3.1
Client insistence on alternative fee arrangements (AFAs) – the billable hour will continue to slowly die	8 (tie)	3.1
Globalization affecting virtually all businesses and thus affecting all business oriented law firms	8 (tie)	3.1
Decline in law firm brand loyalty by long-standing clients	8 (tie)	3.1
Increasing use of non-attorneys to support practice management, project management, pricing, client acquisition, etc.	8 (tie)	3.1

Longer Term Legal Management Trends	Rank	Rating Score
An adjustment to the methods and approaches to partner/shareholder compensation away from a focus on individual work statistics and more on teamwork, contribution to profit, and relative value to the organization	8 (tie)	3.1
Deleveraging of law firms (more partners and less associates)	15 (tie)	3.0
Increased law firm mergers and acquisitions over the next five years – continuing consolidation of the legal landscape	15 (tie)	3.0
Law firms and pseudo law firms dramatically cutting the prices of legal services (through better use of technology and significantly lower operating costs)	15 (tie)	3.0
Declining value of and emphasis on law school recruiting – lateral associates becoming the primary means of hiring associates	18 (tie)	2.9
Clients' use of diversity/inclusion and diversity statistics as a primary decision factor in selecting outside counsel	18 (tie)	2.9
Restructuring work assignments and workload to meet the varied lifestyle needs of attorneys and staff	18 (tie)	2.9
Continued consolidation of the larger law firms in concert with parallel creation of focused smaller boutiques	21	2.7
The rise of the virtual law firm – many attorneys practicing from home – not as many real offices	22 (tie)	2.5
More large company/client market share to the large, multi-office, highly leveraged firms and less to smaller mid-size firms	22 (tie)	2.5
A recognition that many law firms (of all sizes) are undercapitalized for current operations and growth and a move towards increased capitalization of those firms	22 (tie)	2.5
Backroom research and/or document review done offshore (Mumbai, etc.)	**25**	**2.0**

The **client focus on *value*** remains at the top of the list. There were four ties for 2nd and, moving into this tie were three new areas – ***reengineering the way that law is practiced*** and ***a rise in the overall importance of teams***, and ***a continually increasing focus on profitability***. While we will discuss our recommendations in the next sections – it would not hurt any law firm to focus on the first five trends – value and the four that tied for second.

SMOCK LAW FIRM CONSULTANTS' COMMENTS

This section presents our reaction to the survey responses, the very good qualitative comments made in the survey, and the results of our separate interviews with a good cross-section of law firm leaders. As in the reports that we make to our clients, we organized our comments as *conclusions* and *recommendations.*

Conclusions

Following are the conclusions we have drawn from this year's survey and interviews.

- There's no question that law firms are doing quite well – when compared to the economy and compared to other industries. That has been the case for years. While law firms view 2008 and 2009 as being the *great recession*, it was not really that bad. Law firm partner profits did flatten out, but over the last few years they have resumed relatively steady and significant growth, with little backsliding. The common strategy mentioned earlier of annual rate increases combined with solid expense control has raised partner income across the board. Relative to other professions, attorneys in business law firms are generally paid quite well and, while demand for legal services is relatively flat, it will not stay that way (there is a growth spurt out there).

- Law firms' strategies as limited to merely annual rate increases coupled with expense control is more than a little bit simplistic. In fact, most business law firms have been making solid strategic progress across a wide range of areas – better recruiting, planning, practice team organization, partner evaluation, client responsiveness, and succession planning. Progress is being made and it shows in the results that firms have reported. Many in the legal profession feel that progress has not been as rapid as it should be, but, when we take a step back, we do see real progress.

- We commend our clients and their competitors for addressing those strategic issues. But, we do have a critique, as expressed in our title to this monograph – simply, **there is still too darn much focus on the short term and not enough on the long term to ensure the survival and success of the firm**. In an industry and a profession that is changing dramatically most firms still operate with a one year budget, not a multi-year one; overly focus on the annual mad dash to bring in cash to meet that budget (thank your Executive Directors when you make it, as most firms do) and, in many ways, decisions are made for the benefit of some partners (the squeaky wheels), rather than the long term benefit of the Firm as a whole. Probably partner promotion decisions best fit this last critique.

- The big change in the *great recession* was that the clients clearly took over the driver's seat in the client/attorney relationship. Interestingly, law firms have done a very good job in adjusting to that reality. We interview a goodly number of general counsel annually, as part of our strategic planning assignments, and these general counsel do feel that their outside firms are getting better and better at client responsiveness.

- The other trends that have been reported in the last couple of years – in the surveys that we, our competitors, and other legal professional organizations have conducted – obviously continued on in 2014. Clients continue to look for value. Law firm mergers and combinations have increased and many have worked (although every merger/combination has some fallout). Associate turnover is again picking up (but more to in-house counsel positions, then to other firms), and firms' practice and industry teams are better managed and more effective.

- But, real business growth has stalled or stopped for most law firms. Yes, revenue and partner income are going up, but many firms are the same size or slightly smaller than they were a few years ago. Growth is the key capitalistic imperative – if a business is not growing (financially and strategically), then, for competitive purposes, it is shrinking. Many firms are not producing a sufficient number of qualified and effective new partners to ensure the long-term survival of their firms. Their partner groups are just getting older. Particularly critical is that the partners who have done and are doing business development are aging without replacements. There are certain decades when partners' business development capabilities are the most productive – this does generally not occur in their 60s and 70s.

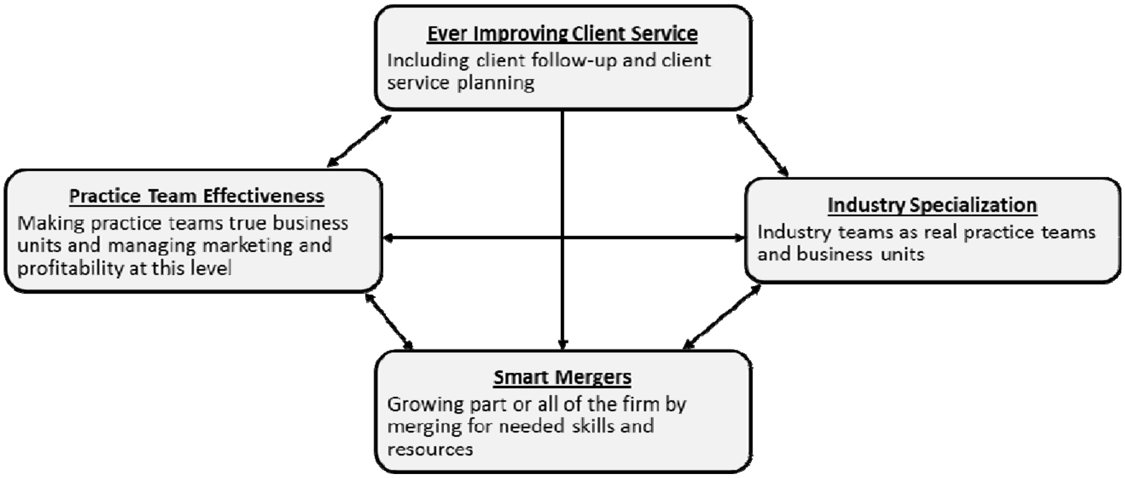
- Yes, it is true that real business growth is not occurring. In spite of that common malady, law firms of all sizes continue to rely on a single almost universal growth strategy – attracting laterals with supposed books of business. In various surveys, that growth strategy has shown up as the primary growth strategy at better than 95% of law firms. But, the success rate for that strategy is considered to be about 25% and we would argue that that 25% is a very optimistic estimate.

Recommendations

As in prior years, we have taken these conclusions and built a set of recommendations. As our construct in developing these recommendations, we focused on those key areas of strategy the law firms need to respond to – in 2015 and beyond. These suggestions follow.

- Let us start with the common malady of little or no growth. Simply put, law firms are not going to grow unless they have **a well thought out and well executed growth strategy**. We know some (but not that many) that have put the necessary time, talent, and creativity into developing and running a successful lateral strategy. It takes an enormous amount of time, talent, creativity, and money to do that well. But even if the firm has a successful lateral program (and we will repeat, the vast majority do not), you cannot put all your eggs in one basket. A firm's growth strategy must be multifaceted. You have to be doing more than one thing to substantively grow the firm. We have developed, as shown in the below schematic, a model that depicts what ought to be the four most important areas of focus for a firm's growth (if you will, the *big four areas of strategic growth,* where you can actually achieve real growth).

The "*Big Four*" Strategic Ways to Grow



- A few words on each of the four key strategic ways to grow – (1) **ever improving client service** is at the top of our schematic, it stands to reason that if you are ever improving client service, you will get more work from the client (and that is underscored by the general counsel we have interviewed in strategic planning assignments); (2) **industry specialization** is the second *surefire* way of growing, the better you understand a client's industry, the more work you will get from the client and, ultimately, other players in an industry; (3) **practice team effectiveness** can also lead to real growth, the better the team is managed and collaborates and cooperates, the more work it will have and distribute; and, finally**, a smart merger or mergers** (well thought out and executed) do directly grow firms (yes, 1+1 can equal three).

- Partners must be treated as partners and, in turn, **partners must behave as partners**. This may be the most important area of focus for the next 10 or 15 years as partners who do not or cannot carry their weight may be *the ticking time bomb* in law firms. Expected performance has to be spelled out, monitored, evaluated, and rewarded. Evaluating associates for partner should involve making sure that a potential partner demonstrates (ahead of making partner) (1) a high level of professional competence; (2) expected performance results (and works hard – because effectively practicing law unavoidably requires hard work), (3) an ability to bring in work (it is not something you wait to become a partner to learn to do, as many firms claim), (4) the skill sets and inclination to manage and develop people (the Lone Ranger associate, no matter how smart, will never make a good partner), and (5) the desire and ability to act like an owner, believe in the culture, and contribute to the firm (to paraphrase JFK – as a partner, ask not what the firm can do for you, but what can you do for the firm).

- Everyone in the firm must focus on, be committed to and achieve **excellence in everything the firm does** – from making an argument in court to answering the phone . This is probably where most midsize firms fail and can learn from the larger firms. For some reason, midsize firms are willing to accept mediocrity in people and performance – not from everyone, but from enough to hurt the overall end product and threaten the future.

- Law firms must take a **long term view of technology improvements**. Firms are much better at business planning – strategic, operational, financial, and marketing. But longer term technology plans either do not exist or are poorly done. Technology is changing so rapidly and the costs are so significant, that there has to be a meaningful technology plan. Most people who follow the legal industry would agree that future market changes are going to be closely intertwined with technology, so preparing for it is critical.

- **Succession planning and execution** (you cannot just plan for it, you also have to do it) are critical to a firm's future success. The aging of the partner group that has developed and managed the client relationships has been evident since before the *great recession.* Succession plans should be simple – bullet points on a single page for both partners and clients (and updated annually). They should also be multi-year – merely introducing another partner to a client and saying *this is your new gal/guy* is not succession planning, but rather a recipe for disaster. Effective succession planning is probably the easiest critical requirement for law firm management to *kick the can down the road.*

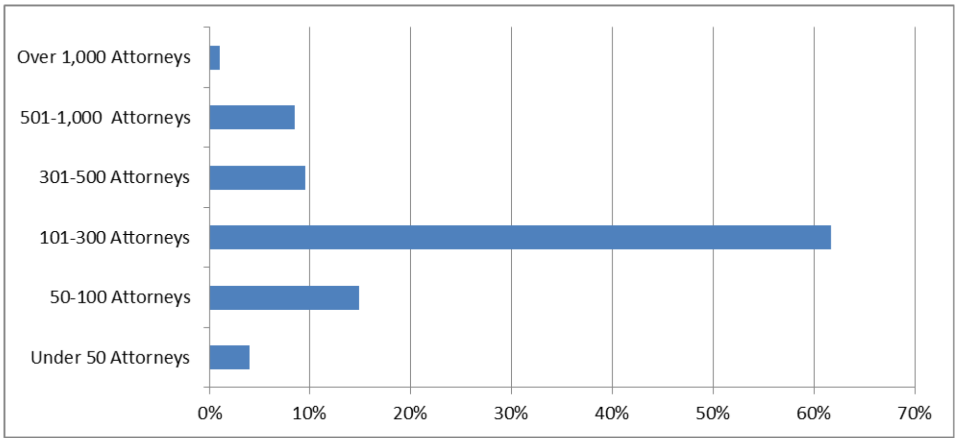
- An area that is just beginning to register with law firm management – as a must do – is **comprehensive process improvement.** Simply put, all of the elements that go into the practice of law in a law firm must be put under a critical microscope to determine what adds value, what does not, and what needs to be changed (perhaps more accurately – improved). Partner resistance to this – something that is standard across all industries is enormous, because it moves and threatens individual lawyers' cheese. In fact, some firms (and there are not many) who have responsibly recognized the need to improve how law is practiced across-the-board have surrendered and instead of looking at what the lawyers do have limited their focus to what the staff do. All must be looked at. We should also note that this is not a single effort, but a multi-year firmwide approach to improving how clients are served and how the legal product is delivered. It is truly a journey, not a destination.

We hope that these suggestions, or rather, strategic areas of improvement are on your list of things to address, resolve, and complete. You will not get it all accomplished in one year and most of what we have had to say can probably be said again (and will) next year – but that does not make it any less important.

SURVEY RESPONDENTS' DEMOGRAPHICS

Between January 13 and January 28, 2015, nearly 100 (actually 99) law firms completed our survey. That was a reduction from the prior year, but probably caused by us. We had announced that the survey would be open from January 6th on, but our assistant, who capably administers this survey annually, had a beautiful baby daughter at 1:30 AM on the sixth. So, we delayed the start until the 13th and, we believe, that lowered the number of respondents. However, 100 respondents to the survey, in addition to the 20 or so firms we interviewed gives us a very good statistical base and cross section to work with, in terms of both the number of responses themselves and our ability to draw conclusions from those responses.

Of the responses, 51% were from either the Chairman or the Managing Partner – the chief attorney leader of the firm, 45% were from the CEO or executive director – the chief non-attorney manager of the firm. The graph below shows the size distribution of the respondents. This year, even more than the last few, showed a real concentration in the size range of 101 to 301 attorneys. While SLFC works for firms of all sizes, that size grouping tends to be where the majority of our clients are.



We asked the respondents the area of the country of their headquarters office or largest office and to categorize the *reach* of the firm – the distribution of both are shown below. The geographic distribution broadened a bit from last year, but the Midwest had the greatest concentration 45% (where – as a firm – we started and still maintain our office address, although our partners are spread geographically). 89% consider their market to be regional, national, or global, again up from last year – all in all, a good distribution of law firms responding.

Area of Country of HQ or Largest Office	
Northeast	10%
New York City	5%
Middle Atlantic	11%
Southeast	14%
Midwest	45%
Southwest	11%
West Coast	4%

Type of Firm	
Local	14%
Regional	68%
National	17%
Global	4%

ABOUT SMOCK LAW FIRM CONSULTANTS

Smock Law Firm Consultants is a focused strategic management consulting firm serving law firms (our primary industry concentration), other professional service firms, and commercial entities. We help law firms address and resolve those key issues that have a major impact on a firm's near term success and its long term direction and focus. We have seven key areas of practice – (1) **strategic planning** at firm and practice levels; (2) **strategic plan implementation and execution**, in essence, helping clients do what they said they would do; (3) **mergers and combinations assistance**, helping identify, negotiate and implement combinations; (4) **practice team/group management**, helping the practice team concept achieve its potential; (5) **law firm economics**, helping our clients improve profitability and deal with longer term financial issues; (6) **operational excellence**, improving both the effectiveness and efficiency of firm operations (i.e. – process improvement); and (7) **strategic management issue resolution**, assisting in resolving issues of vexing management concern.

We believe there are three factors clearly set us apart.

- The primary success factor for any consulting firm are the results achieved by our clients – in both the near and longer term. Our client references speak directly to those results.

- Our *first string* and, actually, our **only** string (Smock, Giuliani, Fiebert, and Walker) is, simply, **the most experienced group on senior consultants serving the legal profession**. The four partners bring a collective relevant experience of greater than 160 years and **each** has greater than 40 years of varying but relevant experience in law and professional service firm management.

- We tailor our approach to every consulting assignment to the unique needs and requirements of the client. We are known for our **originality and creativity** in doing that and for our scrupulous avoidance of *law firm management dogma.*

Again, thank you for either participating in our survey or considering its results – or both.

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