SMOCK
LAW FIRM CONSULTANTS

THE DOLDRUMS

CAUTIOUS OPTIMISM MIXED WITH MORE THAN A LITTLE UNCERTAINTY FOR THE SECOND YEAR IN A ROW

SMOCK LAW FIRM CONSULTANTS' LEGAL MARKETPLACE OUTLOOK FOR THE REMAINDER OF 2012 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 January and February of 2012.

- It is similar in scope (and questions) to the "*start of the calendar year*" surveys we have conducted in prior years. The survey – for the first time – asked the respondents to make comments on each of the questions. Thus, we have comprehensive quantitative and qualitative responses in most area of questioning.

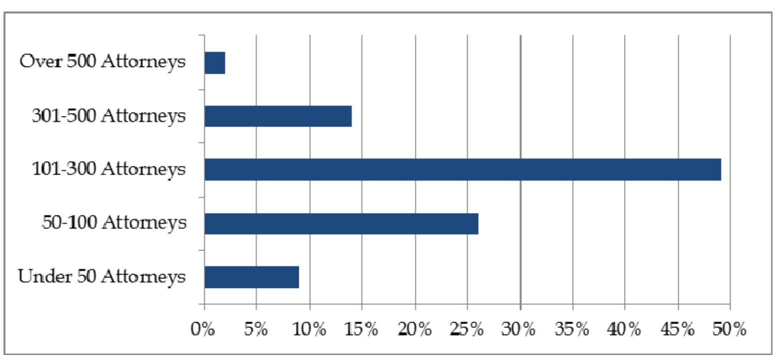
- We augmented the quantitative results of the survey with extensive in-person interviews. As part of client assignments to a number of major law firm markets in January and February, we 21 conducted interviews of law firm managing partners (CEOs) and executive directors (COOs). We asked three things – how these firms and their competitors did in 2011, what they expect for 2012, and what longer term trends they see in the next few years and beyond.

- Finally, we added and adjusted the results of primary research we conducted in late 2011 on the longer term trends facing the legal marketplace to provide a longer term perspective.

This monograph is presented in the following sections – demographics of the survey respondents; 2011 performance and results; expectations for 2012; comments on 2011 performance and 2012 expectations; our near term recommendations, addressing the "*Big Six*" near term issues; and our view of the longer term trends.

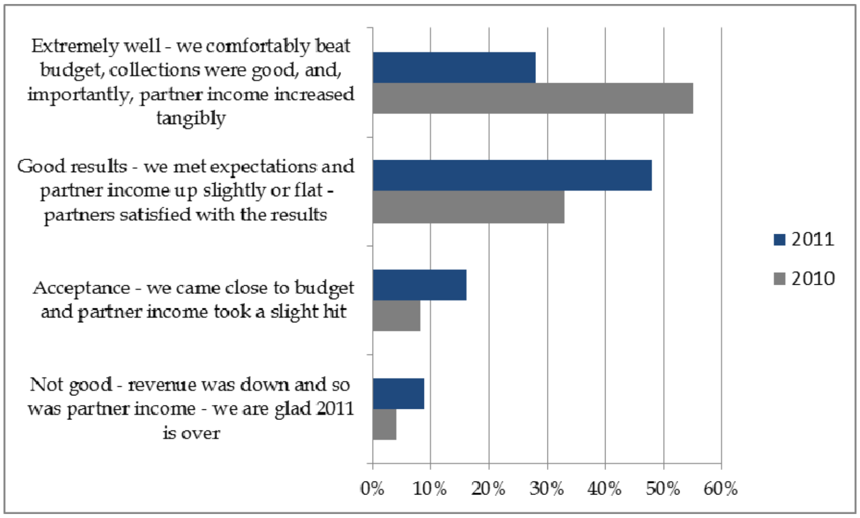
SURVEY RESPONDENTS' DEMOGRAPHICS

Approximately 100 firms completed the survey and there was good balance in the leaders/managers who responded – 48% were the managing partner/CEO and 52% were the executive director/COO. There was also reasonable balance in the size of firms responding, as shown below.



In terms of the type of firms responding, 76% were broad based business law firms and 24% were specialty firms (IP, litigation, transactions, plaintiffs, etc.).

HOW DID YOUR FIRM DO IN 2011?



As in prior years, we first asked how well the responding firms did in 2011.

As in prior years, the results were quite positive – 28% responded *"extremely well"* and 48% responded with *"good results."* But, the higher figure is down from 2010 (when 55% responded *"extremely well"* and 33% responded *"good results"*). In comparison to 2009, the highest two categories in 2011 were 76%, as opposed to 73% in 2009.

So, the responses – although quite positive – were down from 2010. We surmise that a weak fourth quarter in hours billed (particularly – but not exclusively – among larger firms) led – in some – to a downgrade from *"extremely well"* to merely *"good."* The qualitative comments were generally quite positive (e.g. – *"record year for us – NIPP over $1mm for the first time," "NIPP up over 10%," "beat budget by 18%," "net operating income up 8%,"* and *"record levels in fees received and profits per partner"*). Of course, some others were less positive (e.g. – *"fell slightly short on revenue budget," "good first half of the year – poor fourth quarter," "rate challenged,"* and *"transactions stayed down"*).

We drilled down a bit deeper to see how the responding firms practices did in 2011 by rating 20 different practices in one of three categories (*1=solid increase, 2=flat, and 3=down*) – so, a lower score is a more positive results. These results are shown below.

Practice	Rank	Rating Score
Intellectual Property Litigation	**1 (tie)**	**1.4**
White Collar Litigation	**1 (tie)**	**1.4**
Energy	**1 (tie)**	**1.4**
Patent Prosecution	**4**	**1.5**
Labor and Employment	**5 (tie)**	**1.6**
Regulatory/Government Affairs	**5 (tie)**	**1.6**
Insurance Defense	7 (tie)	1.7
Bankruptcy/Financial Restructuring	7 (tie)	1.7
Commercial Litigation	7 (tie)	1.7
Financial Services	7 (tie)	1.7

Practice	Rank	Rating Score
Real Estate	7 (tie)	1.8
Immigration	12 (tie)	1.8
Environment	12 (tie)	1.8
ERISA/Employee Benefits	12 (tie)	1.8
General Corporate Representation	12 (tie)	1.8
Health Care/Life Sciences	12 (tie)	1.8
Mergers & Acquisitions	**17 (tie)**	**2.1**
Antitrust	**17 (tie)**	**2.1**
Corporate Securities	**17 (tie)**	**2.1**
Public Finance	**20**	**2.3**

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

There was a three way tie at the top – **energy, intellectual property litigation, and white collar litigation**. And also near the top were patent prosecution, regulatory government affairs, labor and employment, bankruptcy/financial restructuring, commercial litigation, financial services, insurance defense, and, in a significant comeback, real estate. The three top practices in last year's survey were bankruptcy/financial restructuring, energy, and health care. Health care fell this year to a tie for 12th.

This year, the bottom four practices were public finance, mergers and acquisitions, antitrust, and corporate securities – clearly underscoring the continued and/or accelerating softness in transaction practices. As last year, the results were generally quite positive – 16 of the 20 practices were on the positive side of the rating scale – that is, a rating score of less than 2.0. Some interesting qualitative comments included *"real estate is a big part of our practice and it was clearly up, but from a very low place last year;" "a great litigation year, although more due to work on continuing cases than an influx of new cases;"* and *"we continue to have soft areas in the firm and a lack of willingness to address them."*

Next, and as in prior surveys, we asked the responding firms to rate specific strategic operational improvements (from a list of 19) they had focused on in 2011 using the following scale (*1=high priority have and are addressing, 2=know it needs addressing – but not a top priority, and 3=not on our radar screen*). So, a **lower score represents a higher priority** and any rating score below 2.0 is viewed as generally positively. The responses are shown in the following table.

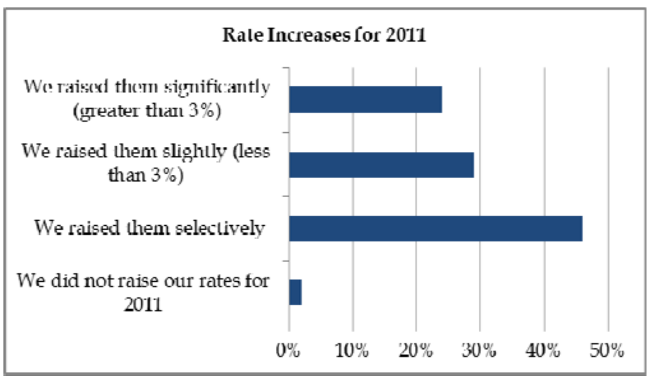
Practice	Rank	Rating Score
Increased lateral hiring	**1 (tie)**	**1.4**
Dealing with underproductive partners	**1 (tie)**	**1.4**
Practice group planning	**3 (tie)**	**1.5**
Better associate training and development	**3 (tie)**	**1.5**
Industry focused marketing	**3 (tie)**	**1.5**
Regular, formal client feedback	**3 (tie)**	**1.5**
Firm strategic plan development/revision	**3 (tie)**	**1.5**
Website revision/improvement	8 (tie)	1.6
Better firm strategic plan implementation	8 (tie)	1.6
Practice group management improvements	10 (tie)	1.7

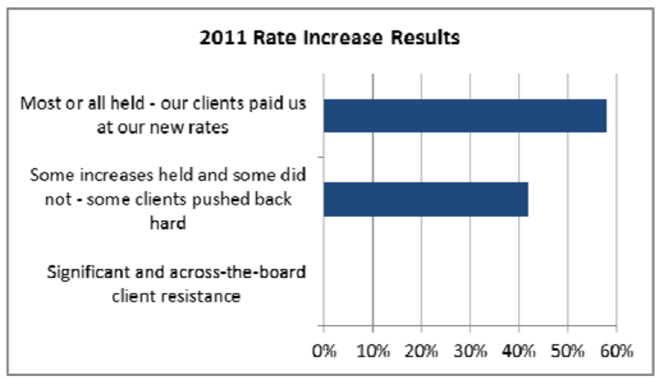
Practice	Rank	Rating Score
Smaller mergers/acquisitions	10 (tie)	1.7
Alternative fee approaches (AFAs)	12	1.9
Project management techniques/ training	13	2.0
Revising the associate salary structure	14 (tie)	2.5
Cutting back on practices and/or people to restore and/or maximize profitability	14 (tie)	2.5
Revising partner compensation	**16 (tie)**	**2.6**
Revising partner structure – equity/income	**16 (tie)**	**2.6**
Firm governance restructuring	**16 (tie)**	**2.6**
A large merger	**19**	**2.8**

As can be seen, there was a tie for the top – **dealing with underproductive partners** and **increased lateral hiring**. There was a five way tie for the 3rd spot – **practice group planning; better associate training and development; industry focused marketing; regular, formal client feedback**; and **firm strategic planning development/revision**. Bringing up the rear in the 19th spot was a large merger, followed by a three way tie for 16th place – firm governance restructuring, revising the partner compensation system, and revising the partner structure (equity/income).

Last year, dealing with underproductive partners and lateral hiring were at the top of the strategic improvements list. In fact, the overall distribution was very similar. The conclusion last year – and again this year – is that law firm management is generally focused on those steps that can directly affect performance, rather than *"fluff and fads."*

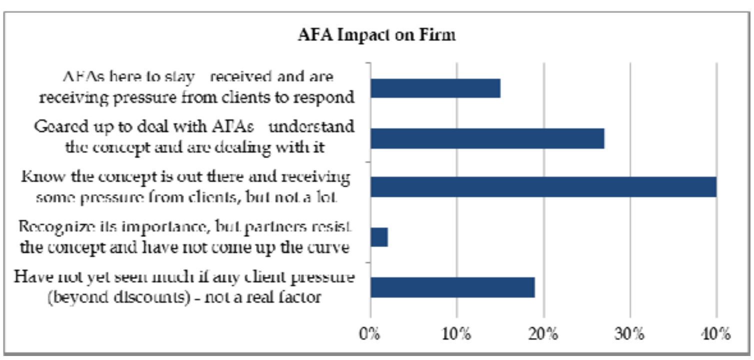
Relative to **rates**, the broad cross section of law firms raised their rates as a continuing strategic move – as shown. Over 98% of the firms raised their rates with the largest group raising them selectively. And interestingly, 58% said that *"most or all held"* and 42% said *"some held and some did not."*

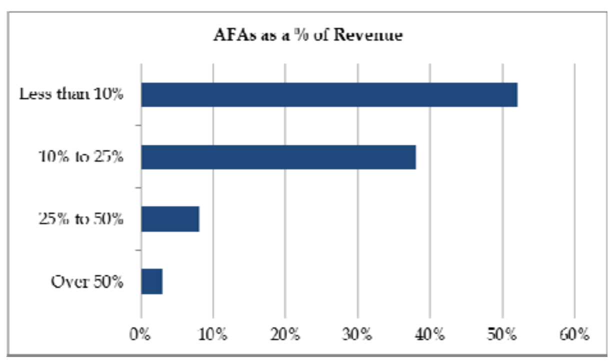




As last year, we included questions on alternative fee arrangements (AFAs), the supposed *"tsunami of change"* that will permanently alter the practice of law. We asked how AFAs had impacted their firms (with a potential for multiple responses) – interestingly, greater than 60% of the responses were dismissive of the importance of the concept and only 15% of the responses responded to *AFAs are here to stay*. The survey's qualitative responses on AFAs were also interesting including – *"clients do not seem interested in AFAs, they just want the discount," "continues to be a lot of show, but no go;"* and *"it is a growing opportunity that works particularly well with our industry groups."*

We also asked the firms to estimate the percentage of overall revenues that were generated by AFAs – 52% said less than 10% and 38% less than 25%. These results are shown below.

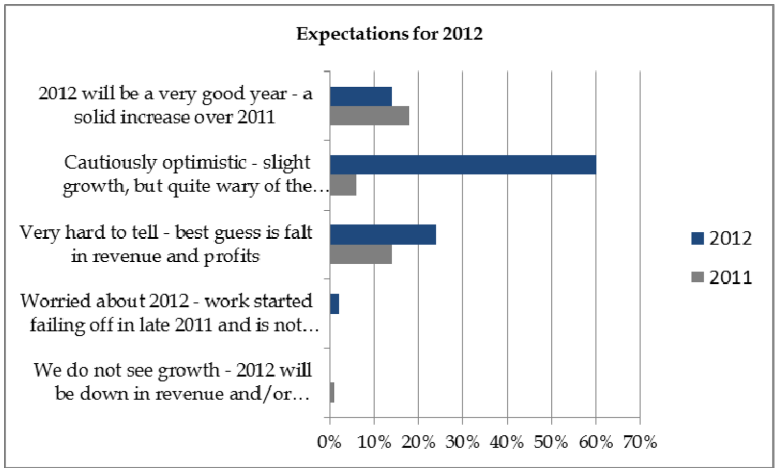




In comparison to last year – for AFA advocates – the numbers are going up slightly, but only slightly. We have to conclude that it is an important and growing concept – but not as important and growing as the *"legal management experts"* would have us believe. As we will discuss later, we believe the focus is value, not AFAs. AFAs are, at best, just a way to get to that value.

EXPECTATIONS FOR 2012

As for 2010 and 2011, we asked the firms about their general expectations for 2012. The optimism over 2011's results was not matched by 2012 expectations and compared to the same question last year, the respondents were less optimistic about 2012 than they were about 2011 – as shown below.



When we reviewed the qualitative comments made by the respondents, we see two probable causes for this lowered optimism. First, the economic uncertainty (related to Europe, our upcoming election, and other causes) and the recognition by law firm managers that growing revenue in this uncertain economy is very, very difficult. One said it well – *"flat is the new up."*

It becomes evident that it behooves well managed law firms to raise rates annually – not merely as a positive strategy, but as a defensive move. If a firm falls behind its primary competitors in rate increases, the impression is clearly created that *"they are not as good."*

We also drilled down on the 2012 expectations by practice for 2012 (*1=solid increase, 2=flat, 3=down*). The results are shown below.

Practice	Rank	Rating Score
Commercial Litigation	**1 (tie)**	**1.4**
Energy	**1 (tie)**	**1.4**
Health Care/Life Sciences	**3 (tie)**	**1.5**
Intellectual Property Litigation	**3 (tie)**	**1.5**
Labor and Employment	**3 (tie)**	**1.5**
Public Finance	**3 (tie)**	**1.5**
Patent Prosecution	**3 (tie)**	**1.5**
Financial Services	8 (tie)	1.6
General Corporate Representation	8 (tie)	1.6
Mergers & Acquisitions	8 (tie)	1.6

Practice	Rank	Rating Score
Real Estate	8 (tie)	1.6
Regulatory	8 (tie)	1.6
White Collar Litigation	8 (tie)	1.6
Environment	14 (tie)	1.7
Immigration	14 (tie)	1.7
Insurance Defense	14 (tie)	1.7
Bankruptcy/Financial Restructuring	**17 (tie)**	**1.8**
ERISA/Employee Benefits	**17 (tie)**	**1.8**
Corporate Securities	**19**	**1.9**
Antitrust	**20**	**2.1**

As in prior surveys, we separated the strategic/operational improvements and asked them to rate each of the 19 relative to their expected focus for 2012 (*1-at the top of our list – a top priority, 2=may be addressed – but not a top priority, and 3=will probably receive no attention*). The results were slightly different from what was said about 2011 – **industry focused marketing** finished first and **dealing with underproductive partners; practice group planning; regular formal client feedback;** and **increased lateral hiring** all tied for 2nd. So, it is safe to say that most firms' management priorities from 2011 have generally continued on into 2012 with slight adjustments. There is certainly no sea change.

Strategic/Operational Improvement	Rank	Rating Score
Industry focused marketing	**1**	**1.4**
Dealing with underproductive partners	**2 (tie)**	**1.5**
Practice group planning	**2 (tie)**	**1.5**
Regular, formal client feedback	**2 (tie)**	**1.5**
Increased lateral hiring	**2 (tie)**	**1.5**
Practice group management improvements	6 (tie)	1.6
Better firm strategic plan implementation	6 (tie)	1.6
Better associate training and development	8 (tie)	1.7
Firm strategic plan development/revision	8 (tie)	1.7
Website revision/improvement	10 (tie)	1.8

Strategic/Operational Improvement	Rank	Rating Score
Smaller mergers/acquisitions	10 (tie)	1.8
Alternative fee approaches	12 (tie)	2.0
Project management techniques/training	12 (tie)	2.0
Cutting back on practices and people to restore and/or maximize profitability	14	2.4
Revising partner compensation	**15**	**2.5**
Revising the associate salary structure	**16**	**2.6**
Revising partner structure – equity/income	**17 (tie)**	**2.7**
Firm governance restructuring	**17 (tie)**	**2.7**
A large merger	**17 (tie)**	**2.7**

As with 2011, we queried the responding firms about rate increases for 2012. As shown below, 96% of the firms raised rates with the highest response (40%) being *"selectively."*

Since *"increased lateral hiring"* is such a strong current effort of most law firms, we asked about growth plans for 2012 (by personnel category – *1=growth, 2=same number, and 3=decrease*) and then compared these responses to prior years, as shown below.

	2012		2011		2010	
	Rank	Rating Score	Rank	Rating Score	Rank	Rating Score
Associates	1 (tie)	1.2	1	1.3	1	1.4
Equity Partners	2 (tie)	1.6	3	1.6	2 (tie)	1.6
Income Partners	2 (tie)	1.6	2	1.4	2 (tie)	1.6
Of Counsel	5	1.8	4 (tie)	1.8	4 (tie)	1.9
Paralegals	4	1.7	4 (tie)	1.8	4 (tie)	1.9
Staff	6	2.0	6	1.9	6	2.2

These figures are quite consistent year-to-year – but, they do underscore the importance of adding qualified associates. Many firms have seen their number of associates fall off dramatically – often as a result of cost cutting moves and just as much from partners hoarding what would normally be considered *"associate work."* Also, law school hiring is either down or way down depending on the firm.

LONGER TERM FUTURE TRENDS RESPONSES

We also asked the responding firms to *"look over the horizon"* and rate 20 talked/written about future trends in the legal marketplace. (*1=a significant trend that will impact our future; 2=a trend of significance that will not greatly impact us; 3=this trend may or may not happen, but will have little impact; and 4=this trend will not occur and/or impact the U.S. legal marketplace*)

Longer Term Legal Management Trends	Rank	Rating Score
Clients' continuing and increasing focus on value (i.e. – results/cost)	**1**	**1.3**
Need for improved skill sets in project management, fee estimation, etc.	**2**	**1.7**
Reductions in equity partners to those who *"really bring in the bacon"*	**3 (tie)**	**1.8**
Increased mergers and acquisitions (both large and small)	**3 (tie)**	**1.8**
Deleveraging of law firms – more partners and less associates	**5**	**1.9**
More legal work from larger companies to medium sized firms	6	2.0
Less large client market share to the large, multi-office firms and more to smaller mid-size firms	7 (tie)	2.1
Increasing u se of non-attorneys to support practice and project management	7 (tie)	2.1
Clients' use of diversity and diversity statistics as a primary decision factor in selecting counsel	7 (tie)	2.1
Client insistence on alternative fee arrangements (AFAs)	10	2.2

Longer Term Legal Management Trends	Rank	Rating Score
Restructuring work assignments and workload to meet varied lifestyle needs	11 (tie)	2.3
"Cult of the individual" disappearing and the revision of partner compensation systems to reflect team performance	11 (tie)	2.3
Globalization affecting virtually all businesses and business oriented law firms	11 (tie)	2.3
Declining value of and emphasis on law school recruiting – lateral associates the primary means of hiring	11 (tie)	2.3
Continued consolidation of larger law firms with parallel creation of focused smaller boutiques	11 (tie)	2.3
ACCA and other groups publishing specific law firms' rates and rating individual law firm performance	**16**	**2.4**
The rise of the virtual law firm – many attorneys practicing from home	**17**	**2.5**
More large client market share to the large, multi-office firms and less to smaller mid-size firms	**18**	**2.6**
Backroom research and/or document review done offshore	**19**	**3.0**
Outside investment in U.S. law firms – like the UK and Australia	**20**	**3.3**

The highest rated trend (remember the lower the rating score, the more significant the trend) was **clients' continuing and increasing focus on value** – which clearly reflects the results of the individual interviews and our own belief. The second highest rated was the **need for improved skill sets in project management, fee estimation, etc.** There was a tie for third place with **reductions in equity partners to those who *"really bring in the bacon"*** and **increased mergers and acquisitions (both large and small)**. The fifth highest rated was the **deleveraging of law firms – more partners and less associates**. The two lowest rated trends were **outside investment in U.S. law firms (as in the U.K.)** and **backroom research and/or document review done offshore**.

CONCLUSIONS AND TAKEAWAYS

This section provides our conclusions based on the quantitative and qualitative survey responses, our interview of law firm CEOs and COOs, and, importantly, our own experiences in serving a wide range of law firms in these matters for more decades that we would like to admit. We have grouped our conclusions in the same major areas that we have presented the survey findings – 2011 results, 2012 expectations, and longer term legal market considerations.

How Law Firms Did in 2011

- First, we have to conclude – as we have in prior years – that the firms who have done well are more inclined to participate in this or any survey. If you had a really hard year, responding to a survey like ours and describing that bad year is probably an unpleasant experience to a CEO or a COO.

- The year 2011 was a very good year – but, because of the downer experienced by mostly larger firms at the end of the year – 2011 was not viewed as positively as it should have been. That said, we cannot ignore the obvious – there were one heckuva lot of law firms that did exceptionally well in 2011. And, a lot of them had clearly and consciously done the key things that were required to produce those results – so we congratulate those who did so well!

- While there is no question that the legal marketplace is more difficult than even just a few short years ago – it is still one of the most profitable industry segments in the U.S. economy.

  - Even with the supposed client resistance, on average law firms get about a 3% price increase each year – not what it used to be, but certainly more than Costco.

  - The margins are enormous. Bad management gets a firm in the low to high 30% range, reasonable management gets a firm in the 40s, and excellent financial management can achieve 50% or greater (although this statistic can be misleading – because of the varying percentage of partners to overall attorneys).

  - There are very few constraints on billing. Clients do complain, but they still (generally) pay. While not always the case, legal services are usually important to a client and cannot be ignored. Clients may not like it, but they know that these are necessary expenses.

- The results clearly show a need and support for continuing management effectiveness. The market and competitors are getting tougher.

  - Many law firm leaders believe cost control and effective management are the same thing. But, you cannot rely on cost savings to continue to push up profits. For example, you cannot indefinitely cut back on marketing costs. The unavoidable fact remains that there is a level of investment needed to produce a profit and more investment is needed to produce more profit.

  - Many want to "*steer by the wake*" – that is, keep doing what they have been doing and not adjust focus to those things that can strategically grow revenue or that have changed in the market.

- We continue to be impressed that law firm management is generally focused on doing the right things (i.e. – dealing with unproductive/underproductive partners, industry focused marketing, etc.). We compare that to a few years ago, when we more often heard the call for changing the partnership compensation formula as the "*silver bullet*" to change all that was negative.

- There are a lot fewer associates out there. Firms of all sizes have not hired back to the levels experienced a few years ago. Also, there does not appear to be associate hiring to support the high number of lateral partners recruited. So, because of client preferences, economics conditions, and partners' reaction to economic conditions (that is, hoarding work rather than passing it on), law firm leverage (one of Maisters' five drivers of profitability) is way down. That will more than likely not reverse in the near future.

Expectations for 2012

Due to client commitments, we were a little later in getting our survey and this monograph out this year. To a degree, that was fortuitous as the mood of the market seems to have shifted.

- From the end of the year to the end of February, optimism about 2012 seemed to burn off a bit. Law firms were less optimistic about 2012 a month or two into the new year than they were a few months ago.

- There are a significant number of potential economic problems that could affect the economy and, thus, law firms – including the Iran nuclear risk (and what would occur if there were an attack by Israel or Israel and the U.S.), the systemic risk to the Euro (starting with Greece and cascading through other countries), and the risk of a major stock fall off this spring in the U.S. The investments houses' predictions for 2012 vary between partial and full pessimism. The political uncertainty associated with 2012 election is also significant.

- So for the rest of 2012, we suggest a balanced approach – be careful, but taking prudent risks to improve a firm's competitive position is still very much in order.

THE *"BIG SIX"* COMMON ISSUES/CONCERNS – OUR RECOMMENDATIONS FOR 2012

We recognize that every law firm is different and that when we develop recommendations in a monograph like this, we can easily be accused of dealing with "*gaping generalities.*" But, we have collectively found – over the last nine months or so – that most firms we have served exhibited or felt they were facing a common set of issues and concerns.

- The level of incidence and/or gravity may vary and some may not exist at all, but most exhibit them to some degree. We call them the "*Big Six Common Issues/Concerns.*"

- And rather than merely repeat most of last year's or this fall's short term recommendations, we thought it would be useful to focus our short term recommendations on addressing each of these six issues/concerns in the context of which they impact our readers' firms. If firms successfully focus on the Big Six in 2012, very solid progress can be made.

The "*Big Six*" are **underproductive partners, client responsibility succession, practice group/team management, partners not behaving as owners, lack of marketing and business development effectiveness,** and **lack of effective strategic plan development and implementation**.

Underproductive Partners

It is statistically true that every law firm has a median level of performance and, thus, 50% of a firm's partners are always underproductive. But, that is not what we mean by an underproductive partner. A chronic underproductive partner (which implies a number of years of sub-standard behavior) usually includes most or all of four characteristics (a consistent lack of productivity, a below average work ethic, a dislike of and an aversion to marketing, and a resistance to participating in people development and other necessary firm building activities).

In most firms they are either tolerated, ostracized, ignored, or supposedly dealt with through compensation (a major legal management fallacy). While the last few years have seen considerable progress in dealing with underproductive partners, there still is much to do, because most firms do not see or understand how damaging collectively and individually they are.

Our next monograph will be devoted to this single topic, but a variety of steps need to be considering including:

- Clearly defining and communicating what constitutes an underproductive partner to a specific firm (as in the above definition).

- Counseling at the practice or firm level to ensure they recognize their short comings and react to an agreed upon set of improvement steps and metrics (n.b. – we have found this effort to have a less than one in four chance of success).

- Acting decisively on the most egregious examples that cannot or will not improve (which many firms have already done) and removing them (visibly, but humanely) from the firm.
- Encouraging practice groups and their leaders to deal early-on when the signs of chronic underproductivity start to show.
- Paying underproductive partners what they are worth to the firm (and no more) – not because they will reform (most will not), but because that is fair to the other partners.

Client Responsibility Succession

The highly productive partners who developed and nurtured key client relationships in the 80s, 90s, etc. (and thus, who contributed directly to the era of significant law firm growth) are now approaching, or are passing *"normal"* retirement age. Most firms (and most of these partners themselves) have done a very poor job of planning for their succession vis-à-vis client relationships. This lack of succession planning puts many firms at real risk.

While each partner is different and should be treated in a unique way, we suggest the following:

- Asking every partner over 55 to prepare an annual (one page) succession plan – when he/she intends to retire, how he/she is planning to transition his/her key clients, and the progress being made in that regard. This one page (no more) plan should be updated once a year (if needed) and communicated to the Executive/ Management Committee.
- For major clients, firms should institute formal client service planning – where the attorneys and non-attorneys who serve a specific client get together regularly to consider how to better serve that client. Succession should be a major focus of that planning.
- Client succession should be a major responsibility of the practice teams – not just the leader, but all of the partners in a team.

Practice Group/Team Management

Practice group/team management has been at the top of our list of needed law firm management improvements ever since we started serving law firms. But, in an era where hourly rates rose dramatically and where the work had been readily available, law firm management did not see the necessity of really making it work. But, times have changed – demand is flat and gone are the days of 7% rate increases. How well a firm manages its practices is one of the prime determinants of law firm success and *"laissez-faire"* is not the right strategy.

While the right things to do in managing practice groups can and have filled books, some suggested steps follow.

- Develop and implement a practice group and team structure composed of specific market focused teams (that is, industry groups and legal specialty groups) and hold them accountable as the primary business units/client service delivery organization of the law firm.
- Pick the best leaders (not necessarily the partners with the biggest books) and ensure that the focus is on group/team performance along with the individual performance of leaders and team members.
- Develop and implement effective practice team/group plans and support these teams with the necessary management and business development resources.
- Very critically, give these team leaders meaningful input to partner compensation.

Partners Not Behaving as Owners of the Firm

This condition is a complaint we hear to some degree in every firm we serve. Its manifestations are a lack of interest in partnership issues, lack of involvement in people development, and a host of other symptoms. While to an outsider, its continuing existence is cancerous to a firm, firm managements are loath to deal with it.

Without trying to deal with the different divisions of the responsibilities of multi-tier partnerships, let us offer a single prescription. If a partner is legally an owner of the Firm, then he/she needs to unquestionably behave as an owner of the Firm. **If he/she cannot, he/she cannot be a partner**.

Lack of Sufficient/Acceptable Marketing and Business Development Effectiveness

Law firm marketing effectiveness has increased dramatically in the last ten years, but it still is on the list of things that need to be improved. Like the other *"Big Six"* issues, it would take a relatively long article to do it justice, but we offer the following suggestions.

- Pivot the resources away from *"concierge marketing and visibility enhancement"* to business development – that is, directly contributing to obtaining additional work from present clients and new work from new clients.
- Plan for and measure the results of marketing and business development – **both activity and results**.
- Ensure that – at least – the primary marketing person in the Firm is an active, fully informed member of top Firm management – if you do not believe that he or she can function in the role, then replace him or her.
- Transfer the focus of marketing/business development attention and resources to the practice teams – the practice teams need the focus and visibility, not the firm managing partner.

Less than Fully Effective Strategic Plan Development and Implementation

While we know, as strategic planning consultants, that suggesting better strategic planning and plan implementation is like the dentist calling for tooth check-ups, it is still a valid observation. Just as with practice team management, effective strategic plan development and implementation can separate the better firm from the good firms and the best firms from the better firms. Some high level tips follow:

- Use a formal process to develop or revise a firm strategic plan – involving the full partner group in the overall process, but not the nuts and bolts.
- Ensure firmwide understanding and buy-in to the plan.
- Commit to a strategy that differentiates the firm (doing different things differently rather than doing the same things as others, but better).
- Assign responsibility, monitor, and evaluate specific plan implementation activities.
- Publicize accomplishments.

LONGER TERM TRENDS

While we believe focusing on the *"Big Six"* (as they relate to each firm) will produce solid results for 2012, the legal market remains in flux and it is useful to look a little further over the horizon. Smock Law Firm Consultants had an opportunity to do that a few months ago when we were asked by the leading international office space planning firm to meet with a group of their clients (leading international law firms) and provide our opinion on the long term trends facing law firms. We took that charge seriously and conducted our own research and crystal ball gazing and came up with the following longer term trends.

The Legal marketplace will remain a buyer's market – the major sea change the 2008-2009 downturn caused was to shift the controls of the market back to law firms' clients – the buyers. Their overriding attention to the cost of outside legal services put real skids on the relatively easy to achieve 6% to 8% annual rate increases (as we said earlier, it is now 3% or less for most firms). The clients will remain at the controls in the long term – and, in truth, that is the way it should be.

Clients' long term focus is really on value – while many see such things as AFAs and a project management focus as major trends, we see them as manifestations of a much broader and more significant trend – that of clients' focus on value (value = results/cost). That is what clients will continue to focus on for years to come. If a firm only competes on cost, it will provide no value (statistically, a zero result divided by any amount of cost still has zero value). The long term strategic imperative for a law firm will have to be on providing real value (and demonstrating it), so it is recognized and rewarded.

The "cult of the individual attorney" has been disappearing and will continue to do so – most law firms' cultures have valued and celebrated the professional independence of individual attorney and law firm management performance has been built around the performance of that individual attorney (i.e. – partners are compensated on individual performance, not their contribution or value to the firm). But, that is slowly but universally eroding – not because law firms are changing, but because American (and international) business is clearly now rooted in the concepts of teamwork and collaboration and the technology that supports it. The legal market is lagging in this concept, but it has no choice – in the long run – except to emulate and match it.

True client responsiveness is becoming the underpinning for law firms behavior and management – while client responsiveness has always been there, now that responsiveness (at the clients' insistence) involves not only knowing clients' real needs, but organizing all that is done in a law firm (e.g. – practice teams, marketing, etc.) to directly meet those specific and identified needs. Market-need-based practice teams will become the primary organizational unit (industries, specific services, etc.) for most firms.

Globalization of the legal marketplace – while not a surprise to anyone, the level of business globalization has advanced much further than most felt possible just a few years ago. If a company's business needs are worldwide, then so are its legal needs. Since no firm can be everywhere internationally, this means that the present various international groupings (Lex Mundi, Terra Lex, MSI, TAGLaw, Meritas, etc.) and new ones yet to be formed will become considerably more strategic for law firms and their clients.

Technology is changing the practice of law – this long-term trend is clearly well underway and it only will accelerate. Its most recent manifestation is in the use of artificial intelligence for major cases and matters to effectively and efficiently process enormous amounts of data/information. This is causing traditional leverage (partners/associates) to dramatically decline in larger firms (*"we no longer need and cannot use all these associates"*).

We asked the firms we interviewed to describe their view of the longer term trends facing the legal marketplace. Many of their responses echoed the above six trends, but they also suggested some others that we felt were worthy of repeating. These additional suggested long term trends follow.

- In some larger companies, RFPs for service are starting to come from the purchasing department, rather than the legal department – thus negating legal skills and service as a differentiating factor.

- Law firms are aging (*"I look at us and our competitor firms and we are all getting old"*). The rapid growth of law firms – with new attorneys more than replacing those returning – is not happening as it did.

- The use of metrics – such as client and matter profitability – continues to increase. Law firms are using this data to make better decisions including partner compensation. Law firms of the future will be more data driven.

- Also, many law firms are beginning to see their management challenge as the need to serve present demand with fewer people, rather than serving growing demand with additional/new people.

- Non-chargeable demands on partners are continuing to increase – leaving less hours to bill. Such things as time required to learn a company's business, people/team development time, and business development time are all eating more and more of the time that used to be chargeable and billed.

- There is now the recognition that the legal marketplace did not experience a recession in 2009, but a *"major course correction."* While it is true that legal marketplace could not continue to sustain itself on 7% rate increases and unending firm growth, the future presents a very different environment. The firms that can respond to this course correction are the ones who will survive and prosper.

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Smock Law Firm Consultants serves a wide range of law firm clients on a national basis in six key areas of practice – strategic planning, strategy execution, practice group management, firm mergers and combinations, high level economic counsel, and resolving vexing strategic management issues. Our three partners – John Smock, Peter Giuliani, and Joe Walker are clearly the most experienced *"first string"* serving the legal marketplace.