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LAW FIRM CONSULTANTS

THE RACE BELONGS TO THE SWIFT AND THE CONTEST TO THE STRONG

SMOCK LAW FIRM CONSULTANTS' LEGAL MARKETPLACE OUTLOOK FOR 2016 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 the first couple of months of 2016. As such, it is similar in scope (and questions) to the marketplace surveys we have conducted in prior years. In addition to the automated survey, which had both quantifiable responses and opportunities for qualitative comments, this year we conducted an extensive series of individual interviews (mostly by phone) of a wide range of law firms' chief attorney leader/manager (i.e. – CEO, Chairman, Managing Partner) and/or chief non-attorney manager (i.e. – COO, Executive Director) to add context and nuance to the results of the survey.

This monograph is similar in scope to prior years, but we have reordered some of the topics. We begin with a summary of the results and interviews, followed by SLFC's conclusions and, this year, a single recommendation, and then get into to the more detailed responses in the survey and in the interviews.

SUMMARY OF THE RESULTS OF THE SURVEY AND INTERVIEWS

Following are the key points that summarize the results of the survey and individual interviews.

2015 Results

- The firms responding to the survey and the interviews reported excellent results in 2015. In fact, 73% reported either that they did *"extremely well"* or had *"achieved good results."* Most firms made/achieved their plans/budgets and, while most did not grow in size (the new normal), they managed to grow their partner profitability.

- The highest rated practice in 2015 was real estate, followed by a variety of transactional practices. Bankruptcy/financial restructuring finished last in the 2015 rating of practices and there was a significant falloff in commercial litigation.

- Virtually all firms raised their rates for 2015 – in fact, more aggressively than any year since before the great recession (greater than 60% raised their rates for 2015 more than 3%). Alternative fee arrangements (AFAs) grew dramatically in 2015 and the total fees attributed to AFAs also jumped.

- In terms of specific strategic/operational improvements utilized in 2015, **dealing with underperforming partners** was at the top of the list, followed by **technology and technological improvements** and, jumping up a good bit in the rankings, **growing by attracting high-quality laterals with books of business**.

2016 Expectations

- In asking them about expectations for 2016, the respondents were considerably more cautious than the prior year. But, many felt their firms were on the right track and the interviews, most of which were conducted in early February, revealed that many firms are off to an exceptionally positive start in 2016. Absent economic surprises, 2016 should be a very, very good year for law firms and their partners.

- 100% of the firms who responded to the survey and were interviewed raised their rates for 2016. As in 2015, a good bit of those rate increases have held – so, with a reasonable amount of effective fiscal management, 2016 will produce a solid increase in partner income (the stock price of a law firm).

- Practice group performance expectations for 2016 were also bullish. Healthcare, transactions, and patent prosecution were at the top of the list (expected to do well) with insurance defense, international arbitration, and energy expected to do less well. However, all 23 practices we asked about are viewed as positive in terms of 2016 expectations.

- Surprisingly, **growing by attracting high-quality laterals with books of business** was rated by the survey as the top strategic/operational improvement for 2016. Laterals may meet a specific practice need or improve the firm's DNA, but laterals with books of business, as a primary growth strategy, has little, if any, chance of achieving real growth – it is a copycat strategy.

- The survey respondents tagged clients' continuing focus on value and an increasing focus on profitability as the two highest rated trends. Not only were these highly rated, but they can be focused and acted on.

- A few of the interviewees mentioned a very key point – that over the last few years, their own clients had emerged as, probably, their most significant competition. These clients are growing their corporate law departments, taking more of the good work inside, and cutting back their use of outside counsel.

<u>SLFC CONCLUSIONS AND SUGGESTIONS</u>

This section of the monograph presents our comments and suggestions – that is, our takeaways from the results of the survey, the qualitative comments made by the survey respondents, and, very importantly, what the broad base of in-person/phone interviewees had to say.

<u>Comments and Conclusions</u>

- We do this every year and have for a number of years. We have seen a good bit of change in the legal marketplace and profession during the many years that our four partners have served the legal marketplace and from that experience, we are either very old or very wise (or a combination).

  - In that context, we believe the legal industry continues to do exceptionally well in terms of financial performance. In truth, law firms' owners (equity partners and shareholders) have seen their incomes continue to grow in this very competitive environment.

  - We give law firm managements (both attorneys and non-attorneys) credit for continuing to react well to change and to taking the steps that are necessary in order to continue to grow PPEP (the most comparable thing in a law firm to a company's stock price).

- Our interviews certainly underscored this positive reaction to change. There are two primary examples.

  - First, the increasing emphasis and focus on profitability and how the elements of profitability can be managed to achieve a better result.

  - Second, the recognition that there are tools that can help in the process of improving profitability and, more broadly, the management of a law firm – as described by one of the interviewees as an "*alphabet soup*" of improvements (specifically – **LPM**, legal project management; **AFAs**, alternative fee arrangements; **KM**, knowledge management; and **CRM**, client relationship management).

- As we have said before, the major change brought about by the legal "*great recession*" was the shift to clients' overriding long-term emphasis on value and near-term emphasis on outside counsel cost. This has led to the recognition, by both clients and their outside counsel, that the clients are clearly driving the bus (or, in John Smock's USN metaphor, "*they clearly have both the deck and the conn*" of the relationship). While this change has not hurt good law firms' profitability, it has brought about significant pressure on the effectiveness of firms' strategies, relationships with their clients, industry foci, and client/practice team organization. In other words, firms need to get much better at what they do and how they do it, in order to remain competitive for the client work they want to perform.

- We still see a significant focus by firms on the status quo (that is, things they have always done), in spite of clients ever increasing pressure on fees, value, staffing, and industry specialization (that is, *"knowing our business"*).
  - For example, law firms do not really compete on a firmwide basis, it is really a competition that is practice by practice. If a firm receives an RFP, the request is usually that expertise and depth be demonstrated in the area or areas of interest to that client, not the overall firm. Most law firms have not spent nearly the amount of time and effort necessary to develop, demonstrate, and align their expertise and skills with client needs and wants. There is some window dressing done, but not much of substance.
  - Growth, as evidenced by the survey, is considered to be finding and attracting *"laterals with books of business."* Yet, it is virtually impossible to grow through attracting laterals with books of business. It is a long drawn out process, takes a lot of time (particularly of key people), and, usually at best, does nothing more than keep up with turnover. And, since this is the primary default growth strategy for most law firms, firms are not growing. We believe that firms need to focus on getting away from the status quo, because in many ways, that is the only way to remain competitive in a changing environment.

2016 Primary Recommendation

In last year's monograph, following what was said in the survey and interviews, we recommended improving key areas of strategic management that we felt then (and still do now) that law firms needed to do to respond to 2015 and beyond. These recommendations/suggestions included **developing a well thought out and well executed growth strategy (focusing on four things – ever improving client service, industry specialization, smart mergers, and practice team effectiveness); ensuring partners behave as partners (owners); achieving excellence in everything the law firm does; taking a long view of technology improvements; effective succession planning and execution;** and **comprehensive process improvement**. This is a list – certainly in the recent environment in which law firms practice – that could apply to virtually any firm and, perhaps, should.

Since it is hard to come up with a better list than that, we thought we would focus on a single recommendation. Our theme, as stated in the title of this monograph is that *"the race belongs to the swift and the contest to the strong."* If we had our choice and could make one improvement across our client base and those firms we would like to serve, it would be to demonstrably and effectively improve the practice team structure and management. There would be more benefit to a firm when it clearly and dramatically improves its team structure than virtually any other strategy we can think of.

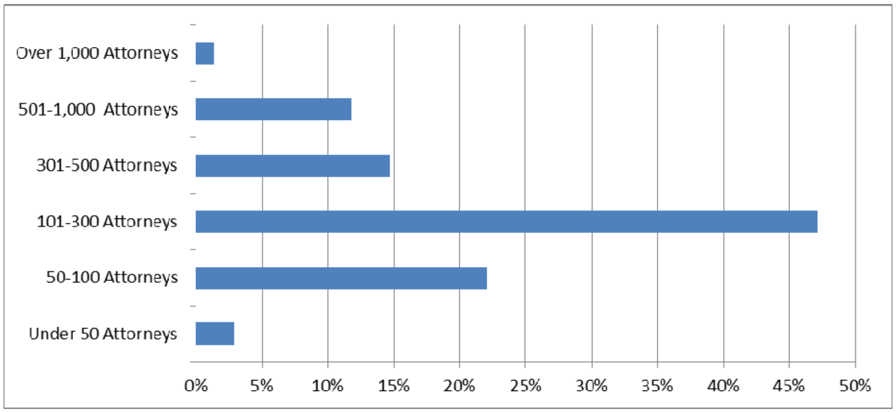
Specifically, this recommendation of dramatically improving and utilizing practice and industry teams (not groups), as the primary way to make a firm more competitive and perform better, includes the following:

- A single set of industry/practice teams focusing either on a particular industry (e.g. – energy, government, health care); a particular market need (e.g. – ERISA, wealth preservation/trusts and estates); or necessary professional skill (e.g. – appellate)
- A recognition that these teams must operate as **accountable business units** having responsibility for marketing and attracting work, executing the work, client handling, planned and agreed upon financial results, and people development
- A designated, accountable, trained, and rewarded team leadership and management, as well as shared responsibility within the team, for the necessary functions that the team must carry out
- The concept that each member of the team has a defined and articulated role to play and is responsible to her/his fellow team members for carrying out that role and the parallel concept that the full team is responsible for meeting stated team objectives (e.g. – planned financial results, revenue, new business acquired, etc.)
- A shared responsibility for all of the functions of the team and, very importantly, achievement of planned marketing, operational, and financial objectives
- And in most firms, the recognition that doing this the right way both produces effective results and represents dramatic change from the way most firms have organized, managed, and interacted relative to their practices over time (in other words, a clear departure from the status quo).

DEMOGRAPHICS OF THE SURVEY RESPONDENTS AND INTERVIEWEES

Between January 13th and January 28th, 2016, 74 law firms completed our survey. That was a reduction from the prior year in terms of automated survey respondents – but, it was made up for by the increase in telephone and in-person interviews to 43 firms. We felt this trade-off was an excellent one, because it provided more nuanced and comprehensive information on the more qualitative questions (e.g. – the future of the legal market and what to do about it) and served to underscore the quantitative results.

Of the survey responses, 55% were from either the Chairman or the Managing Partner – the chief attorney leader of the firm, and 45% were from the COO or Executive Director – the chief non-attorney manager of the firm. The graph below shows the firm size distribution of the automated survey respondents.

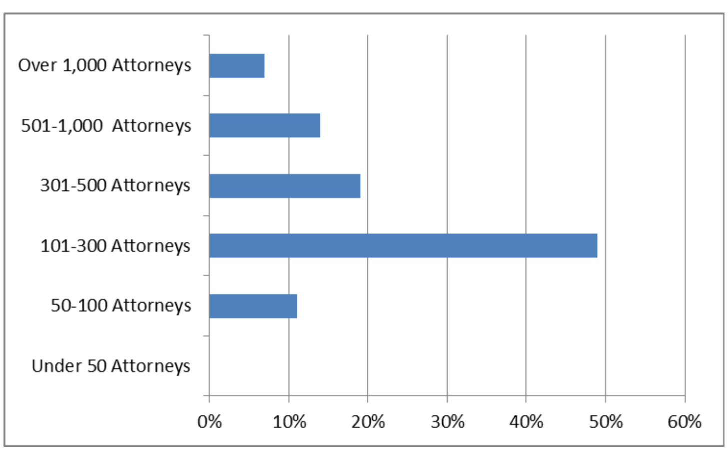


We asked the survey respondents the area of the country of their headquarters office or largest office and to categorize the *reach* of the firm – the distribution of both are shown below. The geographic distribution broadened a bit from last year, but the Midwest still had the greatest concentration 42% (where – as a firm – we started and still maintain our office address, although our partners are spread geographically). 92% consider their market to be regional, national, or global, again up from last year – all in all, a good distribution of law firms responded.

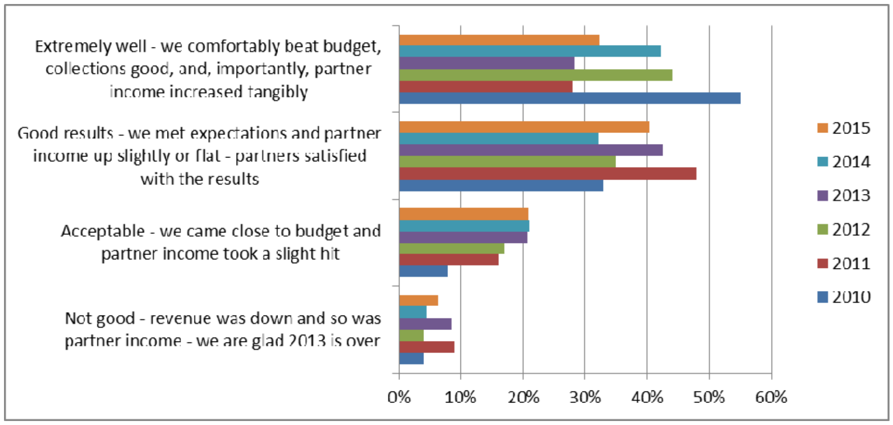
Area of Country of HQ or Largest Office	
Northeast	8.7%
New York City	2.9%
Middle Atlantic	18.8%
Southeast	11.6%
Midwest	42.1%
Southwest	10.1%
Mountain	3.0%
West Coast	3.0%

Type of Firm	
Local	7.2%
Regional	63.4%
National	21.8%
Global	7.2%

The individual interviewees had a slightly different distribution, as most knew either John Smock or Gary Fiebert (who conducted the phone or in-person interviews) well before the interviews. Their distribution – by size – is below.



2015 PERFORMANCE



Firm financial results for 2015 dropped off a bit from 2014. Whereas 42% of the respondents last year said that things went extremely well, only 32% said that about 2015 results. But, if you take the two most positive responses – *extremely well* and *good results* – 2015 (73%) was consistent with 2014 (74%). As in prior years, these greater than 70% positive responses (94%, if you include **acceptable**) indicates that the legal marketplace continues to perform well, partners/shareholders are satisfied with the results, and partner income is either dramatically up, comfortably up, or acceptable. As we have said before, this does not happen in most industries – in fact, the gap between law firm partner/shareholder income and other profession and business executive income appears to be widening in favor of law firm partners.

The qualitative comments underscored this. There were a number of positives – *overall revenues were higher and expenses were lower, so we made more money*, and *2014 was so exceptional, that our good year in 2015 paled in comparison*. A number of the comments spoke to a flat year in 2015, but one in which investments were made for 2016.

The results for the 43 interviewed firms track closely with those that filled out the survey. Most made their plan and/or budget (but many did so with a lot of effort and a little luck), most were happy with the results, and many had their best year ever. *2015 net income was up 29% over 2014; everything worked in 2015; our results were way up, because everybody worked harder; PPEP was up 14%, so it was our best year ever;* and *we blew the roof off this joint, caused by significant growth in key practices and the removal of less productive people.* Not all firms interviewed were successful, but most were. Negative comments included – *we suffered a 20% decline in leveraged finance deals; discounts are contagious, like a virus;* and *we had significant turnover this year.*

As in prior years, we drilled down deeper to see how the responding firms' individual practices did in 2015 by rating 23 separate and specific legal practices in one of three categories (*3=solid increase, 2=flat, and 1=down*) – so, the higher the score, the better the practice did.

Practice	2015 Rank	Rating Score
Real Estate	**1**	**2.6**
General Corporate Representation	**2 (tie)**	**2.5**
Health Care/Life Sciences	**2 (tie)**	**2.5**
Mergers & Acquisitions	**2 (tie)**	**2.5**
Financial Services	5 (tie)	2.4
ERISA/Employee Benefits	5 (tie)	2.4
Immigration	5 (tie)	2.4
Intellectual Property Litigation	5 (tie)	2.4
Public Finance	5 (tie)	2.4
Patent Prosecution/Trademarks/ Copyrights	5 (tie)	2.4
Regulatory/Government Affairs	5 (tie)	2.4
Trusts and Estates/Wealth Management	5 (tie)	2.4

Practice	2015 Rank	Rating Score
Corporate Securities	13 (tie)	2.3
Energy	13 (tie)	2.3
Alternative Dispute Resolution	13 (tie)	2.3
Insurance Defense	16 (tie)	2.2
Labor and Employment	16 (tie)	2.2
Antitrust	**18 (tie)**	**2.1**
Commercial Litigation	**18 (tie)**	**2.1**
White Collar Litigation	**18 (tie)**	**2.1**
Environment	**18 (tie)**	**2.1**
International Arbitration	**22**	**2.0**
Bankruptcy/Financial Restructuring	**23**	**1.7**

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

For the interviewees, the strong practices varied – some even had a strong year in bankruptcy. But, the clear pattern was strength in transactions, IP, and most industry practices, and weaknesses in bankruptcy and commercial litigation.

As in prior years, there is some shifting in these rankings (probably caused mostly by a shift in the firms that did respond – we do not get the same firms to respond every year).

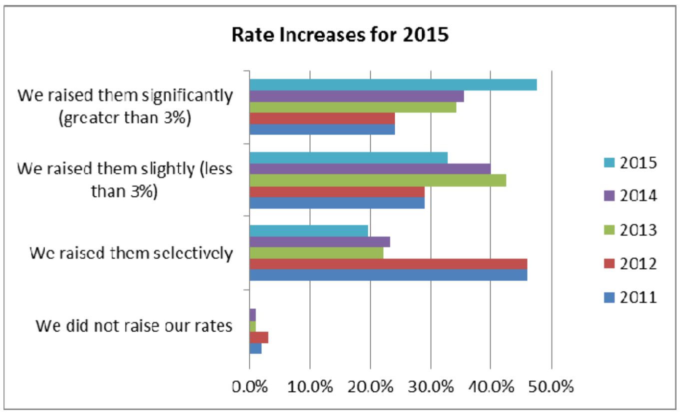
- The highest rated practice for 2015 was **real estate** (as it has been two out of the last three years) followed by a three way tie for second – **general corporate representation, healthcare/life sciences, and mergers and acquisitions**. Other transactional practices were generally grouped near the top.

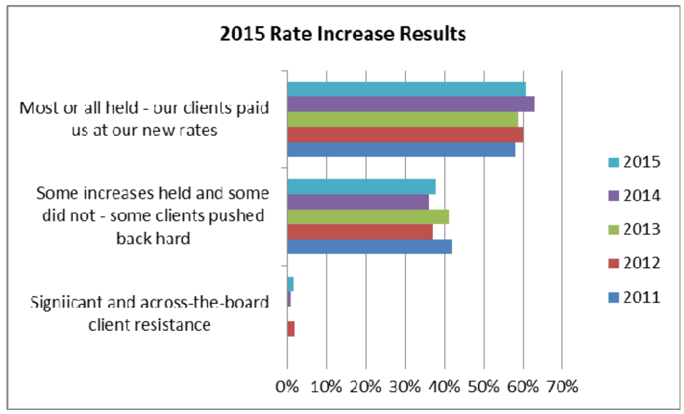
- **Bankruptcy/financial restructuring** finished as the lowest rated practice (as it has now for three years in a row). Second from the last was **international arbitration** and third from the last were **antitrust, commercial litigation, environment,** and **white-collar litigation**.

One theme that was played out – over and over – was that transactional practices were strong in 2015 and most firms saw weakness on the commercial litigation side. This was very consistent with other surveys of the marketplace by other consultants.

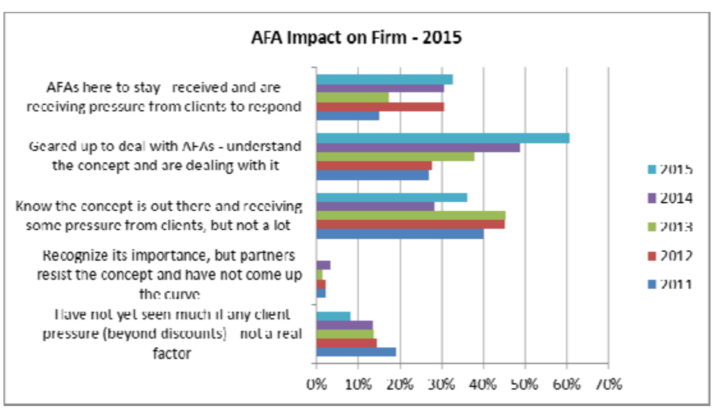
As in prior years and in what has become an annual phenomenon, most firms again raised their rates; many fairly substantially; those rate increases generally held; and, presto, RPL went up as did PPEP. And as much as we see this as a strategy for increasing revenue, it is also a defensive one, because all firms are doing it and, if you do not, you start to fall behind in revenue (and, interestingly, in quality perception – although that may be changing as clients remain very cost-conscious). Very convincingly, **100% of the respondents raised their rates** (48% said greater than 3%, 32% less than 3%, and 20% selectively). And again quite convincingly, **60% said those rate increases generally held**, 38% said that some held and some did not, and only 2% said that there was across the board client resistance. One can assume that rates will continue to go up every year as they have, as noted later in this monograph.

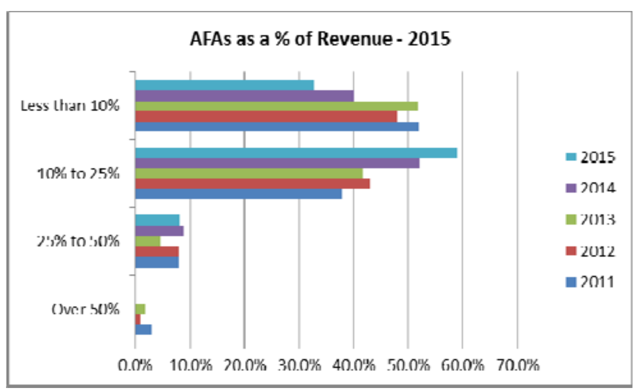
The qualitative comments were ambivalent. For instance, *we raised our rates by 4.5% and increased our realization*, but to typify some other comments, *we increased our rates, but saw more requests for discounts and deeper discounts*. And, the interviewees certainly backed up the rate increases and their subsequent permanence.





We mentioned last year - in our 2015 monograph - that the use of alternative fee arrangements (AFAs) in 2014 had picked up dramatically over 2013. That trend continued, quite dramatically, again in 2015. Across-the-board, AFAs have really picked up. Over 93% of the respondents reported that, as a concept, AFAs are here to stay and/or they have geared up to deal with it. We also saw significant increase in AFAs as a percentage of firm revenue in 2015 - for instance, 59% of the firms reported that AFAs now constitute from 10% to 25% of firm fees – a significant growth over the last five years. The qualitative comments supported these numbers, although there is still a strong belief that clients continue to prefer to work with discounts then more complicated AFAs.





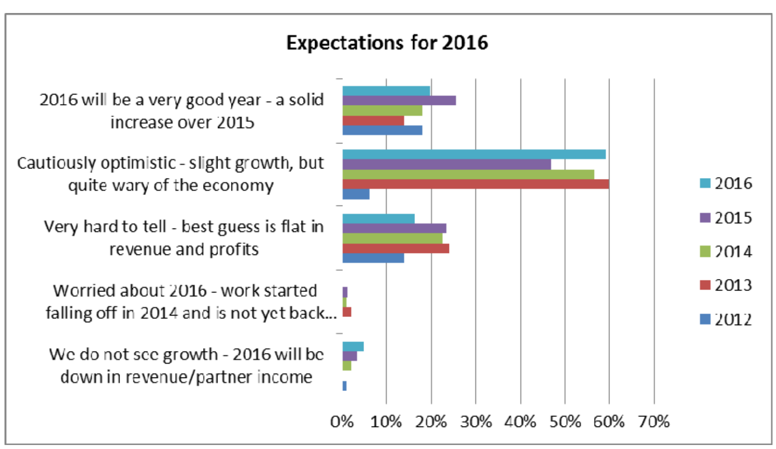
Also as in a number of prior surveys, we asked the respondents to rate 2015's strategic/operational improvements undertaken from a list of 28 of those improvements (3= *high priority, we are addressing*, 2= *know it needs addressing, but not a top priority, and* 1= *not on our radar screen*). So, for these improvements, any score above 2.0 could be viewed as a positive response (and for 2015, most were). The responses are shown in the below table.

Operational Improvement	Rank	Rating Score	Operational Improvement	Rank	Rating Score
Dealing with underperforming partners	**1 (tie)**	**2.7**	A laser-like focus on improving profitability	14 (tie)	2.3
Growing by attracting high quality laterals with books of business	**1 (tie)**	**2.7**	Alternative fee approaches (AFAs)	17	2.2
Technology and technological advancements	**1 (tie)**	**2.7**	Actively pursuing smaller mergers/ acquisitions	18 (tie)	2.1
Increased lateral hiring	**4 (tie)**	**2.6**	Process improvement/re-engineering processes	18 (tie)	2.1
Individual partner business development planning and execution	**4 (tie)**	**2.6**	Policed our partner ranks to ensure our partners behave as partners and have made it more difficult to make partner	20	2.0
Practice group planning and plan execution	6(tie)	2.5	Project management techniques/training	21 (tie)	1.9
Client and firm management succession planning and transition	6(tie)	2.5	Creative space deployment (to facilitate teams and collaboration)	21 (tie)	1.9
Industry focused marketing	6(tie)	2.5	Revising the associate salary and reward system	23	1.8
Regular, formal client feedback	6(tie)	2.5	Cutting back on practices and/or people to restore and/or maximize profitability	24	1.6
Firm strategic plan development/ revision	6(tie)	2.5	**Revising the partner compensation and reward system**	**25**	**1.5**
Practice group management improvements	11 (tie)	2.4	**A large transformative merger**	**25 (tie)**	**1.4**
Better firm strategic plan implementation (*"doing what we said we would do"*)	11 (tie)	2.4	**Revising the partner structure – equity/ income**	**26 (tie)**	**1.4**
Better associate training and development	11 (tie)	2.4	**Firm governance restructuring**	**26 (tie)**	**1.4**
Website revision/improvement	14 (tie)	2.3	**Actively pursuing a large transformative merger**	**26 (tie)**	**1.4**
Management focused on achieving specific metrics, goals, and objectives	14 (tie)	2.3			

The results from this forced ranking of strategic/operational improvements track closely with the results of the last few years with some changes. Tied for first place were **dealing with underperforming partners** (literally the sixth year in a row that this improvement has been ranked at the top of the list); for the third year in a row, **technology and technological advancements**; and for the first time, **growing by attracting high quality laterals with books of business** (which we would call the default position for the status quo). There was a two way tie for fourth place – **increased lateral hiring** and **individual partner business development planning and execution** (a strategy that we feel has limited potential in a world of teams).

2016 EXPECTATIONS

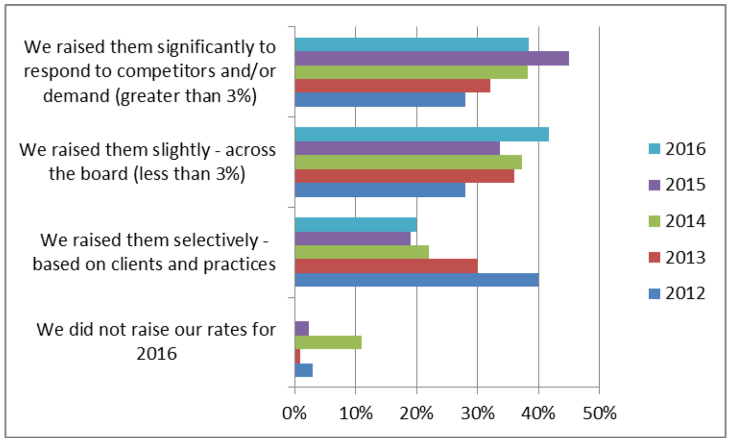
Our second major set of questions - in the survey itself, the comment section of the survey, and the interviews - focused on the respondents' expectations for 2016. From an overall standpoint, cautious optimism ruled the roost, as it has in various degrees for the previous five years. In comparison to last year's survey, the expectations for a very good year are down and for cautious optimism are up. But, there is considerably more optimism than pessimism.



The quality of comments echoed this – *we are very well positioned, but the economy and election-year could negatively impact growth; we're in a position to profit from the marketplace investments we've made over the last three years;* and *we expect the softness in the energy market to continue in 2016.*

While law firms and their revenue are not dramatically growing, law firm managements have figured out how to keep increasing partner income in a flat market. Those strategies are not difficult to figure out – a combination of continuing and increasing annual rate increases, while at the same time keeping expenses under control. 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 2016. 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 2015 and early 2016 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 and will ultimately impact the annual raising of rates.

Every single one of the respondents (yes, 100%) stated that they have raised rates for 2016. While these raises are not as aggressive as 2015, they remain quite aggressive (particularly, when compared with clients' views of rate increases during and shortly after the great recession). And, for the first two months of 2016, our clients and friends are telling us that they are very, very busy – so, when you look at expectations and the across the board rate increases, we believe (absent significant negative economic events) that good business law firms will have a good revenue year in 2016 and, quite likely, the partners will have a great income year.



The interviewees underscored the results of the survey regarding 2016 – they expect a good (but, not necessarily, great year). There is a general belief that 2016 has started quite well, because the last few months of 2015 were so strong. They continue to be bullish on transactional practices and bearish on commercial litigation and bankruptcy (*when will it come back?*).

We asked the same question for 2016 expectations regarding the same 23 individual legal practice areas that we asked for 2015 results (3=*solid increase, 2= flat, and 1=down*). There was a two-way tie for first – **healthcare/life sciences** and **real estate** – a three-way tie for third – **mergers and acquisitions, general corporate representation,** and **patent prosecution**. In terms of prospects, the lowest rated for 2016 were **insurance defense**, followed by **antitrust, energy,** and **international arbitration**. No practice was expected to go down – but, we know some will.

Practice	Rank	Rating Score
Health Care/Life Sciences	**1 (tie)**	**2.7**
Real Estate	**1 (tie)**	**2.7**
General Corporate Representation	**3 (tie)**	**2.6**
Mergers & Acquisitions	**3 (tie)**	**2.6**
Patent Prosecution	**3 (tie)**	**2.6**
Commercial Litigation	6	2.5
Financial Services	7 (tie)	2.4
ERISA/Employee Benefits	7 (tie)	2.4
Intellectual Property Litigation	7 (tie)	2.4
Labor and Employment	7 (tie)	2.4
Public Finance	7 (tie)	2.4
Regulatory	7 (tie)	2.4

Practice	Rank	Rating Score
Alternative dispute resolution	7 (tie)	2.4
Immigration	14 (tie)	2.3
White Collar Litigation	14 (tie)	2.3
Trusts and Estates/Wealth Management	14 (tie)	2.3
Bankruptcy/Financial Restructuring	17 (tie)	2.2
Corporate Securities	17 (tie)	2.2
Environment	17 (tie)	2.2
Antitrust	**20 (tie)**	**2.1**
Energy	**20 (tie)**	**2.1**
International Arbitration	**20 (tie)**	**2.1**
Insurance Defense	**23**	**2.0**

As in prior years we asked respondents to rate each of the 28 listed strategic/operational improvements relative to their expected focus in 2016 (*3=at the top of our list and a top priority, 2= may be addressed, but not a top priority, 1= will probably receive no attention*).

Strategic/Operational Improvement	Rank	Rating Score
Growing by attracting high quality laterals with books of business	**1**	**2.7**
Individual partner business development planning and execution	**2 (tie)**	**2.6**
Increased lateral hiring	**2 (tie)**	**2.6**
Dealing with underperforming partners	**2 (tie)**	**2.6**
Industry focused marketing	**2 (tie)**	**2.6**
Technology and technological advances	**2 (tie)**	**2.6**
Practice group planning and plan execution	7 (tie)	2.5
Regular, formal client feedback	7 (tie)	2.5
Better firm strategic plan implementation	7 (tie)	2.5
Practice group management improvements	10 (tie)	2.4
Better associate training and development	10 (tie)	2.4
A laser-like focus on profitability	10(tie)	2.4
Client and firm management succession planning and transition	13 (tie)	2.3
Firm strategic plan development/ revision	13 (tie)	2.3

Strategic/Operational Improvement	Rank	Rating Score
Website revision/improvement	15 (tie)	2.2
Pursuing smaller mergers/acquisitions	15 (tie)	2.2
Management focused on achieving specific metrics, goals, and objectives	15 (tie)	2.2
Alternative fee approaches	18 (tie)	2.1
Policed our partner ranks to ensure our partners behave as partners and have made it more difficult to make partner	18 (tie)	2.1
Process improvement/re-engineering processes	18 (tie)	2.1
Project management techniques/training	21 (tie)	2.0
Creative space deployment (to facilitate teams and collaboration	21 (tie)	2.0
Cutting back on practices and people to restore and/or maximize profitability	23	1.8
Revising the associate salary structure	**24**	**1.6**
Pursuing a large transformative merger	**25**	**1.5**
Revising partner compensation	**26**	**1.4**
Revising partner structure – equity/income	**27 (tie)**	**1.3**
Firm governance restructuring	**27 (tie)**	**1.3**

This year's responses to future strategic/operational improvements shifted a bit. The highest rated future improvement was **growing by attracting high-quality laterals with books of business** (again, less of a true strategy and more of a copycat default strategy). There was a tie for second with **dealing with underproductive partners**, **increased lateral hiring**, and **individual partner business development planning and execution**. The lowest rated improvements were **revising partner structure – equity/income, firm governance restructuring**, **revising partner compensation**, and **pursuing a large transformative merger**. It would seem that collectively the respondents rated those things higher than are easy to do and less strategic than those that are more difficult to do and more strategic. Simply put, we are less supportive of the choices made this year, in terms of potential positive impact, than we have been in prior years.

We again asked the respondents to state their expected/planned growth for 2016 in various personnel categories (3=*growth, 2=same number, 3=decrease*). The results for that question are shown below from 2010 through 2016 below. As in prior years, the highest timekeeper growth expectation is that of associates. But, we think this is wishful thinking to a degree – associate head count is down across the board due to general counsel hiring good associates away, associates leaving for a variety of personal reasons, and, still in early 2016, many partners hoarding work. A slight decrease is expected in staff, which echoes the continuing focus on profitability.

	2016		2015		2014		2013		2012		2011	
	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	1	2.7	3 (tie)	2.2	1	2.8	1	2.7
Equity Partners	2	2.4	3	2.3	2 (tie)	2.2	2	2.5	2 (tie)	2.4	3	2.4
Income Partners	3	2.3	2	2.4	2 (tie)	2.2	4	2.1	2 (tie)	2.4	2	2.6
Of Counsel	5	2.0	5	2.1	5	2.1	1	2.7	5	2.2	4 (tie)	2.2
Paralegals	4	2.2	4	2.2	2 (tie)	2.2	3 (tie)	2.2	4	2.3	4 (tie)	2.2
Staff	6	1.9	6	1.8	6	1.7	6	1.9	6	2.0	6	2.1

LONGER TERM ISSUES AND CONCERNS

Finally, we asked the firms to look over the horizon and rate 24 talked and written about supposedly future trends in the legal marketplace (*4=a significant trend that will impact our future; 3=a trend of significance that 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**
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**	**3.7**
The rise in the overall importance of teams both within our Firm and our client organization – effective teamwork is very important for the future	**3 (tie)**	**3.5**
An increased emphasis on effective ways to transfer client responsibility to younger partners from those approaching retirement	**3 (tie)**	**3.5**
A focus on reengineering the actual practice of law so that clients (and law firms) benefit from improved cost benefits and predictability	**5 (tie)**	**3.4**
Need for improved skill sets in attorneys (and non-attorneys) in project management, fee estimation, pricing, and related skills	**5 (tie)**	**3.4**
Restructuring work assignments and workload to meet the varied lifestyle needs of attorneys and staff	7 (tie)	3.2
Clients' use of diversity/inclusion and diversity statistics as a primary decision factor in selecting outside counsel	7 (tie)	3.2
Deleveraging of law firms (more partners and less associates)	7 (tie)	3.2
Increased law firm mergers and acquisitions over the next five years – a continuing consolidation of the legal landscape	7 (tie)	3.2
Increasing use of non-attorneys to support practice management, project management, pricing, Profitability improvement, client acquisition, etc.	11 (tie)	3.1
Client insistence on alternative fee arrangements (AFAs) – the billable hour will continue to slowly die	11 (tie)	3.1

Longer Term Legal Management Trends	Rank	Rating Score
Declining value of and emphasis on law school recruiting – lateral associates becoming the primary means of hiring associates	13 (tie)	3.0
Reductions in equity partners to those who *"really bring in the bacon"* and function as true owners	13 (tie)	3.0
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	13 (tie)	3.0
More legal work from larger companies to medium sized firms across the country and less to the much larger firms	16 (tie)	2.9
Decline in law firm brand loyalty by long-standing clients	16 (tie)	2.9
Globalization affecting virtually all businesses and thus affecting all business oriented law firms	16 (tie)	2.9
Less large company/client market share to the large, multi-office, highly leveraged firms and more to smaller and/or mid-size firms	19	2.8
The rise of the virtual law firm – many attorneys practicing from home – not as many actual offices	**20**	**2.7**
More large company/client market share to the large, multi-office, highly leveraged firms and less to smaller mid-size firms	**21 (tie)**	**2.6**
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	**21 (tie)**	**2.6**
Law firms and pseudo law firms (e.g. – Legal Zoom) dramatically cutting the price of legal services (through better use of technology and significantly lower operating costs)	**21 (tie)**	**2.6**
Backroom research and/or document review done offshore (Mumbai, etc.)	**24**	**2.3**

At the top of the list, again, was **clients' continuing and increasing focus on value**, followed in second place by a **continuing and increasing focus on profitability** and a tie for third – **increased emphasis on ways to transfer client responsibility to younger partners** and **a rise in the overall importance of teams and effective teamwork**. The lowest rated (and, therefore, the least relevant) were **research being done offshore (Mumbai, etc.), law firms and pseudo-law firms dramatically cutting the price of legal services**, **under capitalization of law firms**, and **more large-company/client market share to large firms**. As opposed to our perception that the 2016 expected highest rated strategic/operational improvements (the more short term items just mentioned previously) were generally out of whack with reality and a strategic focus, we feel that the responses regarding the higher-rated longer-term trends were spot on with actual and expected market conditions.

The interviewees (the 43 firms we talked to) had, by definition, a much broader canvas on which to paint their picture of the future.

- We thought one insight (heard from a number of these firms) was particularly telling – the concept that in a variety of ways, law firms strongest competitors are now their own clients. Corporate law departments are growing and general counsel no longer ask *"which firm should we use?"* but, *"should we do this ourselves or farm it out?"* The need to demonstrate value has eclipsed law firms' need to show that they are better at doing what is required as Firm A or Firm B. The pendulum may or may not swing back – but, right now clients are looking to expand what they do internally, rather than farm it out.

- There were also some other interesting points about the long term future of the business of law firms – each of which is worth a much more thorough discussion of the topic. These include (1) the continuing need to differentiate and demonstrate value; (2) establishing and maintaining a distinctive strategy to grow and prosper (rather than the copycat *"laterals with books of business"*); (3) managing the partnership – that is, developing and keeping the stars and getting rid of those who do not make a net positive contribution; (4) understanding, affording, and effectively utilizing the necessary technology upgrades; (5) recognizing the shifting perceptions of commoditization (*"there is always someone who will do it cheaper"*); and (6) the need to focus on all of the key drivers/elements of profitability. And, that is just the short list of a wide variety of answers.

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 focus on 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 (e.g. – partner compensation).

We believe there are three factors that 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 of 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, being interviewed, or considering its results.

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