



MPF FEATURED ARTICLE

MIDSIZED LAW FIRMS REPORT THINGS GETTING BETTER

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Midsized Law Firms Report Things Getting Better

By John Remsen Jr.

THERE'S NO DOUBT that most law firms—including midsized ones—have seen profits squeezed the past 10 years. A growing oversupply of lawyers, an increasingly demanding client base, a persistent global recession and numerous other market forces have led to intense competition. Clients—especially the large institutional variety—know this and have been pressing law firms hard to discount rates and implement alternative fee agreements (AFAs).

So how are midsized firms faring as the economy rebounds? Read on.

Each spring, TheRemsenGroup presents the Managing Partner Forum Leadership Conference, designed specifically for law firm managing partners. The 2014 Leadership Conference was held in Atlanta, and 85 managing partners attended. They lead law firms ranging in size from 10 to 500 lawyers, but most fall in the 20- to 100-lawyer range.

During the conference we employed audience-polling technology to gather input on key issues facing law firm leaders. The responses are instantaneous, anonymous and provide great benchmarking data. This year we asked several questions on firm economics and profitability, and we're pleased to share some of the highlights here.

ENCOURAGING NEWS FOR MIDSIZED LAW FIRMS

Among the first questions we asked firm leaders was, "How has your firm performed financially so far in 2014?" Forty-two percent said they were performing as expected, while 36 percent said they were doing better than expected. Only 3 percent said they were not doing well.

We next asked about revenue per lawyer, compared to a year ago. Fifty-six percent said revenue per lawyer was up, with 24 percent reporting an increase by more than 5 percent. Thirty-five percent responded it was "about the same" as last year, and just 9 percent reported a decline. Not bad, considering all the doom and gloom we've been reading and hearing about over the past five years.



AFAS: A SLOW-MOTION RIOT

Despite all the fuss, AFAs aren't exactly taking over the manner in which law firms charge for their services. When we asked conference participants about the percentage of revenue generated through AFAs, nearly half said less than 5 percent. Twenty-one percent said 6 to 10 percent of revenue. Twenty-seven percent reported that they proactively pitch AFAs to clients, with more than two-thirds of them reporting that clients aren't all that interested. Nearly half say they adapt AFAs only when clients press for them, with 25 percent saying they haven't had to confront the issue. Not exactly a tidal wave of change, is it?

Susan Hackett, former general counsel of the Association of Corporate Counsel, describes the trend as a "slow-motion riot." My friend and colleague Bob Denney says the issue of AFAs reminds him of a quotation from Shakespeare's *Macbeth*: "A tale told by an idiot, full of sound and fury, signifying [almost] nothing."

BAROMETERS OF FINANCIAL HEALTH

We next asked the managing partners, "If you had to pick just one metric, what do you believe to be the best barometer of your firm's overall financial health?" The top three responses, in order, were: firm-wide profit (25 percent), revenue per lawyer (21 percent) and profit as a percentage of revenue (19 percent).

TheRemsenGroup—and most consultants we know—believe that revenue per lawyer is the best single indicator to assess firm-wide financial performance.

AN INCREASE IN STRATEGIC PLANNING

For several years, we've drilled down on the issue of strategic planning and its impact on firm performance and profitability. Historically, about 40 percent of conference participants said their firms had a firm-wide strategic plan. This year, however, a whopping 71 percent said their firms had a plan. Naturally we thought this was a statistical anomaly. Separately we conducted an online survey in March 2014 in which 152 firms participated. Fifty-nine percent said they had a firm-wide plan.

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So maybe it's not an aberration after all. Maybe, just maybe, law firms are starting to value and recognize the importance of a well-executed firm-wide strategic plan. Why? Because it works!

Of those with a plan, 63 percent report positive results, with 28 percent not sure. Of course, planning without implementation is a colossal waste of time, effort and energy. Those who reported the best results from planning also gave their firms high marks on implementation.

GROOM YOUR FUTURE LEADERS TODAY

Our closing question at this year's event asked about whether the current associates of the firms are "up to the task of inheriting the firm." Sixty-five percent said no. Wow! Succession planning is among the most neglected aspects of firm leadership and management. Consider, for example, that 70 percent of family-owned businesses don't survive to the next generation—a troubling statistic for small and midsized firms.

Now is the time to identify and groom the future leaders of your firm. Get young lawyers involved in leadership and governance at the department or practice group level. See who rises to the challenges of the position and move them into more meaningful positions in firm governance. A firm-wide strategic plan and passionate, committed leadership are absolutely critical to a successful law firm of the future. **LP**



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