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Thinking Like Your Client:
Strategic Planning in Law Firms

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PREFACE

Thinking Like Your Client: Law Firm Strategic Planning is an ALM Legal Intelligence white paper sponsored by LexisNexis. ALM Legal Intelligence gathered data, conducted interviews, and administered the online survey. Cathy Lazere wrote the report and Jennifer Tonti conducted the survey and was the report editor. We would like to thank all those who participated in the survey and agreed to be interviewed for this report.

– October 2012

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FOREWORD

LEXISNEXIS IS ALWAYS PLEASED TO PARTNER WITH ALM MEDIA ON surveys like this. Every time we engage in the simple process of asking questions—and paying attention to the answers you provide—we learn more about customers, their needs, the pressures they are facing and how to serve them better. Those insights are vital to our business.

So, what did we learn from the latest market engagement? Certainly, you'll read through the report and see for yourself, but here's our quick assessment of the results. The level of commitment leading law firms are showing to strategic planning is moving in the right direction, but the rate of substantive progress is still frustratingly slow. There is genuine cause for concern.

LexisNexis has spent the past few years highlighting the difference between the practice of law and the business of law; and the lackluster economic conditions over that same timespan have only served to reinforce how important those differences are. Without a doubt, law firms have a thorough and detailed understanding of the practice part; that's their forte. It's the business of law part where shortfalls occur.

- Revenue is the top priority in most strategic plans. Yet, almost half of the respondents are remiss in building, tracking and measuring client loyalty and satisfaction. Are firms overlooking the direct link between revenue and satisfied customers?
- Profitability is the second strategic plan priority. But, fewer than half are actively focused on a non-billable hour strategy, and more than half can't yet tell if AFAs are more profitable than hourly rates. AFAs and various pricing models have been around for a few years; they are not going away. Isn't it time to honestly reexamine the elements that make your firm profitable?
- Talent acquisition/retention holds the third top spot for strategic priorities, although laterals dominate the discussions and, apparently, everyone's plans. How sustainable are growth models tied to an on-going "musical chairs" game of lateral talent shifting from firm to firm? Is anyone focused on a plan for organic growth?

Admittedly, the legal community is facing big issues … ones that are not easily solved. But the same big issues seem to surface every year, with every survey. In too many ways, the slow pace of change is inhibiting growth and limiting progress. Where are the bold initiatives? Which firms will break away from the pack and say "enough waiting; we're going to take action and make some changes of our own"? Fortunately, those firms are starting to surface. You'll see some of their good ideas profiled at the end of this survey report. You can use their examples and the insights gained from this survey to plan your own proactive steps and make a difference at your firm.

Rutger Van der Wall
Vice President & Managing Director – CRM & Analytics
LexisNexis

INTRODUCTION

CORPORATIONS INVEST SIGNIFICANT TIME AND ENERGY ON STRATEGIC plans. They hire armies of analysts and consultants to develop their mid- to long-term strategies, benchmark their company against the competition, and check budgets against actuals to ensure the strategy is working and ROI is achieved. Law firms, on the other hand, devote much less effort to strategic planning as compared with their corporate clients. Historically, they have paid lip service to planning rituals, and tend to be more reactive than proactive in the way they conduct their business.

Lately, however, firms are beginning to apply more rigor and discipline to the task of measuring and managing the performance of the firm, perhaps as a response to the Great Recession. Lawyers and legal professionals are being forced to become more active business managers and to go beyond simply servicing clients. There is a need to not only understand the clients' legal needs but to also understand their businesses and industries at a deeper level. Firms are drawing upon marketing, business development, market insights that come from business intelligence and metrics, and CRM tools to retain and grow business with existing clients more effectively while also attracting new ones. They're paying more attention to practice group and individual performances. In short, they are beginning to run the firm like a business—not as a collection of billable legal experts.

Key Findings

1 **FIRMS ARE BEGINNING TO IMPLEMENT LONG-TERM STRATEGIC PLANNING, BUT INTEGRATED EXECUTION OF THOSE PLANS IS STILL ON THE HORIZON.** According to the survey, the top three priorities are: growing a firm's revenue, improving firm profitability, and talent acquisition/retention. One in eight firms said they have strategic plans in place to address the firm's priorities, but implementation is not as rigorous as it could be, with many firms lacking the tools and metrics to accurately assess profitability. For many firms, integrating strategy with business development and improving staffing and productivity represent opportunities for improvement and focus in future planning cycles. Case studies in this report will speak to firms who have applied some exactitude in measuring their strategic planning and ROI.

2 **METRICS FOR MEASURING FIRM PERFORMANCE HAVE YET TO BE FULLY ALIGNED TO STRATEGY.** When listing the top three measurements for gauging firm performance, respondents cited firm revenue (52%); firm profit (44%); and profit per partner (37%). Respondents also reported they used markers for utilization (30%) and turn their attention to operating margins (24%) to measure performance. However, to truly ascertain if firms are on the right course and how well they will do going forward, firms need to look beyond the usual metrics. They should consider more predictive measures of productivity for individual engagements and practice groups as well as understand the impact of their pricing agreements with clients. They should also try to measure the progress of their new business development and cross-selling endeavors against ROI.

3 FIRMS REPORT HITTING KEY MEASUREMENTS, SUCH AS PROFITABILITY, AT THE FIRM LEVEL—BUT NOT AT THE INDIVIDUAL CLIENT AND PARTNER LEVEL. Eighty percent of respondents report that client retention goals are being met. They also report that firm profitability (70%) and revenue growth targets (59%) are being achieved. But when asked about client and partner profitability, the percentage of respondents dropped precipitously to 44 percent and 46 percent, respectively. Key stakeholders in the firm are not making full use of business information and metrics. Survey respondents report that business information is being disseminated through presentations (86%), hard copy or electronic spreadsheets (79%), and portals such as SharePoint (54%). And while all respondents report that managing partners are using the metrics, use of these key business indicators whittles down through the ranks: 85 percent of respondents reported usage by the COO or executive director; 76 percent said that practice group leaders actively use the metrics. Numbers drop further for the CMO (49%) and equity partners (46%). To ensure strategy is executed, all key stakeholders should be involved and informed on the strategy as well as measured against the goals of the strategy to drive business transformation.

4 UNDERSTANDING A CLIENT'S BUSINESS AND INDUSTRY IS ESSENTIAL TO A FIRM'S DIFFERENTIATION FROM ITS COMPETITORS. When asked about their competitive advantage, firms mentioned value and quality of service followed by knowledge of client's business/client relationship and client focus/customer service. Given this, it is surprising that just over half (56%) report that their firm has a plan in place to build, track, and measure client loyalty and satisfaction. Furthermore, when asked if the firm leaders understood the business model of their top 20 clients, only 22 percent said they were extremely knowledgeable of all facets of the business. Clearly there is room for improvement.

5 THE BIGGEST CHALLENGES FACING FIRMS IN 2012 WILL CONTINUE IN THE FORESEEABLE FUTURE. Generating new clients, finding competitive advantage in a stagnant market, acquiring laterals and integrating them into the firm, increasing productivity, managing AFAs to make them profitable—respondents said their firms are contending with a multitude of challenges in 2012. And the future looks like more of the same, with the exception that firms are becoming more dedicated to the use of corporate tools supporting activities such as a strategic planning and enhanced project management. Firms are trying to balance organic (business development, cross-selling) with inorganic growth—and it is not yet clear that these strategies can fully succeed with limited management and reporting accountability.

About the Survey

This report, conducted by ALM Legal Intelligence, provides an overview of the law firm business model, how law firm leaders respond to business challenges, and the current state of law firm strategic planning and how that landscape is perceived to be changing. The data were collected via email invitations to a Web-based survey conducted between July 18, 2012, and August 14, 2012.

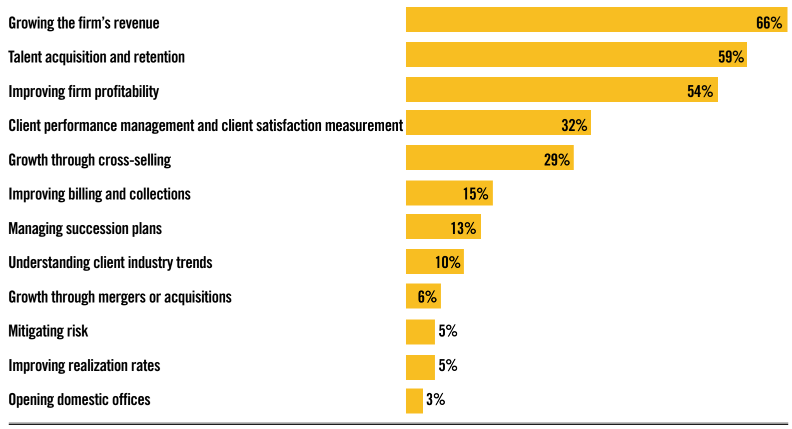
Invitations were sent to managing partners, executive directors, lead marketers, law firm administrators, and COOs at Am Law 200–size law firms. Quantitative results from 79 respondents were supplemented by interviews with a cross-section of the group. Respondents came from firms of all sizes: 48 percent from firms with 100–250 attorneys, 23 percent from firms with 251–500 attorneys, and 30 percent from firms with more than 500 attorneys.

To complement the statistical measurements and survey responses covered in this study, a couple of narrative examples were added to the mix profiling two successful Am Law 200 firms. Insights gained from their stories can serve as best practice examples showcasing how to turn strategies and plans into tangible actions. In reaching the implementation and executional phases of their plans, both firms are demonstrating considerable success at the practice of law as well as the business of law.

DRAWING UP THE PLAN: SETTING PRIORITIES

WHEN ASKED ABOUT THE FIRM'S TOP THREE BUSINESS STRATEGY priorities, respondents cited growth in revenue, getting a handle on talent, and increasing profitability. The majority report that they have strategic plans in place to address these priorities, but when pressed, many of our follow-up interviews revealed that implementation is not as rigorous as it could be. Part of the problem is that firms do not consistently define measurements and milestones through which to assess progress. As a result, actual success rates in executing plans vary widely. To further complicate the situation, linking strategy to actionable plans in business development, efficiency, productivity, and staffing is complicated, requiring knowledgeable resources as well as actionable information and tools.

Which of the following are the top three (3) priorities for your firm, according to firm leaders?



In the past, firms focused too much on aggregate profitability; now under a trying economy they're realizing that some practices are more profitable or vulnerable than others. Their response is often to simply go after the business that will be more likely to yield profits and put fewer resources (such as new associates or marketing spend) in some of the less–profitable areas.

That approach doesn't always yield the desired results. There are often divergent levels of growth, productivity, and profitability across practice areas. One respondent mentioned that the biggest challenge facing his firm was "keeping the oars of the major revenue generators in the water rowing in the same direction given a wide variety of profitability among business generators."

The perception is overwhelmingly that partners drive planning, even when there is ample input from sources such as COOs, marketers, or firm administrators who may have similar levels of understanding about clients' industries and needs. About 20 percent said consultants and other nonbillable staff are involved in the strategic–planning process. In follow-up interviews, respondents confirmed that the process is still driven by managing partners and other C-levels in the firm. The result: a knowledge gap without enough input from nonattorney sources beyond the leadership group, sources who might better understand clients' industry and business needs.

Still, at the end of the day the legal world is fluid, and the best laid plans are often scuttled. "Partners can pick up their book of business and leave at any time," noted one interviewee. In order to mitigate partner flight, some respondents noted that their firm is putting more effort toward employee retention. Training is one piece of this, but firms are also trying to become more amenable to lifestyle and generational differences in their partners and associates. For example, younger attorneys may have a greater focus on work/life balance, since they are more apt to spend time with their (young) families relative to their older colleagues.

GETTING THE RIGHT INPUT FROM STAKEHOLDERS

FIRMS ARE FACED WITH THE CHALLENGE OF COMING UP WITH NOT ONLY individual practice group strategies, but an overall firm strategy. As expected, 89 percent of respondents said partners gave significant input to strategic plans. But not all are committed to the strategy after it's been formulated. "The owners of the strategy need to be engaged," said W. Russell Welsh, chair and CEO of Polsinelli Shughart. "Sometimes details get lost. Plans are not driven down as deep as they should be," he added.

Bo Yancey, director of consultants with LexisNexis® Redwood Analytics® agreed. "Successful strategy execution starts by understanding and interpreting business insights and then translating those insights into actionable measures that can be used to manage a firm's performance. In our work with firms across the country, we see that when the executive leadership mandates goals, educates partners and firm leaders, and then measures success, change in practice becomes reality."

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To help professionalize strategic planning and drive execution, firms are turning to nonattorneys. Sixty-two percent of respondents cited the involvement of nonbillable firm leaders such as CMOs, and CFOs/COOs. "When I first got here," noted one CMO, "there was not a lot of planning. Now we do a lot. We have seven full-time people in marketing. We're implementing new technology to create efficiencies. It's now a thoughtful, step-by-step process. We're no longer shooting from the hip."

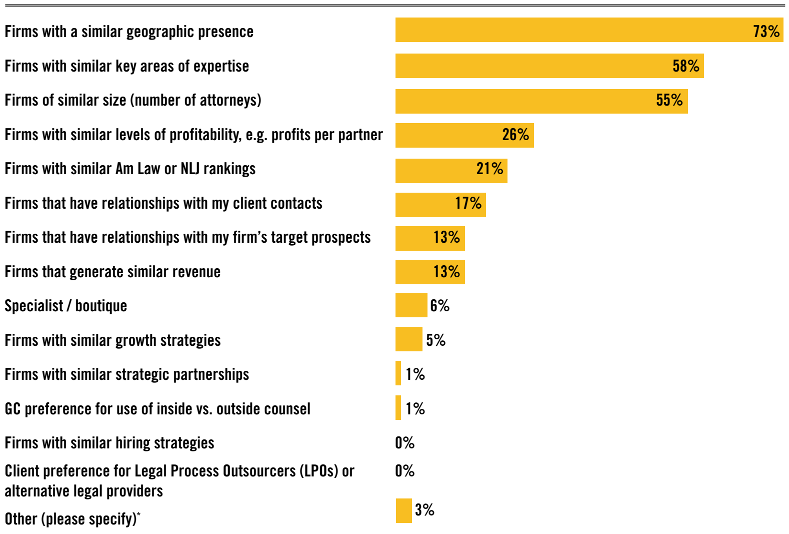
However, there is great variability as to how much attention is being paid to the expertise of nonattorney senior staff. The acceptance of nonattorney input depends on the vision or force of personality of a chair who can influence the managing committee and partners to buy the suggestions of the firm's financial and marketing experts or their consultant counterparts (21 percent of firms surveyed are turning to outside consultants and other third parties for further help developing the strategic plan).

FINDING THE RIGHT TEAM: HIRING LATERALS AND GETTING RID OF NONPERFORMERS

WHEN GAUGING THEIR COMPETITION, FIRMS LOOK AT "LIKE" FIRMS: firms with a similar geographic presence (73%), firms with similar key areas of expertise (58%), and firms of a similar size (55%).

To compete in an increasingly tough legal market, 70 percent are making adjustments to their leverage ratio of nonpartners to partners. They are also turning to lateral acquisitions, with three-quarters expecting to hire more laterals over the next five years. These acquisitions can have an increasingly positive effect on firm profitability; however, when asked to look back over the last five years, only 28 percent of respondents said their lateral strategy was "very effective." Given that most firms cite lateral acquisition as a key growth strategy and the success rate is only marginally effective, the question begs: What will the ultimate success be? In addition, if just about every firm is using this strategy to increase profitability, these firms will have trouble differentiating themselves when everyone is dipping into the same pool of talent.

What criteria do you evaluate when you compare yourself to competitors? Please indicate the three (3) most important.



An emerging trend is the increased use of tools and data to supplement existing processes for laterals, so that they are better able to hit the ground running. We have yet to see the longer-term implications this has for the apprenticeship model so pervasive across the legal profession. At some point down the road, there may not even be enough laterals to fuel growth.

An influx of new blood is sometimes the answer; however, in recent years the importance of summer associates and first–year hires has fallen behind prerecession levels (only 15 percent of firms foresee hiring more of either group). Given the assessments offered above on the effectiveness of lateral strategies, significant room for improvement remains in terms of executing on these strategies. One way is to use tools and data to understand who are the best clients, so the firm can actively seek new clients that match a similar profile, leveraging existing expertise to win new relationships. Separately, firm leaders can continue to cross-sell lateral expertise to where the white space is in the client base.

Five years from now, how do you think each of these staffing categories will have changed in size (vis-à-vis FTE headcount)?

	Will Increase	Will Remain the Same	Will Decrease	Responses
Lateral associate hires	74%	19%	6%	78
Lateral partner hires	72%	24%	4%	78
Contract attorneys	65%	32%	3%	78
Retention and development of firm leaders	63%	33%	4%	78
Non-Equity Partners	54%	28%	18%	76
Equity Partners	45%	31%	24%	78
Paralegals	37%	51%	12%	78
Outsourcing to LPOs	27%	57%	16%	70
Summer associates	15%	64%	21%	78
First year associate hires	15%	62%	23%	78

Not all partners are effective business-generators, however. Nine out of 10 firms report that their firm has "unprofitable" partners, and 70 percent noted that errant partners are at risk of deequitization or being put on a performance plan. In challenging economic times the issue has bubbled up to the surface. Partners who aren't contributing to the firm's profitability are under increased scrutiny, as these nonperformers can affect the firm's overall health. When asked what the biggest challenge facing the firm was in 2012, one respondent mentioned "[getting] the rogue partner out of the firm and adjusting the proper level of attorneys for the level of work." Another respondent noted: "There are too many partners without sufficient billable work. Our attorneys need to become client development experts rather than expense–cutting experts." Clearly, when it comes to partners, there is a gap between performance measurement and performance management. This is something that may change over time, as professionals continue to transform themselves into more active business managers.

PRICING, PRODUCTIVITY, AND PROFITABILITY

LAW FIRMS CONTINUE TO STRUGGLE TO REMAIN PROFITABLE IN THE wake of the economic downturn. We asked respondents to tell us how they had coped during the last year and to divide their priorities into short– and long–term fixes. The top three short–term tactics were switching to less expensive vendors, reducing or eliminating summer associate programs, and deequitizing partners. But as indicated earlier, the implementation of the last tactic doesn't always occur. The top three longer–term tactics mentioned were cross-selling, investing in technology, and acquiring practice areas.

The most aggressively pursued growth options for Am Law–size firms are business development (84%), acquiring laterals (76%), and partner investments (71%). Regarding pricing strategies (such as alternative fee arrangements), only 45 percent are actively focused on a nonbillable–hour strategy right now, but firms are closely monitoring pricing. "The COO is tracking AFAs," said one CMO. "There's a formula he uses for figuring out the realized hourly rate. We really don't know for sure if AFAs are working. Every RFP now asks for it. They have a set budget for litigation and want to find a way around just a monthly bill." To that end, 56 percent echoed that it is "too soon to tell" if AFAs are more profitable than hourly rates.

In which of the following ways, if any, has your firm taken any steps in the past 12 months toward managing profitability through cost-cutting or revenue growth as a response to the current economy? Please tell us if each plan is part of a long term strategy, or a short term trend by dragging each statement to its appropriate box.

	Long Term Strategy	Short Term Trend
Cross-selling	65%	8%
Investing in technology	56%	8%
Acquiring practice areas	44%	8%
Switching to less expensive vendors	14%	18%
De-equitization of partners	13%	15%
Benefit reductions	5%	3%
Reducing or eliminating summer associate program	4%	16%
Cuts in IT spend or internal spend	3%	6%
Pension cuts	3%	1%
Cuts on face-to-face business development activities, such as entertaining clients or golf outings	3%	6%
Layoffs	1%	11%
Bonus cuts or freezes	1%	11%
Cuts on business development networking activities, such as attending conferences or holding client seminars	1%	8%
Salary cuts or freezes	0%	9%

Still, in the minds of clients at least, AFAs are here to stay[1]. It is unlikely that companies will want to revert to the more casual and costly pricing of earlier days, so it's incumbent upon firms to continually measure the productivity of their engagements and client satisfaction. Even if the economy improves, firms will need to find ways to deliver more cost predictability so they can be more responsive to their clients' and the firm's financial needs.

1 Refer to the ALM and LexisNexis CounselLink report "Speaking Different Languages: Alternative Fee Arrangements for Law Firms and Legal Departments" for more details.

MONITORING CLIENT RELATIONS: CRM AND CROSS-SELLING

WHEN IT COMES TO CLIENT SATISFACTION, LAW FIRMS PAY A LOT OF LIP service to the need for engagement, with little follow-up. Just over half (56%) of respondents reported they have a plan to track client loyalty and satisfaction, while 44 percent admitted they didn't have any kind of systematic program or were unsure if a program existed. For those firms who do have a program in place, there was wide variability about the frequency of monitoring that program: 45 percent said they do this on an annual basis, but an almost equal amount (47%) noted they did it only episodically, on a case–by–case basis or that such measurements were rarely "ongoing."

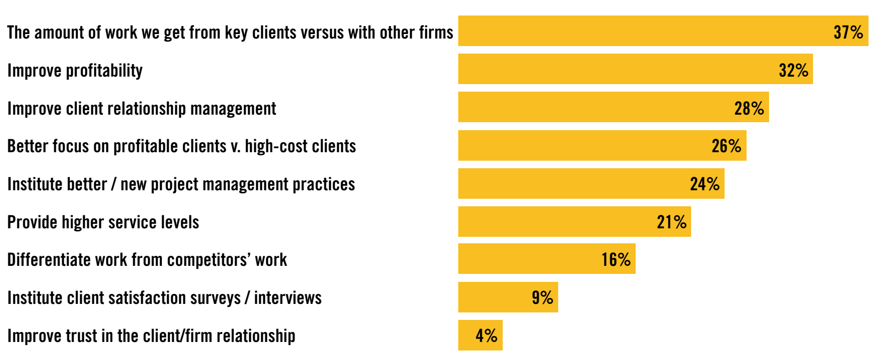
Too many firms are lackadaisical not only about systematic client–satisfaction measurements, but also about targeting new clients. Although every firm said they could identify the firm's top five clients, when asked about how knowledgeable firm leaders are about key business drivers for their top 20 clients, only 22 percent reported that they were "extremely knowledgeable." Clearly there is room for improvement in the client relationship management arena, for both existing and potential clients, particularly when the majority of firms claim that knowledge of their clients' businesses is a source of competitive advantage.

"One ought to be able to name future clients," said a CMO. "Just don't cast bread upon the water or take a shotgun approach. If you want to be known to counsel of five new corporations, just communicate with those five counsel. The more that a law firm concentrates on naming companies and individuals, the more effective they'll be," he added.

Firms are at least aware that once they have a client, they have to work at keeping that client. The top three things that respondents thought their firm should change about client relationships were increasing the amount of work from key clients (vs other firms), improving profitability, and improving client relationship management.

But none of those goals come to fruition without a systematic customer relationship management (CRM) effort on behalf of the firm. "Attorneys have

Which aspects of your firm's relationship with clients would you most like to change in 2012? Please rank all that apply in order of importance, with 1= Most Important.



come around to being customer–centric, not just providers of legal services. They need to think of value-added services," said a CMO. His firm relies on post-engagement assessments. If a problem is detected, the chair goes on a client call.

"In the legal field, we need to restore real relationships. We need to look at the business issues behind the legal issues—what's worrying counsel. We need to be a bedside doctor as opposed to a remote clinician."

Our survey interviewees mentioned advertising, social media, and in-person customer contact as the most useful techniques in keeping in touch with clients. After a few years of hesitancy in this area, some firms are now encouraging their attorneys or someone in marketing to blog periodically. One example of proactive social media outreach would be a firm regularly sending out alerts on what they think might be relevant legislation to a client's business. Social media is not the panacea of client relations, however, and attention must be paid to accuracy and relevance. If the alerts are out of date or aimed at the wrong target, they could ultimately undermine a firm's attempt to appear knowledgeable of a client's business or industry. However, use of social media in the absence of a client acquisition and retention strategy managed with appropriate tools dilutes the power of social media engagement. Individually managed and ad hoc communications can ultimately dilute the firm's message and presence in the market, and negatively impact business development efforts.

Some interviewees have concluded that old-fashioned client contact is still most important. Said one CMO: "In the legal field, we need to restore real relationships. We need to look at the business issues behind the legal issues—what's worrying counsel. We need to be a bedside doctor as opposed to a remote clinician."

THE FUTURE: EMPOWERING STRATEGIC PLANNING AND PLANNERS

OUR RESEARCH HAS ESTABLISHED THAT MOST FIRMS ARE ON BOARD with strategic planning. But to ensure smooth sailing in the future, they'll need to determine who will lead versus support these efforts. In a partnership structure, that can be difficult.

"I report to the COO, but 150 bosses are running the firm," said one CMO at a national law firm. "Firms will need to elevate department heads to make decisions. Empowerment comes from the top, but firms are slow getting there," he added.

If the chair is fully engaged in strategic planning and empowers the COO, the CMO, partners, and everyone else to get involved, operations run smoother. "The goal is to dispel my own myopia and take a longer view," said Andrew M. Smulian, chair and CEO of Akerman Senterfitt. "The key element is dealing with all of the constituencies. Clients who ask why they want to use us. Associates who ask why do they want to work with us. Why should partners want to invest with us? And what is our societal purpose? We need to integrate all this."

But having the chair and senior nonattorney staff involved is not enough. Some firms are even contemplating creating the position of director of strategy with a standing committee to drive planning over three–to–five year horizons. This position would also be charged with helping to ensure that the strategy was updated as needs changed. And more and more firms will also consider "practice group administrators"—nonattorneys, possibly MBAs, similar to financial analysts in law firms—who could help with strategy implementation through monitoring performance and profitability measurements in each practice group.

But even if a firm doesn't change its existing infrastructure to include more planners, it will still need to plan. "Ultimately, the success of the any firm's strategic plan hinges on two key factors: first, on the partners' knowledge of the business principles, and second, on the partners' ownership and accountability in execution of the plan," said Bo Yancey, director of consultants at LexisNexis. "When firm leaders are educated on business metrics, firm performance and the financial health of the firm, we see transformation in overall financial and business performance."

CASE STUDY: Stick to the Plan: Dechert LLP

With 26 offices around the globe and more than 800 lawyers, creating a strategic plan became a critical imperative for Dechert LLP—a necessary step taken to align all the firm's resources and focus them on the same goals.

Dechert's senior leadership reached that important conclusion coming out of the economic difficulties faced in 2008 and 2009, according to David Cybulski, Director of Business Intelligence for the firm. "The leadership team realized industry conditions were changing and wanted the firm to have its own strategic vision in response. Maybe it's no more insightful than people looking inward when difficulties occur, but we knew we needed to understand more about where we were going, how we were going to compete, and how big we could become. We wanted to set our own course instead of being pushed around by change; that was the impetus behind a more disciplined approach."

The firm turned to an outside consultant for guidance in crafting a five-year strategic plan. Direction came right from the top, with hands-on involvement from the CEO and chairman, and reached down to director-levels throughout the firm. "Everything jumped into high gear after the direction was set," said Cybulski. "Elements of the strategic plan were distributed as appropriate, and the senior managers began adding tactical plans, executional details and financial metrics that made it all very real and very measurable."

Cybulski believes that technology and the commitment to share information played a big part in what the firm has been able to accomplish. With goals and metrics firmly established, the systems and applications also were in place so everyone, especially timekeepers, could easily track their productivity and progress. "Monthly reports go out on a regular schedule," he said, "but individuals can access up-do-date dashboards and information 24-hours-a-day, even if they're just tracking hours as their contribution." Of course, practice leaders and managers can get a more comprehensive look at bookings, billings, work in progress, realization totals, and other key metrics tied to business goals.

"There are no 'silver bullets' or quick fixes involved in any of this," stated Cybulski. "It has been and remains an ongoing, evolutionary process that takes time; we're still trying to find our way and make adjustments on a regular basis." He acknowledges how difficult it has been to shift attorney interests from the law toward sales-related activities, business issues and delivering the numbers. "Some of them make the transition right away; they get it, and fundamentally know how to leverage client relationships, identify cross-sell opportunities and easily win new business. For others, it takes a little more work and effort. We try and make it as easy as possible for everyone because in the end we all have a role to play in the sales process."

In many respects, what drives success at Dechert is the unwavering commitment and consistency that continues to come from the senior leadership team. The plan, goals, metrics, and dashboards are socialized and regularly discussed across all levels of the firm; in turn, performance and measurement have become part of the everyday culture.

"We're almost following a textbook model," concluded Cybulski. "Information creates knowledge, which gets translated into action, resulting in a bonus. Rewarding good behavior and performance with financial incentives just starts the cycle all over again. I don't believe anyone wants to deviate from that model. However, the model is one that is constantly being reexamined and refined in this rapidly changing environment. Just because a plan of action has worked in the past does not guarantee that it will work in the future."

CASE STUDY: Profitability – By the Numbers: Stinson Morrison Hecker LLP

The strategic focus for Stinson Morrison Hecker—*grow the client base and grow the work we do for clients*—is probably identical to hundreds of other law firms across the country, except for a single word appended at the end of their sentence: "profitably."

Doug Doerfler, Chief Financial Officer at Stinson, explains how that one word sets the operating model for some 300 attorneys spread across the nation in eight offices. "We are relentless in our focus on profitability; I admit it. We don't make compromises, we don't do one-offs for special discounts, and we won't accept work just to keep timekeepers busy. That approach has cost us clients and work; but, it has also kept the firm's productivity, growth rate, profitability, and profits per partner all heading in the right direction, which is up."

Surprisingly enough, the catalyst for this approach came a few years ago from the professional services team of a primary software supplier; their encouragement was to focus on the elements of profitability instead of just revenue. With buy-in from the CEO, COO and key partners, the strategic direction was set.

"Today, we've got the financial tools and business intelligence technology in place to keep us all on track," commented Doerfler. "Across the firm, our people know what the benchmarks are and have become very comfortable talking about pricing, rates, net margins, leverage, realization and similar topics. More importantly, they've got enough knowledge to understand how those subjects interrelate and why they're important."

Shifting the Stinson culture to a more disciplined approach has taken over two years of effort. It began with the practice group chairs and getting their buy-in, and then rolled out across the rest of the firm. However, according to Doerfler, one critical component that makes the model work well has been a "focus on the client."

Externally, that focus has resulted in a lot of discussions and earnest attempts to understand the pressures clients face in their business and from their own management. "Clients want to negotiate, they want to get a good deal, and they want to be treated fairly," said Doerfler, "but they don't want to deny profitability. They understand the business model and how it works, often better than we do."

That means Stinson attorneys have to be a bit more creative sometimes in meeting profitability benchmarks; it also means saying "no" when the conditions aren't right. Doerfler believes that clients appreciate the honesty and transparency demonstrated when negotiations and discussions occur; overall, it builds a lot of trust.

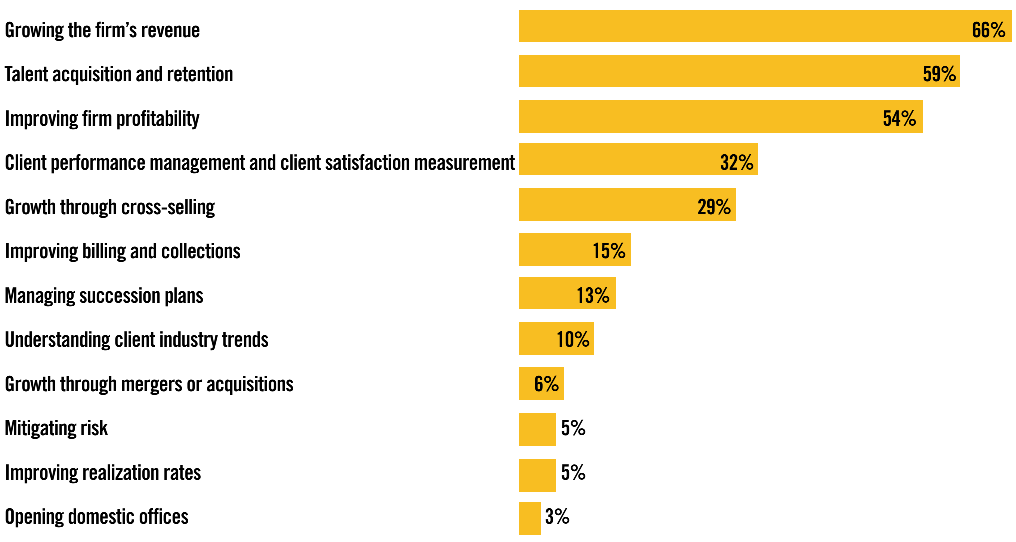
Building trust internally also involves a lot of the same techniques, according to Doerfler, including keeping the focus on the customer. "When you're talking pricing and profitability and whether to take a deal or not, focusing on clients is critical," he said. "It quickly removes 'overhead' and other internal calculations from the discussions, and adds balance to deciding if a deal is good for both the firm and the client. It's tough to challenge the methodology, process, or the intent."

The element of trust also has placed Doerfler and his growing department in a central role at the Stinson. Currently, the group is tracking the performance on more than 50 different fee arrangements as part of their ongoing processes. The systems at their disposal contain a few hundred budgetary models that assemble thousands of financial components involved in the pricing and billing of every client project. "Our goal," offered Doerfler, "is to be the trusted experts for our attorneys and manage all that financial complexity for them. In fact, project management is part of the job description for all our billing specialists."

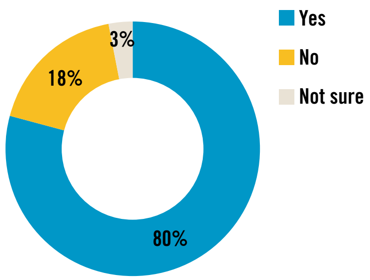
When Doerfler's team does their job well, which has been the case so far, there are no surprises at the firm, there are no surprises for the clients, attorneys can pursue the practice of law, and Stinson can be successful at the business of law … profitably.

APPENDIX: SURVEY RESPONSES

1. Which of the following are the top three (3) priorities for your firm, according to firm leaders?

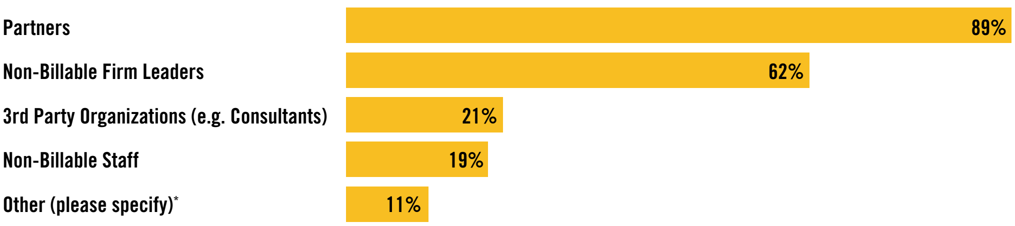


2. Does your firm currently have a strategic plan in place to address these firm priorities?



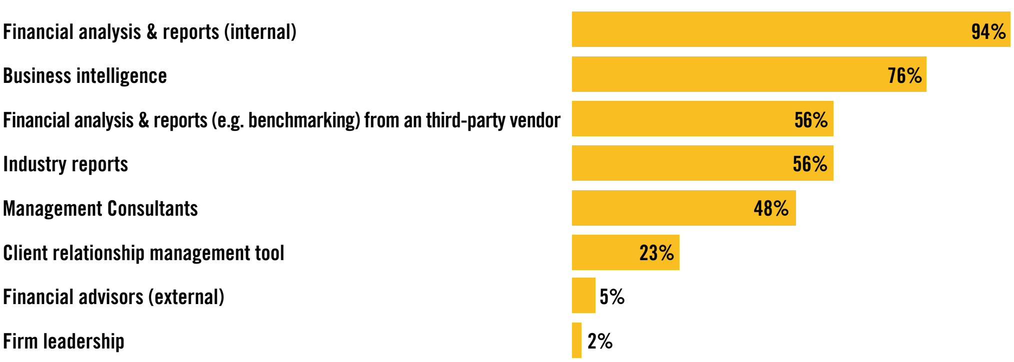
APPENDIX: SURVEY RESPONSES

3. Who is responsible (meaning, members of this group gives significant input) for developing the strategic plan? (Check all that apply.)



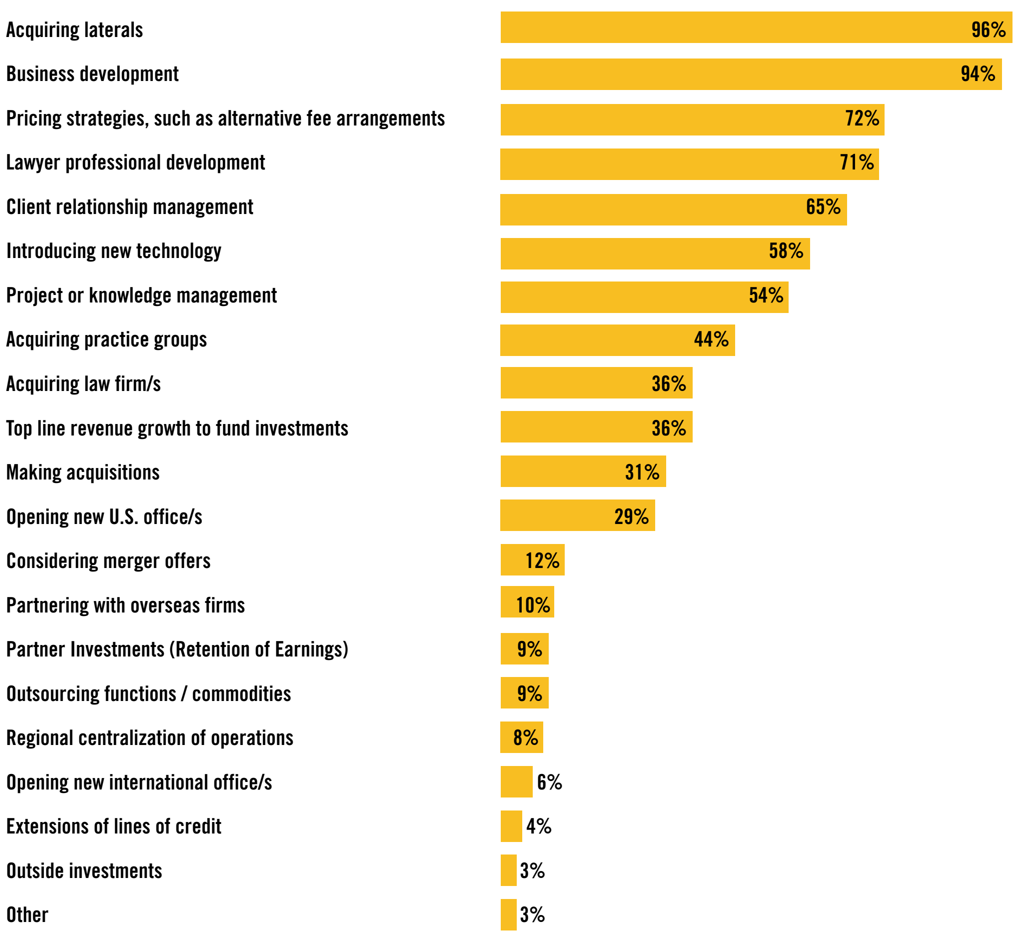
*The top 3	Senior Managment	Managing Committee; COO
Board of Directors	Executive Committee	Board of Directors

4. Which resources or tools aid in the development of your strategic plan. Choose any that apply.



APPENDIX: SURVEY RESPONSES

5. As part of your firm's plan, which growth options, if any, is your law firm planning or pursuing in the next two years? (Choose all that apply.)



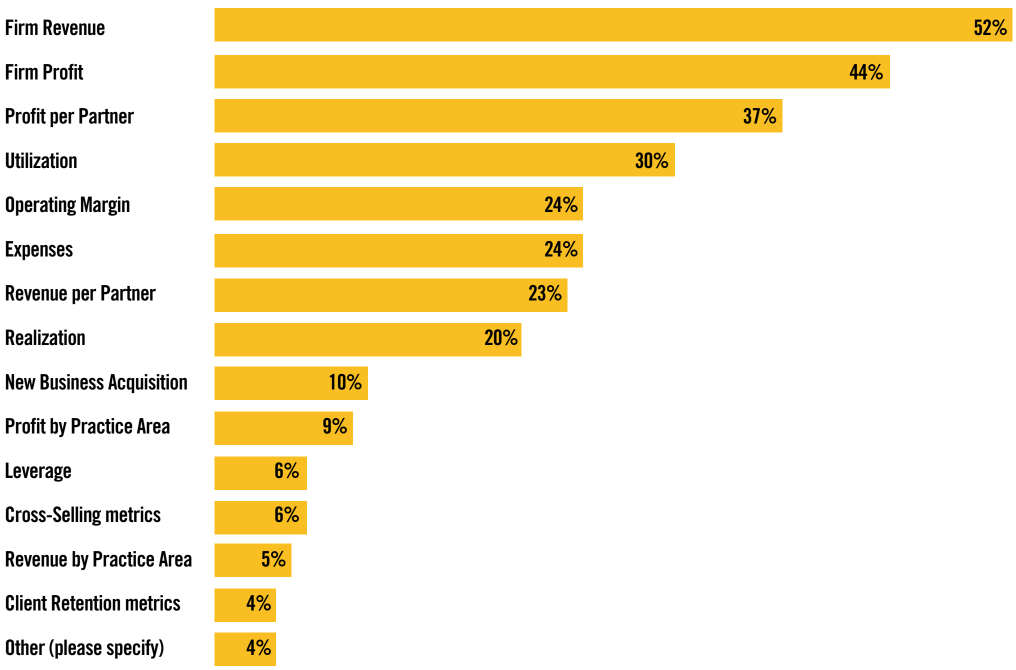
APPENDIX: SURVEY RESPONSES

6. How aggressively is your firm planning on pursuing these options?

	4: Aggressively Pursuing	3: Seriously Considering	2: Exploring the Possibility	1: On the Radar, Haven't Looked Deeply	Responses
Business development	84%	14%	3%	0%	73
Acquiring laterals	76%	19%	5%	0%	75
Partner Investments (Retention of Earnings)	71%	0%	29%	0%	7
Top line revenue growth to fund investments	68%	32%	0%	0%	28
Client relationship management	67%	29%	4%	0%	49
Extensions of lines of credit	67%	33%	0%	0%	3
Partnering with overseas firms	63%	25%	13%	0%	8
Project or knowledge management	62%	31%	7%	0%	42
Lawyer professional development	62%	35%	4%	0%	55
Opening new international office/s	60%	20%	20%	0%	5
Introducing new technology	51%	42%	7%	0%	45
Outside investments	50%	0%	50%	0%	2
Pricing strategies, such as alternative fee arrangements	45%	54%	2%	0%	56
Acquiring practice groups	38%	44%	15%	3%	34
Making acquisitions	38%	46%	17%	0%	24
Opening new U.S. office/s	35%	35%	26%	4%	23
Acquiring law firm/s	30%	44%	22%	4%	27
Outsourcing functions / commodities	29%	71%	0%	0%	7
Regional centralization of operations	17%	33%	33%	17%	6
Considering merger offers	0%	44%	44%	11%	9

APPENDIX: SURVEY RESPONSES

7. Which of the following metrics are most important to your firm as you manage firm performance? (Choose three)



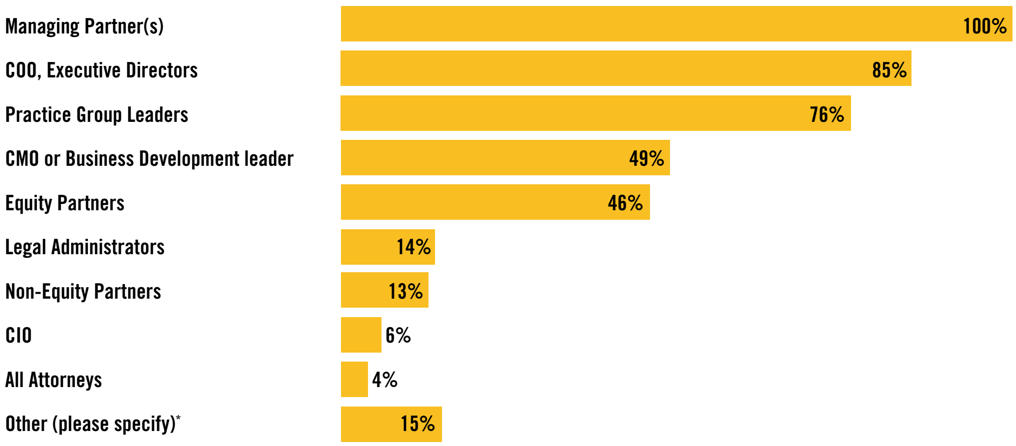
*Individual partner performance measured broadly	Attorney Productivity

APPENDIX: SURVEY RESPONSES

8. Which of the following metrics has the greatest impact on partner compensation decisions in your firm?

	Choose All that Apply	Choose Primary
Collections	78%	27%
Firm Profit	57%	18%
Billings	72%	13%
Client Business Development	71%	11%
Revenue per Partner	43%	10%
Utilization	52%	10%
Profit per Partner	39%	8%
Realization	77%	8%
Firm Revenue	53%	6%
Profit by Practice Area	29%	5%
New Business Acquisition	52%	5%
Leverage of book of business	47%	5%
Operating Margin	28%	4%
Revenue by Practice Area	19%	3%
Cross-Selling metrics	41%	3%
Client Retention metrics	18%	1%
Expenses	25%	1%
Other	5%	5%

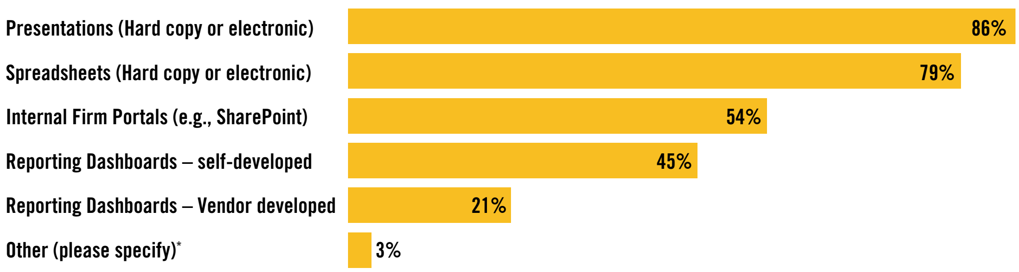
9. Who is/are the key stakeholder(s) using firm metrics? (Please check as many as apply.)



*CFO
Chief Practice Officers
Board and Compensation Committee
Executive Committee

APPENDIX: SURVEY RESPONSES

10. How does the firm share key business information with firm leaders? (Choose all that apply.)



*Monthly Financials
Quarterly Meetings of Firm Leaders

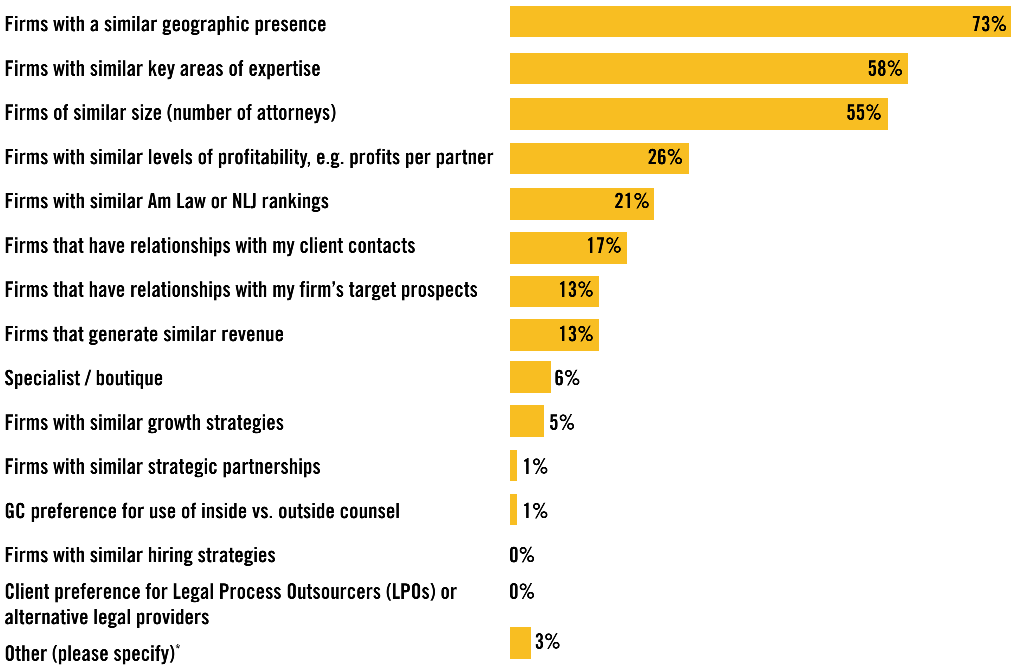
11. Regarding the following measures, has your firm been meeting its internal goals?

	Yes	No	Not sure	Responses
Client retention	80%	5%	15%	79
Firm profitability	70%	25%	5%	79
Firm revenue growth	59%	38%	3%	78
New client growth	53%	34%	13%	77
Partner profitability	46%	41%	13%	78
Client profitability	44%	38%	18%	77

A report from ALM Legal Intelligence

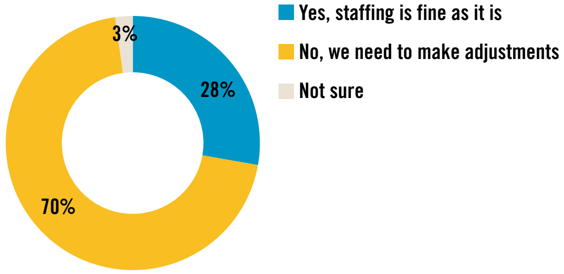
APPENDIX: SURVEY RESPONSES

12. What criteria do you evaluate when you compare yourself to competitors? Please indicate the three (3) most important.



*Firms with similar revenue per lawyer   Firms that may have lower rates.

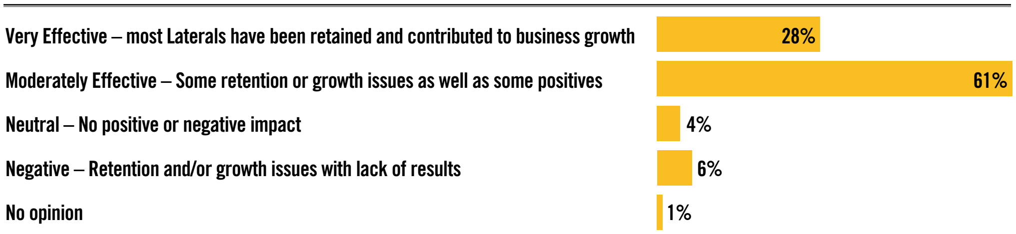
13. Regarding your current non-partner to partner leverage ratio, do you believe the firm is optimally resourced to provide exceptional client service while also growing firm business?



14. Five years from now, how do you think each of these staffing categories will have changed in size (vis-à-vis FTE headcount)?

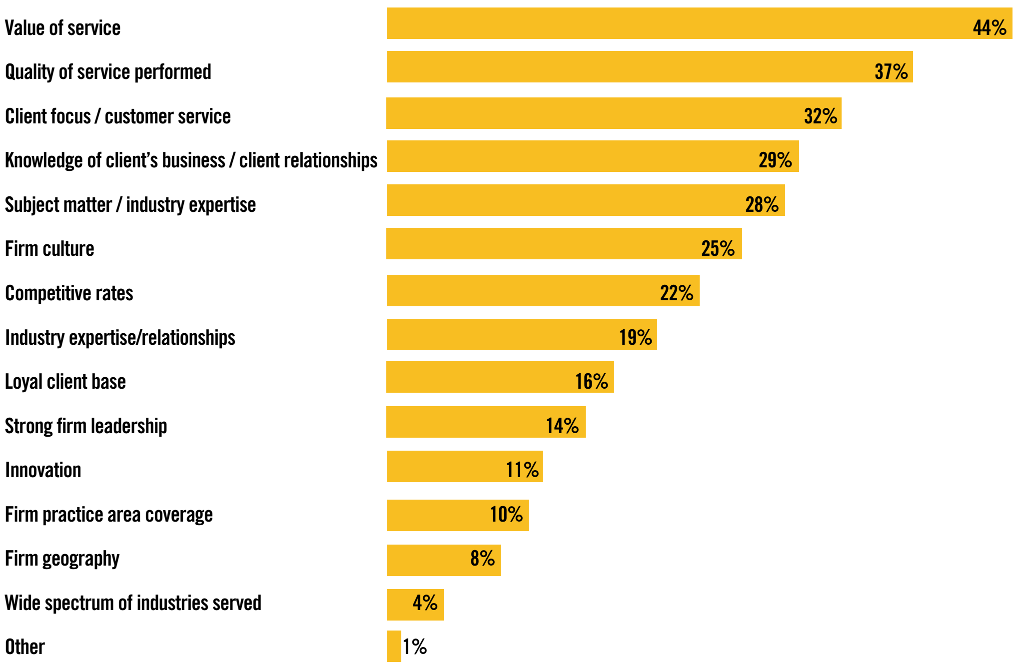
	Will Increase	Will Remain the Same	Will Decrease	Responses
Lateral associate hires	74%	19%	6%	78
Lateral partner hires	72%	24%	4%	78
Contract attorneys	65%	32%	3%	78
Retention and development of firm leaders	63%	33%	4%	78
Non-Equity Partners	54%	28%	18%	76
Equity Partners	45%	31%	24%	78
Paralegals	37%	51%	12%	78
Outsourcing to LPOs	27%	57%	16%	70
Summer associates	15%	64%	21%	78
First year associate hires	15%	62%	23%	78

15. As you evaluate your lateral strategy in the past five years, how would you rate its effectiveness?

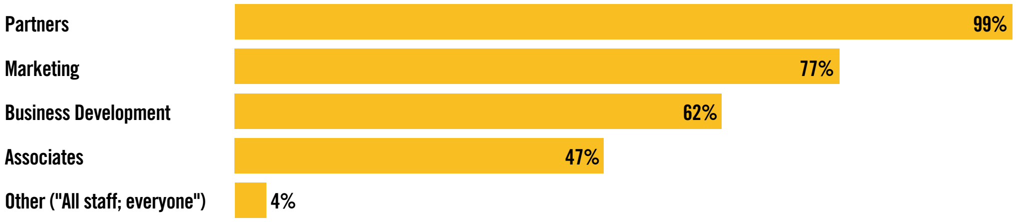


APPENDIX: SURVEY RESPONSES

16. Which of the following areas would you say most closely describe your firm's competitive advantage? Choose the top 3.



17. Which roles are responsible for Business Development in your firm (Please check all that apply)

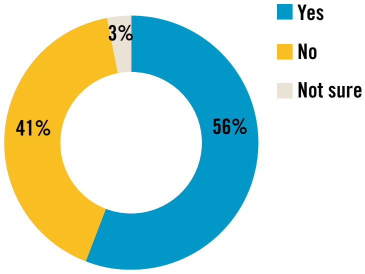


APPENDIX: SURVEY RESPONSES

18. Which best defines the structure of marketing and business development roles in your firm?

Marketing and business development are one department	96%
Marketing and business development are two distinct departments	4%

19. Does your firm have a plan in place to build, track and measure client loyalty and satisfaction?



20. If your firm has a client loyalty and satisfaction program, how often do you measure it?

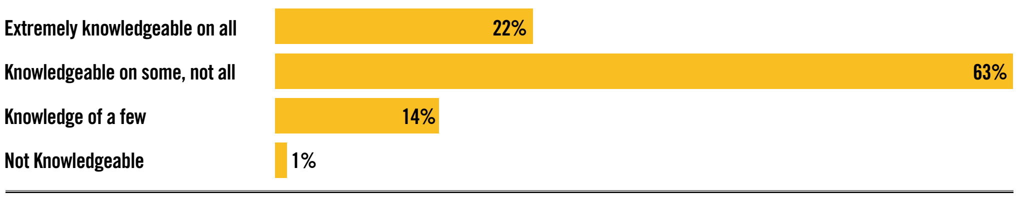
Annually	45%
Monthly	2%
After each matter closes	6%
Other	47%

21. Do you know who your firm considers its top five (5) clients in terms of revenue?

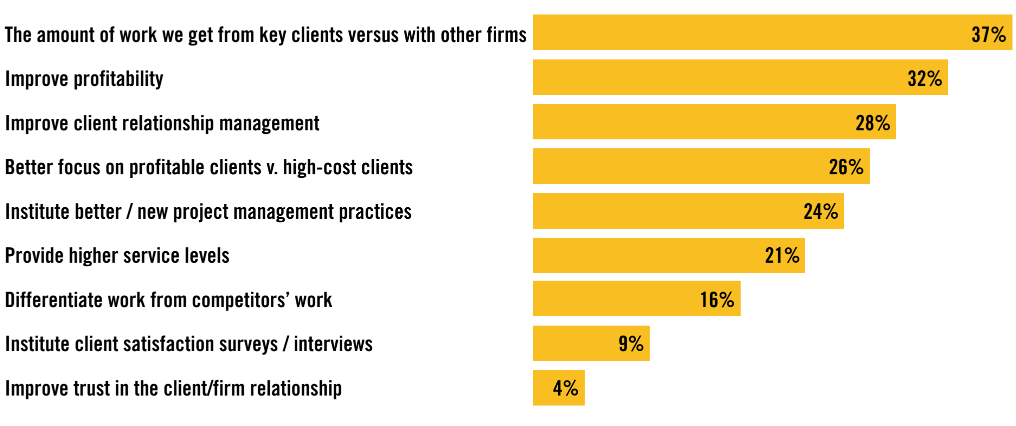
Yes	100%

APPENDIX: SURVEY RESPONSES

22. Rate how well your firm leaders understand the business model / drivers of the business of your top 20 clients, including their business models, earnings, financial performance, P&L, growth strategy, executive leadership, board members:



23. Which aspects of your firm's relationship with clients would you most like to change in 2012? Please rank all that apply in order of importance, with 1= Most Important.

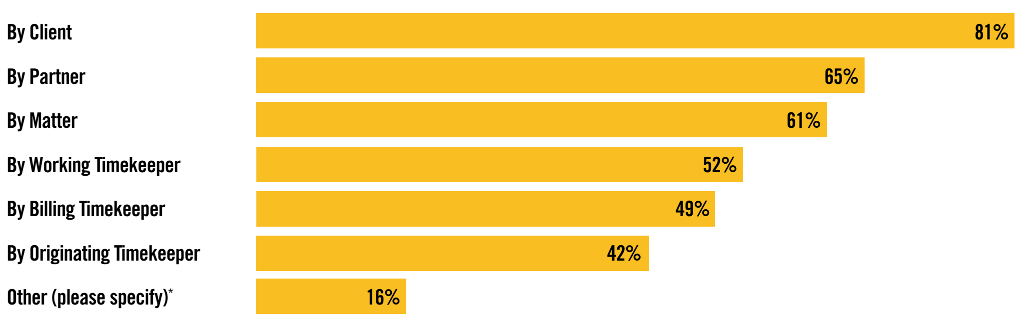


APPENDIX: SURVEY RESPONSES

24. In which of the following ways, if any, has your firm taken any steps in the past 12 months toward managing profitability through cost-cutting or revenue growth as a response to the current economy? Please tell us if each plan is part of a long term strategy, or a short term trend by dragging each statement to its appropriate box.

	Long Term Strategy	Short Term Trend
Cross-selling	65%	8%
Investing in technology	56%	8%
Acquiring practice areas	44%	8%
Switching to less expensive vendors	14%	18%
De-equitization of partners	13%	15%
Benefit reductions	5%	3%
Reducing or eliminating summer associate program	4%	16%
Cuts in IT spend or internal spend	3%	6%
Pension cuts	3%	1%
Cuts on face-to-face business development activities, such as entertaining clients or golf outings	3%	6%
Layoffs	1%	11%
Bonus cuts or freezes	1%	11%
Cuts on business development networking activities, such as attending conferences or holding client seminars	1%	8%
Salary cuts or freezes	0%	9%

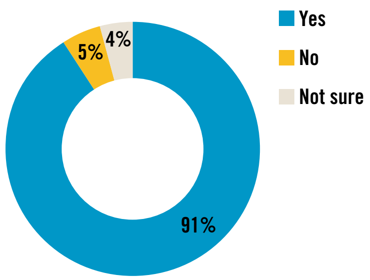
25. At what levels does your firm measure profitability? (Please Select all that apply)



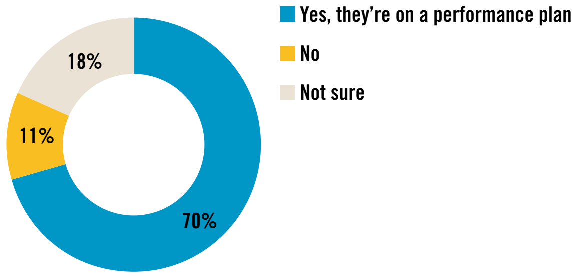
*by practice group by firm by practice area and geographic office

APPENDIX: SURVEY RESPONSES

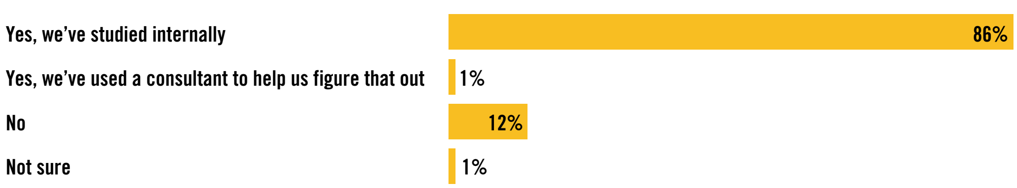
26. Does the firm have "unprofitable partners"?



27. Are these unprofitable partners at risk of de-equitization or removal?



28. Has your law firm studied past expenses on matters in an effort to plan for similar engagements?



APPENDIX: SURVEY RESPONSES

29. How often in the life cycle of a matter do you look at profitability? Choose any that apply.

Daily	0%
Weekly	5%
Monthly	42%
Annually	31%
At Completion	44%
Never	12%

30. What does your firm do with profits? Please check all that apply.

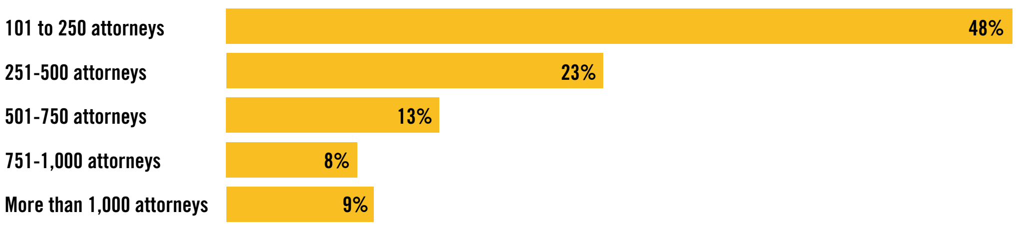
Percentage distributed to equity partnership	96%
Percentage to non-equity partners	55%
Percentage reinvested in firm	53%
Percentage to Associate Bonuses	46%
Percentage in escrow for future need	15%
Other	17%

31. How do alternative fee arrangements affect firm profitability? As compared to projects billed at an hourly rate, are your firm's non-hourly projects more or less profitable?

More profitable	12%
Less profitable	23%
Too soon to tell	56%
Don't know / Can't say	9%

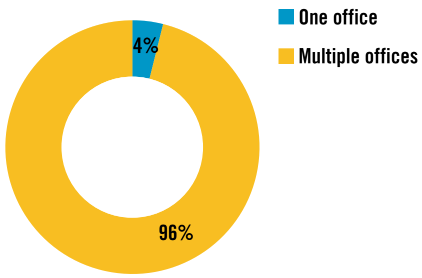
APPENDIX: DEMOGRAPHICS

1. Size of firm



2. How long have you been at your firm?

3. Your firm has ...



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