



The State of Law Firms in the Current Economy

An interview with Bruce MacEwen at Paul, Weiss, Rifkind, Wharton & Garrison LLP

By Wisnik Career Enterprises, Inc.

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Bruce MacEwen is often described as the law firm “economics guru.” A consultant to law firms on strategic and economic issues, Bruce writes the widely read online publication “Adam Smith, Esq.” (www.AdamSmithEsq.com), which enjoys 90,000+ visitors each month, including law firm Executive Directors, Managing Partners and other key decision makers. Bruce recently spoke to the Wisnik Law Firm Practice Group Management Forum on the state of law firms in the current economy. Bruce addressed the following questions during the roundtable meeting:

In your mind, what is unique about the current downturn in the economy?

I believe that we are not currently in a V-shaped recession that we have seen in recent times where the economy falls into a sharp recession, but quickly recovers. I think that we are in a U-shaped recession and it is going to take the economy a much longer period of time to recover, perhaps as long as 12-24 months. It is also very apparent that the downturn is driven by the financial services sector, rather than a number of different industries.

What do you predict will happen to law firms over the coming months?

I expect there to be significant changes in the law industry as a whole. I believe law firms will shrink in headcount, revenues, and associate/partner leverage. While some law firms will experience a large revenue drop, and a few will experience a small decrease, we should expect that most firms will see a drop in revenues equaling as much as 15-20%. Many firms will also see their profits down significantly, with some even approaching a decrease of 50%. Furthermore, premium rate models will no longer be the norm, and some clients may refuse to pay for work completed by 1st and 2nd year Associates.

How do you see Partners at various law firms changing their approach?

Because of all this change in the legal marketplace, Partners are becoming more open to change than ever. Previously, Partners often had the strict mindset of, “I’m making \$1.5-2 million, so what is my motivation to do anything differently?” However, with their revenues and profits down as much as 15-20%, they are now listening and are more willing to make changes. They are beginning to understand how highly leveraged they have been with their firms’ fixed costs and the number of associates—all things that are hard to get rid of very quickly. Of course, you don’t WANT to get rid of any associates, because at the end of the day a law firm is selling talent, but the low influx of work has necessitated it for the time being.

How do you see firms reacting to the current crisis?

I see one group of firms that will become paralyzed and unable to adapt to the current conditions, while the other group of firms will be those that are willing to take more strategic action. As I have always believed, a crisis is a terrible thing to waste and now is the time to put distance between you and your competitors. The firms that are in a relative position of strength are there because of a bit of skill and a bit of luck, and firms must capitalize on both right now.

Why do you think we have not seen the same rise in Litigation matters as there has been in previous recessions?

There are a few reasons that this is the case. First, when they were structured, many deals were “covenant light” and now cannot be easily enforced. Also, many companies that would have been involved in litigation cases



have dissolved or simply do not have any money to pay even if they lost the suit. Finally, e-discovery has changed litigation; you have to be sure that you don't have any "skeletons in your own closet" before you go out there and sue another company, and this is preventing a lot of matters from being filed.

What skills will lawyers have to have to be successful in law firm practice of the future?

Attorneys will need better project management skills, because they will have to know how to work smarter, not just bill a lot of hours. Firms will also need to staff as effectively as possible to make the cases and/or deals profitable.

Where is the opportunity in all of this change?

Now is the time to get closer to your clients!

How do you think the economy will affect the marketing of law firms?

Investment in client relations has become much more effective today than classic marketing. Firms should be looking to become more practice-centric rather than office-centric, and client teams should be integral in practice groups. It is also important to note that the selling of legal services of the future will be one-on-one.

What are the success factors that well-run firms share?

The first is an impeccable reputation. There is a flight to quality (versus flight to value) during times of excess capacity, as there currently is; clients have lots of choices and there is a great deal of competition for work. Prices are going through the floor and firms are dying to keep volume up, but law firms must remember they cannot compete in the long-term on price alone. Additionally, the cultural glue of a firm is more essential than ever. Firms that will thrive are ones where the lawyers want to stay together and are loyal to each other and the firm. You either have it or you don't. Firms that have less glue are those with a whole bunch of recent lateral acquisitions or a bunch of recent expansion of new offices. New offices equal a cost structure that may not line up with this economy.

What are some additional thoughts you would like to leave us with?

At this point, I applaud law firms that have conducted strategic cuts, and not just cut across the board. Law firms need to offer their top talent a healthy mix of risk and reward because that is the best incentive. I truly believe growth in a capitalistic society comes from the destruction of things that no longer work and creating new strategies—and there is no better time than now to restructure firms in a more efficient way.

Wisnik Career Enterprises, Inc. is a boutique search firm specializing in placing practice management professionals into law firms. The Wisnik Practice Management Forum is an invitation-only group that provides ongoing resources and networking opportunities to law firm practice managers and directors. For more information, please visit www.wisnik.com.