

Legal Experts Discuss Impact of Economics and Coming Trends



By Janet Ellen Raasch

Editor's Note: As an extension of a presentation about the future of legal marketing given by one legal consulting group at an LMA chapter meeting late last year, Strategies invited other consultants to comment. This article presents several, sometimes similar, sometimes different, perspectives. The Strategies editorial board encourages you to consider all views, meld them with your own and determine their impact as your firm works its way through 2010.

The continuing economic crisis has had a well-recognized, significant impact on everyone, including most law firms. In 2007, profits at many law firms were up a healthy 10 percent. By late 2008, profits were down 5 to 20 percent. For 2009, year-end profits will likely average between flat to down 15 percent from 2008, according to one consulting firm.

"For most law firms in the current economic environment, 'flat' is the new 'up' — although there are notable variations by size, location and practice area," says Kristin Stark, a senior director with Hildebrandt Baker Robbins' strategy group.

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Speaking to an LMA audience last November, Stark predicted more of the same for 2010, noting that she didn't expect much upward movement once final 2009 numbers were in. "We do not anticipate a dramatic upswing in firm performance in 2010. It is likely to be a slow recovery," Stark said, citing figures from Hildebrandt's "Peer Monitor" index of law firm performance.

Others, with the benefit of another month or two worth of data, agree—but make allowance for a silver lining of sorts.

"While revenues are indeed down over 2008, I believe profits will be less-impacted due largely to the significant cost-reduction efforts initiated by many firms in 2009," says Tim Corcoran, a senior consultant with Altman Weil Inc. "Some firms may experience modest profit growth."

Stark suggested that while larger firms operating in major financial centers have suffered the most recently, "smaller firms

and those located in secondary cities have been affected—but not as significantly."

Others agree. "For the most part, mid-sized and regional law firms have fared much better than large firms in money-center cities. In fact, several of my clients fitting that description had not just a good, but a very good, year in 2009," says Sally Schmidt, president of Schmidt Marketing Inc.

Corcoran reported a similar finding, noting that certain mid-sized, Middle America firms are experiencing record growth. "The message these firms have sent for years is, 'We offer quality lawyers, many with big-firm and big-city experience, at rates substantially lower than the major financial centers,'" Corcoran says. "That message hit home in 2009 as budget-conscious corporate clients sought lower-cost alternatives for some of their more routine legal work."

Law Firm Response

Law firms have responded to varying market conditions by making sharp cuts to overhead and other expenses, according to Stark.

Hildebrandt's Peer Monitor data showed marketing and client development expenses down substantially by the end of the third quarter last year, falling 15 percent on a rolling 12-month basis.

Even if not unexpected, the tightening focus raises questions among legal-industry consultants.

"Wouldn't you think that in an environment defined by less demand and high client frustration, lawyers and law firms would be expanding marketing efforts rather than making cuts?" asks Stark.

The question, perhaps lingering into 2010, is: Where should cuts, if any, come from and what areas should see increased funding?

"It is hard to justify a six-figure investment in a football-stadium suite when people are losing their jobs at the firm," Schmidt says, adding that at many firms "major cuts have been made in areas like tickets, sponsorships and advertising."

As law firms look to the future, the traditional way for law firms to weather economic downturns—cutting overhead and raising rates—may no longer be enough. "Law firms must expand their efforts to understand the marked shift in client

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