



ADD STRATEGIC VALUE IN YOUR ORGANIZATION BY DEVELOPING A PROFITABILITY MINDSET

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Before We Plunge In

- Who are we?



- Who are you?



Agenda

- Why Is This Important?
- Law Firm Business Fundamentals
- The Business of Law
- Understanding Key Profitability Drivers
- Applications to Your Role
- Q & A

Why Is This Important?

\$ It Matters to Clients!

\$ It Matters to Firm Leadership

\$ It Matters to the Bottom Line

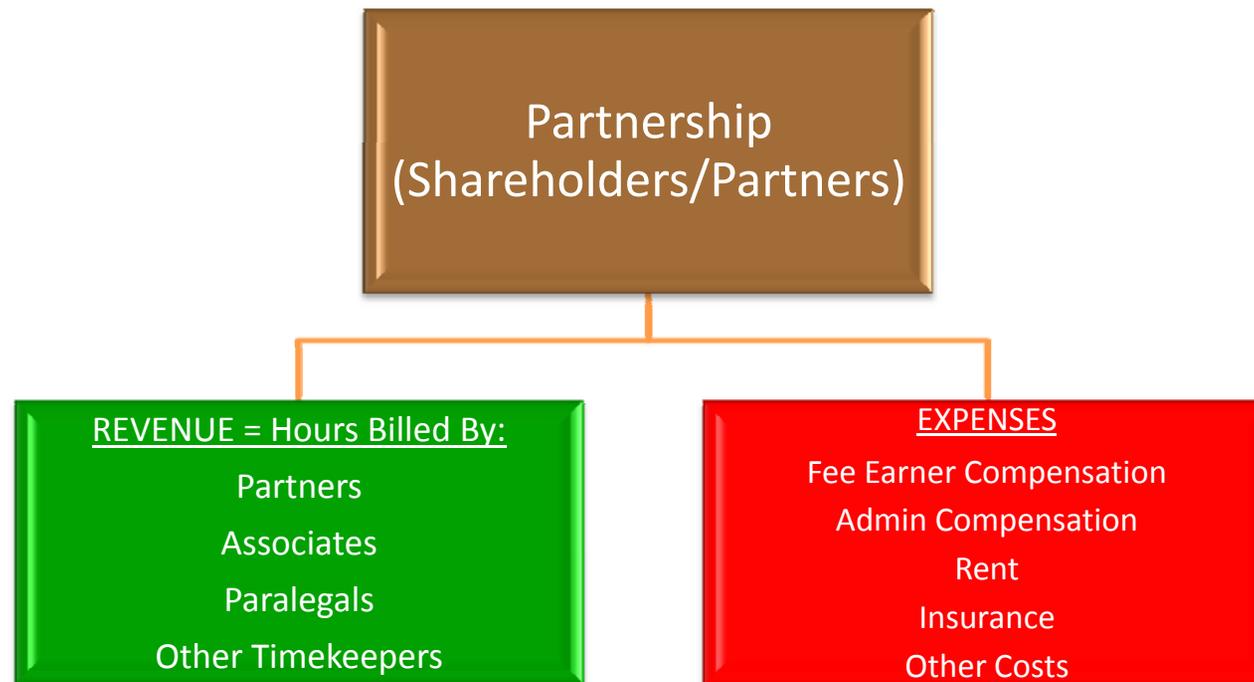
\$ Dealing with Challenges in the Current Environment

\$ It Matters to Us! – helps you think about managing risk and enhances your value



Law Firm Business Fundamentals

- Law Firm Business Model



Revenue – Expenses = Net Income = Distribution to Partners

Law Firm Business Fundamentals

Cash v. Accrual Accounting



The Business of Law

What Drives Revenue?

- Revenue is a factor of:
 - Rates (\$\$/hour)
 - Hours billed (per attorney per year)
 - Realization (Adjustments at billing and receivables)



The Business of Law

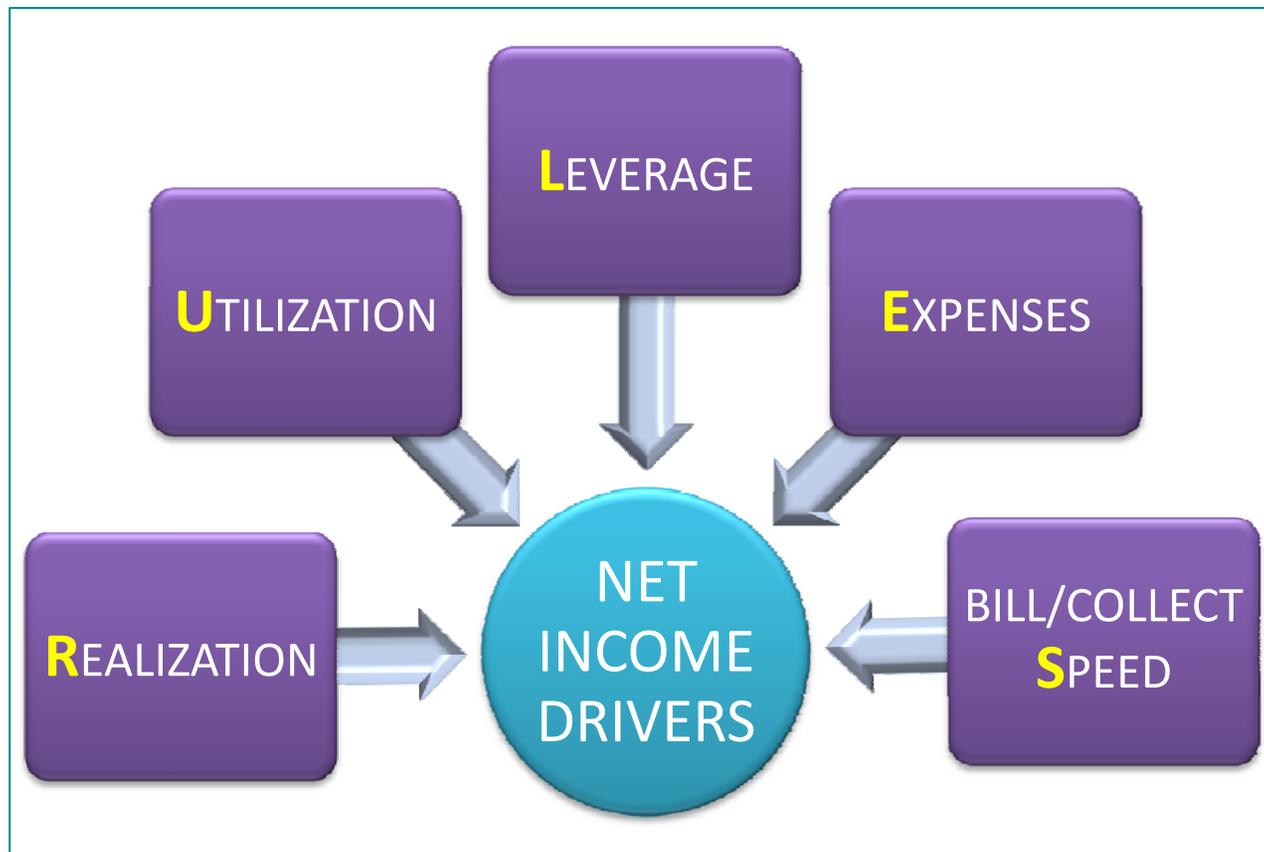
What comprises expenses?

- People – 65%
- Rent – 26%
- Everything Else – 9%

AmLaw 100 data



Drivers of Law Firm Profitability



RULES

The Business of Law

Realization:

- Impacted by discounts, write-offs, collection issues
- Declining since the late 1990's, and is at its lowest level now – avg. 87%
- Reflects increasing client demands for discounts and resistance to rate increases

The Business of Law

Utilization (Billable Hours):

- This is a measurement of billing efficiency
- Nothing more than actual Hours Billed ÷ Hours Target
- Has been declining



The Business of Law

Leverage:

- Lawyers other than equity partners ÷ Equity Partners
- Made partners at a faster pace than firms were growing
- Some firms maintained leverage at a high cost



The Business of Law

Expenses:

- Compensation, rent, technology and admin costs
- Although law firms have cut expenses significantly, this has been gradually creeping up in 2012
- Space and technology costs keep driving expenses up

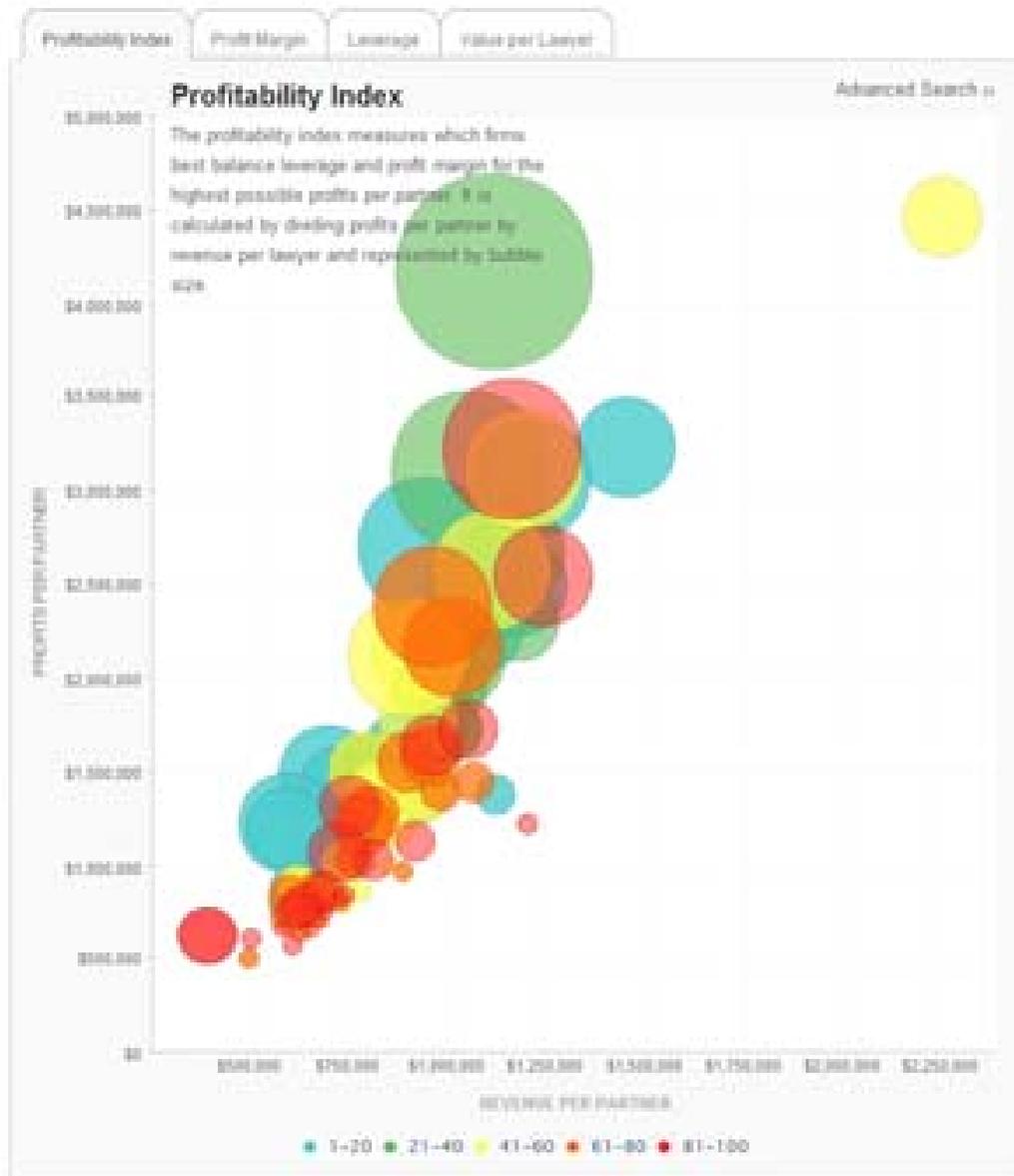


The Business of Law

Bill/Collect Speed:

- Direct correlation between speed by which bills are sent out and percentage of bill ultimately collected
- Daily time entry paramount in order to accomplish
 - Additional benefits result





The profitability index measures which firms best balance leverage and profit margin for the highest possible profits per partner.

It is calculated by dividing profits per partner by revenue per lawyer and represented by bubble size.

Source: Am Law 100 2012

Comparing Firm Performance

- Firm X
- \$411 Mill. Gross Revenue
- PPP: \$615,000

- Firm Y
- \$408 Mill. Gross Revenue
- PPP: \$1.4 Million

WHY THE DIFFERENCE?

- 735 Lawyers
- 181 equity partners
- RPL \$560,000
- PM 27% = \$111 M
- Leverage 554/181 = 3.1
- Expense/Lawyer \$408,000
- Hours 2,000 worked

- 498 Lawyers
- 92 equity partners
- RPL \$820,000
- PM 33% = \$133 M
- Leverage 406/92 = 4.4
- Expense/Lawyer \$552,000
- Hours 2,291 worked

How Well Is Your Firm Operating In The New Normal?

- Propensity to discount price
- Volume (work more)
- Efficiency at delivering services
 - Reduced expenses (including personnel)
 - Efficiency
 - Creativity
- Time taken to bill a client
- Time taken to collect

Understanding Key Profitability Drivers

Calculating Costs (by timekeeper)

- Timekeeper's compensation (salary, bonus, benefits, payroll taxes, etc.)
- Direct costs attributed to timekeeper (bar expenses, marketing expenses, etc.)
- Indirect costs attributed to timekeeper (share of office overhead, share of firm overhead, etc.)
- Total costs can be divided by hours expectation to compare make "apples to apples" cost per hour comparison versus other timekeepers

Applications to Your Role

- Training
- Staffing
- Hiring
- Performance Management
- Diversity

Applications to Your Role (Training)

- Incorporate business principles, including understanding of law firm economics into training curriculum
- Ensure that opportunities exist for less experienced lawyers to observe matter intake negotiations

Applications to Your Role (Staffing)

- Gain a detailed understanding of the client needs on each matter
 - Experience level requirements
 - Cost containment requirements
 - Jurisdictional limitations
- Goal of balancing capabilities and capacity with fully meeting client needs on each matter

Office	Timekeeper	Comp	Occup.	Secy.	CSG Costs	Other Costs	Total Costs	Hours Expectation	Cost Per Hour	Standard Rate
Atlanta	Junior Associate	\$156,853	\$64,840	\$23,860	\$0	\$13,924	\$394,445	1,900	\$208	\$270
Atlanta	Senior Associate	\$259,299	\$64,840	\$23,860	\$1,631	\$13,813	\$498,412	1,900	\$262	\$415
Chicago	Junior Associate	\$197,262	\$36,704	\$23,822	\$7,658	\$13,818	\$385,301	1,900	\$203	\$280
Chicago	Senior Associate	\$259,642	\$36,704	\$23,822	\$1,311	\$14,203	\$441,718	1,900	\$232	\$445
Kansas City	Junior Associate	\$128,367	\$25,910	\$19,843	\$2,035	\$15,562	\$307,679	1,900	\$162	\$200
Kansas City	Senior Associate	\$159,096	\$25,910	\$19,843	\$2,533	\$16,207	\$339,552	1,900	\$179	\$390
New York	Junior Associate	\$161,351	\$71,839	\$27,534	\$0	\$14,380	\$408,871	1,900	\$215	\$315
New York	Senior Associate	\$252,594	\$71,839	\$27,534	\$2,636	\$13,898	\$502,268	1,900	\$264	\$520

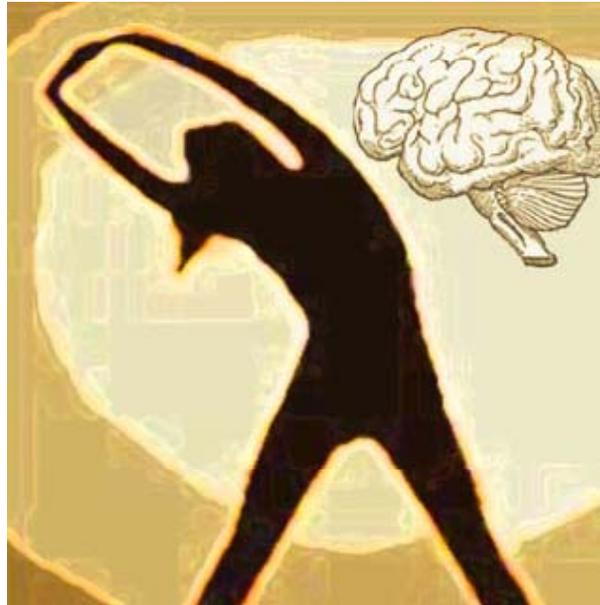
Applications to Your Role (Hiring)

- Identify opportunities for cross office or cross practice staffing, rather than adding a new hire
- Ensure an environment where interoffice and interpractice transfers are possible

Applications to Your Role (Performance Management)

- Identify potential efficiency issues before they show up in evaluations
- Identify commonalities among matters where inefficiencies exist and target training accordingly
- Analyze trajectories of relationship, originating, and responsible lawyer statistics to assess advancement potential

Exercise:



Applications to Your Role (Diversity)

- Compare metrics from a diversity perspective
- Implement systems so that diverse staffing can be measured and monitored

Recommended Reading

- Your firm's news/financials/reports/results
- The American Lawyer and The AmLaw Daily
- Law.com
- Adam Smith, Esq. blog: <http://www.adamsmithesq.com>
- Wall Street Journal
- Financial Times
- Managing the Professional Service Firm, David H. Maister
- NALP-industry news Digest
- ABA (Journal, Law Practice Management Section)
- Reports from the banks and consultants

Questions?



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