

ALA San Francisco Chapter
Lessons Learned from Law Firm Failures

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About Fairfax

Fairfax Associates provides strategy and management consulting
to law firms

Strategy & Direction	Merger	Performance & Compensation	Governance & Management
Strategy Development and Implementation	Merger Strategy	Partner Performance and Compensation	Governance and Management
Practice Strategy	Merger Search	Firm Performance and Profitability Improvement	Operational Structures & Reviews
Market and Sector Research	Merger Negotiation and Structure	Pricing	Partnership Structure
Client Research and Key Client Development	Merger Integration	Process Improvement	Alternative Business Models

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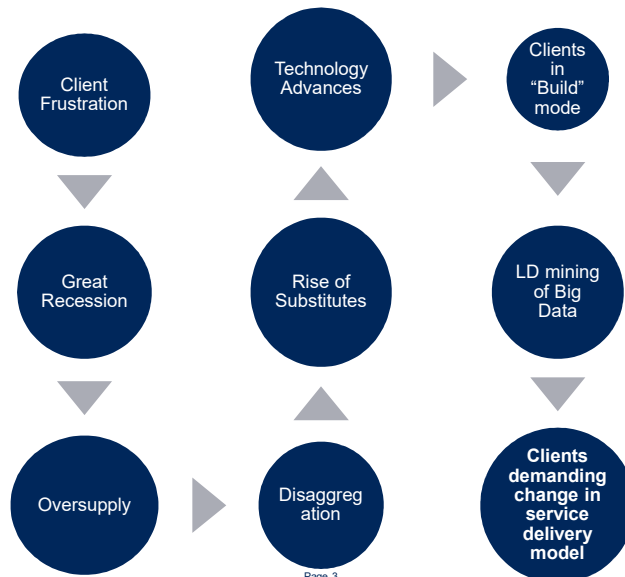
Topics for Discussion

- Disruptive Change
- Dissolution Trends
- Symptoms of Struggle: What Causes Law Firms to Fail?
- What Keeps Firms From Changing?
- Managing for Stability

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Market Disruption Over Time....



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How Rapidly is the Legal Industry Changing?

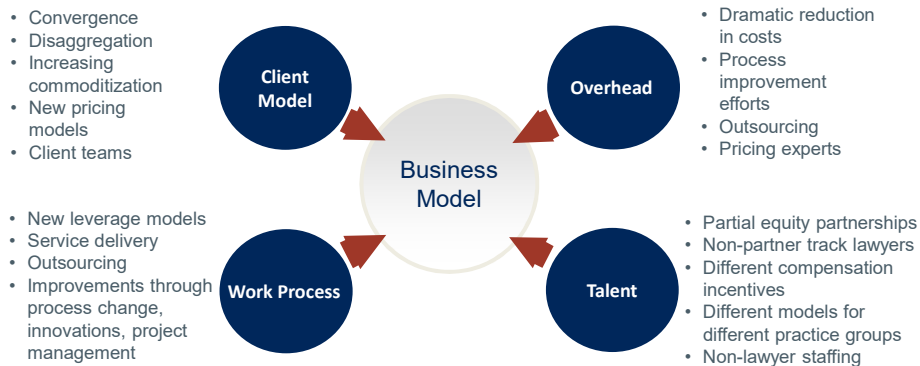
	Today	2004
Number of US firms at \$1 billion or more in revenue:	27	4
Average gross revenue for Am Law 200:	\$510 million	\$271 million
Median gross revenue for Am Law 200:	\$328 million	\$193 million
NLJ 250 firms with single office operations:	4	11
Number of Am Law 200 lawyers based outside US:	25,000	10,000

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How Rapidly is the Legal Industry Changing?

Changes to the Law Firm Business Model Underway



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Lessons from BlackBerry

Balsillie on the iPhone in February 2007:

"It's kind of one more entrant into an already very busy space with lots of choice for consumers ... But in terms of a sort of a sea-change for BlackBerry, I would think that's overstating it."

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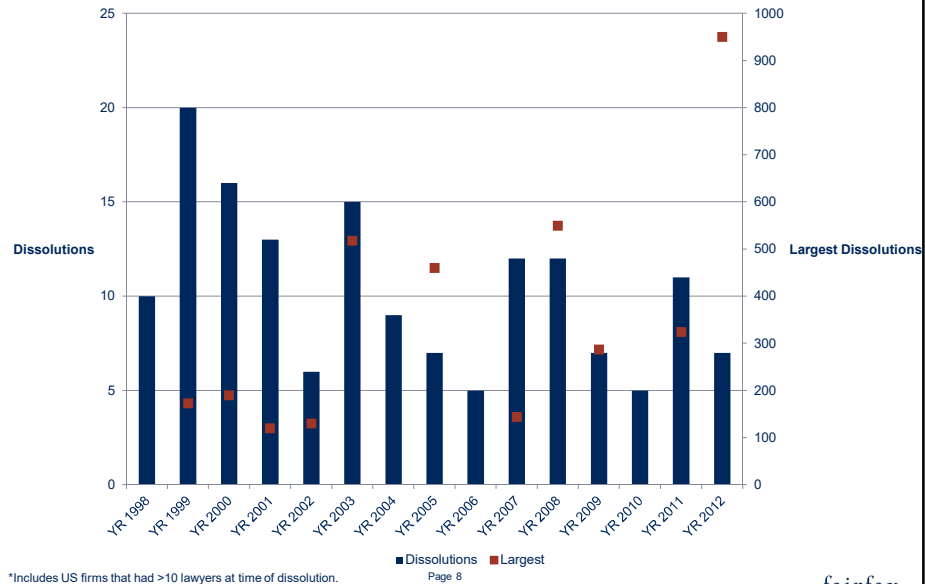
Recent Law Firm Failures

Firm	Size	Year Dissolved
Bingham McCutcheon	795	2014
Heenan Blaikie	540	2014
Dewey & LeBoeuf	900	2012
Yoss	180	2011
Howrey	324	2011
WolfBlock	287	2009
Dreier	155	2008
Thacher Proffit	170	2008
Thelen	400	2008
Heller Ehrman	550	2008

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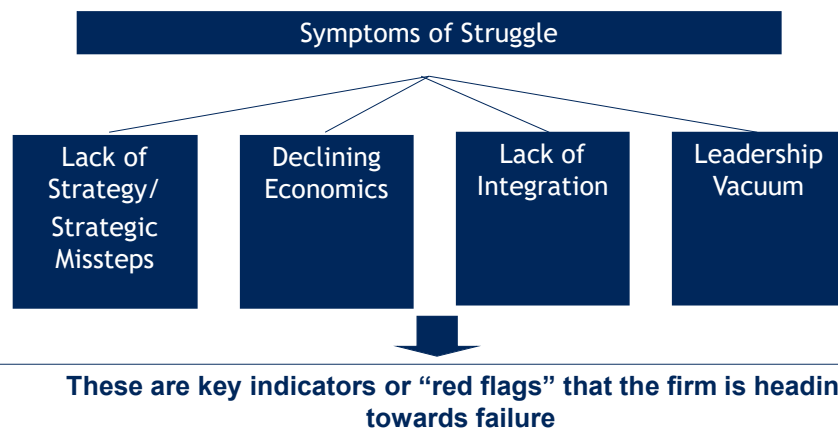
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Dissolution Trends



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What Causes Law Firms to Fail?



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Symptoms of Struggle: Lack of Strategy/Strategic Missteps

Catalysts

- Ill-defined strategy
- Poor strategy (e.g. size based)
- Not recognizing changed market fundamentals
- Over-dependence on one client or industry
- Inconsistency in strategic choices

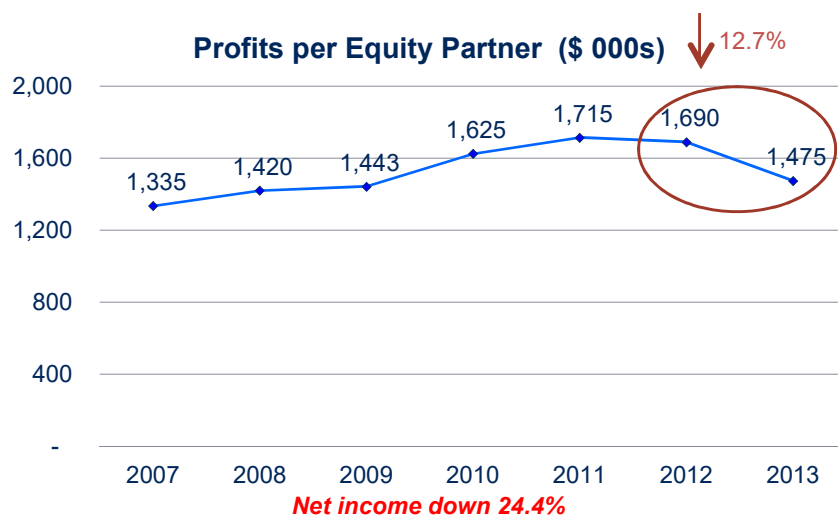
Impacts

- Competing internal priorities
- Loss of market position relative to competitors/industry
- Greater vulnerability to unexpected industry or client disruption
- Lost credibility and lost resources
- Getting blindsided when small erosions in business turn into a landslide

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Bingham McCutcheon's Turning Point



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Symptoms of Struggle: Declining Economics

Catalysts

- Declining financial performance and failure to manage productivity / deal with excess capacity
- Ill advised expansion
- Excessive debt load
 - Unfunded obligations
 - High fixed costs
 - Lateral guarantees
- Poor billing/collection practices

Impacts

- Decline in partner compensation and perception/reality that partners could make more elsewhere
- Less flexibility to deal with short-term economic challenges
- Underlying tensions surface between performing and underperforming partners

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Symptoms of Struggle: Lack of Integration

Catalysts

- Groups of important partners with conflicting or incompatible goals
- Collection of solo practitioners
- Failing to integrate across offices and practice groups
- Limited depth and expansive breadth

Impacts

- “Me first” attitude causes partners to look out for themselves instead of the firm
- Partners’ practices not self-reinforcing
- Vulnerability to spin-outs
- Vulnerability to loss of clients when partners leave

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Symptoms of Struggle: Leadership Vacuum

Catalysts

- Inability to confront tough issues
 - Poor performing partners
 - Changes in client preferences
- Poorly planned succession
- Lack of multiple voices at the top

Impacts

- Loss of confidence
- Lack of clear direction
- Myopic views of firm challenges and opportunities

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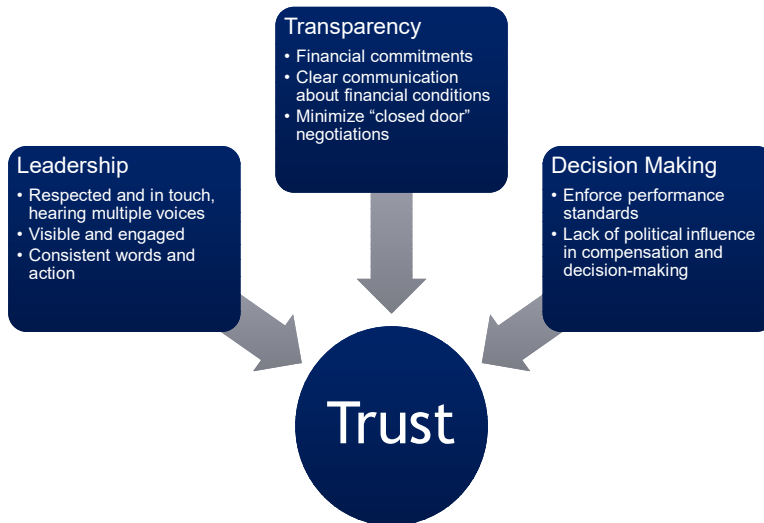
What Keeps Firms From Changing Direction?

- Lack of trust
- Current or past success clouds perspective
- Desire for 100% consensus
- Culture where no one is allowed to make tough decisions
 - The “kindler, gentler firm”
- Independent practices (mini firms, lack of teamwork, cooperation)
 - “I like it here because they just leave me alone”
- Compensation systems
- Legal training/risk aversion

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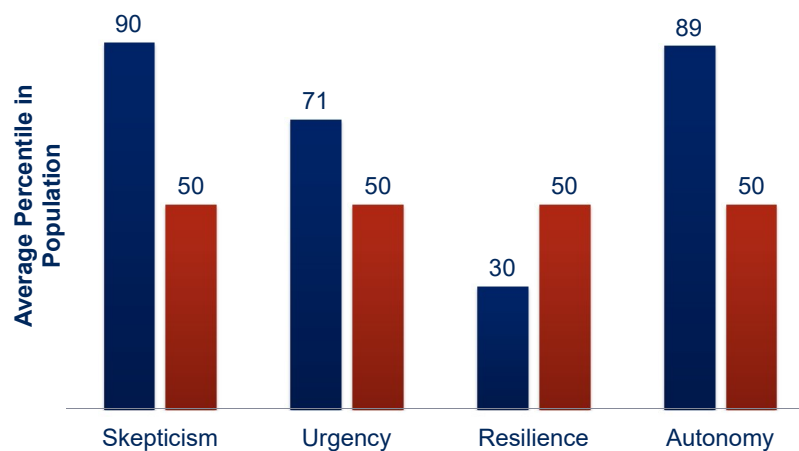
Building Resiliency to Weather Temporary Setbacks



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Challenge of Maintaining Partner Confidence: Typical Lawyer Personality Traits



Source: Dr. Larry Richard

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Managing for Stability

Manage Politics

- Understand political landscape and which partners are supportive and which are resistant to change
- Build coalitions with influential partners

Leverage Data

- External information on client trends and competitors
- Internal data on performance trends

Show Action

- Enforce performance standards where appropriate
- Ensure key influencers are leading by example

Encourage Integration

- Support and reward cross-selling and collaboration
- Facilitate sharing of internal resources

Review Policies

- Does compensation support strategic goals?
- Does your firm have clear succession plans for leaders and clients?

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Managing for Stability During a Period of Instability

But managing for stability is not about maintaining course in the face of major industry change:

“If you’re in business today and you’re trying to maintain the status quo, you’ll be toast.”

– Starbucks CEO

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Questions & Discussion

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This material formed part of an oral presentation and is not a complete record of the discussion.