StarTribune

Monday, February 22, 2010

Law firms must cope but have higher hopes

"Weathering the storm" becomes a new legal term as Minnesota law firms face smaller paydays.

By DAVID PHELPS, Star Tribune

It's a tough time to be in the law business.

Clients have fewer needs. Billable hours are down. Office staff are being shown the door.

The past 18 months or so have been painful for Minnesota firms. The consensus is that the worst might be behind.

"Like many of our clients, we didn't have a banner year in 2009," said Lowell Stortz, president of the Minneapolis firm Leonard, Street and Deinard. "But we came through a tough year in good shape …We're pretty optimistic about 2010."

The state's largest law firm, Dorsey & Whitney, began to batten down its hatches in 2008 in anticipation of a stagnant economy. Measures included a 7 percent cut in administrative staff early last year.

But even that was not enough.

Financial results are now available for 2009, and they aren't pretty for a firm that has a worldwide presence and a reputation for success.

Revenue was down last year by nearly 7 percent to $341.9 million, according to data provided by Dorsey to the trade magazine American Lawyer. That is the firm's first year-over-year decline in recent memory.

"We're hanging in there but this economy is tough," said Bryn Vaaler, a Dorsey partner who heads the firm's professional services unit.

Earlier this month Fredrikson & Byron laid off 15 legal secretaries to improve its lawyer-to-secretary ratio.

"Our lawyers were busy but our secretaries were not," said John Koneck, president of the Fredrikson firm. "Technology has changed the way we practice law."

Leonard Street and Deinard reportedly cut its marketing staff by 25 percent.

And Faegre & Benson ended 2009 with 40 fewer attorneys on its roster than in 2008. "We weathered the storm ... and are looking forward to 2010," said firm chairman Thomas Morgan, noting that performance in 2009 fell short of 2008 although some practice areas were ahead of plan.

"It's overhead and loss of revenue," said legal-consultant Roy S. Ginsburg about the industry contraction. "Most firms seemed to have weathered the storm by trimming expenses, but primarily the layoff victims have been staff, not lawyers. Lawyers have been certainly let go but mostly in ones and twos under the radar screen. And some firms are trimming their rates and raising the bar for associates [to produce]."

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>
> *Terrie S. Wheeler*
> *President, Professional Services Marketing*

Vaaler said the depressed economy has been a killer on corporate transactions, including mergers and acquisitions -- a core Dorsey practice. Litigation by corporate clients is down as well.

"There's more pressure to settle litigation rather than go forward and incur expenses," Vaaler said. "People want to settle up and move on."

Dorsey's bankruptcy and restructuring practice was up, which is generally the case in a down economy, he said. Public finance work with units of government also is up. But that increase in work couldn't make up for the hurt felt by the general corporate practice.

Vaaler said the firm probably will hire 40 new associates this year, down from 95 to 100 per year before the recession hit.

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The National Law Journal reported late last year that its survey of the largest 250 law firms, including seven based in Minnesota, reported an 8 percent decline in lawyer head count for 2009. That's in contrast to an average annual increase of 4 percent for most of the past 25 years.

University of Minnesota law Prof. Herbert Kritzer said financial problems for law firms often start in the corporate board rooms of their clients.

"Clients, particularly big clients, have more leverage now and can push billing rates down," Kritzer said. "Some big clients have informed their outside counsel that they want to pay the rates they were paying several years ago."

Dorsey's Vaaler agreed that billing issues are definitely on the table during client discussions, including flat rates, volume discount and results-oriented fees as opposed to customary hourly billing. "But I'm not sure anyone has invented that improved mousetrap yet," Vaaler said. "We're trying to figure out what is the new 'normal."

One of the unintended consequences of an economic downturn is that the rates charged by Minnesota firms suddenly look like a bargain compared with the rates charged by lawyers on the East and West coasts. Clients squeezed on their bottom line would rather pay $350 an hour for a Minneapolis attorney doing the same work as a New York attorney at $700 an hour.

"We've gotten work from large businesses that we would never have gotten before," said Fredrikson's Koneck. "Business America is starting to look for more value from their lawyers."

But it's not just large law firms that need to get creative to navigate this rough economy. Legal marketing consultant Terrie Wheeler said her business is up as small and medium-sized firms seek ways to retain and expand their client base.

"One of the most important things is to morph your services around your client's needs," said Wheeler, president of Professional Services Marketing. "You have to do a better job of communicating to let the clients know you're thinking of them. It's not all about our law firm and how much money we're going to make this year."

Terrie S. Wheeler, MBC founded Professional Services Marketing, Inc. (PSM) in 1996 - a consulting firm dedicated exclusively to working with professional services firms and the individuals within those firms. Terrie has more than 20 years of business planning and marketing experience at all levels including firm-wide, regional office, practice group, industry, and individual marketing initiatives. Since founding the company, Terrie has helped scores of services firms develop and implement strategic business and marketing plans.

Using her years of experience, Terrie has created of www.MarketYourLawPractice.com, an interactive, web-based marketing tool designed especially for lawyers.

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