Law firm practice look-back and outlook

Trends and insights from RSM’s national business and professional services practice leader

An interview with:

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RSM US LLP’s national business and professional services practice leader, Barry Rosenthal, shares his insights in the following Q&A format on what law firms could experience in key practice trends, challenges and opportunities for 2016. Throughout his career, Barry has been involved extensively with all aspects of accounting, taxation and management advisory services related to closely held companies, with a particular emphasis on law firms. He is a sought-after speaker, having presented at several American Lawyer Media seminars and other national law firm management conferences on a broad range of topics, including law firm profitability enhancement, compensation and administration. In addition, he regularly writes articles and has developed and presented numerous accounting training programs for national legal and business and professional services organizations.

Practice growth insights

What have you seen in terms of law firm expansion and what’s trending for 2016?

Back in the 1980s and 1990s, U.S. law firms predominantly expanded their practices to the West Coast in support of growing Pacific Rim business needs and, geographically, that’s where firms could best connect with those foreign activities. The Midwest was bypassed back then, as well as other regions, in lieu of expansion in cities like Los Angeles or San Francisco. However, today law firms realize the Midwest and locations all over the U.S. have great opportunities for expansion, so more and more we are seeing large New York and other national firms merging with firms in Chicago, or in smaller Midwestern cities. This geographic move allows national as well as international
firms to expand their customer reach and serve their clients with a local presence, local resources and local pricing.

**Why is it important for U.S. firms to consider global expansion?**

Today, businesses large and small exist in a dynamic global economy. A firm can have a client in the smallest of cities in the U.S. and because that client buys or sells goods in China, they need international expertise and legal representation there or in any other country they might be doing business in. In terms of commerce, there is an equal-opportunity business playing field for everyone, here in the U.S. and abroad. Clients have interactions with vendors, customers and partners in places like the United Kingdom, Germany, India, Singapore and other remote corners of the world. Wherever they are, legal representation is needed. So, yes, global expansion is a key strategy for firms as they look toward growth and the way they serve clients. Firms must expand globally to stay competitive in the market. Some do this through mergers with international firms, but others are doing this via an international alliance or affiliation. As far as where law firms are expanding, there’s not one specific place that’s trending. Rather, firms are going where their client demand is.

**What’s trending related to billable data for law firms?**

Previously, many firms billed under a standard set billing rate regardless of the market area or service offering. However, clients now are looking closer at their fees and want deeper discounts. Firms must scale down based on what the local economy dictates, but at the same time, they need to stay market competitive and increase compensation. Parallel to this, we’ve seen billing rates increase by 3 to 5 percent at the associate level, and at the higher levels billing has gone up slightly. However, the real issue is that while billing rates have gone up, net realization has gone down. We’re seeing this more and more as, again, discerning clients who are careful about keeping costs down contest billing and drop services. To combat this billing realization issue, some law firms are using overseas operations to help with rudimentary scanning and project work. Doing this basic work overseas allows firms to improve realization.

**What other notable trends are you seeing affecting law firms?**

As law firms look at outsourcing in India, for instance, as an overseas alternative to help with basic pass-through or scanning work in order to control billing costs, the law firm industry as a whole is also looking at artificial intelligence (AI) to complete some of this routine work. AI and new technologies could perform many of these same pass-through duties, scan documents and complete other functions, thereby increasing process efficiencies and reducing costs.

Another trend involves evaluating office facilities. Today, the second largest cost a firm incurs, behind compensation, is for office space rent. These days, clients rarely come in to offices so lavish meeting rooms and corner offices are truly wasted frills. Rather, efficient office space is the ideal, and progressive and growing firms are looking to make their spaces smarter and more functional.

**Technology trends**

**What’s trending in how firms are using new technology?**

As mentioned earlier, AI is a major new technology for law firms to consider. In addition, firms must implement overall IT infrastructure updates and key security and privacy measures. Many large company clients require direct access to their files being maintained by their law firm. This means strict security and increased measures to assure safe access. Technology is the third-highest expense for firms and typically 4 percent of a firm’s gross revenue. A substandard approach and a weak commitment to the expenses associated with updating and maintaining critical IT systems will cost firms more in the long run. Spend now or firms will spend later to clean up the aftermath of antiquated and inefficient systems.

**Is information security a growing concern for law firms, and if so, what are they doing to combat cyber crime?**

Yes, as I mentioned above, the security and privacy of client information is paramount to all law firms. Firms must aggressively combat data breach and cyber crime. There is a variety of nefarious tactics levied upon them including hacking, malware, social engineering and physical loss or theft of a laptop or device. Firms can combat cyberattacks by instituting security controls and tools. While law firms often pursue some of these controls, they rarely have all of them in place, which would ensure the greatest security. For more on this, read The obligation to protect and prevent: What law firms need to know about information security and data breaches, written by my RSM colleague, Andy Obuchowski, national practice leader for digital forensics and incident response services.

**Challenges and opportunities**

**What are some major risk areas and opportunities for law firms and what should firms be concerned with for 2016?**

While the good news is the economy is on an upturn, bankruptcy work has declined and with that, litigation, the core service of many established law firms, has regressed as well. Litigation practice work has gone down nearly 25 percent over the last few years. However, on a promising note, mergers and acquisitions work has soared. This has boosted work with private equity groups and in real estate. In addition, intellectual property work continues to grow in connection with the technology and life sciences industries. The key to firm growth is being mindful of those industries and practice areas that can remain consistent in a volatile economy.

Another risk area we’ve seen relates to the number of lawyers unemployed presently. In 2008, when firms had to downsize, they cut down on their staffs and attorneys. When the economy improved, firms saw they could continue to do the work without the added staff, associates and partners. Currently, the market is seeing an excess of lawyers and recently graduated law students unable to find work. The trend may we see is firms could hire contract lawyers for specific projects or time periods, avoiding the expense and commitment to large annual salaries and benefits packages.
In terms of U.K. firms, what is a major opportunity for them in 2016?

Previously, when U.S. firms wanted to expand abroad, they typically first went to the U.K. to open an office. The U.K. frequently represented that overseas gateway to international business. However, we are now seeing the reverse, as a number of U.K. firms looking to expand in the U.S. are opening offices here. This, in part, is due to a large number of international pharmaceutical and life sciences companies doing work in the U.S. Just as U.S. firms need to be abroad for their clients, U.K. firms are doing the same in the U.S. as their clients require representation, accounting work and other finance services that are bound by U.S. regulations and policies. If U.K. firms don’t expand their practice offerings to the U.S., or form alliances with U.S. firms, client business could be lost to competitors. It is a significant opportunity for U.K. practices.

For additional information on any of these topics discussed in this article or to learn more about RSM’s business and professional services practice, contact us.