

LAW OFFICE MANAGEMENT & ADMINISTRATION REPORT



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Industry-Focused Practice Teams Help Graham & Dunn Gain Market Share

In recent years, legal industry consultants have touted the benefits of industry-focused practice teams. Many law firm leaders have certainly been trying out the concept, putting litigators and corporate lawyers together on interdisciplinary practice teams that target various industries, in a bid to build expertise and a client base in those industries and to help their firms carve out new (and, hopefully, profitable) niches in the legal market.

"For midsize firms, it's impossible to be all things to all people," says Joe Altonji, a law consultant with Hildebrandt International. "For smaller firms, especially, it's important to have some defined focus." Still, while a lot of firms have taken big steps to assemble industry-centered practice groups, Graham

CONTINUED ON PAGE 7

IN THIS ISSUE

Industry-Focused Practice Teams Help Graham & Dunn Gain Market Share 1

How to Achieve Marketing Mastery ... 1

TEAMBUILDING
Building Blocks Key for Firm Success 1

NALP Data: First-Year Pay Flat at \$125K..... 2

HEALTH-CARE BENEFITS
Can HC Consortia Help Your Firm Build Purchasing Clout? 4

Essential Steps to Safeguard Employee Files & Documents 6

News Briefs 8

- Law firm mergers are on the rise
- And more ...

LOMAR Calendar ... 10

LOMAR Law Office Cost Index 11

How to Achieve Marketing Mastery

What makes one law firm more successful than another? It's a facetious question, obviously, but there's no denying that flourishing firms tend to have a few things in common.

Such as? For starters, they tend to have an ambitious but doable strategic plan; a long-term roadmap for hiring and retaining talent; a supportive culture; and a system that fosters ongoing relationships with great clients.

Effective marketing is also a critical ingredient in a firm's recipe for suc-

CONTINUED ON PAGE 12

TEAMBUILDING

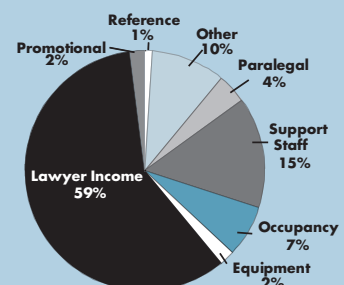
Building Blocks Key for Firm Success

Let's face it, for many law firms a team-centered approach won't work. But why? For insight, we asked firm leaders who've succeeded (and failed) with the approach. The consensus was that leaders who don't address the fundamentals required for success (including effective leadership and partner buy-in) won't see results.

The lesson for law firm leaders: Those intent upon

CONTINUED ON PAGE 15

2004 Average Income and Expenses Per Lawyer As a Percentage of Receipts



(Source: 2005 Survey of Law Firm Economics)

NALP Data: First-Year Pay Flat at \$125K

In sharp contrast to a 30% increase in the salary median from April 1999 to April 2000, the latest data culled from NALP's new *2005 Associate Salary Survey* reveal that in some major cities, such as Los Angeles and New York City, as well as the Silicon Valley area, the prevailing salary of \$125,000 for first-year associates in large firms has remained unchanged since April 2000. Similar salary stability was last experienced a decade ago in the mid-1990s.

Indeed, a comparison with figures reported for the previous five years reveals that first-year salaries have remained sta-

ble in firms with 251 or more lawyers during this period, with a median of about \$110,000. According to NALP's survey, the median salary for first-year associates ranged from \$67,500 in firms of two to 25 lawyers to \$125,000 in firms of more than 500 lawyers. The first-year median for all participating firms is \$100,000 (see the table, "Median Base Salary by Associate Year and Firm Size").

As expected, each year of associate experience brings several thousand dollars in increased compensation: Median salaries for eighth-year associates ranged

Median Base Salary by Associate Year and Firm Size

Associate Year	Firm Size (Number of Lawyers)					
	2 to 25	26 to 50	51 to 100	101 to 250	251 to 500	501 or More
First	\$ 67,500	\$ 80,000	\$ 83,000	\$ 88,000	\$105,000	\$125,000
Second	75,000	86,000	86,000	91,400	108,000	130,000
Third	77,250	83,000	89,000	93,600	111,875	135,000
Fourth	88,000	92,927	94,000	97,000	118,300	145,000
Fifth	91,000	93,000	95,000	101,000	125,000	153,225
Sixth	94,000	98,000	97,510	107,000	131,250	165,000
Seventh	97,000	98,000	101,500	111,625	136,625	175,000
Eighth	109,000	108,000	105,554	117,917	144,333	181,500
First-year summer*	950	1,225	1,500	1,500	2,166	2,400
Second-year summer*	1,200	1,400	1,540	1,642	2,000	2,400
Third-year summer*	1,100	1,300	1,540	1,350	2,025	2,400

*Weekly salary.

(Source: NALP)

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from \$109,000 in small firms to \$181,500 in the largest firms, with a median for all reporting firms of \$145,000.

The survey includes an analysis for 31 individual cities, as well as many additional states and regions not encompassed by those cities. These analyses reveal a wide range of law firm compensation. For example, the median salary for first-year associates in all firms of more than 251 lawyers was highest in the Northeast, at \$125,000, followed by \$112,500 in the West, \$105,000 in the South, and \$95,000 in the Midwest. The highest first-year salary reported was \$130,000.


The typical salary for first-year associates in large firms stood at \$125,000 in a number of cities beyond New York. These include Boston, Chicago, Los Angeles, and Washington, D.C., and the San Francisco Bay area. In contrast, medians in smaller metropolitan areas such as Cincinnati, Hartford, Indianapolis, Portland, Ore., and Sacramento were in the mid to upper 80s.

Contrasts between large cities and smaller metropolitan areas within the same state are also evident. For example, in firms reporting from areas in California outside Los Angeles, San Diego, Sacramento, and the San Francisco Bay area, the first-year median was \$80,000.

NALP also gathered data on salaries for intellectual property (IP) lawyers, as well as general data on salary levels for staff attorneys and law clerks. Though data on salaries for IP attorneys were more limited, it clearly suggests that they command a salary that is \$15,000 to \$30,000 higher, with larger differentials among more senior associates. Salaries for staff attorneys, additional findings show, are typically \$88,000, while the median hourly salaries for law clerks range from \$23 to \$40 depending on firm size.

The survey also reports on bonus systems at participating firms and the prevalence and size of bonuses for prior judicial clerks. Among the findings on bonus systems: Almost three-quarters of firms use discretion as a factor to determine eligibility for bonuses.

Almost two-thirds of firms use “meeting fixed goals” as a determinant of eligibility, although firms of 101 to 250 lawyers and 251 to 500 lawyers are most likely to do so, at 74% and 84%, respectively. Bonus amounts were based on various factors, the most common being billable hours (74%), merit (70%), and discretion (62%). Most (75%) of the largest firms of 501 or more lawyers reported paying a bonus to prior judicial clerks. Relatively few smaller firms did so. Bonuses of \$10,000 to \$15,000 were most typical.

For more information on the complete survey—which includes results by city and region, medians, averages, and ranges of base salaries for associates through the eighth year; information on aggregate compensation for associates; and compensation structures—visit NALP’s online bookstore at www.nalp.org/gocart/products.php. 

Coming to future issues of LOMAR

- Highlights from LOMAR’s 2006 Law Firm Management Survey
- Solving the Distributions Dilemma: How “Smart” Firms Are Proceeding
- An Insider’s Peek Into Top-Performing Law Firms Shows What Gives Them an Edge
- Partner Pension Plans: What Firms Need to Know Now
- New Data on Year-End Merit Increases
- Outsourcing Do’s and Don’ts
- Is Your Firm’s Web Site Still an Effective Marketing Tool?

HEALTH-CARE BENEFITS

Can HC Consortia Help Your Firm Build Purchasing Clout?

Veteran law firm leaders likely remember when things first took a turn for the worse and health-care costs spiraled out of control back in the late 1980s and early 1990s. Back then, costs were consistently rising by double digits (with some years averaging 18%) and managed care was just emerging, with HMOs offered as a choice alongside indemnity plans.

Health-care vendors were reluctant to underwrite law firm business, and rate increases were hard to negotiate. Moreover, with a large number of health insurers available, the common solution was to bid programs frequently to obtain the best cost structure—a concept that became more difficult as network access/disruption emerged as a critical component and the delivery system became more complex.

The main lures for firms are enhanced service, plan design, and the ability to pick from a menu.

Same story, different day.

In short, it's not all that different from what law firms are experiencing today, explained William Stanton of Palmer & Cay, a Savannah, Georgia-based firm that offers a range of consulting services, during a recent audio conference hosted by LOMAR's publisher, IOMA.

In an attempt to find a solution in the mid-1980s, Stanton, who handles issues relating to compensation, benefits, and retirement services, began working with Phyllis Gardner, then the executive director of Washington's Steptoe & Johnson. *The goal:* To gain leverage by working with a carrier (or carriers) who would focus more on law firms' needs and be willing to price more

competitively, provide higher levels of service, and the like. After a feasibility study of law firms in Washington D.C., in January 1994 they implemented what was then the first law firm health-care consortium.

Today, the D.C. Consortium—which consists of five law firm members: Dow Lernes & Albertson; Finnegan Henderson; Patton Boggs; Steptoe & Johnson; and Wiley Rein & Fielding—offers services including health care, dental, prescription drug coverage, EAP, and vision coverage. Each firm has at least 250 participants covered (partners, associates, and staff). And in response to a request from Chicago law firms, the Chicago Consortium was established effective July 1, 1998 with four law firm members.

Why consider the HC consortium model? Although there's a tendency to talk a lot about the financial benefits, Stanton believes the main lures for firms are enhanced service, plan design, and the ability to pick from a menu those plans that meet each firm's individual and cultural objectives.

"That was one of the biggest draws for us; we, as a firm, would have the option to select from different menu plans [with] different deductibles and different out-of-pockets. We certainly have much more flexibility than we would have had as an individual firm," Tonya Poole, director of human resources, Atlanta's Arnall Golden Gregory, told attendees. The Atlanta Consortium went into effect in January 2000.

Interestingly, the consortium model is especially appealing to law firms since most are greater consumers of benefits than is typically seen in other industries. This gen-

erosity distinguishes firms, Stanton asserts. Indeed, there are common denominators that transcend firm size and geographic location that may make consortiums appealing to law firms, such as:

- **The need for no- or low-hassle benefits plans.** “Law firms don’t want a lot of noise,” says Palmer & Cay partner Pennie Hinds. “Firms want contracts that are pretty inclusive of services without a lot of internal limits, exclusions, and pre-certifications. They want control over health-care expenses, but they don’t want to have [members of the firm] fighting with their physician about treatment protocols. Firms would rather pay more or have a higher cost-sharing in terms of deductibles or co-insurance than have the managed-care battles where people can’t get the care they need.”

- **Sensitivity to affordability issues.** According to Hinds, some of the firms in the consortium have initiated programs that have lower deductibles for staff employees, midsize deductibles for associates, and higher deductibles for partners. “There is awareness that there are different levels of income within the law firms and that staff need to be protected while the associates and partners may have more of an ability to pay for services.”

What a law firm HC consortium is—and isn’t. Palmer & Cay looks at the various plans offered to arrive at a final menu of choices. “There can be as many as seven different plans or as low as four different plans, but the [point] is to create enough plans to satisfy the majority of the needs of firms represented in the consortium,” Stanton told attendees. He drives home the point that a consortium is neither an association nor a multiple-employer welfare plan. *How it works:*

- All participating law firms share in the

savings generated from reduced expenses and large group underwriting.

- Participating firms select their own benefits choices from an agreed-to-benefits menu.

- Each participating law firm maintains its own specific eligibility and contribution strategies.

- Each firm participates in the consortium through an approved participation agreement that satisfies insurance department requirements.

- The consortium, because of its size, typically can include performance guarantees and penalties applied to the consortium carriers and service providers.

- An acceptable participation agreement for the law firms, insurance companies, and partners is created by the law firms in each city.

- Fully insured medical, dental, and vision programs are available. In addition, a national purchasing alliance for prescription drugs is available as a choice on a self-funded basis.

- The program is sensitive to anti-trust issues; firms do not subsidize each other’s claims experience.

- Cost is allocated to each firm based on each’s prior claims experience, plus total consortium fixed expenses.

- The consortium’s total size produces reduced costs for each firm in the areas of risk charges, administration, pooling, and network fees (savings ranges from 3% to 5% per year). In addition, margin is eliminated (5% to 7% reduction).

- Participating law firms must be large enough to have credible experience (200 or more partners, associates, and staff).

- Rates are renewed annually. Plan design modification coincides with renewal and benefits issues identified during the course of the plan year.

- Each firm is allowed separate eligibility rules, waiting periods, and contribution schedules tailored to their organizational considerations.

- Each firm maintains a direct relationship with the carriers for service and claim problems.

- Group consensus is needed on the number of plan options and benefits design as it pertains to medical, dental, vision, and prescription drug programs. Group consensus is also needed on carrier selection, service providers, and managed-care networks.

- Each law firm within the consortium has equal voting power.

- Programs for the consortium are developed to provide national network access and coverage for

firms with multiple locations.

- Performance agreements with penalties and incentives are commonly part of the consortium agreement.

For more information on the law firm HC consortium model, contact Palmer & Cay's William Stanton at 888-335-0931.

To learn more about the audio conference, "Law Firm Health Care Consortium: How to Reduce Rising Insurance Costs," go online to www.ioma.com/audioconferences/407.html. To order a copy, contact IOMA Subscriber Services at 212-244-0360; subserve@ioma.com; or the Web site. Request product code 5A006C for a CD or 5A006T for a tape. Cost: \$275 each. □

Essential Steps to Safeguard Employee Files & Documents

We've all read the headlines: Personnel records including a host of private information fall off a truck or a hacker retrieves data from a company network. This couldn't happen to your firm. Or could it? LOMAR believes that the recent disclosures of lapses in data privacy and security should sound alarm bells for law firms. Protecting the content and confidentiality of your employee payroll and employment information is a must. With the threat of identity theft an ever-present concern, firms must take precautions to secure computer records and safeguard paper files.

The primary issue in protecting employee records is who has access to them. Of course, employees should have access to their own data within the confines of a designated office or through private codes on the firm's intranet. If the firm's payroll department is offsite, information requested in writing by an employee may be conveyed in a confidential envelope delivered by the person's supervisor.

Here are some tips on how each department that interfaces with employee data should protect the information that it handles:

- **Payroll.** How your payroll department is situated is important. It should never be an open area where nonpayroll employees can see or hear its inner workings. Nonpayroll employees, including managers and supervisors of other departments, should never have access to it, unless their request is approved and they are accompanied by a designated supervisor.

Desks and file cabinets should be locked when employees are away from them and

"Create enough plans to satisfy the majority of the needs of firms represented in the consortium," Stanton told attendees.

after hours, but especially when the office is being cleaned. Secure all computers or at least turn them off after hours to prevent accidental access, a break in, or hacking.

Staff duties need to be surveyed to determine what level of access each employee needs. A staff person who processes time-cards and invoices has no need for complete access, while the supervisor who submits the payroll to an offsite service needs to keep his or her computer under lock and key. Limiting access to records protects sensitive payroll information while also providing audit trails and internal security.

Payroll staff also need to be protected, especially anyone who handles garnishments, since such staff have been targets of recent workplace shootings. Although it is customary to include phone extensions or e-mail addresses on Web sites to help employees contact the right staff when they need assistance, the garnishment contact should be the main payroll line or e-mail address, the manager's number or e-mail, or a separate number with voicemail-only capability. Never use the name of garnishment personnel; the employee returning a call or e-mail should use a designated code name.

- **Human resources or benefits.** New hire and employee data and benefits information needs to be stored in designated and secured paper or electronic files with routine backup systems. The computers storing employment data should be separate from those storing payroll data. If there is an overlap, then staff handling employee records should have read-only access to payroll data. There is no reason for payroll staff to have access to employee records. Again, secure all computers to prevent accidental access, a break in, or hacking.

- **Information technology.** IT personnel who don't interact with payroll or em-

ployment software, but handle other software functions such as maintaining the Web site or the e-mail system, do not need access to employee files. However, they will need access to upgrade and adjust software or to repair a hard drive. This should only be done when a designated manager is there to supervise the installation or repair.

Safeguarding employee data on paper files and records. Regardless of how old records are, they still contain sensitive data. Now that government agencies accept electronically stored data on microfiche or CDs, it's best to store all records electronically and destroy paper copies. However, during the current year when hard copies of payroll records and employee forms are in use, they should be stored in a locked office or area. Never mix these records with those of other departments to save space and money. □

Industry-Focused Teams

CONTINUED FROM PAGE 1

& Dunn, a 50-lawyer firm in Seattle, has really taken the idea to heart. "They're one of the few [midsize] firms that have made it the primary focus of the firm," he says.

Making the transition: Five years ago, Graham & Dunn's management decided to stake the firm's future on an entirely industry-centered approach. Prior to that, the firm had operated much like any other full-service law firm, with separate corporate and litigation departments. And though it had well-established specialties in areas like banking and real estate, it represented clients from more than a dozen industries.

Graham & Dunn's management committee decided that this approach of "tak-

CONTINUED ON PAGE 10

NEWS BRIEFS

LAW FIRM MERGERS ARE ON THE RISE

U.S. law firms were involved in 15 mergers and acquisitions in the second quarter of 2005, bringing the total number of completed mergers for the first half of the year to 34, according to the Hildebrandt International law firm consultancy's latest MERGER WATCH. Merger activity is up compared to the 25 mergers completed at the midpoint of 2003 and 30 completed in the first six months of 2004. In addition, five mergers have already been announced and will become effective in the third quarter.

Hildebrandt also notes that the majority of firms completed mergers that extended their geographic reach, with 26 of the 34 firms combining with out-of-state firms—and, in some cases, adding to existing offices. New York and California continue to be the strongest inbound markets with five mergers each.

The most notable trend thus far is the size of the combinations relative to 2003 and 2004. The largest merger of the year to date is the combination of London-based DLA with Piper Rudnick and Gray Cary to establish a firm with more than 2,600 lawyers. The largest deal in the second quarter was the merger of Pillsbury Winthrop and Shaw Pittman, creating a firm of approximately 900 attorneys.

SPEAKING OF LAW FIRM MERGERS, HERE'S HOW TO ENSURE THEY WORK

Did you know that failed law mergers have more than a few things in common? If your firm is considering a union, CPAs and consultants with Israeloff Trattner & Co. in Garden City, New York, say it pays to address the following seven issues early, often, and thoroughly:

1. Capital value differences. Reconcile the excess of one firm's capital over the others, and if it's paid out, make appropriate financial plans.

2. Partner compensation. If the firms' compensation methods differ, devise a single approach for the merged firm.

3. Firm management. Discuss early on who will be on the new management team, and base all decisions on the specific merits of various partners. Know, too, that you may need to deal with areas of overlap and assuage the concerns of partners who didn't make the grade.

4. Outstanding receivables. Get set to choose between contributing outstanding receivables to the new firm or liquidating them under the former individual partnerships.

5. Valuing goodwill. If goodwill is part of the deal, you'll need to hire a qualified expert to perform a valuation.

6. Partner retirement plans. If plans are funded at different levels, create a new, single plan for the merged entity.

7. Office space. Evaluate the locations, office features, and lease terms of both firms. Reach a consensus about keeping both offices or moving into a new space.

ABA PANEL DEBATES THE ETHICAL IMPLICATIONS OF OUTSOURCING

Outsourcing of legal work continues to gain acceptance, but is it ethical? The concerns are the same regardless of whether firms outsource overseas or domestically, attendees learned at the ABA National Conference on Professional Liability.

Key questions: How does outsourcing affect clients and the profession? Thus far

NEWS BRIEFS

there isn't much on the subject in case law or ethics opinions, explained Douglas Richmond of Aon Risk Services in Chicago.

Another speaker compares outsourcing to firms' use of contract attorneys, which is covered in ABA Formal Ethics Opinion 88-356 (1988). Specifically, the opinion maintains that "supervisory lawyers must make reasonable efforts to ensure that any temporary lawyers they engage comply with the jurisdiction's ethics rules. Among other things, temporary lawyers must be told that they are required to keep clients' information confidential."

AN ESSENTIAL COMPONENT FOR YOUR FIRM'S PARTNER COMPENSATION PLAN

Legal management guru Joel Rose of Joel A. Rose & Associates, Inc. in Cherry Hill, N.J. highly recommends that partners be required to put together a personal business plan of expected performance to define their minimum acceptable contributions.

As Rose explains in the latest issue of his free online publication, *Profitable Law Firm Management* (log on to www.joelarose.com to subscribe), "In effect, each partner contracts with the firm for what his/her contribution will be for the following year. Establish minimum billable and nonbillable hour and production expectations (collections at standard rates) for all partners. Different partners may have different goals based upon their interests, talents, abilities, and the like."

In addition, each plan should:

1. Customize each partner's billable and nonbillable hour and production expectations prospectively.

2. Recognize extraordinary management,

marketing, training hours, etc.

3. Recognize only quality time; recording time is not enough.

4. Include a projection of production (collections at standard rate), billable hours, specified nonbillable projects, and extraordinary origination expected.

According to Rose, "An origination credit of 20% to 25% is within the range paid by many firms. However, some pay as low as 15% and others as high as 30% to 33-1/3%. The amount of available cash, along with what percentage will motivate partners determines the appropriate percentage."

TAKE TIME THIS MONTH TO HONOR LEGAL MANAGEMENT PROFESSIONALS

The Association of Legal Administrators and six cosponsoring organizations recently announced the creation of Professional Legal Management Week to be held Oct. 3-7, 2005. The objectives of Professional Legal Management Week are to provide awareness, understanding, and education about the legal management profession, and to increase knowledge of the diverse roles within the profession.

Professional Legal Management Week will be observed annually during the first full week of October and is spearheaded by the Association of Legal Administrators. Cosponsoring organizations include the ABA Law Practice Management Section; the American Association of Law Libraries; the International Legal Technology Association; the International Paralegal Management Association; the Legal Marketing Association; and NALP—The Association for Legal Career Professionals.

For more information visit www.plmw.org.

Industry-Focused Teams

CONTINUED FROM PAGE 7

ing on everything and everybody,” as chief operating officer Betty Greene puts it, wasn’t going to cut it over the long haul. So in 2000, as part of an update of the firm’s strategic plan, the management committee laid down the blueprint that ultimately led to the dismantling of the firm’s traditional department-based structure.

Now, most of the firm’s lawyers are organized around a select handful of industry-focused teams. *The goals:*

- To develop clear expertise in a few areas.
- To aggressively market that expertise to clients in those industries.

“As a midsize firm, we looked into the future and decided we needed to find a more effective way to distinguish ourselves,” says Graham & Dunn management committee member Irvin Sandman.

The first big step in the overhaul, of course, was deciding which industries to target. In announcing the plan, the management committee asked partners to propose industries that they believed had the greatest potential—and to make detailed presentations on why those industries would be the best choices. In the end, the firm settled on four areas.

Two of these—real estate and financial services—were relative no-brainers, since the firm already had well-established expertise and major clients in both industries. The other two choices: a communications practice that would include media, Internet, and wireless company clients, and a hospitality, beverage, and franchise practice that would represent national hotel chains, along with the burgeoning wine industry in Washington state, among other clients.

In making those choices, Graham & Dunn’s management factored in the industries’ growth potential. But just as important, says COO Greene, was whether the firm had a strong candidate to lead the group. For instance, in opting to launch the hospitality and beverage group, it knew it could count on strong leadership from long-time partner Irvin Sandman, who already had major hotel clients, such as Starwood, and was a regular speaker at hotel industry conferences.

“We knew we needed a champion; someone who was intensely involved in the industry, and who’d be able to promote the group,” says Greene.

Once the firm settled on the plan and the

LOMAR Calendar

Diversity Management Series for Law Firm Practice Leaders, Atlanta, Oct. 11 and Nov. 9. Contact: The American Institute for Managing Diversity, 1155 Peachtree Street, N.E., Suite 6B, Atlanta, GA 30309. 404-575-2131; fax: 404-575-2139; www.aimd.org

ALA Region 3 Conference, Minneapolis, Oct. 14-15. Contact: Jane Mundell, Association of Legal Administrators, 75 Tri-State International, Suite 222, Lincolnshire, IL 60069-4435. 847-267-1252; fax: 847-267-1329; e-mail: info@alanet.org; www.alanet.org

ACC 2005 Annual Meeting, Washington, D.C., Oct. 17-19. Contact: Association of Corporate Counsel, P.O. Box 791044, Baltimore, MD 21279. 202-293-4103; fax: 202-293-4701; e-mail: education@acca.com; www.acca.com/am/05/

Fall 2005 Marketing Workshop, Lake Buena Vista, Fla., Oct. 17-20. Contact: American Marketing Association, 311 South Wacker Drive #5800, Chicago, IL 60606. 800-AMA-1150 or 312-542-9000; fax: 312-542-9001; www.MarketingPower.com/workshop

Partner Remuneration, London, Oct. 20. Contact: Glasser LegalWorks, P.O. Box 6292, Carol Stream, IL 60197-6292. 800-308-1700 or 973-890-0008; fax: 973-890-0042; www.legalwks.com/conferences

four industry groups, it moved forward with the reorganization. Instead of grouping lawyers by their functional specialty—for example, in litigation or transactional work—the firm is now structured around the four industry groups along with a handful of so-called resource teams, such as tax, wealth management, and employment. The job of the lawyers on the resource teams is to help service clients in the four main groups.

As might be expected, a major overhaul like this cannot be accomplished overnight. “It was really a complete change of thinking,” says Greene. “It’s taken a few years to move to building around industries.”

Promoting teamwork: The firm took one giant step to speed up the reorganization when it moved into new offices on Seattle’s waterfront in early 2003. At its previous location, office space was assigned fairly randomly. In the new offices, however, attorneys from the same industry team are grouped together, says Larry Smith, a member of the 15-lawyer real estate team whose office is located in a hallway filled with lawyers who, though they may be litigators or corporate specialists, all work on real-estate related matters.

Another big change: Under the new structure, the four industry group leaders now make the critical decisions on budgeting and staffing issues, including lateral hiring, and how to spend marketing dollars for their groups. “This gives us substantive control over decisions,” says Sandman, head of the hospitality and beverage team. “The idea is we’re closest to the clients we serve, so we’ll make better decisions.” (Under the old system, the heads of the major departments, such as corporate and litigation, held most of the decisionmaking power on spending issues.)

Sandman and other lawyers claim the system definitely promotes better team-

LOMAR Law Office Cost Index

Each month LOMAR updates its Law Office Cost Index for major cities nationwide. This exclusive LOMAR monthly feature is aimed at helping law firm managing partners and administrators monitor relevant office cost changes within their area and compare them with other regions.

This index excludes lawyers' salaries, benefits, and profit shares. It covers all other major cost factors in the law office including: rent and other space expenses, equipment, support personnel, stationery, insurance, phone, etc. The index is derived from data from the Bureau of Labor Statistics and the American Chamber of Commerce. The base of 100 is for the national average in the first quarter of 1992. Current figures follow actuals by 90 days.

City	Current	Last Year	Two Years Ago	Change Over Last Two Years
Atlanta	117.3	114.4	113.6	3.3%
Boston	145.8	142.2	137.7	5.9%
Buffalo	105.3	105.3	105.3	0.0%
Chicago	134.6	131.2	128.8	4.5%
Cincinnati	117.2	114.8	112.6	4.1%
Cleveland	121.5	117.8	114.4	6.2%
Dallas-Fort Worth	125.5	122.6	121.5	3.4%
Denver	127.4	125.5	126.4	0.7%
Detroit	129.3	126.3	124.9	3.6%
Houston	119.6	115.7	111.7	7.1%
Kansas City	120.6	118.2	116.2	3.8%
Los Angeles	146.8	141.7	136.3	7.7%
Miami	129.2	124.3	121.2	6.6%
Milwaukee	119.2	117.2	114.2	4.3%
Minneapolis-St. Paul	130.8	126.9	123.5	5.9%
New York	150.6	145.2	140.4	7.3%
Philadelphia	132.8	127.5	123.2	7.8%
Pittsburgh	123.4	119.2	116.3	6.2%
Portland, Ore.	125.8	121.9	119.9	4.9%
St. Louis	120.3	115.6	112.8	6.6%
San Diego	160.3	155.3	149.7	7.1%
San Francisco	154.8	152.3	151.2	2.4%
Seattle	132.6	129.2	127.6	4.0%
Washington, D.C./ Baltimore*	123.0	118.5	115.8	6.2%

*This combined metropolitan area is calculated on a November 1996 = 100 base.

work, as well as more cross-selling. For instance, Smith, a litigator who specializes in real estate condemnation, says transactional lawyers from the real estate group now regularly introduce him to clients who need help on property condemnation issues. Plus, under the new system he spends much more time attending real-estate related luncheons and conferences, along with other members of the real-estate group, in order to meet prospective clients and build Graham & Dunn's name recognition and reputation as a key player in the industry.

"We do much more targeted marketing than we used to," says Smith, who notes that being associated with a clear industry niche, such as real estate or hospitality, has been especially helpful for the firm's litigators. "It gives them something extra to market, besides being able to say, 'I'm good at trying cases.'"

Of course, Smith also concedes that some of his fellow litigators have had a difficult time adjusting to working on cases related to a single industry, instead of getting the chance to learn about different kinds of businesses. "Some of my colleagues say what they like most about litigation is that every case is different."

Change is good, and difficult... Greene also readily admits that the switch to a whole new structure has been difficult for some lawyers to get used to, and cautions law firms contemplating a major overhaul to expect resistance. "You will find that some people won't buy into it," she says, noting that several lawyers left the firm after the reorganization. "That wasn't the stated reason, but I suspect that's why," she says, adding that although the process hasn't been quick or easy, the firm's lawyers are now behind what the firm is trying to do. "Some grasped the possibilities right away; some saw the benefits over time."

Greene claims the firm's new industry-centered approach has already helped the firm score new matters and clients, such as a recent \$100-million hotel development project in Boston for client MEHP LLC.

She notes that profits per partner have gone up in the past two years, but adds that the firm also attributes that to other factors, such as the fact that the Seattle area has been coming out of a recession. And she says it's too early to gauge the impact of the new industry-centered structure on profitability. "It's only the last couple of years that we've had solid industry teams in place. It could take another year or so to really kick in." □

Marketing Mastery

CONTINUED FROM PAGE 1

cess, believes Suzanne Lowe, president of Expertise Marketing, a Concord, Mass.-based consultancy that provides marketing and management analysis and guidance to the leaders of professional services firms.

According to Lowe, who shared her views on how firms can gain a strategic foothold in the marketplace at an industry conference in Washington, D.C., focusing on "marketplace mastery" or "the ability to achieve a competitive advantage on a daily basis" is crucial. She says the following are four characteristics of a firm that has achieved marketplace mastery. *Such firms are:*

1. Better prepared to face changes in the market.
2. More adept at maneuvering around short-term crises.
3. Ready to make informed decisions about marketplace opportunities.
4. Capable of taking incremental steps that prove right over the long-term.

(For more characteristics, see the sidebar, "The 11 Components of Marketplace Mastery.")

Another critical step. Being able to differentiate your firm by offering prospective clients a unique service or value is also essential. "If you're looking for a marketing trend du jour, stop now," says Lowe. "Differentiation takes time and is a challenge. But it will give you the competitive advantage you need."

Lowe, who researched the marketing strategies of 1,000 firms for her book, *Marketplace Masters* (Praeger, 2004), says that "81% of professional services firms have used differentiation as a marketing approach in the previous three years." But, she concludes after analyzing the data, only a few had done so successfully. *Why?*

In many cases, what firms called "differentiation" was not an integral part of the firm's internal processes. The firm's leaders either were not committed to it or were too busy to think about it; it wasn't based on the firm's core values; and it didn't matter to clients, she contends. "The more operationally deep and difficult the differentiation strategies were, the more successful they were."

Effective differentiation, Lowe stresses, is based on two principles:

1. A market-driven infrastructure within the firm.
2. A marketing approach based on pull rather than push. "Don't tell prospective clients about your firm; offer them the value they need, and give them what they want."

And, she adds, "Don't look for differentiation in your existing firm. You have to build it based on new technology and [research and development] that stretch the firm's operations. Then you must base

marketing on that integral part of your firm."

Real differentiation. "Differentiation means a firm is the only one of its kind," says Lowe. "There are no others that [exist], have [existed], or do a particular job or service." She says that the word "unique" is overused, and points out a number of clichéd marketing terms: "multifaceted" or "multidisciplined," "delivers on time and on budget," and "leading provider." Know, too, that "size is not an indicator of distinction," she says, adding that claims of differentiation must be backed up with evidence. "All you have to say is *only*," she quips.

Lowe notes five levels of marketing mastery with questions a firm must answer:

1. **Strategy:** What are we in business to do? What services do we provide? Where do we provide value to our clients? What is our firm's end-game or strategic goal?

The 11 Components of Marketplace Mastery

Below are the 11 components needed to achieve a competitive marketing advantage. Lowe has organized them under three headings:

Looking outside the firm:

1. Conducting market research.
2. Doing forecasting and trends analysis.
3. Compiling competitive intelligence.

Digging deeper within the firm:

4. Pinpointing differentiation.
5. Mining data.
6. Aligning marketing strategies with culture.
7. Doing account planning and relationship management.
8. Measuring return on investment.

Embedding innovation in the firm:

9. Setting up an ongoing research and development process.
10. Providing new technology-driven services.
11. Rewarding innovation.

(Source: Suzanne Lowe, Expertise Marketing)

2. Differentiation: What makes us uniquely valuable today? What about us is “uncopyable” tomorrow?

3. Positioning: What market spot do we occupy today? Are we first? Second? What attractive, unfilled spot can we occupy tomorrow?

4. Branding: What is our covenant with the client, the promise that our brand and the services it includes will conform to expectations?

5. Marketing and selling communications: What are the best words and images that will articulate these strategies?

Lowe concedes that the process isn’t necessarily for the faint of heart, but it’s crucial to gain a competitive advantage.

Examples of differentiation. Lowe offers the following three examples of successful marketplace mastery:

1. Avis has used its positioning statement, “We’re #2. We try harder,” successfully for 30 years. Avis’ strategy, Lowe explains, was to capture a market share from Hertz by stressing customer service and honesty.

2. Southwest Airlines has differentiated itself with humor and entertainment—its pilots sing and its branding slogan is “You are free to move about the country”—for 32 years. Southwest’s strategy was to build its presence as an airline for “free spirits” and position itself as no-frills and low-cost, and having no hubs.

3. Malcolm Pirnie, Inc. is a leader in the field of environmental engineering. By making a series of small changes from 1989 to 2003, the company has taken giant steps. Not only is it one of the most honored firms in the environmental profession, Lowe says, but it has maintained financial stability and doubled in size since 1988; its

employee retention is higher than the industry average; and it’s increasingly viewed as a thoughtful leader on municipal utility leadership, organization, and management issues.

Ways to differentiate your firm. Lowe believes that there are a number of factors—or “foundations”—to consider when differentiating your firm:

- **Geographic focus.** Limit where your firm works.

- **Service offerings.** Be the “only” firm to provide a certain service in a particular region.

- **Client needs addressed.** This helps define the audience for your services.

- **Point of entry.** According to Lowe, this requires that your firm will say “no” to some clients.

- **Staffing.** Perhaps your firm can exploit the fact that it hires talent from select universities.

- **Service delivery.** While this tends to be a common denominator among firms, Lowe says firms might devise a way to provide services that set them apart.

- **Value delivered.** Providing value often requires research into clients’ needs, notes Lowe.

- **Image.** What image do you want to project? If you aspire to be an Am Law 100 or 200 firm, then you must act like one.

- **Targeted clients or market segments.** It’s essential to define this clearly.

- **A memorable experience.** “More and more professional services firms are finding they have to give clients an uncopyable experience,” says Lowe, citing the book *The Experience Economy* by B. Joseph

Pine et al. (Harvard Business School Press, 1999).

- **Point of view.** This involves ethics as well as focus, she notes.

Six pillars of differentiation. Lowe asserts that a firm will successfully differentiate itself if it meets the following criteria:

1. Provides value for clients.
2. Protects itself against copycats.
3. Establishes credibility.
4. Offers compelling attraction (the “wow” factor).
5. Can sustain service.
6. Has a narrow focus (“the narrower, the deeper, the better”).

One way to determine your firm’s strengths and weaknesses, Lowe told attendees, is to assess each pillar on a scale from 4 (for high) to 1 (for low). Where you see your firm is weak, work on building it up.

And remember, “Differentiation means pursuing marketplace mastery,” Lowe says. “If you don’t like change, you’re going to like irrelevance even less.” □

Teambuilding

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making a team-centered approach succeed, LOMAR has learned, must:

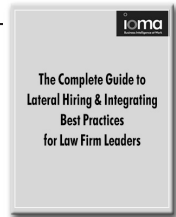
- Do their homework and focus on areas that are appropriate for your law firm.
- Select great leaders. This partner must be motivated and enthusiastic about the group’s focus and well-liked and respected by team members. Know, too, that although partners generally like the prestige associated with leading a team, those selected must be willing to devote a substan-

tial amount of time and energy to the role.

- Ensure that each team member knows what is expected from him or her. Be sure each team has goals, along with defined strategies and the resources needed to accomplish them. Remember, information is essential, so take care to establish a method for teams to communicate their status and activities to the firm, and develop a system of rewards and stick to it. Include both individual and team incentives.

Other hallmarks of effective teams, firm leaders tell LOMAR, include:

- Emphasizing more than hours or other financial measures as an indicator of success.
- Accountability.
- Measuring client satisfaction.
- Assessing learning and growth opportunities.
- Ensuring compliance with the firm’s culture.
- Trust among the owners.
- Openly recognizing and acknowledging accomplishments and any outstanding performance.
- Implementing an incentive program to acknowledge and reward team members for going above and beyond their job duties.
- Securing management to the idea of teams and gaining partners’ willingness to support them. Ideas and suggestions (and complaints) generated by teams must be given serious consideration, whether or not they are ultimately used. Every team member must feel he/she is important.
- Rewarding efforts and results.
- Offering regular and comprehensive training to re-energize leaders and motivate team members. □



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New From IOMA ...

Complete Guide to Lateral Hiring & Integrating Best Practices for Law Firm Leaders

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