fairfax
INSIGHTS

Stay in Your Lane: Expanding Client Relationships is Harder Than It Sounds

As part of our strategy work for law firms we have interviewed hundreds of clients of firms. These clients range from small and mid-market businesses to Fortune 100 and leading global companies. Some have very large in-house law departments, while others do not have a single in-house lawyer. The law firms for whom we have conducted these interviews range from boutique firms to the largest global firms. Despite these variations in perspective, one theme has been particularly consistent - companies have very clear views about which firms or types of firms are best suited for particular segments of their work. Their message to law firms is: stay in your lane.

Of course, this message is not what law firms want to hear. Most law firms are focused on expanding the work they do for their clients and a key component of many law firm strategies is capturing more of the high value work for their clients. While this is certainly a desirable goal it is important to understand the client's perspective before counting on increased revenue.

How Clients View the Selection of Outside Lawyers

Clients consider a range of factors in determining which firms are best suited for their work. These include the expertise and related market position of the firm, risk to the company, capacity of the firm, and of course price.

Market Position/Expertise: As you would expect, expertise is a fundamental decision-making factor in retaining outside law firms. What is somewhat more surprising is that in some instances the firm's market reputation in a particular area is important. Some clients, particularly in the financial services sector, comment that if a New York firm, as an example, is going to be on the other side of the table they feel they need an equivalent firm on their side. So the expertise is a factor, but being 'known for' that expertise, can be the deciding factor. Clients also differentiate the expertise of firms based on the size of transactions or cases. They will tell us that they see Firm X as best suited for \$10m-\$50m deals for example, or deals in a particular sector, while they turn to Firm Y for deals over \$500m. They are unlikely to consider either firm for transactions outside of those ranges. The market position and expertise perception are not always based on firm size. Some clients will describe a 200 lawyer and 1,000 lawyer firm as similarly positioned, and a 500-lawyer firm as top tier.

Risk to the Company: In classic bet the company transactions or cases, companies are most likely to turn to market leading firms. We hear again and again, particularly from general counsel, that they need to make a 'safe choice.' Price is rarely a significant factor in these decisions. Often the selection of outside counsel in these matters is influenced by the board of directors where firm brand is seen to be important. While of course having the relevant expertise is also critical, a midsize firm with the relevant expertise is unlikely to be selected over a brand name firm. In fact, one in-house counsel commented that he wished the midsize law firm for whom we were conducting the interview had better brand recognition so he could hire them for more work.

At the same time, companies tell us that the firms they might consider for these bet the company matters are not firms they would consider for mid-market deals or a more routine litigation matter. Often that is based on price, but sometimes it is because they don't feel like they get the attention they want from those firms or that they get the best lawyers on their smaller matters.

Capacity of the Firm: The capacity, or perceived capacity, of the firm to take on additional work is mentioned more often than we would expect, particularly when clients are considering retaining midsize and smaller firms but also when retaining a small practice within a larger firm. The relationship with midsize firms tends to be seen as more reliant on an individual partner than with larger firms, so clients see a limit to how much they can send to a particular firm. Similarly, clients will often look to spread their work among several firms in order to have some redundancy and ability to call on multiple firms when there are peaks in demand.

Interestingly, the client perception of capacity is sometimes inconsistent with the actual average billable hours within the firm, meaning that clients perceive some lawyers or groups to be too busy for additional work, when in fact, they are not. And firms sometimes suffer from compensation systems that discourage introducing other partners to a relationship, exacerbating apparent capacity constraints.

Price: Not surprisingly, price is an important factor to many clients. In most cases it is less about particular fee arrangements or even rates, and more about the actual cost of the matter. As noted, price is not particularly important for the bet the company matters, but for the bulk of a company's legal work, price matters. Clients are willing to pay top rates when they want the brand name or need a particular expertise or reputation. But for more routine work they expect to pay less and will hire firms at a different price point. More than one in-house counsel has lamented what they see as a dearth of high quality but reasonably priced (not cheap) firms. And when they find them they often don't want the firm to expand or make other moves that would increase price.

How do Law Firms Adapt?

Of course, all of these hiring factors have been true for many years: it's the old 'horses for courses' adage, but we see an intensification of the segmentation of firms in the eyes of clients. This creates obstacles as firms try to expand their work with clients. There are certainly opportunities to expand relationships, but it needs to be done in a way that respects the client's approach to retaining outside counsel.

The first step to overcoming these obstacles is to make sure you have a good understanding of the client's perspective, priorities and view of the firm. Regular discussions with clients, usually by someone other than the relationship partner, can help to identify particular areas of opportunity where the firm can bring value to the client within their framework. This will of course vary from client to client.

Once you understand their priorities you can develop appropriate and realistic plans. This might include building more capacity in a particular area or introducing the client to additional firm lawyers in that practice who can handle their work. It might include working on the firm's profile and depth in a particular area, although you have to be realistic about the impact of this growth. Moving a practice from 25 to 35 lawyers will not lead to the firm being considered for work that is currently going to a firm with a 200-lawyer practice and a deal list a mile long. It might include introducing adjacent practices where the firm can occupy a similar position and bring similar value in another area.

Solidifying and expanding client relationships should continue to be a goal for law firms, but a key to success will be to recognize that the best opportunities may be 'in your lane.'

London

Principal: Giles Rubens
giles.rubens@fairfaxassociates.com
44 (0)20 3633 3943

Washington

Principal: Lisa Smith
lisa.smith@fairfaxassociates.com
202.365.4180

California

Principal: Kristin Stark
kristin.stark@fairfaxassociates.com
415.215.9294