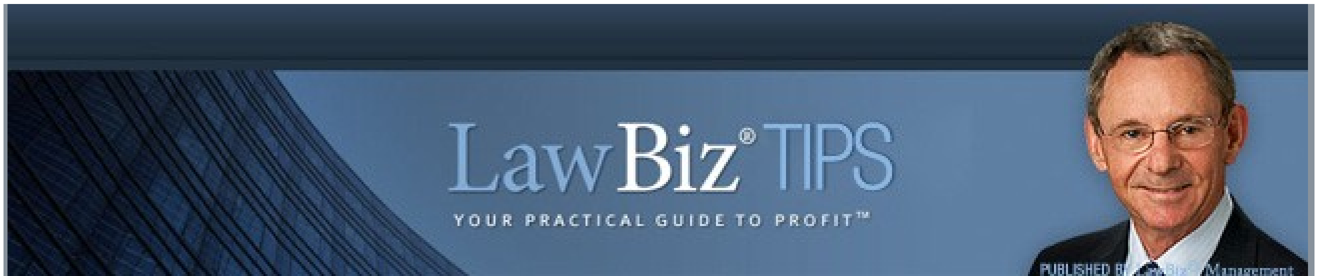

Week of **April 21, 2009**

Don't Waste a Good Crisis

Many large and even mid-sized law firms have gone their own merry ways for years, happily assuming that high associate salaries, million-dollar partner draws, increasing billing rates and the occasional leveraged merger with another firm was a pattern that would continue indefinitely. There were, of course, a few indications that things could change. Early in 2008, a 600-lawyer national firm announced the then-shocking layoff of almost 100 associates and staff. The firm's Co-Chairman was quoted in the press that the layoffs were the result of both a downturn in business and redundancies following the firm's 2006 merger. Why did the firm wait two years to address such redundancies? Because, like many other firms, they ignored the fundamental business rule that profits equal revenue minus expenses.

Today that lesson is being taken to heart, often painfully, at firms around the country. Certainly, this is because of a decline in business. But, I believe firms will take advantage of this economic crisis (click to hear podcast) to re-size, not just downsize, themselves. Trends like the Association of Corporate Counsel's value challenge can't be ignored. Corporate clients are tired of seeing "average" big law firm partners, many of whom are relatively young, bill $1,000 per hour and earn $1 million per year for producing ordinary, or worse, service and work product - while at the same time a new associate who is untrained in both legal expertise and client relations is earning as much as a senior executive with 20 years of responsibility.

Because firms know this is how their clients feel, two trends are likely. The first is that firms will no longer indiscriminately add lawyers. Already firm hiring out of law schools has become "decremental" - an ongoing decrease that is the opposite of the incremental increases of the past. Likewise, the publicized troubles of large corporate firms make the prospect of having their own firm seem more attractive to

What Readers Are Saying...

"The practical steps that Ed Poll provides many young or newly unemployed lawyers. It's unlikely they will want to go back to big firm practice and equally unlikely that firms will want them back.

A second trend that's inevitable is lower compensation. Just as firms raised associate and partner pay in lockstep a few years ago, all it will take is for one major firm to make across the board cuts and the rest will follow. I see an average 25% reduction in compensation as inevitable - which would produce starting associate salaries of $120,000 and average partner compensation of $750,000. When corporate clients are paying their CEOs $1 a year and slashing pay throughout the ranks, they will expect their law firms to share in the pain.

Less hiring and lower pay will improve the fundamentals of law firm economics. Crisis will force firms to do what they would otherwise lack the will to do. There's no time like the present to begin. And if they improve the firm fundamentals, return to the "high life" might eventually occur. Remember the words of Samuel Johnson: "When a man knows he is going to be hanged in a fortnight, it concentrates his mind wonderfully."

Best wishes,

Ed Poll
lawbiz.com
lawbizblog.com
(800) 837-5880 Order Phone
(310) 827-5415 Office Phone

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