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Week of **December 2, 2008**

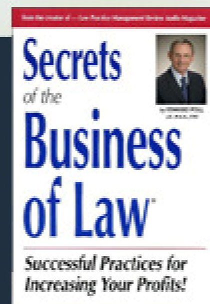
A Firm Can Be Too Good – And a Client Can Be Too Big

When the partners of 600-plus lawyer firm Heller Ehrman suddenly voted for dissolution, many people were shocked that an institution that first opened 118 years ago, in 1890, could so quickly end in a heap of depressed lawyers, staff, and clients, not to mention vendors. How could a law firm of such magnitude and quality collapse in a matter of weeks? There were, as in any such complex situation, many reasons: overexpansion, several failed merger attempts, sagging profits, and more. But one paradoxical reason for Heller's demise was that the firm was too successful in doing what it was best at—litigation.

More than 60% of Heller Ehrman's revenue as a firm came from litigation. In 2007, several major litigation matters, including a significant antitrust dispute, were tried to conclusion or settled and were not replaced. More than 25% of the firm's litigation business was focused on these matters that settled, thus resulting in a decrease of about 15% of the firm's total revenue. With the general litigation market also softening, this was a recipe for disaster.

The simple fact is that when any one client represents more than 10% of one's business, the firm is at risk of heavy loss if and when the client leaves. Leaving can occur when the client is acquired by another company, when the client has financial difficulties and either can't afford your legal services further or actually disappears, or for various other business reasons. The client can also leave because of dissatisfaction with the legal services received. Whatever the reason, the result for the firm is the same—economic hardship. When expansion or capital decisions are made based on sustaining the revenue from these large clients, the law firm is at serious risk.

Some firms believe that having numerous small clients leads



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to greater revenue stability. However, studies suggest that small clients drain the resources of law firms while providing a disproportionately small contribution to firm profits. I am all in favor of seeking larger clients with more money and more interesting challenges. This effort, however, must be balanced to assure that the firm doesn't wind up with only a few clients, large though they may be, who put the firm at risk if they should leave.

You may be willing to accept this risk for the short-term with the intent of getting more clients so that the percentage allocation to the "larger" client is reduced while maintaining the billings at the same level.

If so, make no long-term capital or other expenditures at the behest of larger clients without some type of assurance that their business will stay with you until at least the amortization for the new expenditure is completed. Otherwise, a long-term strategy based exclusively on fewer, larger clients will almost always lead to disaster.

Best wishes,

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topic. It is written in an engaging, easy-to-digest style, and there was never a dull moment. I recommend it to anyone who runs a law firm and needs to turn a profit.

-CM, Massachusetts

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