

ALM RESEARCH/THE BRAND RESEARCH COMPANY 2006 BUSINESS DEVELOPMENT PRACTICES SURVEY

SUMMARY OF RESULTS

March 2006

THE SURVEY

For 2005 and 2006, ALM Research & The Brand Research Company conducted a survey of law firm management and business development professionals about their firms' business development and sales efforts. The focus of our research is business development, as a distinct effort from marketing, with a goal of better understanding how law firms "sell" themselves to clients. For instance, what are the efforts and investments today's law firms make to increase their business from existing clients and to attract new clients? Which efforts and investments work, and which don't?

This Executive Summary provides highlights of what we have learned about business development activities in law firms. In-depth details and further insights will be available in our full report, which will be available in April.

THE RESPONDENTS

We have segmented the survey respondents into Tier 1 Firms and Tier 2 Firms. Tier 1 Firms are those that appeared on one or more of the three industry-standard lists published in *The American Lawyer* (The Am Law 200, The Global 100) and *National Law Journal* (NLJ 250). Tier 2 Firms are those that did not appear on any of these lists.

The proportion of Tier 1 Firms and Tier 2 Firms has not changed since last year. However, the number of respondents from Tier 2 Firms who answered detailed questions about firm size and, especially, firm revenue has increased very substantially this year. For that reason, the firm size and revenue data, and figures related to those, may appear to be lower than last year's.

- The firms identified their geographic reach as follows:
 - International, 21%
 - National, 33%
 - Regional or Sub-national, 36%
 - Local, 11%.

SURVEY RESPONDENTS		2006	2005
Total Respondents		157	151
Tier 1 Firms		54%	54%
Tier 2 Firms		46%	46%
Gross Revenue	Tier 1	<i>\$200-499 mil</i>	\$290 mil
	Tier 2	<i>\$50-99 mil</i>	\$28 mil
Number of Lawyers	Tier 1	489	482
	Tier 2	118	83
Non-Lawyer Staff	Tier 1	652	706
	Tier 2	96	106
Partner Compensation	Tier 1	<i>\$600-699 K</i>	\$564,000
	Tier 2	<i>\$400-499 K</i>	**
<p>*Red, italicized numbers show mean response categories. Data were recorded using check-box categories in 2006 to encourage more responses. Actual dollar amounts were recorded in 2005.</p> <p>**Only seven responses were recorded for this question in 2005.</p>			

HEADLINE NEWS

- Growth in staffing and budgets for business development is small but steady, keeping pace with increases for marketing.
- Just half of respondents, however, have a dedicated staff person for business development and sales.
- Most marketing and business development resources go toward obtaining more business from existing clients.
- Tier 1 Firms still devote much more resources to marketing and business development efforts than do other large firms, as was true in 2005.
- Approximately half of the firms have client teams to serve their key revenue-generating clients in a variety of ways.
- While many respondents do interview or survey their clients, a substantial minority do not.
- Many firms provide sales training for their lawyers, usually led by outside consultants; but a majority of lawyers haven't received training.
- Business development is expected of most partners to achieve equity status, and most firms continue to use a system of origination credits.

- Still, few firms have a set expectation of the number of hours a lawyer should devote to business development. And in a substantial minority of cases, compensation for new business is unclear and/or in the hands of a committee.
- Respondents cite client relationship development as the most important factor in law firms' growth.
- Last year's respondents correctly predicted practice area changes for 2005, especially the increases in litigation and IP revenue.
- For 2006, they expect much more litigation work, plus increases in business law and labor & employment issues.
- For 2006, financial services, biotechnology, and pharmaceuticals are seen as the major growth industries for law firm business.

BUSINESS DEVELOPMENT STRATEGY

- In 47% of firms, the CMO, Marketing Director, or Business Development Director (in firms that have one) has primary responsibility for business development and sales strategy. The firm's executive committee or management committee, and/or the managing partner, have significant roles in a substantial minority of firms.
- The other most important players tend to be practice-area heads, to whom most business development resources are most often allocated, and who overwhelmingly have the lead roles in developing strategy for their practice areas. Of the firms reporting, 85% are structured primarily by practice area.
- Additionally, when it comes to creating business development strategy, client teams—in firms that have them—most often share primary responsibility with their firms' marketing and sales professionals.
- Who implements the strategy is far less clear, and depends largely on the individual firm. CMOs and managing partners, however, tend to have the most financial responsibility, followed by marketing directors and management committees.

BUSINESS DEVELOPMENT AND MARKETING RESOURCES

- Of those firms reporting, 39% say they have no business development/sales staff (or at least none separate from the marketing staff).
- Among firms with such staff, the business development professionals work with diverse organizations within the firm, and they typically work with more than one such organization: 73% are assigned to work with practice areas, 51% with client

teams, 47% with industry groups, 34% with specific offices, 31% with departments, and 20% with large account groups.

- More than one-half of the firms (56%) said they had a specific plan for building business in 2006. Another 36% said they were in the process of creating such a plan.
- Only about 28% to 36% of the respondents answered more specific questions about their business development and marketing programs. Of those who did:
 - The average business development budget for 2005 was between \$100,000 and \$499,999, with an average 7% increase from 2004. About 62% was devoted to existing clients, as opposed to new clients.
 - The average marketing budget for 2005 was roughly \$1 million, up 8% on average from 2004. There was closer to a 50-50 split in spending on existing clients and on new clients.
- One-half of all respondents answered questions on the combined business development and marketing budget. The average combined budget for 2005 was between \$1 million and \$2.99 million, an average 8% increase over 2004. As with the business development budgets, about 63% of combined budgets was devoted to existing clients, and 37% to new clients.

BUSINESS DEVELOPMENT AND MARKETING STAFFS

- Of the firms reporting, exactly half (50%) say they have at least one person on staff devoted specifically to business development and sales. On average, firms with business development and sales staff have a mean 4.3 and a median 3 such staffers. Of those responding, 66% have added staff in the past year, most frequently a director or manager, and/or an administrative/clerical person.
- The senior-most business development professional is well paid—on average between \$100,000 and \$149,999 a year—but 49% of the time he or she is also the senior marketing professional. In just 22% of firms reporting are these two roles held by different people. (22% of firms have no senior business-development person, and 7% have no marketing or sales person at all.)
- The average number of marketing staff, excluding dedicated business-development staff, is a mean 8.4 persons and a median of 4. Just 45% of firms reporting have added marketing staff in the last year, most often 1 marketing executive and/or 1 administrative/clerical person.

LAWYERS' ROLES IN BRINGING IN BUSINESS

- Equity status for partners in 61% of firms reporting is tied to success in developing new business.
- However, only 21% of firms have any formal expectations that their partners will devote a set number of hours to business development and sales. Just 13% have such expectations of associates (who of course have no immediate expectation of equity status).
- Asked how rewards for bringing in new business are determined, 59% say their lawyers receive an origination credit that translates into compensation or a bonus. Another 38% say the amount is determined by the firm's executive committee or compensation committee.
- Among firms that have provided any sales training for lawyers, an average of 48% of partners, and 34% of associates, are estimated to have been trained. Outside sales consultants conduct this training 88% of the time, but specialists within the firm (33%) and/or lawyers with successful sales records (31%) also contribute.

CLIENT INTERACTION AND FEEDBACK

- Just 56% say their firms conduct client interviews or satisfaction surveys. Of those who do, exactly one-half conduct these interviews or surveys themselves, while the other half use outside consultants for some or all of this work.
- 48% of the firms say they have client service teams. Among these, there are an average of 17 teams per firm, and a median of 10 teams per firm. These are organized almost exclusively (82%) around key clients based on revenue generated.
- Nearly all firms conduct seminars for their clients. 58% host them quarterly or more often; 28% conduct them as needed, with no set frequency. Most use a combination of venues: in clients' offices, in the firm's own offices, and in other venues such as conferences. Just 15% of firms sometimes outsource the organizing of seminars, and none routinely do so; 85% handle organizational tasks internally.

FIRMS' GROWTH

- The good news is that 69% of the law firms report their revenues have grown in the past year. The average change in revenue among all firms reporting is an 8% increase. On average, the largest share of growth by far is from selling more of the same work to existing clients. Selling new work to existing clients and selling work to new clients, each account for much less revenue growth on average.

- Among eight business development strategies tested, respondents tend to report that the most important factor in their firms' growth is client relationship development.
- The top 5 predicted growth practices in the next two years are:
 - Litigation generally (77%)
 - Business law (39%)
 - Intellectual property (36%)
 - Labor and employment (32%)
 - Real estate (29%)
- The 5 current practice areas the firms identified as generating the most revenue today:
 - Litigation generally (61%)
 - Intellectual property (45%)
 - Business law (30%)
 - Corporate finance (25%)
 - Real estate (24%)
- Corporate securities law has not played as important a role as predicted last year, but otherwise this conforms to last year's predictions, especially as to the greatly augmented role of intellectual property law during 2005.
- The top 5 industries from which legal work is predicted to grow in the next two years are:
 - Finance, Insurance, and Real Estate (59%)
 - Biotechnology (41%)
 - Pharmaceuticals (40%)
 - Energy (excluding mining and oil/gas extraction) (39%)
 - Manufacturing (29%)
- The 5 current industries the firms identified as generating the most revenue today:
 - Energy (excluding mining and oil/gas extraction) (77%)
 - Manufacturing (55%)
 - Finance, Insurance and Real Estate (52%)
 - Retail Trade (45%)
 - Biotechnology (34%)
- The predominance of energy companies as clients is especially noteworthy; the energy sector (except for the extraction industries) was not even included in last year's survey. Neither were biotechnology and pharmaceuticals as separate categories.

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