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What Will Keep Firm Leaders Up At Night In 2016

By **Natalie Rodriguez**

Law360, New York (December 24, 2015, 8:38 PM ET) -- Law firms are facing a number of challenges going into 2016, with growing hurdles to revenue growth and increasing pressures from clients.

Competition in the legal industry is getting fiercer amid a wave of BigLaw merger activity, clients are increasingly questioning the costs of legal services, and there are larger shifts in the kinds of legal work being demanded by clients.

"Law firms that tend to change really slowly are having to adapt really quickly," said Mike Ray, managing director of Sterne Kessler Goldstein & Fox PLLC.

Here, firm leaders and experts break down their top concerns for the coming year and some of the ways firms are trying to prepare.

Managing Client Cost Pressures

Don't expect 2016 to bring any respite from client-driven pressures to increase efficiency and value, leaders say.

"That pressure from clients is increasing and is here to stay," said Ray.

Clients can — and will — walk if firms drag their feet responding to requests to strike alternative fee arrangements or if they can't show the value of the services being provided, noted experts. As such, many firms are trying to make their leverage models leaner while honing stronger client relations.

"In 2016, both clients and law firms alike will be focused on meeting clients' demands for value in the delivery of their legal services. For us — one of the few midsize firms in New York City — controlling costs is in our DNA. Our belts are tight; we are lean and nimble. Therefore, we see 2016 ripe with opportunity, particularly the ability to compete for work not normally available to us," said Ron Shechtman, managing partner of Pryor Cashman LLP.

For Pryor Cashman and others, staying competitive — especially against ever larger and more global competitors that have grown through merger mania — is to cut down costly staffing models and stick to low-leverage staffing.

At Sterne Kessler, meanwhile, experienced paralegals and secretaries have been recruited to become client relationship managers to help build client relations at lower billing rates.

But trimming rates is only part of the business equation that firms are trying to perfect to stay competitive. Another major part — and hurdle — is properly educating clients about why they need to pay for certain services and working with them to work out alternative fee arrangements, noted Ray.

“In-house counsel are just now adjusting and trying to come to grips with the new budgets and price pressures ... I think a challenge and an opportunity going forward is for firms to collaborate with clients to come up with win-win alternative fee arrangements,” said Ray.

And being prompt about those kinds of discussions is important. Shechtman pointed to a lateral partner whom he had interviewed who originally chose to head to another firm, but who came calling back two years later when he was unable to get quick word to reduce a fee quote for a client. “In the weeks it took him to respond [because of the other firm’s bureaucracy], the client was gone,” noted Shechtman.

Keeping Up with Technology

Cybersecurity is increasingly top-of-mind for law firm leaders, according to Peter Zeughauser of Zeughauser Group LLC. But it’s also an area that many law firms have long failed to keep pace with when it comes to protecting their own data.

The passage of the Cybersecurity Act of 2015 within the larger federal budget bill may light a fire under the firms that have been lax, since its regulations also apply to law firms. The act, and the final regulations that are expected to be enacted 180 days after its passage, will require a lot of attention by law firms, noted Martin J. Foley, a litigator who is well-versed on cybersecurity issues.

The bill addresses how and when entities should share information with federal authorities regarding possible cyberattacks, and law firms should carefully digest the details to ensure that they don’t run afoul of the procedures and somehow share private client information that could make them liable.

“The devil is going to be in the details, particularly with respect to privacy considerations,” said Foley.

The act and the growing threat of cybersecurity issues means law firms should take the time to conduct a status check of their own technology safeguards and then run a cost-benefit analysis of what they can do to prevent hacks.

“Given the complexities of cybersecurity and the speed with which it is advancing, I think more and more [larger law firms] are going to have to reach out to outside vendors who have the expertise,” said Foley.

Meeting Global Ambitions Amid Merger Crush

In the upper ranks of BigLaw, success is increasingly tied to the firm’s global footprint. Overcoming the hurdles of penetrating emerging markets, especially China and other Asian markets, will be a key goal for many firms in 2016, according to Zeughauser.

“It’s the biggest challenge they face,” he said.

In the coming year, most experts predict the law firm combination spree will continue as a result of these pressures. Though a group of megafirms able to have a presence around the world has emerged, it is still unclear what that may mean for the future of U.S. firms that don't have that kind of presence, noted Zeughauser.

Keeping Partners Engaged

Another concern for many firms is how to keep top-billing partners properly engaged in a price-sensitive environment in which firms often try to push work down to lower billing rungs to appease clients.

"You want to make sure your most talented lawyers, who have the highest billing rates, are properly engaged," said Ray.

Sterne Kessler is trying to encourage partners to specialize even further within their areas of expertise, which can bolster the demand for that partner's expertise. "To have some domain expertise that will assure that they are in high demand, I think that is key doing into 2016," said Ray. "Clients don't want generalists."

Surviving the Shrinking of Litigation Work

One practice area that has been — and will likely continue — feeling pinched is litigation. Much of the litigation that rose out of the economic downturn, including the mortgage backed securities crisis, has been resolved and little has been filling the void, according to experts. Further, again in line with the more cost-conscious atmosphere that has enveloped the legal industry, clients are increasingly loath to head to the courtroom.

"Clients look for any alternative to litigation and any means possible to stay out of court," said Shechtman.

To help survive the current dearth of litigation business and to address clients' cost concerns, it's key that firms address the leverage models in litigation groups, according to experts.

"We're trying to turn those lemons into lemonades. When we show up in a deposition room, it won't be with one partner and three associates. It's going to be a senior associate or a partner and an associate," said Shechtman. "It's going to reflect clients' concerns."

--Editing by John Quinn and Patricia K. Cole.
