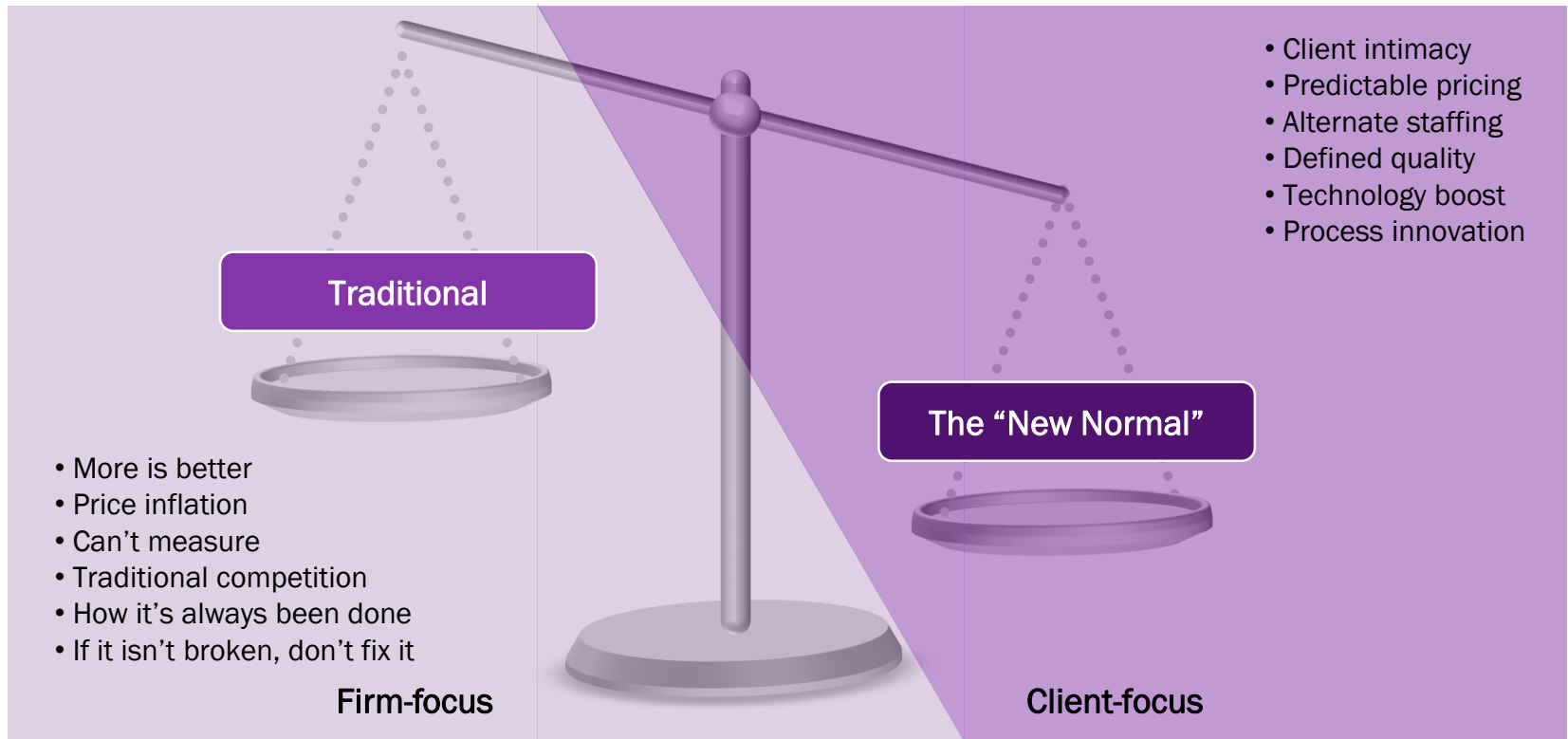




The Black Box Institute

Is Your Law Firm Ready for
the “New Normal”?





PRESENT DAY FIRM		FIRM IN 2020
Pyramid 	HIERARCHY	Balanced diamond  Few partners at the top, some young stars at the bottom and a series of client service professionals in the middle
Cost based	PRICING	Value/risk based Alternative fee arrangements
Medium	COMPETITION	High Accounting firms, paralegals, contract lawyers and in-house legal teams
Billable work	INCOME STREAMS	Multiple Fixed fees, packaged knowledge, document review and online compliance programs
Practice	LEGAL SERVICES FIRM	Corporation Law firms will be companies with independent boards of directors
Practitioners	PARTNERS	Shareholders The executive management will perform leadership functions within the law firm
The "higher calling"	VALUE PROPOSITION	Client value Law firms will improve their alignment with client needs

Many aspects of a law firm will be different by 2020. Firms that adapt to the changing environment will thrive.



Three Aspects of Law Firm Management In the New Normal

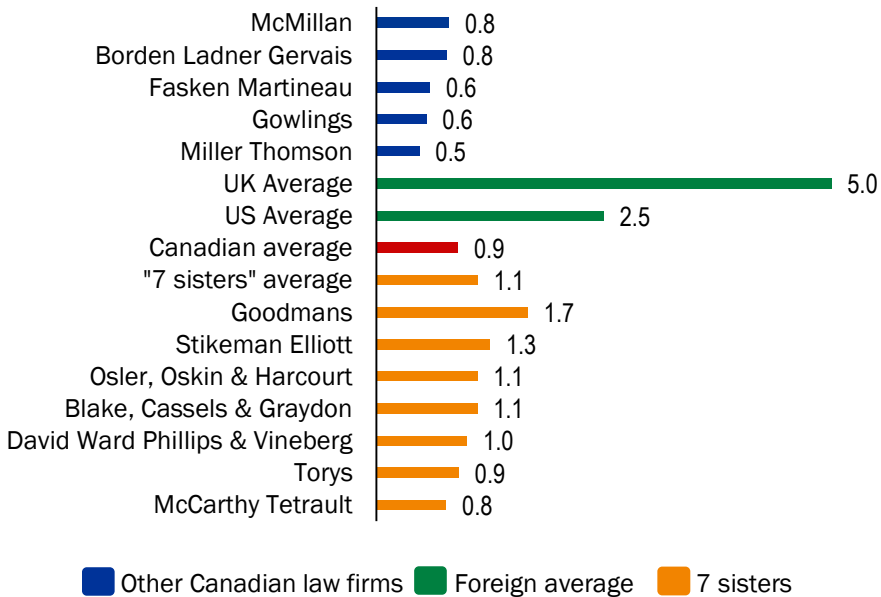


The above model brings a holistic view of the law firm and focuses on three key aspects important in the changing paradigm.



The Toppling Inverted Canadian Pyramid

Leverage (Associate to Partner Ratio) Analysis



- Law firms around the world have a higher leverage ratio to mitigate the cost of expensive lawyers
- Canadian law firms are not fully realizing the benefits of higher leverage ratios
- All mid-tier Canadian law firms experience competitive pressure from both ends
 - Boutique law firms that specialize in select service areas and cases and are run by a few highly experienced partners
 - LPO (legal process outsourcing) companies with very high leverages take up the commodity type of work

The structure of Canadian law firms resembles an inverted pyramid which steals from partners' time to nurture client relationships, develop business and mentor other lawyers.



ILLUSTRATIVE

	Low leverage	High leverage	Standard rate
Leverage	1:1	3:1	
Partners	50	25	\$400
Associates	50	75	\$250
Partner annual billable hours	1,200		
Associate annual billable hours	1,800		Deviation
Profit	6,500,000	9,500,000	46%
Profit per partner	\$130,000	\$380,000	192%

Conventional wisdom

- Maximizing billing rates will increase firm profitability
- Quality is dependent on the number of senior lawyers on the engagement and the fee charged
- Career progression in a law firm will only lead to partner designation
- Non-lawyer staff is a cost-center

Current thinking

- Do more with less resources
- Non-lawyers should be utilized more
- Consider de-equitization (removing a partner from the ranks of those with ownership shares in the firm)

Organizational structure and inertia are impediments to Canadian firms being as profitable as their global peers.

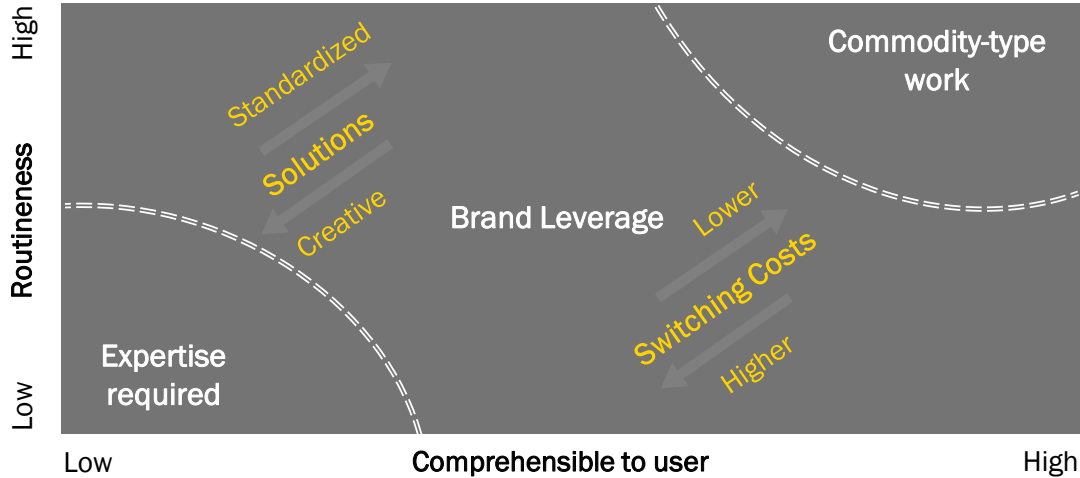


Making Sense of Alternative Fee Arrangements (AFA)

The Behaviours

Hourly Rate Behaviours	Value Fee Behaviours
Larger teams	Smaller teams
Keep work in the firm	Use cheapest resource
Status quo	Innovation
Self interests	Firm interests
Short term profit seeking	Long term stability and profitability seeking

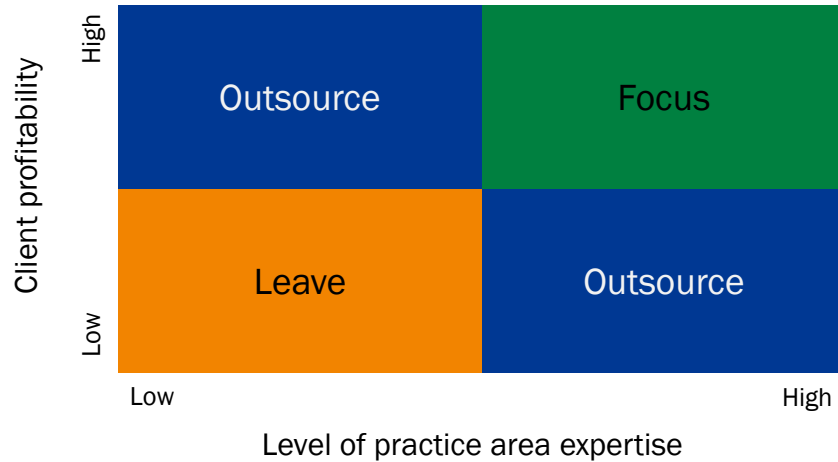
The Framework



A switch to alternate billing requires a glacial movement to prepare the firms to offer “value-based” fee structure.



Discovering Practice Areas You Should Focus on



Conventional wisdom

- Be everything for everyone

Current thinking

- The law firm of the future will focus on efficiency and cost effectiveness
- Some smaller law firms focus only on one or a few practice areas for operational efficiency
- Bigger law firms are represented across the whole range but they partially or completely outsource some of the practice areas with lower profitability
- To cut costs a law firm might decide to concentrate its efforts on higher profitability projects that are manageable with higher practice area expertise

Canadian law firms need to separate the profitable from the non-profitable practice areas. They need to focus on the profitable practice areas and either leave the non-profitable ones or outsource them.



Unlocking the Value of Resource Cost Advantages

Typical Billing Cost in Canada vs India

Typical Billing Cost	Canada	India
Document review	\$7-\$10/page	\$1/page
Redact litigation email	\$60-\$85/hour	\$10/hour
Junior associate	\$200/hour	\$10-\$25/hour
Partner	\$350-\$1000/hour	\$25-\$150/hour
Lawyer starting salary (year)	\$120K	\$10K-\$30K

- Canadian law firms have multiple offices in different geographies where there is strong arbitrage between average hourly rates

Conventional wisdom

- “Local staffing” ideology
- Insufficient utilization of the most efficient resources regardless of where they are located

Current thinking

- Some US law firms have most of their document management located in non-metropolitan areas
- Virtual teams work across time and office space thanks to advanced communication technologies
- Legal Process Offshoring occurs in nearly all sectors of the legal services industry
 - The range of administrative services provided by offshore back office operations is growing by 20-30% annually

Larger law firms with multiple locations have the opportunity to decrease costs through an optimal selection of resources on a project.

Is Your Law Firm Ready for the New Normal?

Please rate your firm on a scale of 1 to 5

Statements		Strongly disagree					Strongly agree				
		1	2	3	4	5	1	2	3	4	5
1	We have a solid understanding of our firm's financial drivers such as cash flow, revenue and profitability										
2	We know who the emerging competitors are and how they will affect our work										
3	We have the right mix of non-lawyer staff, associates and partners and skill sets (rainmakers, subject matter experts, etc.)										
4	We know our clients (client profitability, resource allocation, personal relationships, etc.)										
5	We are deploying technology and modern legal project management tools to more efficiently manage legal transactions										
6	We are taking advantage of arbitrage opportunities										
7	We are using alternative fee structures other than standard hourly billing										

If the average of your ratings is 3 or below, you need to consider re-organizing your practice for the changing environment.



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