

How to Survive a Tough Economic Legal Market for Law Firms

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It is no secret that the legal market is tough right now. With decreasing demand and an increasing number of lawyers, it can be difficult for law firms to stay afloat. However, there are a few things that law firms can do to stay ahead of the competition and survive this tough economic climate. In this article, we will discuss tips on [surviving a tough economic legal market](#).

What are some signs that a company is at risk of experiencing financial difficulties? How can these be avoided?

Some early warning signs that a company may be heading for financial trouble include high levels of debt, declining sales, and difficulty obtaining financing. Companies should focus on maintaining strong cash flow and profitability to avoid these problems.

1. Serious profitability declines

A sharp decline in profitability can be a sign that something is wrong. However, a company's reaction depends mainly on the underlying causes and its forecast for future prospects. Firstly, it is important to ensure that costs are controlled and managed prudently. This does not mean cutting expenses to the bare minimum but rather making sure that expenses align with the company's business and strategy.

The company should continue writing its content in a way that focuses on profitability decline as a short-term issue. This may require reducing the number of lawyers in areas where business is expected to decrease significantly while maintaining the core competencies necessary to compete for turnaround business.

2. Significant hours shift from associates to partners

If a law firm's partners are constantly busy and never seem to have any downtime, it could be a sign that the business is struggling. This is because the partners are likely billing their clients at a higher rate to compensate for the lack of work. In the long run, this can lead to increased write-offs or problems with client fees.

Although both partners and associates should work hard, associates generally should bill more hours than partners. Partners have additional responsibilities, such as client development and management. If there is a significant reversal of this pattern, it may be a sign that the business is drying up or that the type of work being done is changing. Therefore, managers should track this pattern annually and review monthly data and three-month trends. This will help them identify problems early on to be addressed. If the volume of work declines and partners begin to hoard the available work, this will result in continued erosion of the firm's business base.

3. Emergence of a 9--5 mentality

A law firm cannot succeed if many partners only work 9 to 5. If other employees also have this mindset, it will be difficult for the firm to succeed. Careers in this profession require a lot of time and effort, especially when there is less work to be done. Partners must focus on marketing and other important investments of time. Even when no work can be billed to clients, there is always more that can be done to improve the firm. However, in many firms, a slowdown in work can lead to a change in commitment from the partners and employees. If this is not addressed, it will seriously damage the firm.

4. Serious decline in "cross-selling"

A serious decline in cross-selling may mean that partners keep more work for themselves instead of sharing it with others in the firm. This could be a sign that they are worried about having enough work to do in the future. If a company does not cross-sell well, this is not necessarily a problem. But if there is a significant decrease in the amount of cross-sold work, this could be a sign of trouble ahead. Managers should watch for changes in cross-selling patterns and compare them to established cross-selling targets.

5. Serious decline in new matter opening

New clients and matters are essential for the company's success. They act as the "sales" figures for the organization, showing how well it is doing. However, because opening new matters generally happen before revenue starts, many firm managers don't pay much attention to it. This can lead to problems down the line.

A decrease in the amount of new work may not immediately impact a law firm's level of activity, as lawyers are still busy working on existing cases. However, once these cases are finished, lawyers will have less to do and may eventually become idle.

If you see a decline in the number of billable hours three months later, it's a sign that your revenue may drop soon. However, this indicator can be spotted well in advance of revenue drop-offs, and efforts can be made to ratchet up marketing activities before people run out of work. Such aggressive action may be able to head off, or at least soften, a serious decline in firm performance.

6. Significant increases in "closed-door" conversations

Some things should be kept private within a law firm, such as discussions about the firm's shortcomings and plans to leave. If you notice an increase in the number of times lawyers' doors are shut, it may indicate a communication and morale problem. In this case, it is essential to make an effort to improve communication with the partners involved. Otherwise, they may feel disregarded and decide to leave the firm.

The recent departures of laterals from law firms may signal an attempt to "get out of Dodge" before it is too late. This could be due to an increase in lawyer departments and a desire to avoid potential problems.

7. Bickering over compensation

In many cases, arguments about compensation happen because people feel that the system is unfair. They may think that some lawyers who are not working hard or who are friends of the people in charge get more money than they deserve. This can lead to good lawyers leaving the firm, which then causes problems for the firm's business. To avoid this, it is important for the people running the firm to ensure that everyone is treated fairly and understands how the compensation system works.

A subset of fighting over compensation is increasing tension regarding "origination."

Fights over new business credit can erode performance significantly. It can also be a warning sign that the firm may be headed for a crisis. This is due to four separate but related issues.

First, these fights indicate that the compensation system is not, or is not perceived to be, assuring that those who make marketing contributions to the firm are adequately rewarded. As a result, individuals make sure "their numbers" look strong, further distorting compensation data.

Second, credit fights are often signs of poor client service. Partners are unwilling to devote the appropriate time to clients for whom they receive "no credit."

Third, credit fights suggest that partners hoard their clients to ensure future compensation and options. The result is that lawyers are less integrated into and dependent on the firm and more flexible to move rapidly when an opportunity arises.

Finally, when these tensions occur, it is usually the case that the lawyers feeling short-changed are the younger partners with high levels of responsibility for managing and servicing the clients. In many cases, these partners have a following with the client and may be able to walk out with some or all of the business.

8.Excessive interest in serving on "management"

Developing a good management team is essential for any business organization. However, the best choices for management positions are not always clear in many firms, especially small to medium-sized firms. If lawyers spend a lot of time debating who should be in various management roles, it indicates significant dissatisfaction and perhaps a lack of trust among the partners. This must be corrected quickly, or the result will be departures, often beginning with those who expressed the greatest dissatisfaction.

It is important to invest time in management to have a successful law firm. However, it is usually, only a few people who can spend most of their time managing the firm. Most lawyers should focus on other tasks, such as marketing and serving clients. It can seem like everyone has a role in management, but this often leads to more committees and more time spent in meetings. This takes away from the lawyers being able to focus on their basic responsibilities.

When a law firm is in disarray, it's often because the partners have lost sight of what it takes to be successful. They may justify their inaction by saying they're too busy with "management" duties, but this only leads to the firm's decline.

In such cases, the partners need to remember their responsibilities and take action to turn the firm around. Otherwise, it will continue to decline and may eventually fail.

9.Build up in work-in-progress and accounts receivable and increasing write-offs

If management doesn't pay close attention to inventory levels, they can build up and become valueless. This happens when partners are not motivated to write off poor-quality business, which will make them look bad. As a result, too much inventory builds up, and it becomes difficult to collect payment for it. To avoid this problem, management should keep a close eye on inventory and ensure that partners are held accountable. At least once a year, they should clean out any old or unsellable inventory to keep the accounting accurate and performance measurement effective.

10.Unfocused or nonexistent strategy

A law firm's strategic vision is the best way to avoid business problems and ensure success. This means clearly understanding what the firm wants to achieve and how it plans to do so. Having a plan in place is important so that all employees know the company's goals and can work together to achieve them. Having a clear vision also allows the firm to adapt to changes in the market and the legal industry to continue to be successful.

Surviving the Legal Industry in a Tough Economy

The legal industry is currently facing several challenges that are putting pressure on law firms. These include the rise of alternative legal service providers, the slow growth of the economy, and the increasing cost of doing business. In addition, new technologies are changing how work is done and how clients interact with their lawyers. As a result of these challenges, many law firms are struggling to survive.

Recession economic dips are inevitable, so how you act during those tough times is critical to the overall health of your business. Small business owners may feel the effects of the current recessionary climate more acutely than larger businesses. But you can take steps to weather the storm and recession-proof your law firm.

Use technology to your advantage.

In today's economy, law firms need to be leaner and more efficient in how they operate. Technology can help you achieve this by automating tasks, improving communication and collaboration, and providing insights into your business's performance. In addition, using cloud-based applications can help reduce your technology costs.

Diversify your revenue streams

In a recessionary climate, it's essential to have multiple sources of revenue to cushion the effects of a downturn. Law firms can diversify their revenue by offering new services, expanding their geographic reach, or working with new types of clients.

Control your expenses

During a recession, it's essential to closely monitor your expenses and cut costs where possible. This may mean reducing overhead, renegotiating vendor contracts, or deferring non-essential expenses.

Build up your cash reserves

In tough economic times, having a healthy cash reserve is essential to weathering the storm. Law firms can build up their cash reserves by reducing operating expenses, delaying capital expenditures, and increasing their billings.

Improve your collections process

In a recessionary climate, it's important to have a strong collections process in place. This means invoicing promptly, following up on late payments, and offering clients flexible payment

Focus on your existing clients

During a recession, focusing on your existing clients and providing them with the best possible service is essential. This may mean going above and beyond what's expected, being responsive to their needs, and offering value-added services.

Pursue new business cautiously

While pursuing new business during a recession, it's also important to do so cautiously. This means being selective in the clients you take on, ensuring you have the resources to service them, and being realistic about your expectations.

Invest in marketing

Law firms must invest in marketing in a tough economy to attract new clients and grow their businesses. This may mean investing in online marketing, developing a referral network, or attending industry events.

Marketing is important because it helps you increase your visibility. If other law firms are cutting their marketing budgets during a recession, take advantage of that situation by increasing your own marketing efforts. This will help you stand out from the competition and attract more customers. Keep in mind that

marketing is essential to growing your business. It can help you grab attention, educate potential clients, and build your brand. All of these factors can lead to more business.

Support your employees

In a recessionary climate, it's essential to support your employees and help them feel secure in their jobs. This may mean providing training and development opportunities, offering flexible work arrangements, or investing in employee morale-boosting activities.

Stay positive

In a tough economy, it's easy to get caught up in the negative news and lose sight of the positive aspects of your business. As a small business owner, staying positive and focused on your goals is important. This positive attitude will help you weather the storm and become stronger on the other side.

While economic downturns may not immediately impact transactional legal practices, market difficulties, regulatory responses, stimulus programs, changes in employment, and other stressors can create demand for these legal services.

Conclusion

To survive in this challenging economic climate, law firms must be adaptable and willing to change how they do business. They also need to have a clear vision of what they want to achieve and how they plan to get there. Additionally, it is important for firms to focus on their core competencies and to build up their work-in-progress and accounts receivable. Finally, law firms must be willing to invest in management to navigate these challenges effectively.

By taking these steps, law firms can survive the current challenges facing the legal industry and position themselves for success in the future.