

November 30, 2021

Legal industry pros explore how value drives profitable law firm client relationships

By *Brad Rosen, J.D.*

Dean Sonderegger, the Head of Legal & Regulatory U.S. at Wolters Kluwer, recently sat down with Meredith Williams-Range, the Chief Knowledge and Client Value Officer at [Shearman & Sterling LLP](#) to explore best practices for law firms managing the business impacts of innovation, and how they build deeper and more profitable relationships with their clients. The lively and insightful fireside chat, titled *Playing the Budget Long Game: Assessing Your Value to Drive Profitable Client Relationships*, was part of the [Ark Group's 4th Annual Law Firm Innovation Summit](#).

Tech competency imperative. Sonderegger kicked off the discussion by pointing to one of the findings from the [2021 Wolters Kluwer Future Ready Lawyer report](#), which surveyed 700 in-house and outside counsel professionals across nine countries in Europe and the United States. He noted that the survey identified a disconnect between how law firms and corporate law departments viewed a law firm's ability to use technology when selecting law firms to work with. Just 20 percent of law firms saw tech competency as the top factor compared to 26 percent for corporate law departments. Sonderegger noted this finding suggested that corporate legal departments view technological competence as somewhat more important than the law firms they are hiring view it. He suggested this perception might be putting further pressure on law firm billing rates and practices.

Sonderegger further noted how Wolters Kluwer's own general counsel has stated that he's happy to partner with law firms and doesn't mind them maximizing profit for an engagement. However, he has no interest in maximizing their revenue, a sentiment common across the corporate law department community.

An evolving law firm model and the three C's. In his first question to Williams-Range, Sonderegger asked how Shearman & Sterling grappled with issues around technological innovation and the ongoing pressure on law firm rates. In response, Williams-Range indicated that how you do the work is the key differentiator. For any given matter, we must ask, "Where do we need to step up technology use and where not?" As for basic competencies, she noted the expertise you bring to the table these days is table stakes. Williams-Range also observed, "Not all deals are created equal; not all matters are created equal; and not all revenue is created equal." She added, "If you take anything away from the conversation today, I would ask that you take that piece away."

In order to determine how to best approach a particular matter so as to maximize firm profitability, Shearman & Sterling employs its comprehensive [Changing Legal Services Model](#) which puts a given

matter into one of three buckets consisting of the three C's —“cream,” “core,” or “commodity.” Williams-Range further described each of these categories, noting:

- **Cream or ultra-premium.** These matters are highly bespoke and include large complex M&A deals or high-stake litigation which still command very high rates. These are the kind of engagements everyone wants to be working on, but there are very few of them to go around.
- **Core.** These are complex but more routine matters that call for experienced counsel. This is the bulk of the work that Shearman & Sterling does and where it sees great opportunity. However, the margins for these matters are getting slimmer over time. Accordingly, it is necessary to employ different types of technology so as to maximize margins and remain competitive in this space.
- **Commodity Services.** These matters include due diligence, research, contract review, E-forensics, and other lower value activities characterized by razor thin margins. If technology, AI, or different kinds of partnerships are not being used for commoditized matters, losses for the law firm may well result.

A changing competitive landscape. Williams-Range indicated when the firm competes for work these days, it looks and feels differently than 20 years ago. She anticipates it will continue to look different as new entrants continue coming into the legal space. She said the composition and main sources of competition for corporate legal department work are coming from the following sources:

- **Traditional “Big Law.”** This accounts for 45 percent of the competition and includes traditional competitors who themselves are changing, with the growth of established players as well as new entrants, including other international law firms. The business models of many of these firms are also changing.
- **“New Law” firms.** This accounts for six percent of the competition and consists of new legal service providers that align talent with specific legal tasks and projects. Many of these alternative legal service providers (ALSPs) are start-ups that are leveraging technology and flexible working methods. This group also includes the Big Four accounting firms which have focused particularly on automated document review and contract management areas.
- **Growth of In-house Legal Departments.** This accounts for 49 percent of the competition, and captures the trend of the largest clients increasing the amount of work they source internally. Significant growth in corporate legal departments has been seen particularly among large financial institutions and technology companies.

Williams-Range noted that when making a pitch, it is crucial to identify the type of player the firm is competing against, as well as the particular category of work is involved. This allows the firm to be more strategic in its conversations, as well as in its pricing and how it will look to deliver services.

Sonderegger noted that many of the business concepts around market segmentation being employed by Shearman & Sterling have been present in other industries for some time. He cited how Toyota segments its Prius customers, who seek fuel efficiency, from its Lexus customers who favor speed and power. He observed how market segmentation drives how we do our work differently, as well as expectations for value.

Moving to the Rocket model to increase efficiency. Since Williams-Range joined Shearman & Sterling over three and a half years ago, the firm has increasingly used what it calls the “Rocket model” approach in how it attacks its workflow. The Rocket model focuses on cost efficiencies, performance management, and utilizing resources on an “as needed” basis. The model also takes a flexible approach to staffing client matters and contemplates the greater use of contract lawyers, project managers, paralegals/secretaries and outsourcing. Moreover, the model involves the increased utilization of knowledge management and legal technology resources.

Williams-Range indicated the Rocket model’s creative staffing approach can be used regardless of the type of work the firm is servicing. She also echoed Sonderegger’s earlier observation that general counsels appear to be fine with the firm seeking greater profitability based on how the firm does the work. “That’s where the cream/core/commodity approach comes into to play,” Williams-Range noted.

Change is hard—especially in a law firm. Sonderegger queried how an economics-driven market segmentation approach has been received by those trained primarily in the law, meaning the ranks of the firm’s partnership. Williams-Range noted that working in a law firm is very different from being in corporate environment as you don’t have a CEO who singularly makes key decisions. Rather, in a large law firm, you are working with 200 partners and each has a say in the conversation as much as any other partner. On this score, Sonderegger noted that he’s often heard that getting partnerships to work is like herding cats or shepherding wind.

Williams-Range observed that change in itself is difficult, but change within a law firm setting where you have a top-down approach is especially complex, even on a good day. When she was first brought in as Shearman & Sterling’s Chief Value Officer to focus on organizational change, “It was like pushing a boulder up a hill, and a whole group of people on the other side tap dancing shoving it back down on top of our heads.” Williams-Range indicated that only about half of people were receptive to change and the other half were not. “You have to accept that” she noted, adding, “Change is emotional. If you focus on the emotional component and provide empathy to the change, it will help people navigate through the grief cycle of letting go of what was, and accepting the new.”

Not every matter is a bespoke Picasso. Moreover, Williams-Range typically meets with firm partners after having mapped through their matters to determine where they are price-challenged. In those conversations, the relevant data is reviewed, and recommendations are provided to help the partner bring more money to the firm and hence the partner’s back pockets. Williams-Range admitted some of these conversations are far easier to have than others. “We try to get them to focus on the process around what they’re doing, not every matter is as bespoke as they’d like to think it is. Not everyone deal is a Picasso piece of art”, she noted. According to Williams-Range, the objective is to get firm partners to view their practices in a more systematic way.

To address some of these challenges Williams-Range pointed to the firm’s *Nimble Lawyer* and *Nimble Staff* programs, where the emphasis is thinking through business concepts, focusing on the economics of the practice of law, and learning how to effectively manage legal matters with an aim to achieve

greater profitability. Lawyers learn how to apply metrics on a daily basis to the matters they are working on, not just at the end of a quarter, she noted. The Nimble Lawyer program was introduced about two years ago and continues to evolve.

Some final recommendations—what to avoid. In his final comments, Sonderegger noted that in some cases, success is the result of not what you choose to do, but rather the things you choose not to do, and is sometimes informed by a painful experience in the past. With that in mind, he asked Williams-Range in light of having worked for two firms where there had been significant transformations on how the firms used data in connection with working with their clients, what are some of the things she would say about what not to do.

Williams-Range had four basic recommendations. They are:

- 1) Don't assume the work is all the same. It is not.
- 2) Don't make the mistake of thinking things are easier than they are.
- 3) Don't assume using and applying data is easy, as she has spent the better part of three years convincing stakeholders and showing them how data can improve profitability. You need to be prepared to get your hands dirty, and you need to get clean data. It takes time to get the data to the point so that it tells the story you need to tell.
- 4) Don't underestimate the amount of time it takes to get the data in order, and don't assume the conversations will be easy because none of them are. For example, it's important to have difficult conversations with partners who have assumed their matters are in the crème bucket when they're really in the commodity bucket. That is a hard conversation, and you cannot have them properly without data.

Summarizing the key takeaway from the fireside chat with Williams-Range, Sonderegger underscored that law firm matters are not homogeneous. If you assume that they are, you will be heading down a very bad path. The concept of segmenting the work that you do is such a critical and fundamental thing that can often get lost.

The *2021 Wolters Kluwer Future Ready Lawyer: Moving Beyond the Pandemic* survey is available by clicking [here](#).