



# BUSINESS DEVELOPMENT

## *for* SMALL LAW FIRMS

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### Executive Summary

- Based on a survey of **378 small law firms**, defined as from 5 to 10 partners, two segments were identified – generalists and specialists.
- All small law firms – more so the generalists – considered **2013 to be a difficult business environment**. They don't expect 2014 to be any easier.
- The ability to **source new clients** and, to a lesser extent, increase business with current clients are seen as the primary ways to meaningfully increase firm revenues.
- Most partners say their **firms are not very proficient at acquiring new clients**.
- The ability to systematically **garner new clients through referrals** from both existing clients and centers of influence is the generally the optimal way to build a larger clientele.
- Cross-selling of the firms law services is another potentially highly profitable way to potentially exponentially increase revenues. However, most cross-selling of legal services is limited and reactive – responding to the requests of clients.
- The most effective way to dramatically increase revenues is for small law firms to follow in the well-worn path of **self-made millionaires** and **ultra-successful professionals**.

*Private  
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Abrams, Fensterman, Fensterman, Eisman, Formato, Ferrara & Wolf, LLP

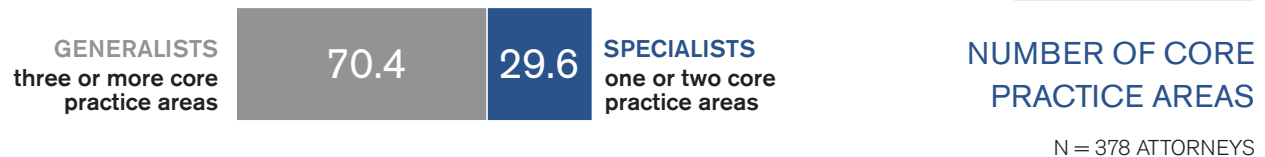
Attorneys at Law

## Practice Orientation

In December 2013, we conducted a national survey of 378 equity partners of small law firms. For this research study, a small law firm is defined as having between 5 and 10 partners. These small law firms can be segmented based on whether they concentrate on a particular practice area or two or are inclined to handle a broader array of client concerns in-house.

About 70% of the respondents report having three or more core practice areas. These firms are willing to take on a variety of client matters, and we refer to them as generalists. The remaining 30% of the equity partners report that their firms have one or two core practice areas (Exhibit 1). We refer to these law firms as specialists.

### EXHIBIT 1



As we'll see, there are meaningful differences among specialists and generalists when it comes to business development. More instructive, we'll be highlighting the relevant business development best practices. These best practices were empirically derived from the behaviors of ultra-successful professionals integrated with the wealth creating mind-set and actions of self-made millionaires.

Let's begin by considering the current environment confronting small firm law firms.

## The World Today

Across the board, the legal business is under pressure. For the year 2013, three-quarters of the partners surveyed reported it was a difficult economic environment (Exhibit 2). This was more the case for the generalists. When it comes to the specialists, it's predominantly a matter of their firm's expertise. While some practice areas have done well, others haven't performed.

What's very telling is that 85% of the partners anticipate 2014 to be a hard year. Again, proportionately more of the generalists are anticipating difficulties this year (88.3% of generalists compared to 72.1% of specialists). For a plethora of reasons such considerable competition and more demanding clients, the short-term future is expected to continue to be difficult to navigate.

### EXHIBIT 2

Year	GENERALISTS	SPECIALISTS	WEIGHTED AVERAGE
2013	74.8%	66.4%	74.1%
2014	88.3%	72.1%	85.4%

### DIFFICULT BUSINESS ENVIRONMENT

N = 378 ATTORNEYS

A consequence, in part, of a difficult business environment is the amount of money the partners take home (Exhibit 3). About 30% report a decrease from 2012 to 2013 in their take home compensation. A quarter of the partners said their total compensation increased. Meanwhile, 45% note that their compensation held fairly steady.

There are pronounced differences between generalists and specialists in this regard. For the generalists, total compensation was generally steady or lower. Only about a fifth reported an increase year over year. Meanwhile, total compensation for the specialists exemplified the barbell concept. About 40% reported higher total compensation while about 40% reported lower total compensation. The remaining fifth said their total compensation was the same. This is a function of the specialty of the small law firms. Healthcare work for companies dealing with Obamacare, for example, was and is likely to continue to be quite lucrative.

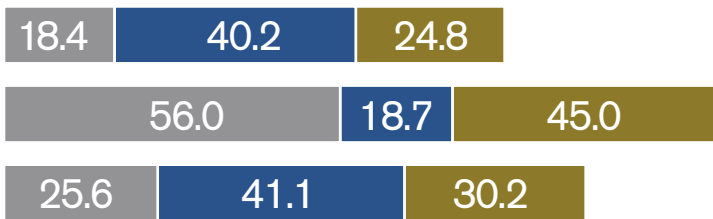


EXHIBIT 3

INCOME 2012  
COMPARED TO 2013  
% | N = 378 ATTORNEYS

GENERALISTS | SPECIALISTS | WEIGHTED AVERAGE

Delving deeper into the matter, we examined two key business development concerns (Exhibit 4). The most pervasive concern, noted by nearly nine out of ten of the partners, is being able source new clients. Based on research with a wide variety of professionals from investment advisors to accountants to management consultants, this concern tends to be pervasive. When it comes to business development, the overwhelming percentage of professionals of every stripe is focused on bringing in new clients.

For about 70% of the partners, the ability to generate more revenue with current clients is a prominent concern. About 70% of the generalists think this way compared to about half the specialists. Clearly, the generalists are more often better positioned to cross-sell legal services than specialists. However, as we'll discuss below, cross-selling is not a strong point of most small legal firms (nor is it that widespread in larger legal firms).

Concerns	GENERALISTS	SPECIALISTS	WEIGHTED AVERAGE
Accessing new clients	89.1%	87.5%	88.6%
Increasing business with existing clients	70.7%	58.0%	66.9%

EXHIBIT 4

KEY BUSINESS  
DEVELOPMENT CONCERNS  
% | N = 378 ATTORNEYS

The answer to a difficult business environment for many of the partners is to generate more revenues. This often translates into sourcing new clients.

## Sourcing New Clients

For small law firms as well as for most professionals, the ability to bring in new clients is instrumental to their financial success. The complication is that most professionals, including the partners at small law firms, are not very adept at rainmaking (Exhibit 5). Overall, about a quarter of the partners say their firms are very effective in sourcing new clients. About a third of the specialists say they're very effective, while less than a fifth of the generalists identify themselves as being very effective.

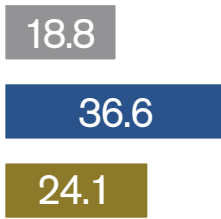


EXHIBIT 5

VERY EFFECTIVE AT SOURCING NEW CLIENTS

% | N = 378 ATTORNEYS

GENERALISTS | SPECIALISTS | WEIGHTED AVERAGE

There are a number of ways to source new clients for legal services. The partners were asked the importance of different approaches to acquiring new clients (Exhibit 6). Topping their list are client referrals. Overall, three-quarters of the partners say that they get a meaningful number of new clients because of the high-quality work they've done with existing clients. Relatively speaking, this is more the case with specialists than generalists.

For about half the partners, centers of influence—non-competing professionals—are excellent sources of new clients. Three-quarters of the specialists and two-fifths of the generalists find centers of influence to be powerful way to source new clients. For the specialists, this approach might very well be a necessity considering their expertise.

A little less than half of the partners identified their relationships in the community as resulting in new clients. This is proportionately more prevalent among generalists than specialists. Here, the partners are networking through the likes of the local chamber of commerce, business associations, and charitable organizations.

One in ten is seeing referrals from family and friends. Relatively speaking, this is three times more the case for generalists compared to specialists. Neither internal referrals (non-existent for the specialists) nor various forms of media outreach are seen as producing new clients.

EXHIBIT 6

### SOURCING NEW CLIENTS

Concerns	GENERALISTS	SPECIALISTS	WEIGHTED AVERAGE
Client referrals	70.7%	88.8%	75.9%
Centers of influence referrals	41.7%	81.3%	53.4%
Relationships in the community	62.8%	16.1%	48.9%
Referrals from family and friends	12.8%	4.5%	10.3%
Internal referrals	7.9%	0.0%	5.6%
Advertising/public relations/social media	2.3%	10.7%	4.8%

## BEST PRACTICES SOURCING NEW CLIENTS

While sourcing new clients is a significant concern, it's evident that most small law firms are not especially adept in this regard. When looking at larger law firms, as well as other types of professionals, this lack of facility in bringing in new clients is a widespread concern and one where many of these various professionals are not particularly skilled.

Client referrals are habitually the most common way for any professional to acquire new clients. What's required to make client referrals more than a "mostly random" occurrence is a systematic methodology prompting high-caliber introductions on a regular basis. Self-made millionaires and ultra-successful professionals are often quite capable of obtaining referrals from clients. Critical to their success is knowing not only a fair amount about the client, but also knowing about the business and possibly the personal networks of the client. Some of the questions you need answers to include:

- **Who does the client do business with?**
- **What is the quality of these relationships?**
- **How can the client most efficaciously make an introduction for specific legal services?**

Most professionals—including attorneys—are solidly centered on what they can do and making sure they do it well. To garner client referrals, doing a good—if not great job—is critical, but it's often not enough. The ability to think beyond current client situations and understand the scope and character of their networks is regularly essential to create a steady stream of new clients.

For the small law firms, the value of cultivating centers of influence to obtain referrals is not as prevalent as client referrals. Nevertheless, overall, this is the optimal source of new clients for nearly all professionals. Research study after research study verifies that non-competing professionals are the optimal source of high-caliber new clients for most professionals.

A recent study of 611 financial advisors, for example, found that the majority of their new clients were due to referrals from their existing clients. However, and very telling, their best new clients—i.e., the ones providing the largest pool of investable assets—came from centers of influence.

What was even more insightful was that the overall revenue differential between the clients who came from client referrals and the ones who came from centers of influence was dramatic:

$$\frac{\text{REVENUE DIFFERENTIAL} = \text{Center of Influence Referral}}{\text{Client Referral}} = \frac{21.1}{1}$$

This means is that for every \$100,000 in revenue a client referral is worth to a financial advisor, based on this sample, a referral from a center of influence is worth slightly more than \$2 million in revenue. These revenue numbers are over the projected life of the relationship, which is set at eight years. This revenue differential of "21.1 to 1" is certainly not set in stone. By changing the assumptions underlying the calculation, the revenue differential will change.

The most important takeaway from this calculation is that there is a tremendous difference in revenues from the clients a financial advisor sources through client referrals, than those who are provided by centers of influence. Just about all professionals evidence the same type of revenue differential.

Street-smart networking is a framework that is effective in creating a constant flow, if not a flood, of new clients for a professional's expertise. It's a methodology for creating Advocates who are other professionals highly motivated to find clients to refer. In addition, Advocates heavily lobby their clients to use the services of the professionals they're recommending.

Core to becoming a street-smart networker is developing a deep understanding of the respective world of each prospective center of influence. This is accomplished on a one-to-one basis by using the Assessment Instrument (Exhibit 7).

## EXHIBIT 7

## ASSESSMENT INSTRUMENT

There are five broad components of the Assessment Instrument. Let's now identify these components.

- 1 ATTRIBUTES**  
are the central and often defining characteristics of the other professional, such as their technical expertise and particular competencies as well as their strengths and weaknesses.
- 2 CONTACTS**  
are the people the center of influence knows and can access.
- 3 RESOURCES**  
are the "assets" and means at the center of influence's disposal.
- 4 INTENT**  
refers to the center of influence's preferences, needs, and wants as they translate into interim objectives, which feed into larger goals.
- 5 CRUCIAL CONCERNS**  
are the dominant and persuasive issues and interests the person is presently dealing with.

The framework that is street-smart networking is extremely applicable for garnering new clients from existing clients as well. While other approaches can periodically result in new clients, street-smart networking is undeniably one of the most powerful approaches for a law firm – or any professional services firm – can employ to build dramatically their clientele. That's not to say other approaches cannot work. However, street-smart networking is proven to be extraordinarily effective.

Aside from accessing new clients, the ability to maximize the relationship with clients to provide additional legal expertise either in the form of new services or repeat services can be significant. We'll now consider cross-selling legal services.

## Cross-Selling Legal Services

The ability to maximize client relationships is another way to generate revenues for small law firms. Operationally, maximizing client relationships involves providing multiple and different legal services to the same client. For example, after the divorce, the newly single client's estate plan is redone.

Cross-selling legal services is talked about regularly, but not often accomplished. Only about a fifth of the partners report their firms are good at cross-selling legal services (Exhibit 8). The difference between generalist and specialist is inconsequential.

19.2

18.8

19.0

### EXHIBIT 8

#### EFFECTIVE AT CROSS-SELLING LEGAL SERVICES TO CLIENTS

% | N = 378 ATTORNEYS

GENERALISTS | SPECIALISTS | WEIGHTED AVERAGE

While generalists usually aim to keep the legal work in house, specialists turn to other law firms for services they don't provide. Overall, a little more than a third of the partners noted that their firm has referred their clients to other law firms in the past three years (Exhibit 9). This is relatively more common among specialists than generalists. When they bring in another law firm, the common practice is to have some sort of fee-splitting arrangement.

28.6

48.2

34.4

### EXHIBIT 9

#### REFERRED CLIENT TO ANOTHER LAW FIRM IN THE PAST 3 YEARS

% | N = 378 ATTORNEYS

GENERALISTS | SPECIALISTS | WEIGHTED AVERAGE

What's also very insightful is the determination that when cross-selling opportunities do occur, they're usually client-driven. More than nine out of ten of the partners believe this to be the case (Exhibit 10). In effect, the small law firms aren't proactively seeking out opportunities to provide additional legal services.

91.7

90.2

91.3

### EXHIBIT 10

#### CROSS-SELLING OPPORTUNITIES ARE USUALLY CLIENT-DRIVEN

% | N = 378 ATTORNEYS

GENERALISTS | SPECIALISTS | WEIGHTED AVERAGE



## BEST PRACTICES CROSS-SELLING LEGAL SERVICES

This research study shows the lack of practical action taken by small legal firms to cross-sell additional legal services. As with sourcing new clients, this scenario is quite common among various types of professional services firms. However, what's also common among these firms is the tremendous revenue potential of cross-selling.

In one case analysis of a full service large law firm (more than 100 partners), by cross-selling clients on needed additional legal services, revenues tend to increase by as much as 400% per client. However, other research studies with larger law firms often show their partners are not very proficient when it comes to cross-selling. The revenue possibilities of cross-selling clients and the lack of effort and success at doing so are characteristic of all sorts of professional firms besides law firms.

While cross-selling makes tremendous economic sense and can meaningfully benefit clients, law firms are pretty bad at it. Foundational to cross-selling is knowing your clients very well.

As noted above, in order to garner client referrals, it's seriously advantageous to have a deep understanding of the client. Self-made millionaires, as well as ultra-successful professionals, generally put a tremendous amount of resources into developing such understandings.

Such insights are many times also crucial in order to recognize additional legal client needs. While some needs are fairly evident, many times only in developing an in depth knowledge of the client including goals and objectives as well as critical concerns, is it possible to determine what additional legal services make sense.

Even knowing what additional legal services are appropriate for the client, it's commonly necessary to be able to effectively position those services in a meaningful way. While there are times clients will just follow the advice of their attorney in this regard, most likely the attorney must provide a solid rationale for these additional legal services.

These two consolations for successfully cross-selling are not the biggest stumbling blocks for attorneys. Many lawyers are perspicacious enough to identify other legal opportunities, and a percentage of them are proficient at positioning these additional legal services.

The biggest obstacle is a psychological inhibition to refer. There are serious risks associated with making referrals even to a partner. These risks multiply if a client can provide more business for the lawyer directly. To the extent possible, referral risks need to be mitigated. Furthermore, incentives need to be put in place that make the risks involved worth taking. A wide variety of incentives are possible with revenue sharing, in one form or another, topping the list.

Just as with street-smart networking, what's core to making cross-selling highly effective is to systematize the approach. The ability of self-made millionaires and ultra-successful professionals to cross-sell is not only having a viable process, but also methodically applying it.



## Two Requirements for Business Development

Self-made millionaires and ultra-successful professionals achieve their business achievements through (1) hard work and by (2) being systematic. The best practices discussed herein are predicated on knowing what to do and consequently taking methodical action.

Knowing what to do is actually the easy part. The answers to stellar success are clearly defined and available to anyone inclined to learn. Street-smart networking, for example, is unquestionably an *implementation model*. The professionals who achieve success with it regularly achieve considerable if not extraordinary success. That's because they put in the time and effort required to get results. Moreover, street-smart networking systematically focuses a professional's efforts to achieve interim goals with the end-result being a dramatic increase in revenues and incomes.

Street-smart networking isn't inherently complicated. It just takes a solid commitment from a professional to achieve dramatic results. Make no mistake: *Becoming a street-smart networker is hard work*. It also facilitates the development of an in depth plan for sourcing new high-caliber clients with explicit well-reasoned goals as well as the means to competently execute the plan. These same requirements—hard work and being systematic—are similarly integral to getting client referrals and cross selling.

In today's hyper-competitive business endorsement, with no let up in sight, lawyers as well as all professionals need to decide on the career and financial levels they want to reach. Business development is deemed essential to reaching higher levels, and the methodologies discussed are ways to appreciably increase revenues. But, they all require hard work combined with systematic processes that translate into superior results.



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