



Alan R. Olson

Demographic Analysis: Foreshadowing the Future of Your Firm

By Alan R. Olson

An objective demographic analysis can be a very important analytical tool for a law firm. On a firm-wide and practice group basis, charting firm demographics can provide a substantive foundation for conclusions about the current standing of a law firm, and, sometimes, it can provide the genesis for insights about its short- and long-term strategic position, individual offices, or practice groups.

Lawyer expertise, whether in law practice itself, or in management or business development, can vary markedly, but acumen generally grows and, correlates with experience. Unfortunately, very few lawyers graduate from U.S. law schools fully prepared to excel in law practice, let alone in the business of law. Experience is required to advance in law practice: managing the practice; relating to clients, their businesses and legal matters; developing clients; and managing the business of a law firm or a practice group.

Charting a law firm's demographics can help a firm plan for its future, and the same can be said for individual offices and practice groups. One simple use of this technique involves charting a law firm's lawyers based on years since first bar admission.

Consider Figure 1 below, which is an illustration combining the profiles of many law firms.

Analyzing a Law Firm

The 34-lawyer firm of which the chart is illustrative has several experience-related features of interest. First, while the ABC firm

has seven associates with up to five years experience, and five more associates with five to ten years, the firm has relatively few lawyers in the critical production tier between 10 and 20 years. Whether the firm took a hiatus from recruiting, experienced turnover, or began growing more aggressively in recent years, this "gap" could signify workload pressures at the beginning to middle partner level.

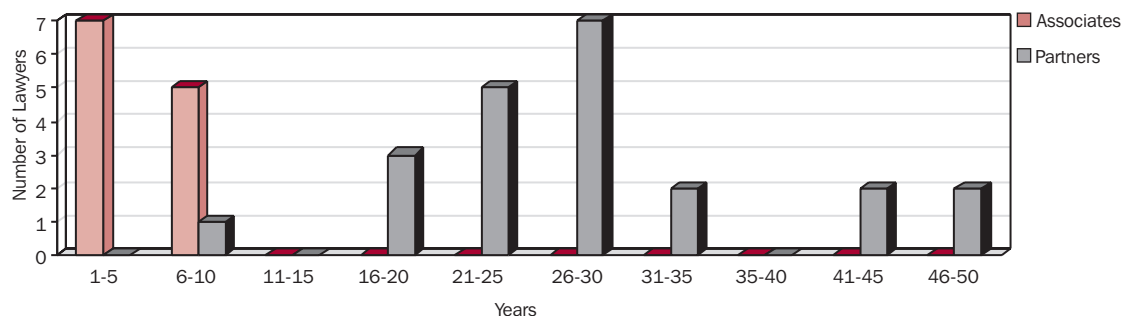
Second, with the more recent hiring of new associates, the firm's gap between 10 and 20 years could indicate the likelihood of time and resource pressures on training and mentoring. Third, the firm has strength in its partner demographics between 16 and 35 years. While as stated, abilities and interests vary markedly, this firm has 17 of its 34 lawyers in what are likely to be their peak performing years — as practitioners, as rainmakers and/or as managers.

Fourth, the strength between 16 and 35 years raises a potential long-term weakness in the firm, as the gap between 10 and 20 years advances over time, toward maturity and potential peak performance years. Without lateral acquisitions or other moves, the ABC firm might find itself with a major gap between relatively mature and relatively new lawyers, suggesting future pressures on high-level expertise, industry knowledge, client retention and new business development skills.

Fifth, ABC has four very senior partners, and a second experience gap between the four seniors and the upper-middle partner group. If

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Figure 1
Firm ABC: Partners and Associates Since First Bar Admission



the four very senior partners still have major client followings or practice responsibilities, there could be difficulties in transitioning some clients and some high-level legal work — and the transitions are likely to be imminent.

Of course, all of the preceding analyses rely on indicators, gathered from a single set of information. Therefore, these resultant analytical points are only indicators as well, waiting to be proven or discounted by additional facts and circumstances. When augmented by additional facts and analyses, however, demographics can provide a strong beginning toward a variety of management and strategic planning observations and conclusions.

Analyzing a Practice Group

Figure 2 pertains to a large firm practice group. Here the remarkable feature is that a department with 32 lawyers and a one-to-one ratio of associates to partners has no lawyer with more than 20 years experience. Does this indicate a problem? Maybe, maybe not. If this is a corporate department just after the spin-off of a cadre of seniors who are major rainmakers, this picture poses a problem — and more importantly, provides additional impetus for a strategy to address issues undoubtedly arising from the departures. On the other hand, if this demographic chart depicts the cutting edge biotech department of an Intellectual Property firm staffed with lawyers who have earned graduate science degrees before going to law school, this profile might be optimal.

Demographics, Vitality and Malaise

Occasionally, a demographic chart can dramatize a critical juncture in a firm's history — or forecast a critical juncture in a firm's future. Figure 3 depicts a partners-only experience chart.

As an aside, the near bell-shaped curve in the chart can be readily understood in 2003, because it has at least rough correlation with the U.S.

continued on page 6

Figure 2
Practice Group DEF: Partners and Associates Since First Bar Admission

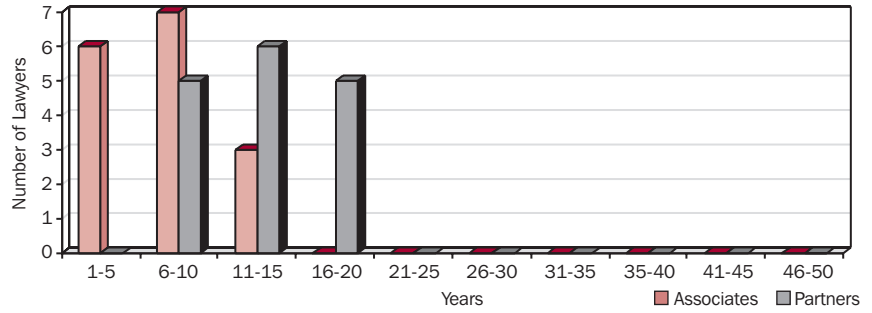


Figure 3
Partners by Years in Practice

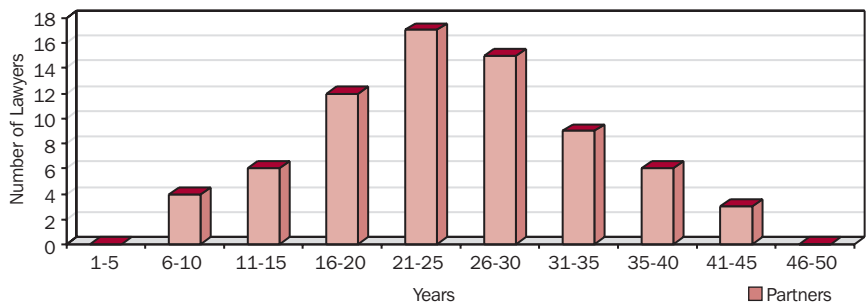


Figure 3A
Firm GHI: Partners and Associates Since First Bar Admission

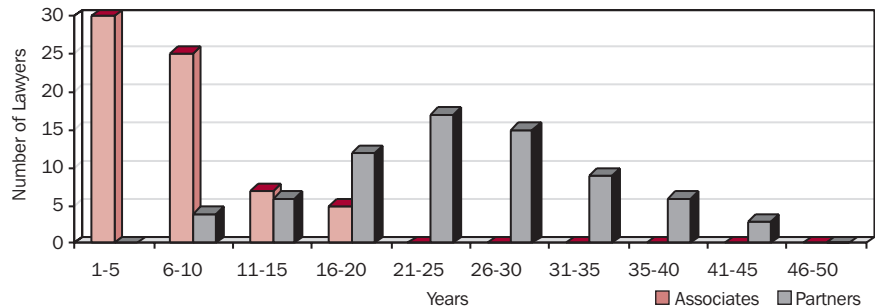
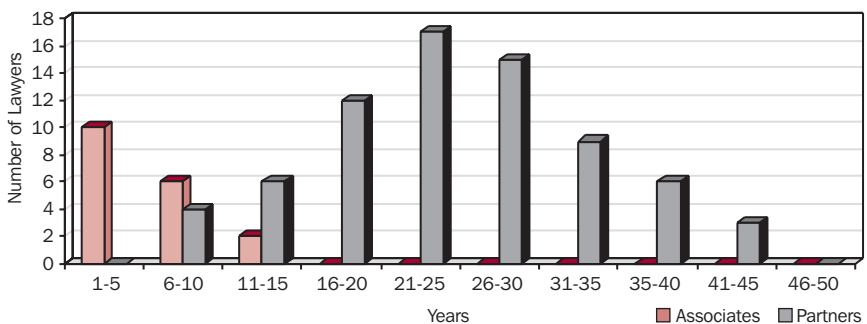


Figure 3B
Firm XYZ: Partners and Associates Since First Bar Admission



Demographic... continued from page 5

baby boomer generation's entry into the practice of law. If an individual law firm's experience curve were simply a reflection of the percentage of the U.S. population entering law schools, graduating and entering law firms upon graduation, this chart arguably reflects a microcosm of U.S. demographics. Of course, supply and demand does not flow in exact correlation to population statistics; neither do individual law firms' business volume, profitability, willingness to invest, or associate hiring patterns.

Illustrations 3-A and 3-B on page 5 are derived from the same partner configuration shown in Figure 3. However, the two illustrated firms possess very different associate resources.

Firm GHI in Figure 3-A has 67 associates and 72 partners — at 0.93 associates per partner.

In stark contrast, Law Firm XYZ has 18 associates accompanying its 72 partners (a 0.25 ratio). As mentioned, there may be many other dynamics at work. XYZ may be a boutique, with a multiple-tiered partnership and leverage throughout the lower partner ranks. XYZ may have 50 paralegals and a practice that favors paralegal leverage over associates. Barring other more favorable dynamics, however, a chart with XYZ's configuration raises a major red flag — i.e., without some bold moves and hard work, XYZ's days as a stand-alone law firm might be numbered.

Should the XYZ firm have foreseen this? If this upside-down pyramid was the result of low recruitment levels over a long term, reducing XYZ's leverage, the answer should be yes. Figures 4 and 5 show the XYZ firm, with identical personnel, 15 and 20 years earlier, respectively. Within the six to ten year category the numbers of partners and associates were divided to correspond to the ratio in the six-to-ten category of Figure 3-B. Fifteen years ago, the XYZ firm had 22 associates and 40 partners, or 0.55

Figure 4
Firm XYZ 15 Years Ago

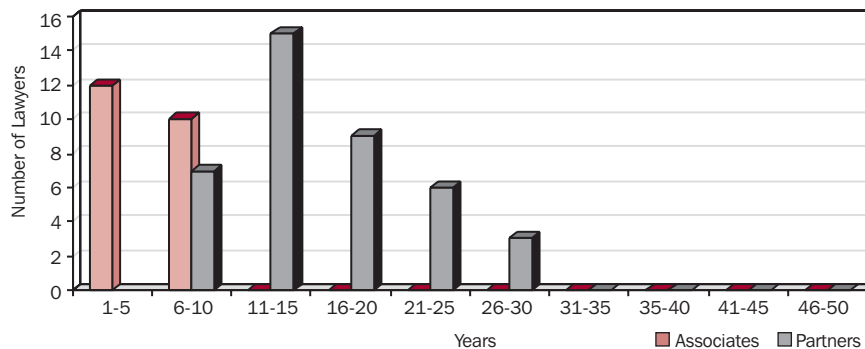
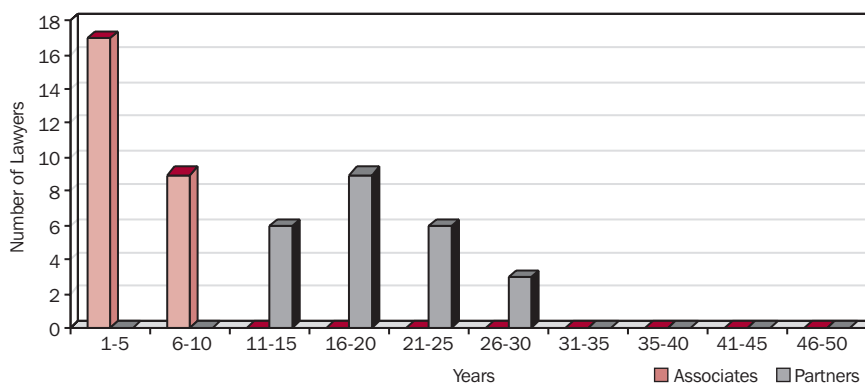


Figure 5
Firm XYZ 20 Years Ago



associates per partner. Twenty years ago (and just five years earlier), the XYZ firm had 26 associates and 24 partners, or a ratio of 1.08 associates per partner.

Of course, a perfectly consistent demographic flow pattern is highly unlikely. Even without mergers and spin-offs, individuals enter law firms laterally, as well as retire, withdraw or otherwise leave at different ages. This makes it more, not less, critical for firms to look at their demographics often — for example, on an annual basis, in conjunction with annual planning, budgeting and management review processes.

Conclusion

Demographic analyses, in concert with financial and performance analysis, internal questionnaires and other fact-finding, can help to identify and anticipate an array of law firm management, client service, market-

ing, economic and strategic planning issues. In this consultant's experience, such analyses have greatly assisted in the identification and understanding of significant associate training and mentoring issues; inconsistent work delegation; workload imbalances; client service and retention issues; cultural or political schisms; and much more. Moreover, analyzing a demographics chart is an unemotional, relatively blameless vehicle for explaining a pressure point in the firm's practice. And, while still relatively simple, an experience chart can provide much richer information than a mere associate to partner ratio. ♦

Alan R. Olson is a principal of Altman Weil, Inc., working out of the firm's Midwest Office in Milwaukee. He can be reached at (414) 427-5400 or arolson@altmanweil.com