Workshop #1: In Search of El Dorado: Measuring Profitability & Efficiency in Marketing & Business Development Departments

Kalisha M. Crawford  
Director of Marketing & Business Development, Ropers Majeski PC

Deborah Ruffins  
Chief Marketing Officer, Perkins Coie LLP

Tom Snavely  
Principal Consultant – Advisory Services, Thomson Reuters

Madhav Srinivasan  
Chief Financial Officer, Hunton Andrews Kurth LLP
In Search of El Dorado

Measuring Profitability & Efficiency in Marketing & Business Development Departments

January 23, 2023
Session objective

What must Chief Marketing Officers or law firm business development committees measure to quantify success?
### Agenda

‘Where can it be—This land of Eldorado?’

- Edgar Allan Poe

- Introductions
- State of the legal market
- Competitive Advantage Model
- Breakout groups
- Final remarks
State of the Legal Market

Uncertainty on the horizon
Firms experienced slowing in demand growth throughout 2022

Growth in demand for law firm services

Y/Y % change

<table>
<thead>
<tr>
<th>Year</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>4.1%</td>
</tr>
<tr>
<td>2008</td>
<td>-1.5%</td>
</tr>
<tr>
<td>2009</td>
<td>-5.1%</td>
</tr>
<tr>
<td>2010</td>
<td>-0.2%</td>
</tr>
<tr>
<td>2011</td>
<td>1.0%</td>
</tr>
<tr>
<td>2012</td>
<td>0.5%</td>
</tr>
<tr>
<td>2013</td>
<td>-0.8%</td>
</tr>
<tr>
<td>2014</td>
<td>0.7%</td>
</tr>
<tr>
<td>2015</td>
<td>0.3%</td>
</tr>
<tr>
<td>2016</td>
<td>-0.6%</td>
</tr>
<tr>
<td>2017</td>
<td>-0.2%</td>
</tr>
<tr>
<td>2018</td>
<td>1.0%</td>
</tr>
<tr>
<td>2019</td>
<td>1.0%</td>
</tr>
<tr>
<td>2020</td>
<td>-1.6%</td>
</tr>
<tr>
<td>2021</td>
<td>3.7%</td>
</tr>
<tr>
<td>YTD: Nov '22</td>
<td>-0.1%</td>
</tr>
</tbody>
</table>

All timekeepers. Billable time type; non-contingent matters.

Source: Thomson Reuters 2023
DIRECT EXPENSES AND OVERHEAD BALLOONED IN 2022

Profit per Lawyer (FTE) – Change Since Q1 2020 - All Segments

Rolling 12-Month Change Since Q1 2020

Deceleration Driven By Expenses

Rapid Acceleration in Late 20 and Fy 2021

0% 5% 10% 15% 20% 25% 30%

Q1 2020 Q1 2021 Q1 2022

3.7% 6.9% 9.4% 15.4% 21.0% 24.3% 26.2% 25.1% 20.0% 17.1%

Powered by Peer Monitor® / Financial Insights
Buyer sentiment: where is the legal market headed?

Total legal spend optimism: quarter-by-quarter view ($1B+ companies)

- Plan to increase
- Plan to decrease
- Net spend optimism

Percent planning spend increases:
- Q3 '19: 40%
- Q4 '19: 41%
- Q1 '20: 36%
- Q2 '20: 30%
- Q3 '20: 32%
- Q4 '20: 36%
- Q1 '21: 39%
- Q2 '21: 47%
- Q3 '21: 42%
- Q4 '21: 36%
- Q1 '22: 43%
- Q2 '22: 44%
- Q3 '22: 43%
- Oct + Nov: 41%

Percent planning spend decreases:
- Q3 '19: 25%
- Q4 '19: 24%
- Q1 '20: 26%
- Q2 '20: 34%
- Q3 '20: 28%
- Q4 '20: 24%
- Q1 '21: 22%
- Q2 '21: 21%
- Q3 '21: 16%
- Q4 '21: 19%
- Q1 '22: 17%
- Q2 '22: 17%
- Q3 '22: 22%
- Oct + Nov: 19%

Net spend optimism equals the percent of buyers planning to increase legal spend minus those planning to decrease. Source: Thomson Reuters 2023

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4. Figure 3 and this paragraph is based on data from Thomson Reuters Market Insights, which provides legal buyer information from around the globe based on annual interviews with around 2,500 legal buyers with revenues above $50 million (US).
Is there a firm that you have started using or used substantially more in the past 12 months?

50% of buyers have adjusted their law firm rosters in the last year.
Reactions
## Business Development Macro-Trends

### US Law Firms

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure / Revenue %</td>
<td>1.5%</td>
<td>1.6%</td>
<td>0.7%</td>
<td>0.7%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Compensation / Revenue %</td>
<td>0.7%</td>
<td>0.8%</td>
<td>0.8%</td>
<td>0.8%</td>
<td>0.8%</td>
</tr>
<tr>
<td>FTE in 600+ Firms</td>
<td>60</td>
<td>64</td>
<td>67</td>
<td>69</td>
<td>71</td>
</tr>
</tbody>
</table>

Source: Citibank
BD Expenditure: Pre and Post COVID-19

US Law Firms

Source: Peer Monitor

Business Development Expenditure / Revenue %
Marketing effectively requires balancing across multiple channels.
Marketing supports the client journey from lead to work and beyond

**Marketing stage**
- Awareness
  - Have I heard of you?

**Marketing goal**
- Buyers
  - Know who we are
  - Know what we do
  - Know how we can help
  - Know how we can help them better than anyone else
  - Believe we will deliver value
  - Become repeat buyers, entrenched clients, rabid fans

**Marketing outcome**
- Prospects, suspects or unqualified leads
- Qualified leads or identified opportunities
- Invitations to bid or orals
- Contracts, loyal clients
- NPS, share of wallet

**Marketing type**
- 1: Many, broadcast
- 1: Some, large target segment
- 1: Few, narrower possibly company specific segment
- 1:1 Company specific segment
- 1:1 Company / individual
- 1:1 Company / individual

**Marketing activity**
- Image Development
  - Adv, Media, Large 3rd Party Events

- Image / Market Development
  - Smaller, Firm-Hosted Events, Campaigns

- Market Development
  - Campaigns, Client-Centric Marketing

- Market / Business Development
  - Client-Centric Marketing, Opportunity-Centric Marketing, Proposals

- Business Development
  - Presentations, Coaching, Value Reports

- Client Appreciation
  - Private Events, Client Listening

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**CREDIBILITY**
- CHEMISTRY
Breakout Session
What must Chief Marketing Officers or law firm business development committees measure to quantify success?

- **Top-of-mind Awareness & Favorability**
  - Be the firm clients think of first
  - Differentiate from other firms

- **Consideration & Usage**
  - Get a seat at the table more frequently for the right work

- **Experience & Growth**
  - Get more work from clients and keep competitors out

- **Leading** indicator helps predict future success
- **Lagging** indicator of past performance and measures if a result was achieved
Final thoughts
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