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COMMENTARY



Diversifying by Design: How Mid-Market Firms can Embrace Diversification for Success



By threading diversification into business origination, cross-selling and lateral hiring, mid-market firms will find success, writes Tarter Krinsky & Drogin managing partner Alan Tarter.



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Commentary

By Alan M. Tarter, Managing Partner, Tarter Krinsky & Drogin | October 12, 2023 at 12:01 PM

Whether to diversify is often a difficult question for law firms to ponder – a business diversification strategy can come with different rewards and risks, especially in challenging economic conditions like we face today. The key for firms, though, is not just to diversify but to do it strategically.

Mid-market law firms are uniquely positioned to maximize opportunities for success now and in the long term as they have abundant resources and less bureaucracy. Instead of cutting headcount or tightening costs when the market experiences downturns, which can become a self-fulfilling prophecy, mid-market firms should view this as an opportunity for change. This mindset begins with intentionality and emphasizes diversification and the evolution of our business practices.

By threading diversification into many areas of a firm's fabric, including its business originators, business sectors, cross-selling, client diversification, lateral hires, succession planning, and geographical diversification, mid-market firms will find success.

Diversification in Services: Structuring Offerings to Withstand Downturns

Throughout the legal market, there are different firm structures – some specialize in one niche practice, others focus on services in one or two industries with some additional offerings, and certain firms offer a wide range of disciplines.

As we're seeing in today's economy, businesses solely dependent on one practice area may experience financial downturns and, for some, turn to layoffs or mergers to compensate for lower-than-expected revenue. Since they've primarily relied on a limited number of business streams, they risk falling victim to industry shifts and recession.

businesses to fluctuate along with the economy. Forward-thinking firms take advantage of opportunities that present themselves. For example, Anthony Hunt at London-based, 250-plus attorney Howard Kennedy suggests continued economic uncertainty into 2024 will likely lead to a rise in the number of startups founded over the coming months as the market has less competition. In response, the firm is launching a new product brand catering to these customers, focusing on high-value offerings. Establishing early relationship loyalty with their C-suite or General Counsel also enables opportunities for cross-selling services across various practice groups as these companies grow.

Another way to rethink your structure is by adopting alternative fee arrangements, which benefit both firms and clients. To supplement hourly work, Shannon Clark of Gallagher & Kennedy, a 64-attorney firm with offices in Phoenix and Santa Fe, said they established a healthy contingent fee practice and offer hybrid fee arrangements for many cases, including consumer fraud, commercial, creditor and taxation, in addition to legal malpractice.

Diversification in Business Generators and Clients: Widening a Firm's Reach

Firms that attract clients from a multitude of industries, through a number of shareholders, are often more financially stable than those who rely on only a few clients.

Take 81-attorney Klinedinst PC, for example. CEO and President Heather Linn Rosing credits their longevity to, "having a team of high-producing shareholders who originate business from across sectors, ensuring their success isn't dependent on the success of one client."

For many mid-market law firms, clients in the middle market may be the natural target area for business. Instead of catering only to these clients, however, mid-market firms should expand to also service larger, institutional clients as well as smaller, high-net-worth individuals and families. This way, as Rosing points out, firms can better withstand fluctuations in the market that will affect larger institutions differently than the middle market, and so on.

Diversification in Geography: Expanding Physical Presence

More opportunities can abound for firms when they strategically expand their physical presence. For West Coast-based Stokes Lawrence, opening a physical presence in Central Washington was important for catering to a new market. Managing Shareholder Kelly Twiss Noonan, shared their 60-attorney firm couldn't have broken into the agriculture industry without a physical presence in Yakima, Washington. Now, the industry is an essential part of their business, and they are well-situated to serve this unique market with the right presence and resources. They have also extended their footprint virtually by encouraging their attorneys to get licensed in other states as client needs dictate.

Lawyers Associated Worldwide, firms can refer their clients to a trusted member firm in particular jurisdictions where their attorneys are not admitted to practice. In a statement, Liz Davis, partner in the nearly 70-attorney Chicago firm Burke, Warren, MacKay & Serritella, credits their ability to handle larger transactions and cases globally to her firm's membership in Lawyers Associated Worldwide.

Diversification Internally: New Laterals and Succession Planning

Diversification shouldn't be relegated only to an external perspective; firms should also pay attention to diversifying internally from both cultural and business succession standpoints. How can mid-market firms best set themselves up for success internally? It starts with investing in both recruitment and retention.

Recruiting is integral to a firm's long-term plans and success. Understand your clients' needs to build a team stacked with unique expertise to strengthen your cross-selling proposition. When a team member may slow down in the near to mid-term, proactively recruit for their position instead of waiting until they are ready to retire. This advice applies to all roles within the firm, not just attorneys.

Stokes Lawrence approaches recruiting and retention hand in hand – they see how expanding an existing group's offerings can be accomplished successfully from within the group itself by encouraging their existing attorneys to envision and enact new paths and strategies for their practice. Noonan states, "True success is dependent on an organic and strategic expansion and can be based on the desires of the lawyers involved, not just imposed by firm leadership."

We also understand that we can only grow and evolve as a firm if our people do the same. Diversify responsibilities by cross-training professionals within groups to ensure you maintain their expertise should someone retire or leave. You can do this by rotating professionals or assignments among your professionals. While this takes more planning, the result is worth the effort. In most cases, it also leads to a more fulfilling and professional experience for your team members and should enhance retention.

Why Diversification is a Key to Success

Allocating a firm's investments in different ways builds a solid foundation that can withstand several external factors and challenges. When we are deliberate about our growth and journey as a firm, we can create new, diversified opportunities that spur us on that path.

Alan M. Tarter is the managing partner of Tarter Krinsky & Drogin, a full-service, bicoastal, midsize law firm. For more information about the firm, please visit www.tarterkrinsky.com (<http://www.tarterkrinsky.com>).