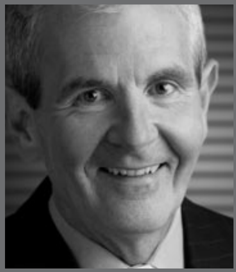
When the Big Dogs Come to Town



Charles A. Maddock

By Charles A. Maddock

The continued consolidation of clients and law firms is now being taken seriously — very seriously — by firms of all sizes. For the national or regional law firm, consolidation presents a significant opportunity to expand its client base while reducing the cost of learning new clients' businesses. In addition, large firms with a commodity or near commodity practice, the latter including environmental and labor practices, can offer their clients one of the most basic benefits of consolidation: reduced outside legal costs. While the large firm's rates may exceed those of its indigenous neighbors, the client's overall legal costs may be dramatically reduced if efficiencies in staffing, technology and other hard costs can be reduced for the law department. At the same time, the client gets bragging rights for using name brand law firms *and* reducing costs, the Holy Grail for anyone who hires outside counsel for their business.

How the Large Firms Do It

How can local, midsized or smaller law firms retain business that they have handled for years, or even build new business, in the face of this competition? To answer this question, let's take a look at what both national and local firms are doing, and what presents the best benefit for the client.

The rationale for large firms to expand their practices is simple: go to where the clients are, create a benefit for the client and establish a competitive advantage for the firm. In most cases, the overhead per lawyer in the firm's local offices can be considerably less than that of the home office. The client benefits, too, by consolidating its legal work into as few as one firm in all of its jurisdictions. As DuPont and other large international companies have proven, consolidation of outside counsel can have significant and positive financial impact. As more and more businesses call for cost-cutting, especially in their legal affairs, this can be an attractive proposition for many CEOs, Chief Legal Officers and business owners.

When expanding into a new market, most national firms tend to hire partners from local firms, especially those with books of business. Their proposal to these partners can be very attractive: now you can work for large, national brand-name clients, charge higher rates, earn greater income, have greater mobility and be on the fast track to partnership in a new firm that is widely known to potential clients.

National firms often arrive in second-tier or smaller markets as a result of winning a beauty contest for a new client's work. Establishing a physical presence in a new market can be cost-justified more rapidly if the national firm recruits a local firm's lawyers, especially if those lawyers have local books of other portable business. Depending upon the size and growth potential of the new office, firms often send one or more partners from the headquarters office to help set and meet growth expectations and to assimilate the new office into the firm's culture.

Unlike fast food, retail or franchise operations, there is no single best way for a national firm to open a new office. In each case, firm management must consider staffing, office size and location, pricing, compensation adjustments for attorneys and staff, portability of the brand, perception of the market and more. National firms rarely use local firms as co-counsel. They may use local firms in case of conflict, but this is relatively rare.

Large firm billing rates are set by the local offices with the approval of the headquarters office. The range of rates can vary greatly. For example, in one firm, Philadelphia rates range from $275 to $500 per hour, whereas Pittsburgh rates for the same firm range from $175 to $300 per hour. In general, commodity practices generate high volume but do not command high rates. Most AmLaw 50 firms have divested themselves of these practices, if they ever had them.

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"There is no reason why smaller firms cannot stay on an equal footing with their big firm rivals..."

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One national firm Altman Weil consults with reported to us that its overhead per lawyer was almost $300,000. Some of the costs included in this number include the firm's commitment to sales presentations, public relations, branding, advertising and a large annual conference. These are expenditures that local, midsized and smaller firms usually cannot compete with, and are likely to have a payoff for the larger firm in the near future, enhancing its competitive position versus local firms.

Solutions for Midsized or Smaller Firms

While consolidating work with a large national firm that enjoys a significant branding and even cost advantage may be attractive to many clients, there are several steps an indigenous midsized or smaller firm can take to retain and build its client base.

First, while it is tempting to cut rates in the face of out-of-state competition, with rare exceptions, we do not recommend this step. Price competition for commodity work is ultimately a "how low can you go" game that has been known to drive firms out of business. Instead, it would make sense to determine whether the local firm can delegate more work to associates to reduce client costs without lowering its profitability.

Next, the local firm should determine whether it needs to improve the quality of its work. If this is an issue for clients, this must be addressed immediately. Substandard work not only drives away clients but greatly reduces the opportunity of client referrals, the most important way to build any firm's business.

Internally, the local firms should assess, and if necessary, increase lawyer understanding of their clients' business. Many clients claim that the distinction between one firm and another is not the size of the firm but the commitment that the law firm makes to learn the client's business. This is part of the reason that client teams are being formed so rapidly in firms both large and small. Client teams that are responsible for managing the client's legal work can have significant value as law firms and clients begin to speak the same language, thus increasing the efficiency and level of trust between clients and firm.

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As large and small law firms begin to recognize that clients expect more than just quality legal work, the smaller firm can get the jump on its larger competition by offering value-added services. These could include on-site seminars, reverse seminars (in which the client conducts a seminar in your offices to discuss their business, their strategy and their future legal needs) or annual conferences with substantive discussions about current issues like employment practices.

Many local clients continue to retain local law firms because it gives them the opportunity to network with other local businesses. Law firms often forget or are unaware that clients will pay a premium to work with a law firm that has local business contacts that might be useful to the client. Networking one client with another tends to cement both relationships to the firm.

There is no reason why smaller firms cannot stay on an equal footing with their big firm rivals when it comes to ensuring the highest level of client satisfaction. They can accomplish this simply by knowing the client, knowing the local market, knowing the client's business and assuming nothing when it comes to client service and satisfaction. Although more than 80% of law firm clients report to Altman Weil that they expect their firm to solicit regular feedback about the firm's performance, less than half that number has ever been surveyed by their law firm. What's more, regularly asking for feedback often results in leads on new business expansion opportunities that can be explored with the client.

Midsized and smaller local firms would be wise to require each partner and associate to complete an individual business development plan which includes short but innovative client retention and growth plans. These plans should identify the most appropriate strategies (including many of the recommendations above) to pursue new business opportunities and measure success. Without question, large firms have increasingly become a threat to smaller local firms, even, or perhaps especially, to those firms that have had long and rewarding relationships with local clients. This doesn't mean that local firms need to roll over and play dead. It only means they need to know the correct strategy to be able to compete when the big dogs come to town. ◆

Charles Maddock *is a principal of Altman Weil, Inc. working out of the firm's offices in Newtown Square, Pennsylvania. He can be reached at (610) 886-2000 or camaddock@altmanweil.com.*