

# Report to Legal Management

OUR 31ST YEAR

**EDITOR**

James Wilber  
Principal  
Altman Weil

**CONTRIBUTING EDITORS**

Ward Bower  
Principal  
Altman Weil

William F. Brennan  
Principal  
Altman Weil

David G. Briscoe  
Senior Consultant  
Altman Weil

Thomas S. Clay  
Principal  
Altman Weil

James D. Cotterman  
Principal  
Altman Weil

Daniel J. DiLucchio, Jr.  
Principal  
Altman Weil

Virginia Grant  
Consultant  
Altman Weil

Marci M. Krufka  
Senior Consultant  
Altman Weil

Charles A. Maddock  
Principal  
Altman Weil

Alan R. Olson  
Principal  
Altman Weil

Richard C. Reed  
Senior Advisor  
Altman Weil

Larry R. Richard  
Principal  
Altman Weil

**MANAGING EDITOR**

Susan D. Sjoström

## IP Practice Strategies



Ward Bower

By Ward Bower

**T**he good news for law firms is that the volume of IP work directed to outside counsel by Fortune 1000 corporations is expected to grow. One recent survey indicated that 51% of Fortune 1000 corporations expected to send more IP work to outside counsel this year than last. Only litigation exhibited more outbound potential (58%) than IP work.

### General Legal Market Trends

Despite this encouraging prediction, IP practices are subject to a number of external forces affecting all law firms, including the following:

- **Changing Economics.** There are restraints on revenues driven by client fee resistance. Not only are clients seeking discounts on rates, but they are applying more scrutiny to bills than ever, often questioning the number of lawyers, level of lawyer assigned (partner versus associate) and even hours recorded.

Overheads are escalating, driven by support staff employment costs, IT expenditures, marketing costs, professional liability and health insurance premiums. Associate compensation continues to escalate, and at the same time, utilization is flat (there are a finite number of hours in a year and only so many that can be devoted to billable activity).

- **Marketplace Maturation.** Observation of what economists call “precursor markets” reveals some of what we can expect as the legal services market “matures” (shifts from the sellers’ market of the past to a buyers’ market in which clients increasingly determine pricing, staffing and strategy).

- Consolidation driven by merger. Although the number of mergers is off, the size of firms engaged in recent mergers has been larger than ever. Mergers have created firms in excess of 2,000, even 3,000 lawyers, and a retrospective look at large firm mergers suggests that they seem to work, from an economic perspective.

- Firms are earning brand name recognition. Larger firms are more likely to experience this benefit, but even smaller firms can achieve it by becoming famous for something important to clients. The benefit of brand recognition is a 10% to 20% premium in fees and billing rates.

*continued on page 3*

### Inside This Issue

Altman Weil and Jomati Announce Strategic Alliance . . .	2
Compensating Business Origination . . . . .	5
Survey Says In-House Salaries Are on the Rise . . . . .	7
Get Ready, Set, Comply . . . . .	10
News from Altman Weil . . . . .	11

**IP Practice ... continued from cover**

- Marketing expenditures are increasing, now approaching and even exceeding two percent of revenues in some firms. This intensifies the squeeze on profits as expenses escalate while revenues are constrained.
- Client sophistication increases as corporate law and patent departments grow. No longer is the client a lay business executive, but rather a lawyer, usually with law firm experience.
- The shakeout or business failure of firms unable to compete in the buyers' market of today will continue. Large, diversified firms are affected (e.g., Brobeck, Arter & Hadden; Altheimer & Gray) as well as specialty IP boutiques (Lyon & Lyon, Pennie & Edmonds).
- **Geographic Expansion.** In order to access new markets and clients, law firms increasingly are expanding geographically. This is true for diversified, full-service firms, less so for boutiques. Local firms are becoming regional, regional becoming national, national becoming international, international going global. The advantage of geographic expansion is the increased potential to become the beneficiary of law department re-consolidation of legal work in a smaller number of outside law firms. This is especially true for multi-office, diversified practices. Boutiques are at a distinct disadvantage in this regard.
- **New Competition.** As if the shift from a sellers' to a buyers' market were not enough, IP firms and IP practices in diversified firms are facing increased competition in the form of regional and national firms moving into their markets, foreign firms establishing on-the-ground practices in the US (especially in New York),

and *de facto* MDPs in the form of consulting firms that hire lawyers to provide the same advice to their clients that those same lawyers previously provided to clients of the law firms for whom they worked.

large firm must have clients in need of IP services, as the former boutique's traditional source of clients, referrals from other general practice firms, immediately disappears following such an acquisition. No one wants to

---

**“Although appealing, acquisition of IP boutiques by large, diversified firms is not always successful.”**

---

**Trends Specific to IP Practice**

There are a number of IP-specific trends evident in the marketplace.

- **Acquisition of IP Boutiques.** Large, diversified firms are acquiring IP boutiques and practices, eroding the referral base historically relied on by IP boutiques. The rationale behind such mergers is a combination of factors. One is diversification to increase prospects for becoming beneficiaries of the “convergence” (reconsolidation) movement by corporate law departments. Also, bolting an IP practice to a firm with a significant trial practice provides one-stop shopping for IP litigation. Historically, law departments have complained about having to hire two law firms for IP litigation – a specialty boutique for technical consultation, and a trial firm or trial department of a large firm for heavyweight capability in the courtroom – then trying to force them to work together. Ropes & Gray's recently announced merger with Fish & Neave, a national IP boutique, is the latest, prominent example of this trend.

Although appealing, acquisition of IP boutiques by large, diversified firms is not always successful. The

risk sending (or losing) their clients to a firm that can meet not only their IP needs, but also their other legal requirements.

- **Corporate Insourcing.** Backward integration is occurring, as corporations grow in-house law and patent departments to include IP capability, reducing the amount of work sent to outside firms. This erodes the client base of both IP boutiques and IP practices in larger firms.

- **Offshore Outsourcing.** Offshore outsourcing of patent prosecution is increasing. Patent applications and litigation support are the two areas of focus for offshore legal outsourcing to India, New Zealand, South Africa and other English-speaking, low-labor-cost locations around the world. Much of this outsourcing is occurring directly from corporations, many of which have in-house legal and patent departments. Much of the patent application process is deemed by clients to be commodity in nature, with only the claims portion of the patent application requiring real US patent law expertise. Offshore outsourcing is resulting in fees averaging as little as \$2,000 per application, as opposed to

*continued on page 4*

**IP Practice ... continued from page 3**

law firm fees of \$8,000 to \$12,000 for those same applications, performed by a US patent law firm.

- **Defensive Mergers.** The shakeout of IP practices is occurring, just as in diversified law firms. The threat of shakeout or business failure of IP boutiques experiencing a decline in their client base due to corporate mergers, reduction of referral sources as diversified firms add IP, and offshore and in-house competition leads to defensive, upstream mergers — that is, IP firms that offer themselves up for acquisition by larger diversified firms, rather than endure the downward spiral of a profit squeeze arising from ever-increasing overhead combined with static or declining revenues.

**Resulting Market Dynamics**

Some significant marketplace dynamics are worthy of note. For example:

- Five of the top eight firms named as “primary IP counsel” by Fortune 100 corporations are large, diversified firms, *not* IP boutiques.
- Four of the five top firms named as primary IP counsel by Fortune 250 corporations are general practice, *not* IP boutiques.
- The top five IP plaintiffs’ firms, from court records, are large, diversified firms, *not* IP boutiques.
- Four of the five top IP defense firms, from court records, are general practice, diversified firms, *not* IP boutiques.

**Strategic Ramifications for IP Practices**

There are a number of strategic considerations suggested by developments in the overall legal marketplace

and specifically its IP sector. Included are the following:

- **Protective Alliances.** IP boutiques need to know who the other law firms used by their clients are, whether or not they have an IP capability, and how the IP boutique stacks up against that capability. Diversified firms with IP capabilities are always attempting to cross-sell IP services to their clients. In order to retain meaningful IP litigation, IP boutiques might consider a strategic alliance with a litigation boutique or a full ser-

---

**“Four of the five top firms  
named as primary IP counsel  
by Fortune 250 corporations  
are general practice,  
not IP boutiques.”**

---

vice firm with a strong litigation practice to present seamless “one-stop shopping” to corporate counsel by eliminating sources of tension which inevitably arise when corporate counsel attempt to “force fit” IP and litigation practices together.

- **Cross-Selling.** IP practices of general practice firms, likely to experience erosion of their referral base to other general practice firms, need to cross-market themselves aggressively within the full service firm. This means cross-disciplinary participation in practice area meetings, targeting of specific firm clients, client information seminars, and the like.

- **Diversification.** IP boutiques might consider diversification by way of merger with, or acquisition of, firms with other capabilities.

- **Geographic Reach.** IP boutiques might want to consider expanding their geographic reach into regional, national and international legal markets. Some US law firms that file large numbers of US patent applications have client bases that are largely foreign.

- **Market Segmentation.** IP firms and practices should consider a market segment approach to clients – either making IP part of multi-specialty industry groups formed by a diversified firm for marketing purposes, or by organizing along technology or industry lines within an IP boutique.

- **Divestiture.** Divestiture of less profitable practice areas might occur, whether they be part of the practice of an IP boutique or of an IP department in a larger firm. Investment should be made in expanding IP practice areas exhibiting potential both for growth and profitability, while areas of declining volume or profitability ought to be considered for de-emphasis, divestiture or outsourcing.

Whatever an IP firm or practice does today, maintenance of the *status quo* often will not work in the future. Others are marketing too aggressively and employing strategies that are too sophisticated to allow business as usual to prevail. ♦

*This article is reprinted with permission from the December 20, 2004 issue of New York Law Journal. © 2004 ALM Properties Inc. Further duplication without permission is prohibited. All rights reserved.*

*Ward Bower is a principal of Altman Weil, Inc., working out of the firm’s offices in Newtown Square, Pennsylvania. He can be reached at (610) 886-2021 or [wbower@altmanweil.com](mailto:wbower@altmanweil.com).*