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MANAGEMENT

The Midsize Law Firm in a Tough Economy: Turning a Challenge into an Opportunity

By Alan Levine and Carol Schiro Greenwald

For years, we have heard pundits proclaim the imminent demise of the midsize law firm. As firms continue to grow and reach the level of megafirms, there seemed to be room for big firms or small practices, but the firms in the middle were at risk of being squeezed out.

The current downturn in the economy has turned this thinking on its head. The economy, in fact, seems to be a boon to well-managed, midsize firms able to capitalize on their advantages.

The midsize firm benefits from growing interest in two concepts: value as defined by the client, and alternatives to the billable hour. Both seem easier for the midsize firms, which typically have greater flexibility, both in their billing rates and in their billing approaches.

Big Firm Talent Moves to Midsize Firms

Much attention has been focused on large firms reducing their attorney ranks. Far less attention has gone to the fact that midsize firms are taking advantage of this talent upheaval by attracting talented attorneys who, in other times, they would not have been able to attract.

According to Joseph Altonji, a partner with Hildebrandt, the law firm consulting company, attorneys who have high-quality practices made up of smaller, local businesses, with up to a few million-dollar book of business, are concluding that the nature of their client base does not necessarily require the infrastructure — and the attendant fees — of the huge firms. When they move to midsize firms, they are feeling less pressure to push up their rates. The pressure may be reduced in other ways as well, such as fewer billable hours expected and reduced need to travel.

Clients are taking a much harder look at their cost structure, and what lawyers and law firms they are using for their work. Increasingly, they may save the bet-the-company work for the larger firms, particularly litigation, but send more day-to-day work to smaller firms.

Attention + Price = Winning Combination

Midsize firms can demonstrate their strength in three areas of great importance to clients: price, service and relationships. Today companies are looking for cost reductions, budget predictability and shared-risk fee arrangements. Typically, they focus on billable hours combined with predictability in the form of fixed fees, capped fees and contingency fees. Firms are adding blended rates and success/reward incentives to the mix in order to meet the challenge of providing top value and quality service for less.

Many midsize firms in New Jersey have long declared that they offer clients the best of both worlds: lawyers as talented and experienced as those from the big, high-priced New York firms and personalized service. Now clients may be more interested in these claims. Mitchell Rait, chief operating officer at Budd Larner, says, "We have always said we will match our attorneys with any of the big Manhattan firms, and our rates are inherently lower." Since the downturn in the economy, he says, "We aren't doing anything different than we always have. It's just that people are listening more."

Rait says that prospective clients on both sides of the Hudson are more receptive to listening to firms like his. For the major deals or litigation, clients who have traditionally chosen to work with the larger firms are likely to continue doing so. But, for smaller matters or those with less bet-the-company consequences, they may be willing to try smaller firms with which they have not previously worked. And, for now at least, the reality is that there are fewer major deals being done.

Levine is president of Levine Marketing Solutions in South Orange and Schiro Greenwald is president of Marketing Partners in Larchmont, N.Y.

Rait adds, "We have gotten some major client retentions on corporate transactional and litigation work that prove the point."

It is not all about money, however. "Everyone talks about rates," says Rait, "but at the end of the day, does the client get good value?" Clients perceive that, at smaller firms, not only will the partner they choose to retain charge a lower rate, but they will be more likely to work directly with him rather than have him pass the work down to legions of junior attorneys.

Show Your Stuff

Midsize firms need to capitalize on their assets in their business development efforts. Some suggestions:

Keep Your Clients Close — Smaller firms generally have an advantage over larger firms in that they build in the time to stay close to their clients. They take the time to interact proactively with clients. Constant communication permits them to develop closer personal connections and be aware of changes and opportunities in the client's business.

Reach Out to Your Clients — It's always a good idea to take the time to find out what is on your client's mind. Now, if a lighter workload leaves more time on your hands, make the most of it. Set aside some time with the client to focus on his activities, his concerns and his plans for the future. Offer to go to his place of business and let him do most of the talking.

Take the Factory Tour — Whatever business your client is in, he is proud of it. Ask for a chance to see his company, whether it's a factory or an office. It may not be the most fascinating thing you've done lately, but it will open your eyes to better ways to serve the client and to different legal needs that you may not have been aware of.

Deliver Superior Client Service — Ask any businessperson these days. Clients are looking for value from those with whom they are doing business. So capitalize on the general perception that smaller firms are more oriented to personal service and will focus more on their clients' needs. Determine what qualities your clients consider most important in their relationship with lawyers, and identify ways that you can deliver what they want.

Clients appreciate that smaller firms have fewer lawyers. They like to know that senior partners are working on their matters, or at least paying close attention, something they perceive they will not get if they are dealing with larger firms. Make the most of this.

Use Pricing to Your Advantage — When it comes to fees, emphasize your reasonable hourly rates and point out that you do not over-staff the client's matter. And do what the larger firms are just talking about: come up with creative ways to charge for your service so that the client knows that you are trying to partner with them.

To set alternative fees effectively, take the time to analyze past matters to determine where and how you make money, and what specific kinds of matters cost. Break down each type of matter into component parts and compute the hours/billing rates/staff leverage. Then figure out the range you can use to set alternative fees.

Equally important, be proactive. Don't wait for the client to ask what you can do about alternative fee arrangements. You should start that conversation.

Build a Client Team — For your significant clients — or those that you think could grow to become significant — bring together everyone in your firm who is involved in serving that client. Make sure that everyone understands the whole client relationship, and discuss challenges and opportunities as well as strategies to keep the relationship strong and grow it further. Include paralegals and secretaries, as appropriate, because they can be vital both in understanding the client's needs and in satisfying those needs. Invite attorneys from other areas of practice that you believe could be of value to the client to join the team.

Midsize firms that focus on the client, acknowledge the need to do more with less — and act on that need — and stay attentive to client demands are likely to prosper as they head into 2010. ■