Analysis

Midsize Firms Used the Great Recession to Audition for Big Law's Work

The Great Recession highlighted the strengths of midsize firms, as legal departments increasingly felt internal pressure to reduce their legal spend without sacrificing the quality of their outside counsel.

By **Zack Needles** | January 11, 2019 at 12:02 PM

Photo credit: Fotolia.

*Editor's Note: This story is adapted from ALM's Mid-Market Report. For more business of law coverage exclusively geared toward midsize firms, **sign up for a free trial subscription** to ALM's weekly newsletter, **The Mid-Market Report.** This is the first in a multi-part series looking at how demand for midsize firms has changed in the decade since the Great Recession first took hold and how those firms are positioned for the future.*

Early in the last economic downturn, savvy midsize firm leaders began to sense that their moment was coming, as buzz grew that Big Law's ever-ascending rates were becoming untenable for increasingly cost-conscious clients.

But only in the past few years have chief legal officers begun to indicate a **real willingness** to move work from large firms to small and midsize shops. In a **recent study** by legal consultancy Altman Weil, 31 percent of CLOs surveyed said they'd moved outside work to firms with lower billing rates and were happy with the decision.

So what took so long? Well, nobody likes change.

James Goodnow, president and managing partner of **Fennemore Craig** in Phoenix, said clients' initial instinct as they began to face increasing internal pressure to control costs and manage efficiencies was to try to preserve their existing outside counsel relationships by negotiating lower rates.

"I think you have to split the last decade in two," he said. "I think in the last five years there's been a shift in the way corporate counsel makes decisions. When the bottom dropped out, much of the decision-making tended to be relationship-driven...But in the past five years, we've seen a huge uptick in the use of data analytics on the part of our clients. They have invested heavily in this technology that is measuring the efficiency of the law firms they're working with, and there's been a shift away from relationship-driven decision-making toward more comprehensive, data-driven decision-making."

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But it wasn't just number-crunching that led CLOs to the conclusion that moving some of their work from large firms to midsize and boutique shops made sense.

Rees Morrison, a principal at legal consultancy Altman Weil who co-authored the CLO study, said many legal department leaders were driven to that realization by years of frustrating attempts to get their existing outside counsel to work more efficiently.

"Bigger firms are often resistant to changing their business model. Yes, they give a discount, but if the rates are very high to begin with, how effective is a discount really?" said Morrison.

And while there will always be matters that require the resources of a large firm, Morrison said, that's a small sliver of the work most clients need done. Over the past 10 years, many CLOs have realized there's a competitive marketplace among midsize firms who can handle a large portion of their business.

In fact, at some companies, the decision to shift work to smaller firms was not even left to the CLO.

R. Max Crane, managing partner of Newark, New Jersey-based **Sills Cummis & Gross**, recalled one financial services client admitting to him "basically, 'We've been told, use regional firms.'"

Still, while this transition is often portrayed as armies of exasperated general counsel embarking on an "American Idol"-style talent search to award their work to midsize firms, the transition happened more organically than that.

Certainly, many midsize firms found themselves the recipients of requests for proposals from larger institutional clients they had not heard from before. But Bob Baradaran, managing partner of Los Angeles-based **Greenberg Glusker**, said more often than not, his firm caught the eye of larger prospective clients simply by doing good work while they happened to be watching.

"Where I've seen most of this work come from has been when we've been on the other side of a deal or co-counsel on the deal, and [the larger firm's] client realizes, 'Oh, I'm getting the same lawyers and the same work, they just happen to be in a single office in Century City knocking it out, rather than in 30 cities around the world,'" Baradaran said, adding that, from there, word of mouth led to even more work.

In other instances, larger clients who were dissatisfied with the size of their legal spend didn't have to end or even scale back their existing outside counsel relationships—they just followed them to smaller firms.

Greenberg Glusker is one of many midsize firms that, in the past 10 years, has hired Big Law laterals who could no longer justify Big Law rates to their clients.

"We recruited somebody over a year ago from a national firm," Baradaran said. "At the national firm, this person's billing rate was $1,150 an hour...they were billing here at just under $600 an hour a week later."

But it's not just about price, Baradaran added. Clients who have become accustomed to the churn of talent at large law firms appreciate the stability and consistency they get from firms like Greenberg Glusker, where matters are often handled by small teams led by partners with the help of experienced associates, the majority of whom have been with the firm for years.

That, Baradaran said, is "very attractive to clients who don't want to have to start all over again and explain everything from the beginning every time a new lawyer [is assigned to a matter]."

Of course, those midsize firms that successfully weathered the Great Recession did not do it solely by wooing new clients from larger competitors.

Baradaran was one of several midsize firms leaders who said the turbulent economy actually strengthened their firms' existing relationships with mid-market clients

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In an economic downturn, he said, "what I have found is clients are looking to the relationship and the trust they have in their advisers to get them through."

In many ways, the Great Recession highlighted the strengths of midsize firms. The opportunities and experience they've gained over the past 10-plus years will prove valuable moving forward.

But the future, including the inevitable **next recession**, holds new challenges that will require a mix of hard-earned wisdom and forward-looking innovation to conquer.

Zack Needles

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