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Why Midsize Firms Are Stealing Work From BigLaw

By **Aebra Coe**

Law360, New York (December 7, 2016, 12:24 PM EST) -- Midsize law firms have begun gobbling up an increasingly large portion of legal work from corporate clients in recent years, a phenomenon experts chalk up to those firms' ability and willingness to budge on fees.

Corporate legal departments devoted 40 percent of their outside counsel budgets to midsize law firms in 2016, up from 32 percent in 2014, according to a **report released in November** by CEB Inc. Clients' dependence on large law firms fell slightly over the same time period, CEB reported.

Legal industry consultants and recruiters who spoke with Law360 expressed a lack of surprise at the report's findings, saying the trend toward relying more on midsize law firms has been brewing for a while.

"There will always be a place for large law firms in high-stakes cases and transactions. ... But when you come down from those types of matters, cost concerns take center stage and midsize and smaller firms have been able to respond and snatch share-of-client away from larger competitors," said John Reed, a consultant to law firms at Rain BDM.

Cost increasingly drives legal spending decisions, sometimes more so than long-held relationships or prestige, according to Ken Young, co-founder of Young Mayden legal search.

"In the past, if you had a general counsel that used a certain firm and had a relationship with that firm, that might have tilted the scale," Young said. "When you look at today's world, everybody is looking for value added, and if a general counsel isn't saving his company the money he could be, he's not doing his job."

The shift in the industry is a result of the recession, which gave clients more options as work dried up and corporate legal departments had their choice of a wide range of legal service providers, said Frank D'Amore, founder of Attorney Career Catalysts. At the same time, corporations that were struggling to survive placed a massive amount of pressure on general counsel to keep legal costs down.

The result was that legal buyers demanded law firms keep their rates in check, delivering the same services at a lower cost, especially when it came to everyday, lower-stakes legal work, D'Amore said.

Midsize firms have been able to step in and deliver that to clients due to lower overhead costs and less pressure to keep profits per partner growing, Young said.

According to the LexisNexis CounselLink Enterprise Legal Management Trends report released in May, median partner hourly rates in 2015 were \$375 at law firms with between 201 and 500 lawyers, \$505 at those with between 501 and 750 attorneys, and \$656 for law firms with more than 750 lawyers.

In addition to work, some legal recruiters report they see talent leaving BigLaw for midsize firms.

"I get calls every day from people at the [largest 50 law firms in the U.S.] that have very good

clients, but whose rates are too low for the firm they're at and have to either move or raise their rates and risk losing their clients," Young said.

Charles Volkert, executive director of Robert Half Legal, says many midsize and boutique firms opened up following the recession and have continued to grow and add attorneys since.

"We are seeing strong demand in hiring for boutique and midsize firms right now," Volkert said.

He said one way that smaller firms have been able to flourish is by offering clients not only reduced rates, but also more pricing options. His company is working with many law firms that encourage clients to offer input on how to staff a matter, offering up several different price points as options, he said.

The flexibility in pricing is something that boutiques and midsize firms are especially well-known for, he said, although some large law firms also offer flexible pricing options.

"The more creative the firm is, the more solutions they're providing, potentially at different cost scenarios — those firms seem to be busier than firms that are not doing that," he said.

According to John Smock, co-founder of Smock Sterling Strategic Management Consultants, corporate clients are not looking at just costs, but whether they can control costs while still getting the results they need.

"Both results and costs are important," Smock said. "There's been a recognition over the last eight to nine years that a good midsize firm in practices where they have strength can provide greater value than the large firms, particularly if it's not a critical practice in that large firm."

Reed said that midsize firms have also leveraged their attorneys and rate flexibility in order to hold their own against one major competitor in the legal industry: corporate legal departments themselves.

"Many of the attorneys I've coached have told me that their competition isn't necessarily other law firms, but with law departments that seek to bring more work in-house. I think many small-to-midsize firms have made a compelling argument for sending work to them instead of having a GC add to his or her law department's workload and headcount," Reed said.

--Editing by Mark Lebetkin and Kelly Duncan.

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