

Beating the Odds: Conventional wisdom gives regional firms a stark choice: Merge or Die. But there are more cheerful options.

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Legal industry pundits have predicted the demise of regional firms for at least two decades. The chant went something like this: The world is globalizing, bigger is better, merge or die. If you want to hold onto your clients, you'd better follow them to Kathmandu and Kazakhstan while serving their needs in New York and London. Size and reach became synonymous with breadth and depth. Some regionals, such as DLA Piper, Latham & Watkins, and Reed Smith, rode the growth curve to greatness. But others have struggled to expand out of their region or have chosen to sit tight. Most of these firms are in the Am Law Second Hundred. They face daunting challenges as they compete with larger, more successful firms that have built critical mass in richer markets and that offer national (increasingly international) reach for cross-border clients.

Only a handful of the remaining regionals are strong competitors—such firms as Bilzin Sumberg Baena Price & Axelrod; Choate, Hall & Stewart; Irell & Manella; Morris, Manning & Martin; and Munger, Tolles & Olson. For the others, the economic challenges are stiff. Leaders of these firms lie awake at night, worrying about how to get off what has become a slippery slope. They are losing market share to the giants. Their generally weak financials make it increasingly difficult for them to recruit top talent. They groan under the economic strain of steep associate salary increases. (Disclosure: Choate, DLA Piper, and Morris Manning are clients of Zeughauser Group.)

Even strong home markets are mixed blessings. When bigger, more successful competitors invade, they cherry-pick the regional firms' best talent and buy the most lucrative client relationships. And if the home market is weak, the regional firm typically has to compete with smaller five- to 50-lawyer one-office firms with lower overhead and lower rates. Enough regional firms are in precarious enough condition to be pushed over the edge by a good recession, qualifying them for endangered species status.

After all, the proof is in the pudding: National and international firms dominate the Am Law 100's top 50 firms; the Second Hundred is predominantly comprised of regional firms. The combined gross revenue of the top 50 is \$40 billion; the Second Hundred share \$16 billion. On average, an equity partner at a Second Hundred firm makes less than half—45 percent—of what the average equity partner makes at a top 50 firm. In the face of these daunting statistics, is it possible for these Second Hundred firms to hold onto their top talent (and the clients who go with them)? How do these firms get off the slippery slope? Here are four key strategies:

Define success; build client and lawyer intimacy. For all firms except the very smallest, success must mean building a practice that will sustain itself across generations. This doesn't require being large, far-flung, or all things to all clients. On the contrary, it means building strong loyalty among the firm's lawyers and its clients. In this regard, regionals have two distinct advantages over their larger competitors. First, the kind of intimacy that breeds the strongest client relationships and bonds among lawyers is much easier to create in a smaller firm than in a firm where lawyers may only see each other once every year or two. Second, clients have long loved the "what you see is what you get" reality of working with a smaller firm. There are far fewer people to hand the work off to; there aren't enough lawyers to churn a matter.

Midsized regionals must look for and seize every opportunity to create lawyer and client intimacy. It is far and away the factor that distinguishes them most favorably from their bigger brethren, the one place where they hold a true competitive edge. Associates perceive that they will be better mentored in a smaller firm. They don't want to be in a "take a number" environment. Clients have great anxiety about not being important to the national and international behemoths. Leveraging the intimacy factor in recruiting lawyers and pitching business is the ace in the hole for regionals.

Grow stronger, not necessarily bigger. A sustainable firm can never stop growing. But growth in size alone is not the *sine qua non* of success. Regional firms (including small and midsized firms) can grow slowly, even gingerly. But they have to become more successful. They need to constantly improve and strengthen their financial performance, the bonds among their lawyers, and their relationships with their best clients.

Building a strong firm culture requires that partners have a common purpose—serving one another and the firm's clients. There is no room for a dual performance culture—that is, a system of performers and underperformers. Collegiality cannot be an excuse for tolerating weak performance. The mutual respect that top performers earn from one another is the stitching that binds a firm's partners together. Without a uniform culture that values high performance and translates it into outstanding client service, a firm's fabric wears and tears apart.

Regionals need to know who their best clients are—clients who pay full rates for challenging work. These clients are the most prized relationships a firm has. Even more than at larger firms, lawyers at regional firms have to give up calling these relationships their own and begin seeing them as their firm's.

Regionals have the advantage of more readily putting their hands on the best team for a matter—reaching across the country or the globe isn't necessary. But the temptation to hoard hours is greater at a struggling firm than at a booming one, and regionals have to beat back this temptation. Fielding the best team is important not just to wow the client. It is important because it institutionalizes the client relationship, reducing the risk of losing it if a lateral defects, and enhancing the firm's ability to keep the relationship for generations.

Achieve “known-for” status in your markets. This is no small challenge, but it may also be the linchpin for success. Defining the market narrowly is the key. Markets can be based on geography, industry, or practice area, or by a combination of those elements. But regional firms cannot be all things to all clients, in all practice areas, everywhere. That is the domain of much larger firms, and even they stretch credibility in that endeavor.

Achieving known-for status is a two-step process. First, regionals must identify and build their strongest practices and client relationships with single-minded focus. Over the long haul, there is little room for anything that does not directly contribute to that goal. This doesn't mean that all other practices have to be axed. But it does mean that noncore practices must find ways to improve their economics as they move to servicing core practices, instead of building critical mass of their own.

Second, regional firms must carefully build their profiles. After defining their markets narrowly, regionals need to move to dominate those markets. Marketing dollars and profile building by lawyers must focus on the niche that the firm has identified. If that niche is geographic, for instance, profile building should stick to the geography. There is no room for roaming off the reservation.

Ride the economic cycles—set market rates. There is an ebb and flow in the legal economy. Boom times produce big increases in profits per partner. Invariably, the gap between partner and associate take-home pay grows. So does demand for associate talent. Because of the relative inelasticity of associate supply, associates salaries inevitably leap higher. When that happens, clients complain about fees. And that is the precise moment when clients are most open to the idea of moving work to lower-priced providers. In such an environment, well-positioned regional firms stand their best chance of expanding existing relationships and building new ones by touting their inherent appeal.

It was Bruce Springsteen who sang, “Times are tough now; just getting tougher.” It is an apt refrain for regional firms. For them, focusing on a few key strategies for staying on top is more important than ever.