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COVER STORY

Smaller competitors put the squeeze on midsize law firms



Daily Journal photo

Penelope Parmes of midsize Orange County firm Rutan & Tucker LLP says, historically, clients wanted to be represented by a recognizable brand. But since the recession, clients have focused more on cost.

By Alexandra Schwappach / Daily Journal Staff Writer

Midsize firms used to have to watch for competition in one direction — up to big firms. In the constant tussle for market share, middle-of-the-road firms tried grabbing work from their bigger peers, while big firms sometimes tried to snag midsize work. But a new trend is forcing mid-level firms to look out for competition in another direction — down to small firms.

It wasn't until after the recession that clients began taking smaller law firms much more seriously as a viable way to keep costs low. And now that the market is experiencing a boom in smaller law firms created by big firm defectors, small firms are increasingly putting a squeeze on their midsize counterparts.

Laura V. Farber, a partner at the 20-lawyer Hahn & Hahn LLP and immediate past chair of the American Bar Association's solo, small firm and general practice division, said boutiques and small firms are much more competitive because they're going after the same clients as midsize and big firms — but asking for less.

"There's no question in my mind that midsize firms that used to compete with other midsize firms are now going to be looking at smaller firms and boutiques," she said. "Midsize firms have a lot to be worried about."

Midsize firms have felt pressure from big firms and smaller boutiques for years, and many have succumbed

to it. In Silicon Valley in particular, a string of intellectual property firms including Skjerven, Morrill & McPherson shut their doors in the past decade over economic concerns or lawyers leaving for smaller outfits.

Now, after the recession, legal observers say a new surge of smaller firms appears to be replenishing the competition.

"Given the contraction through mergers and/or firms shuttering their doors over the past few years, the proliferation of boutiques doesn't surprise me," said Barbara Levenson, a legal recruiter with Levenson Schweitzer Inc. in Palo Alto.

Levenson said some of the appeal in launching a small firm comes from big firm billing rate issues, client conflicts, management concerns, and practice synergy.

Penelope Parmes, partner at Rutan & Tucker LLP, a midsize firm in Costa Mesa, said historically clients wanted to be represented by a recognizable brand. After the recession, clients became more focused on cost effectiveness, and small firms, as a

result, became more popular.

"Clients now are super cost-oriented," she said. "They're trying to go to smaller shops and strike the best deal possible."

To stay competitive with small firms, Parmes said, large firms started cutting rates substantially — coming in with fixed fee offers

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and capping billing rates. As a result, large firms stepped into the middle market usually covered by firms like Rutan & Tucker, and this also put a squeeze on midsize operations.

In Orange County alone, the recent influx of small firms includes the opening in April of litigation boutique Greenberg Gross LLP in Costa Mesa, founded by local legal bigwigs Wayne R. Gross and Alan A. Greenberg, former heads of Greenberg Traurig LLP's litigation department. Keller Rackauckas Umberg Zipser LLP, a small trial firm started by four nationally recognized attorneys including Jennifer Keller, closely followed it.

Bryan M. Sullivan, who parted ways with Glaser Weil Fink Jacobs Howard Avchen & Shapiro LLP three years ago to start his own firm, Early Sullivan LLP, said smaller firms are more "streamlined and efficient" because they do not have the layering of attorneys working on a single case.

"At a large or midsize firm a partner will manage associates on many different cases without being able to focus on any one case," he said. "I have a lot of work, but I have fewer cases and I can actually focus on each case to give the client better representation and more efficient billing on the case than a partner at a large or midsize firm."

Sullivan said smaller boutiques likely seize significant work from midsize and big firms. Recently he took over a case from Quinn Emanuel Urquhart & Sullivan LLP because, at Quinn's billing rates, the

attorney fees incurred would have been greater than the value of the case, Sullivan said.

Smaller firms are better cut out for middle-market cases, Sullivan added, and there are more of those cases than high-stakes matters such as the smartphone war between Apple Inc. and Samsung Electronics Co. Ltd.

"Big firms are great for company-killing cases," he said. "But there's no point in going to a bigger firm if you have a [million-dollar] case, which, at big firm rates and practices, may cost more than [a million dollars] to litigate."

Callahan & Blaine, a 28-lawyer litigation firm in Santa Ana, is among smaller firms that have lured away lawyers from midsize and bigger outfits, raising its profile and helping it to compete more effectively for work.

"We have found that large and medium-size law firms generally provide the best training for young lawyers," partner Edward Susolik said. "Medium-size firms provide more practical litigation experience, while large law firms provide better research and writing skills." The firm's recent hires include two attorneys from Paul Hastings LLP and O'Melveny & Myers LLP.

Leaders at midsize firms such as 140-lawyer, Cerritos-based Atkinson, Andelson, Loya, Ruud, Romo LLP say they're keenly aware of the competition presented by smaller firms. But managing partner James C. Romo said his firm continues to maintain its "competitive edge" by keeping rates reasonable and hiring only when needed.

"We are not seeing anything that's measurable in terms of clients leaving us for boutique firms," Romo said. "That's not to say that it might not become a bigger threat to us. No matter what the nature of the competition is, we will maintain our current strategies."

alexandra_schwappach@dailyjournal.com/CaptionDaily Journal photo

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