



Will Regional, Mid-Tier Firms Emerge as Winners in the Current Crisis?

Zach Lowe

The American Lawyer

February 05, 2009

The current economic crisis is pressing the need for alternative billing arrangements forward in a way never before seen. This isn't news to our readers, not even to the legal market at large -- one need only look to the most recent coverage of Cravath, Swaine & Moore chairman Evan Chesler's appeal to kill the billable hour in the *New York Times* as confirmation.

The larger firms of The Am Law 100 might struggle with this. But for law firms that are willing, and able, to offer cash-strapped general counsel quality services at a lower price, the current crisis presents an opportunity for more business. This includes specialized boutiques. It also includes midsized regional firms with contacts at Fortune 500 companies, according to several lawyers, general counsel and law firm consultants.

General counsel at large companies -- including Allstate, Johnson & Johnson, and Waste Management -- today are sending more litigation and deal work to regional firms that, in the past, they've relied on for less intensive matters, according to half a dozen consultants we talked to.

"We are seeing a huge surge in interest in regional law firms," says Pamela Woldow at Altman Weil. "I get calls constantly with general counsel asking, 'Where can I move to get lower rates?' This is the first time in my life I've seen corporate counsel as the market makers."

Among the beneficiaries, Woldow says, are regional firms with 100 to 300 lawyers who have advised these bigger clients before, albeit on smaller matters. The consultants we spoke to single out several firms, including mid-Atlantic firm Saul Ewing, Parker Poe Adams & Bernstein in North Carolina, Butler Snow in Mississippi, and Lightfoot, Franklin & White in Alabama.

"That's exactly the thought process we went through in going with Saul Ewing," says Robert Feit, general counsel at Ametek, an electronics manufacturer based in Paoli, Pa., when explaining his company's decision to throw more work to the

midsize firm. "We do a lot of transactions, and we use the larger New York firms. But that is very expensive. So we decided, 'Let's try someone in our back yard that has all the capabilities we need.'"

In recent months, the 260-lawyer firm has served as Ametek's lead counsel on at least two big deals, according to Saul Ewing managing partner David Antzis. It's a first for the firm, which has represented Ametek in the past, just not on major corporate matters.

"It's half the cost, at least," says Ametek's Feit, who would not detail billings or name the larger firms Ametek has siphoned work from. "And you don't have to pay a lot of associates to educate themselves. For a \$50 billion deal, you're still going to want a firm like Wachtell, Lipton, Rosen & Katz, but for your bread and butter work, the (regional) firms clearly are more than capable."

Some corporate counsel recognized the benefits of working more closely with regional firms even before the credit crunch hit.

Allstate's legal department decided to divvy up all its outside legal work among 13 firms instead of tapping more than 100 providers, as it routinely used to do. According to Allstate managing counsel Bruce Goldberg, the system allows the insurance giant to work out alternative fee arrangements with these 13 firms (about half of them are smaller regional firms in the northwest, Ohio, West Virginia, and New Jersey).

In recent months, Goldberg has instructed lawyers on his staff to steer more work toward these firms, he says. (Goldberg declined to name the firms, citing confidentiality agreements.) And he even invited lawyers from the regional firms for face-to-face meetings with his legal staff as a way to enforce the plan.

"We're definitely telling our lawyers to broaden their consideration," Goldberg says.

Charles Johnson, a partner at Butler Snow, says the Jackson, Mississippi-based firm is handling an increasing amount of work from longtime pharmaceutical clients, including Johnson & Johnson and Merck. The firm typically handled litigation for these and other pharma mainstays; now the clients are tapping Butler to tackle deals and corporate work.

"We know that you're not going to take a law firm from Jackson, Mississippi to Wall Street or into the halls of the Food and Drug Administration," Johnson says. "But that doesn't constitute the bulk of the legal spend for most of these companies. Regional firms and local firms can handle the rest of the work just as well as the larger firms."

Butler Snow is willing to ditch hourly billing and arrange a lump sum for the chance to land good work and deepen a client relationship. Johnson is negotiating with a client who normally spends about \$5 million each year on employment law, he says. Butler Snow hopes to get the work by offering to do it for \$3.5 million.

That's the right attitude, according to Woldow and Susan Hackett, senior vice-president and general counsel of the Association of Corporate Counsel. More in-house counsel are putting out requests for proposals, hoping for such arrangements, Woldow and Hackett say.

"[Regional] firms aren't cheap," says Hackett, "but they are more capable of working to establish budgets."

Still, being a regional firm doesn't guarantee immunity from the problems connected to the recession. Parker Poe laid off 13 lawyers and 15 staff members in early January, and Saul Ewing cut 12 administrative staffers, also in January. "Like many law firms, we are not immune to the effects of the economy's downturn," Saul Ewing said in a statement announcing the layoffs.

The key for regional firms will be to convince the Fortune 100 companies to keep sending them high level work even when the economy turns. Partners at those firms say they are confident the inroads they make now will last beyond the current crisis.

"I think this downturn is going to set the stage for some changes that are going to be permanent," Butler Snow's Johnson says.

This article first appeared on The Am Law Daily blog on AmericanLawyer.com.