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Phone: +1 212 537 6331 | Fax: +1 212 537 6371 | customerservice@portfoliomedia.com

Small Firms Make Big Corporate Gains In '08: Study

By Jessica Dye

Law360, New York (July 06, 2009) -- Small and midsize law firms have taken away nearly 30 percent of the market share for major corporate clients from AmLaw 100 firms over the past few years, and their willingness to explore new ways to add value could keep them gaining ground through 2009, according to a recent study.

In a series of one-on-one interviews conducted in 2008 with more than 550 corporate counsel representing primarily Fortune 1000 companies, the BTI Consulting Group found that firms outside the AmLaw 100 expanded their share of the outside counsel spending pie to a combined 61.8 percent last year, marking a big decline for AmLaw 100 firms, who together made up only 36.2 percent of outside counsel spending.

The survey shows a steady gain for small firms — defined as those outside the AmLaw 200, typically employing fewer than 150 attorneys — between 2005 and 2007, from 18.4 to 24.5 percent, followed by a big leap in 2008, to account for 38.2 percent of corporate client representation, according to the study.

Midsize firms — within the AmLaw 200 but not cracking the AmLaw 100 ranks, according to BTI — experienced a 3 percent decline in corporate share between 2005 and 2007, from 16.8 to 13.1 percent, but then rebounded to claim a 25.6 percent share of the client base in 2008.

AmLaw 100 firms saw a slight decline from 64.8 to 62.4 percent between 2005 and 2007, before hitting a steep decline in 2008 that left them with a 36.2 percent corporate client share — less than that staked by firms outside the AmLaw 100 for the first time in the four-year period surveyed by BTI.

Michael B. Rynowecer, president of BTI, said that his group expected the trend to continue at least through the end of 2009, along with the general [economic downturn](#) that has companies and firms alike tightening budgets.

"It goes well beyond price, although price is a component," Rynowecer said. "What corporate

counsel tells us is that the firms they're moving to exhibit more across-the-board flexibility, in staffing, approach to the case and discussions around alternative fee. The mid-sized firms are more open initially to entertaining these ideas, and are quicker to implement them."

Corporate counsel also reported that smaller firms were more willing to step outside their formal legal roles to offer general advice from a legal perspective on business topics, a conversation many companies want to be able to have with their firms, according to BTI.

While small firms have made significant leaps, mid-sized firms emerged in the study as the ones most able to maintain flexibility while offering the option to scale up, should the client call for it, Rynowecer said.

While cost is a contributing force, as is the recession, Rynowecer recommended against simply cutting rates to attract clients.

"Value comes at \$800 an hour, and it comes at \$400 an hour," he said. "You should be talking to your client about the risks they face, how they can change departments to lower costs, how they can prepare new budgets for bigger cases — those are all things that add value."

Rynowecer recommended that firms invest 80-20 in retaining old clients versus attracting new ones.

New work is harder to come by, corporate counsel said, and clients who aren't getting what they want out of their representation are finding it easier to move on to the next firm.

"Talking to your clients and proving you understand their business is the single biggest differentiator in the market today," Rynowecer said. "If you don't understand your client's business, working with your client to understand their business is a very good fallback strategy."