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Surviving in the middle

By Maria Kantzavelos

In the last few years, Chicago has seen several of its midsize firms acquired by bigger, out-of-town shops.

But there are those firms that have embraced their place in the middle, resisted the urge to merge, and found the right formula for keeping their practices going for decades.

"The key to being successful in the middle is, number one: control your costs. Number two: be focused on doing a few things arguably as well as the large firms," said Ward Bower, a principal of the law firm consulting business Altman Weil Inc. "If you can do that, then you have a chance to compete for good work. But if you try to be everything to everybody, then you're caught in that no-man's land, where clients will go to larger firms for important matters, and to smaller firms where price is important."

Although the biggest Wall Street firms suffered first, and are suffering the most, from the nation's dismal economy, the current climate is impacting virtually all law firms, said Joel F. Henning, law firm consultant for Hildebrandt International.

"But our midsize clients, for the most part, are generally weathering the storm," Henning said. "It has to do with focus, strategy, knowing what you can do extremely well, doing it, and not trying to do everything.

"I see a great future for midsize firms that want to remain midsize, so long as they're realistic, and operate very strategically."

Chicago Lawyer this month talked with leaders at three long-standing midsize firms about their own business strategies for surviving and thriving as independent shops that have found a niche in a globalized profession and, now, in an economic crisis.

David T. Brown of Much Shelist

Much Shelist: Up close and personal

In a sense, it could be said that the 85-lawyer firm of Much Shelist Denenberg Ament & Rubenstein looks to operate as a mirror image of the clients it serves: entrepreneurial, middle-market businesses based in Chicago.

"We're fiercely independent," said David T. Brown, who has served as chairman of the firm's management committee for the last 10 years. "We, absolutely, intend to stay midsize — and that's our client base."

Calls from out-of-town law firms inquiring about the possibility of a merger or an acquisition have been coming more frequently in recent years, Brown said.

However, he stressed, those inquiries are typically answered with a question that reflects the client-oriented focus that is a crucial component of the business model at Much Shelist.

"The question really is: 'Tell me how this would make our firm better in serving our clients,'" Brown said. "If you ask most of our client base, being part of a mega, national firm would do nothing for them. So, as a starting point, why would we even go down the path if it's not going to help our clients?

"Most of our clients don't want to be working with somebody from a different office that they don't know. They like the intimacy of having us here in Chicago, and being close to their businesses."

Founded in 1970 by Morrie Much and Michael Shelist, the firm for many years had a class-action practice that made for a unique corporate firm. Three years ago Much Shelist transitioned its business model, and its class-action lawyers, led by Steve Kanner and Michael Freed, moved on to form their own firm.

"We, actually, are on the other side defending class-actions now," Brown said.

It was a question, he said, of redefining the firm's identity, and investing in its corporate, real estate and litigation practice with a primary focus on the middle market, versus the class-action practice and the risk-taking associated with it.

"We couldn't be the best trying to be a class-action firm and dedicating a significant chunk of resources over there and, at the same time, dedicating resources to being a business and litigation firm," Brown said. "Now, there are no mixed messages, especially internally. Now, we know who we are."

Today, Much Shelist touts itself as a full-service business law firm that remains focused on the middle market, with a client base that includes middle-market businesses, financial institutions, public and private companies, families and high-net-worth individuals.

And, with thousands of middle-market businesses in Chicago, Brown said, the firm doesn't consider itself a contender for business with the big firms.

"They have a different niche," Brown said. "Nobody is going to look at something and say, 'Hmm — are we going to hire Much Shelist, or are we going to hire Kirkland?'"

In today's economic climate, however, "we're getting different looks than we otherwise were."

Those looks, Brown said, are coming from larger corporate clients who traditionally sent their legal work to the big firms and now see midsize firms like Much Shelist as an alternative for projects other than "bet-the-farm" matters.

For example, Brown said, "I met with another major company that is a Fortune 1000 firm and they have a general counsel, and they've been using a big firm. I said, 'If you've got a billion-dollar deal that's multinational, we're not the right firm. But, if you have a deal size that may be $25 [million] to $250 million, or $500 million, and it's a domestic deal, we can do that all day long at — if you will — a significant value proposition.

"The fact of the matter is, this is what we do day in, day out," Brown continued. "We have a lot of experience in this segment. So, even the bigger companies are looking to a firm like ours because they know that we understand that middle-market business."

The strategy for making that value proposition "different" from those of the big firms, Brown said, comes down to billing rates, staffing methods, and lawyers providing legal services from a business point of view.

"Their senior associates are billing more than are, probably, our equity partners," he said. "And, we don't have 25 people to put on a deal. When we staff, it could be three to five people. That's it, depending on the size of the deal."

The firm, which hires laterally, eliminated its summer associate program 10 years ago.

"We weren't going to be able to compete with the Am Law 200 firms with salary and perceived prestige and all of that," Brown said. "But, what's interesting today is we are seeing tremendous candidates from some of the major firms in the city who viewed that those big firms were safe, and they're not as safe anymore."

When asked to sum up his firm's business model, or strategy for survival, Brown returned to the people who make up the "fiercely independent" firm.

"Our most important asset is our attorneys," he said. "That's what makes our business model what it is."

That is also why, Brown said, the firm decided on a 10 percent pay cut for all of its lawyers this fiscal year — rather than resorting to layoffs — as a means of balancing expenses against lower revenue projections in the midst of a slumping economy.

"That is, absolutely, consistent with our culture, which is: we value the people that are here. ... The idea was to preserve jobs; preserve relationships [between lawyers and clients]," Brown said. "We had a great fall, a great year-end, but we saw that with what was going on in the banking world and the business world, that we needed to do something to make certain we continue to be strong."

The economic crisis has yielded fewer business and real estate transactions, and fewer bank deals for lawyers to work on, Brown conceded. However, "because we're nimble enough, and because of our size, we can change directions and focus on what our clients need."

As such, Brown said, many of the firm's lawyers have been retooling, working on mortgage foreclosures, helping banking clients with troubled loans, and advising business clients on how to protect themselves in the current economic climate.

Much Shelist's key to survival as a midsize, independent firm that has existed for nearly 40 years in Chicago, Brown said, was etched by its founders.

"I think the biggest reason we're here today is that Morrie and Michael wanted this to be a second-generation firm, and a third-generation firm, whereas, if you look at a lot of the activity of the mergers in the last few years, a lot of it had to do with a lack of effective business succession planning," he said. "We would not be here, but for their [the firm's founding partners] willingness to say: 'We want this firm to continue on way beyond us, and to give the next generation reins.'" ■

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