

# The Changing Face of the Legal Market

BY DEBRA BAKER

**M**arket forces at both ends of the legal spectrum are changing the face of the legal industry, and will have a direct impact on the San Diego legal market over the coming decade.

At one end of the spectrum, a new tier of mega-rich firms is reshaping the competitive landscape of so-called “Big Law.” The average profits per partner for this small group of firms is \$1.4 million more than the combined average of its closest competitors, giving them an unprecedented advantage in the market for premium legal work.

At the other end of the spectrum, solos and small firms face challenges of their own. Online companies that offer do-it-yourself legal documents and related services are targeting the estimated \$97

billion legal market comprised of small businesses and consumers. LegalZoom.com, for example, reported its company now accounts for 20 percent of corporate formation filings in the state of California.

“The ability to adapt and survive 10 years from now is going to require change, regardless of what size firm you are,” says Chas Rampenthal, general counsel of LegalZoom.com.

A San Diego-based consulting firm, Legal Vertical Strategies (LVS), detailed the competitive pressures facing the legal industry in its Law Firm Performance Index. The index identifies five tiers of law firms.

## The Rise of the Mega-Rich Firms

At the top is an evolving category of mega-rich firms that LVS predicts ultimately will include about 25 of the most profitable global firms.

Sitting under the mega-rich firms are the remaining Global 100 firms. Tier 2 firms look very much like the firms in Tier 1 and will be able to capture the remaining share of the high-value work in the global market given their size,

breadth and ability to staff cross-border teams.

Rounding out the large firm market are the Tier 3 firms made up of the remaining AmLaw 200 firms. These firms have national platforms or at least a strong regional presence.

Traditionally the local model for national and international firms involved one of two things — fighting for the small amount of high-end work and pockets of niche complex work, or supporting clients outside the region from San Diego.

Kevin Alexander, managing partner of the San Diego office of Gordon & Rees — now the second largest firm in San Diego with 128 attorneys — says the local office benefits from being able to service clients in other geographic areas.

As a national firm at the lower end of the “big firm” spectrum, Alexander acknowledges the impact of the changing market on his firm’s ability to secure high-value work.

“Our goal is to move upstream, but it is challenging,” says Alexander. “Only a few firms will be able to do the Apple-Samsung type litigation. We service many



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The 5 Tiers		Global	San Diego
Tier 1	The Mega-Rich	18-25	2
Tier 2	Global 100	75	19
Tier 3	U.S.-based firms outside the Global 100	122	16
Tier 4	Large local and regional footholds	22	22
Tier 5	Small and solo firms of less than 15 attorneys	NA	2,607

Source: Legal Vertical Strategies, *The American Lawyer*, Inside Prospects

of the same clients but do their middle-market work.”

Gordon & Rees is also following the trend of Tier 2 and 3 firms that are moving downstream to try to capture the more complex work of mid-sized clients. “Mega firms don’t fit as well in this market because their price point is so high,” he says. “We’ve filled a nice middle market niche.”

### The Changing Face of Local Firms

For a mid-sized market like San Diego, local firms — Tier 4 and 5 — are the heart of the legal market. Technology,

Seltzer Caplan. “But there will always be a place for local firms like ours. Larger firms represent corporate America: that’s their foundation. We represent entrepreneurs who live here and are part of the community. I would expect that would continue.”

### Differentiation in the Age of Technology

The emergence of technology gives small firms the opportunity to compete with larger firms at lower rates.

LegalZoom.com, for example, now offers a subscription model that incorporates free consultations with

### Looking Ahead

For firms of every size, the imperative to think long-term has never been greater. Lawyers looking one, three, even five years out may not see the changes in the landscape as an imperative — after all, change in the legal industry tends to be slow.

Long-term thinking requires breaking down preconceived notions about how a law firm is run. Among the considerations:

**Rethink law firm roles.** Law firms need to analyze the process that goes into the delivery of legal matters and identify ways to standardize at least a portion of what they do, and rethink the way they deliver it.

**Technology matters.** As the Internet generation enters the business world, there will be a new comfort level with online services that lawyers cannot ignore.

Offer something others can’t. The ability to stand out from the noise of a crowded legal market will be critical to survive into the coming decade. Firms must invest the time and resources it takes to understand why and develop a strategy to showcase how.

**Be a good business mentor.** Many lawyers assume that clients know what they need when they seek out a lawyer. Most don’t. Lawyers who can help clients define their needs will have a competitive advantage.

**Be prepared to offer alternatives to the billable hour.** There will always be a role for hourly services, but clients want options and the ability to compare services and manage cost expectations.

Firms need to start thinking about how what they do will be different in the coming decade. It may be the difference between extinction and sustainability. 🦋

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globalization and the economic downturn have created new pressures, particularly for firms in these tiers.

“It can be a tough thing for mid-sized firms to agree on a strategic direction,” says Kurt Kicklighter, the California executive partner of McKenna Long & Aldridge. McKenna Long combined with San Diego’s oldest local firm, Luce Forward, last year. “They need to decide: ‘Are you a local firm focused on serving local needs?’ or ‘Are you going to focus on larger clients with more geographic diversity and more diverse legal needs?’”

Luce Forward chose a strategy that provided local clients with a national platform. Other firms have stayed committed to their local market strategy.

“Clearly, it is not as wonderful of a time as it used to be,” says Robert Caplan, the 77-year-old managing partner of the 60-plus-attorney firm

lawyers on all new matters during the course of a year, as well as discounted billing rates for other matters, all for \$288-\$360 per year — less than the cost of one hour of consultation for many lawyers in San Diego.

This is a real disruption in the market that will force lawyers to rethink the way they deliver services. Not all lawyers in this tier see this as a negative.

“I take commoditization and differentiation very seriously; I must if I want my practice to survive. The overall experience I offer clients by combining high-quality legal services delivered in the context of a personal relationship is built on trust and developed over the years. That’s not something an online service can provide,” says Nikki Dell’Ara, a partner at SanDiegoBusinessLaw and immediate past co-chair of the Business Law Section of the San Diego County Bar Association.