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Smaller-scale legal specialists find new market for services

By Steven R. Strahler

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After lawyer Mark Gershon dropped his hourly billing rate last August by \$200, the phone started ringing. Several former clients who had balked at the higher fee were interested in returning.

How was he able to offer the discount? Only by leaving global giant DLA Piper US LLP after 24 years and joining the 35-lawyer Chicago office of Kansas City-based Polsinelli Shughart P.C., he says.

"I was losing the breadth of work they were willing to do," the land-use and energy-development attorney says of his DLA Piper clients, who paid \$685 an hour, compared with the \$485 he charges at Polsinelli. "They still wanted to keep me involved on the specialty aspects of it. But for a lot of areas, they weren't prepared to pay those rates."

Mr. Gershon, 48, is part of a countercyclical boom for some smaller and mid-sized law firms that are gaining attorneys and clients from larger firms, many of which are resistant to change. While slightly more than half of respondents to a September survey by *American Lawyer* of the nation's 200 largest law firms said the recession was fundamentally reshaping the legal market, 70% said they hadn't altered their business model.

In addition to favorable rates, smaller firms are benefiting from the harsh recession, which makes clients less willing to tolerate a firm representing both them and competitors; these potential conflicts are more likely in larger firms.

Among clients shaking up the market is George Sladoje, CEO of Chicago-based North American Energy Credit & Clearing Corp., which guarantees contracts for electricity and natural-gas delivery.

For legal work associated with raising capital, he turned to 17-lawyer Connelly Roberts & McGivney LLC in Chicago, instead of a 900-plus-lawyer firm he also uses.

"The fee levels are much more reasonable" — at least 25% lower — "and the people are every bit as good as at the big firm," he says, not wanting to publicly identify the big firm because it still handles North American's litigation and regulatory matters, he says.

Everything being relative, some large firms such as Chicago-based Winston & Strawn LLP, with 812 U.S. attorneys, also can compete on price, especially with Wall Street firms that charge \$1,000 an hour.

"We've probably won as much as we've lost on the fee issue," says Managing Partner Thomas Fitzgerald, who expects firm revenue to rise 1% to 3% this year. "That ebb and flow goes both ways."

Polsinelli, one of about 75 out-of-town firms that since 1980 have opened Chicago offices, last year added 13 attorneys, including two each from Jenner & Block LLP and Foley & Lardner LLP, says Anthony Nasharr, managing director at Polsinelli's Chicago office. About three-fourths of the new hires were able to pare their

rates by 20% to 25%, he says.

Mr. Gershon says, "It has been much easier to service my middle-market energy and development clients from Polsinelli's platform, given their Midwestern rate structure and focus."

DLA Piper, with 3,500 lawyers worldwide; Jenner, with 491, and Foley, with 920, decline to comment.

At Connelly Roberts, revenue jumped 10% last year and is off to a robust start this year, says founder Michael Roberts, 47.

"We're doing deals now that two years ago I'm sure I wouldn't have had the opportunity (to do)," he says, citing New York-based private-equity firms it represented in two acquisitions.

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