

The RISE and FALL of the Brobeckian Empire.....

And other stories of law firm failures,
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Session Contents

- **Factors influencing law firm trends today**
- **Brobeck—its success and failure**
- **Common characteristics of failed firms**
- **Other warning signs of firms in trouble**
- **What to do—how firms can be proactive**

Challenging Times for Law Firms



- 🚗 **Competition**
- 🚗 **Consolidation**
- 🚗 **Commerce**
- 🚗 **Pace of change**
- 🚗 **Increasing costs**
- 🚗 **Pressure on fees**
- 🚗 **Free Agency Partners**

Competition is Becoming Increasingly Unconventional

- **Market is eroding:**
 - **In-house legal departments**
 - **Boutique firms**
 - **MDPs, Big 5, 4, 3, 2, 1 ?**
 - **Consulting firms**
 - **eLawForum**
 - **Bombay**

Preliminary Autopsy Results

- **Columnist for The Connecticut Law Tribune stated that there are 3 underlying causes of law firm death:**
 - 1. Death by debt.**
 - 2. Death by divisiveness.**
 - 3. Death by defection.**

Debt is an aggravating circumstance—not the cause.

Brobeck-the Best of Times

- **Under the leadership of Tower Snow**
 - **Incredible focus on high-tech companies—to be the premier firm representing this segment**
 - **Injected a much needed dynamic to law firm planning**
- **For its clients**
 - **Ranked #1 law firm by the nation's top 50 technology companies**
 - **Hit the strategy and marketing bull's-eye**
- **For its partners**
 - **Profits per partner**
 - **1999-44% increase**
 - **2000-56% increase, to \$1.17 million (most of any California firm)**

Brobeck-the Best of Times

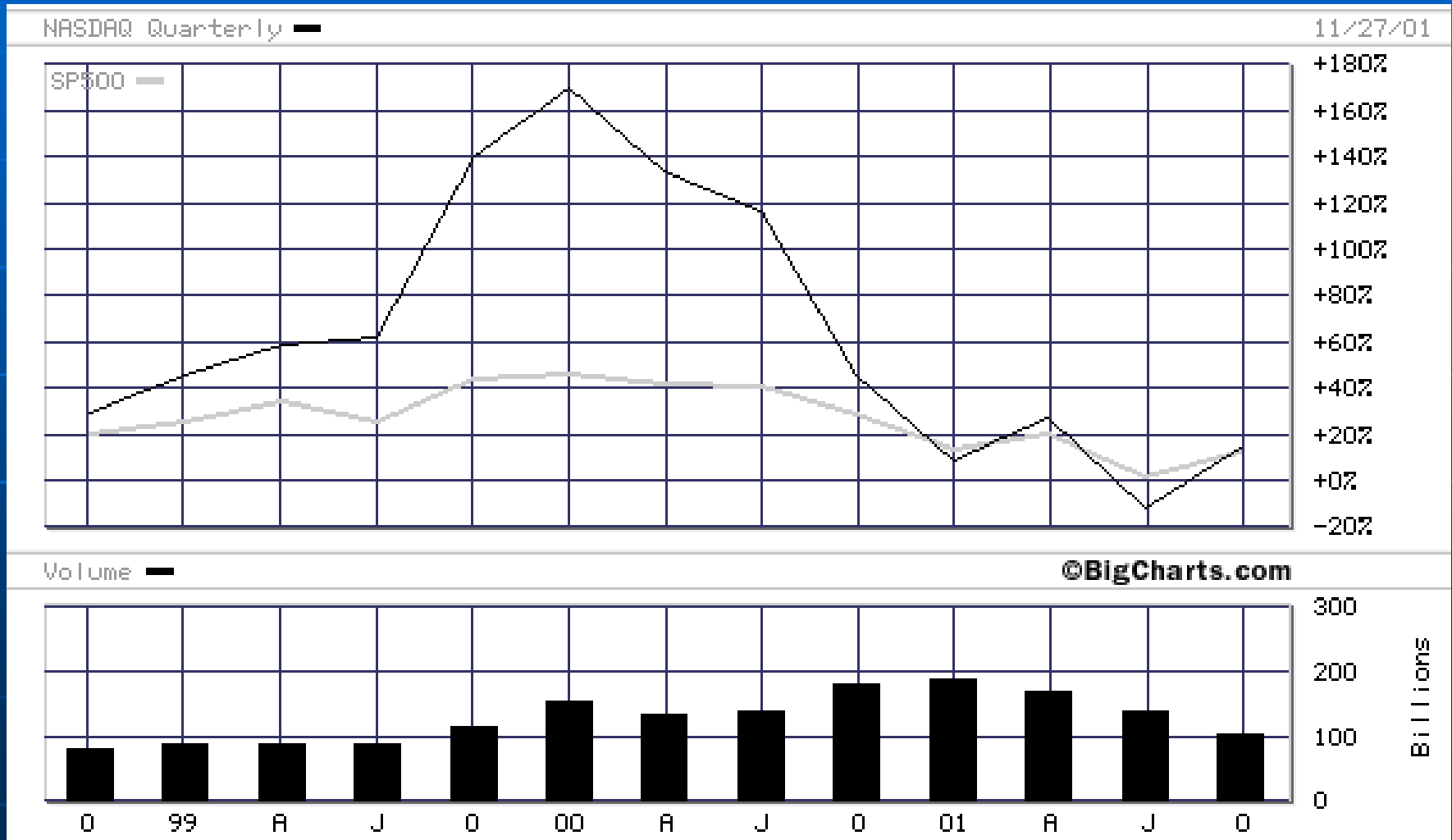
- **For its staff**
 - **In 2002, Fortune ranked firm among the 100 best companies to work for**
 - **Although some critics question propriety and methodology of survey**
- **Over 900 attorneys at its peak; 15th largest U.S. firm in terms of gross revenue**

Then, the Worst of Times

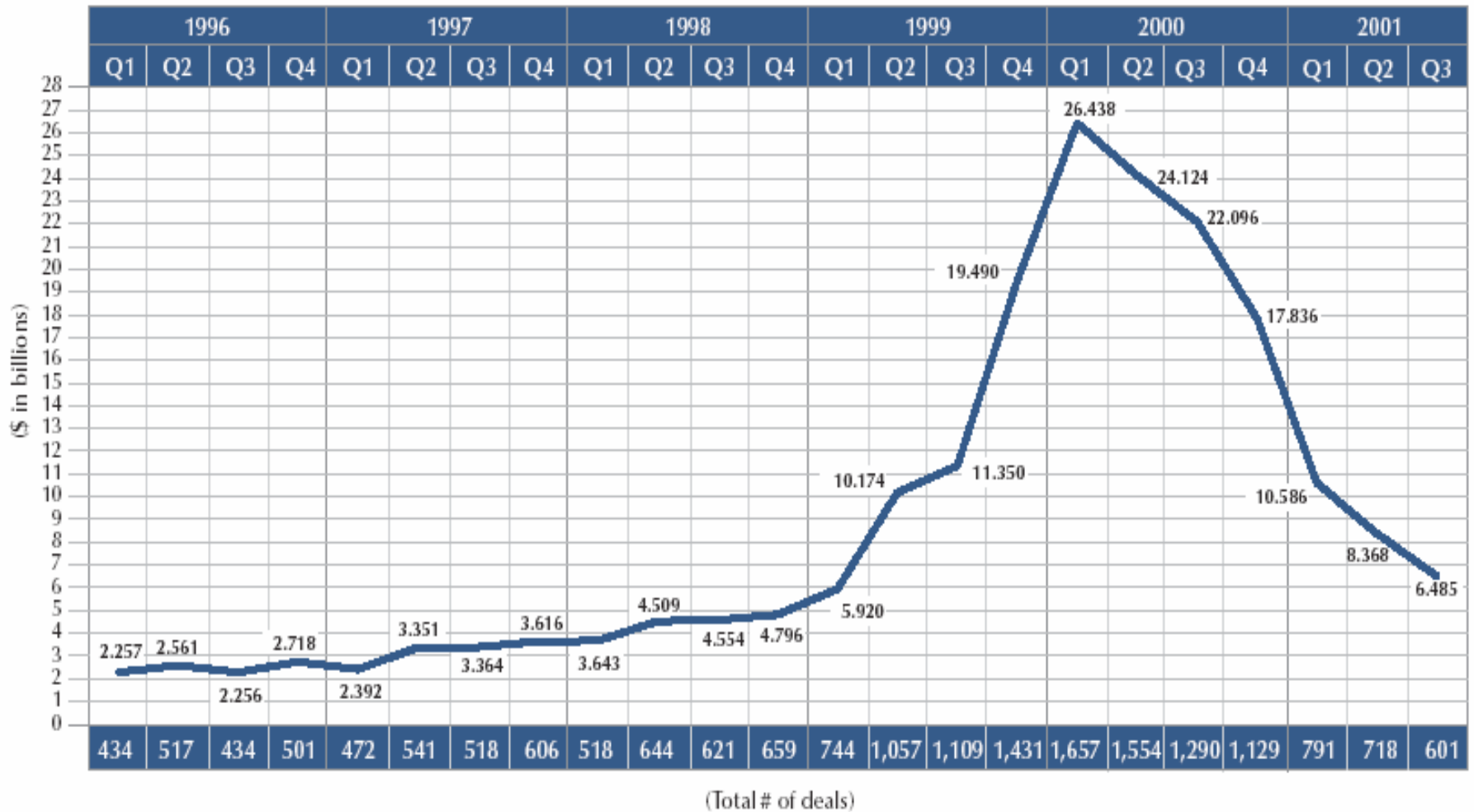
- **Collapse of the market and economy**

The Rise and Fall of the NASDAQ

October 1, 1998 – October 31, 2001



And the Venture Capital Market



Source: PricewaterhouseCoopers Moneytree™ Survey

Brobeck's Fall

- **Lack of positioning and investment in other practice areas and market sectors**
- **Rubbernecking consultant speak:**
 - **"Of course, I saw this coming."**
 - **"Live by the sword, die by the sword."**
 - **"Don't put all your eggs in one basket."**
- **The firm's debt—not the cause but aggravated the underlying problems**

“Law firms are using leverage more than permanent capital to finance growth.”

Stunning conclusion reached by Citibank after reviewing results from its own Law Firm Survey

Brobeck's Fall

- **Instead of retrenching or changing its focus, the firm continued to spend**
 - Tower Snow would not resort to layoffs
 - Costly 2001 TV advertisements on CNN
 - Expansive and expensive new facilities in P.A., S.D. and N.Y.C.
- **August 24, 2001**
 - Cooley Godward lays off 60 associates
- **September 11, 2001—Brobeck executive committee stuck in Colorado**
 - Succession plans were incubated on the long drive home
- **November, 2001-Chairman Tower Snow steps down...ousted by partners in May, 2002; takes 17 partners to Clifford Chance**

Brobeck's Fall

- **New leadership was ineffective**
 - Partners were not kept informed
- **More partners leave --taking clients with them**
 - 60 partners left prior to collapse
 - Resulting in significant revenue loss
 - Making more than 170 associates redundant
- **The firm needed an earlier downsizing as a measured reaction to the economy**
 - This would have broadcast a strong message that good management was in place
 - And that the situation was under control
 - Instead of the highly publicized infighting

Brobeck's Fall

- **Last ditch merger discussions**
 - **First with Hogan & Hartson then with Morgan Lewis**
 - **Talks with Morgan Lewis broke off on January 29; firm announced closure 2 days later**
 - **Morgan Lewis saw many difficult hurdles (debt, future financial performance, free agency partners, etc.)**
 - **Morgan (and others) then scooped up the cream**
 - **The parts worth more than the whole**
 - **Firm also erred during the merger courtship**
- **Last days were described as a total meltdown.**
- **"I have great confidence that it will be a nasty, ugly fight."**

Other Notable Failures

(recent failures as of March 1, 2003)

- **California**
 - Lyon & Lyon
 - Skjerven Morrill
- **Boston**
 - Hill & Barlow
 - Gaston & Snow
- **NYC**
 - Shea & Gould
 - Finley Kumble
 - Lord Day
- **Seattle**
 - Bogle Gates
- **Minnesota**
 - Popham Haik
 - Doherty Rumble
- **Texas**
 - 15 mid-sized firms in 2001 alone
- **Chicago**
 - Peterson and Ross
 - Keck Mahin & Cate

The key thing that makes national law firms work is synergy; with the right combination, one and one make three.

*-Steven Kumble
Finley, Kumble, et. al.*

Not Just a U.S. Phenomena

- **Recent poll of 100 managing partners in the U.K.**
 - **Over one-third of respondents expect a significant failure or two this year**

Common Characteristics of These and Other Firms in Trouble

- **Ineffective leadership**
 - **And poor succession planning**
- **Lack of strategy and/or failure to execute on strategy**
 - **Including reassessments**
- **Poor compensation policies**
- **Lack of trust among partners**
 - **Internal bickering**
 - **Cultural imbalance**
- **Internal versus external focus**
- **Excessive client loyalty to individuals**

Greed is a Significant Factor



Other Classic Warning Signs

- **Owners acting like employees**
 - 9 to 5 mentality
- **Lack of cross-selling**
- **Slowdown in new file openings**
- **Partners hoarding work**
- **Significant increase in aging of WIP and accounts receivable**
- **Same for accounts payable**

What to Do?

- **Have a clear strategy and implementation plan**
- **Perform an economic assessment—determine what resources are needed to service current client base**
- **Hold partners accountable for their performance or lack thereof—meaning something good or bad happens**
- **Maintain a good chemistry of core values (culture of trust, common philosophies, similar work ethic)**

What to Do?

- **Loss of jobs and benefits all affect morale--it is essential that management remain upbeat and keep focused on the practice**
- **Reassess your strategy—review practice segments and mix in anticipation of changing market conditions**
- **Place greater emphasis and investment on professional development activities**

What to Do?

- **Careful review of laterals—it's not just about economics—it's about culture**
- **Work on client relationships—your clients want you to know their business**
 - **And treat them as “Firm” clients**

**“There’s no substitute for talking,
for visiting clients to find out what
we’re doing right, what we’re doing
wrong, where the marketplace is
going, and what their needs are
going to be.”**

Debora de Hoyos

Mayer Brown Rowe & Maw

What to do--Consider an Ancillary Business?



Closing Thoughts

*What ever made you successful in
the past won't in the future.*

**Lew Platt, Former Chairman,
Hewlett Packard**

Opportunity for Follow-up

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