Diamonds in the rough

If you have the right tools, forming a boutique firm can give you a new lease of life, with Magic Circle-style profits

MARK McATEER

Buried among the upper echelons of the UK legal services market are firms that defy conventional wisdom. They aren't obsessed with size. They haven't merged. They haven't opened international offices. Instead, they have focused on specific industries, or sought to provide a specific type of service to clients. They don't try to do everything and will work with other firms on deals. They only hire from leading full-service firms in their field and usually keep the equity tight. In short, they've stuck to what they're good at.

If a single conclusion can be drawn from our most recent assistants' survey (*LB* 179) and the slew of client service surveys and reports that were circulating at the end of last year, it is that clients and assistants are increasingly fed up with their law firms. Clients are tired of not getting value for money from the services they feel they are paying through the nose for.

In CMS Cameron McKenna's *How much?* survey, published in November 2007, one FTSE-250 client comments: 'It's madness that you're paying £90,000 for a newly qualified. It's madness

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that lawyers have to work 2,000 billable hours.' Another adds: 'Inexperienced (or poorly supervised) associates, even though cheaper, are useless, as their work has to be redone by more experienced lawyers.'

Assistants aren't happy with their lot either. The big City firms are losing 25% of them every year, and it's been proven beyond reasonable doubt that throwing money at the problem just makes the headache more expensive.

Junior partners are also frustrated at not getting the rewards for the work they bring in and not having an effective voice in a business that they part-own.

Gilbert: IP is ideal for the boutique model

But there is an alternative for dissatisfied clients and disaffected partners and associates. Go compact and choose specialist, targeted firms. Boutique or niche law firms feel they can add brilliance to flawed career prospects and clarity to opaque client service.

HIDDEN GEMS

Sacker & Partners is perhaps the trophy illustration of a niche firm (see box, page 58). This pensions boutique stormed into the *Legal Business 100* in 2007, posting a profit margin of 54% and an eye-watering PEP of £867,000. That's more than Herbert Smith, Lovells, SJ Berwin and practically every firm outside of the Magic Circle. This figure isn't skewed by a minority of partners holding all the equity either: 27% of the firm's lawyers are equity partners, one of the highest ratios of any firm in the top 100.

In 1996 Ian Pittaway brought his well-respected pensions team at Nicholson Graham & Jones (now part of K&L Gates) over to Sackers, which had already begun to develop a strong niche in pensions work. 'Before I was here, they carried out a review with a consultancy that said: "Go niche, go global or go bust",' recalls Pittaway. 'Those were the choices, and clearly going global wasn't an option.'

Although the firm was performing well in all areas, pensions was by far the strongest suit at Sackers, and because the market then was quite benign, it was fairly easy for non-pensions specialists to move on to other firms.

Summing up why he moved to a boutique, Pittaway says that when he was at Nicholson Graham & Jones he had to pitch as a full-service firm, 'with no corporate practice to speak of, so I was getting the worst of both worlds'. Therein lies the key attraction of the boutique model to specialist partners in full-service firms: being free of all conflicts and being independent specialists means they can market their service much more vigorously and bring work in, so it doesn't matter if the firm doesn't have a corporate team. You are free to choose who you work with and take conflicts out of the equation. You don't have to kowtow to anyone.

At boutique firms there are often no departments, no formal targets and no financial rivalry. The advantage of this as a business model is that when you're promoting the firm, everyone understands the market, who the clients are, and what the right message is, so there's little confusion.

John Hagan, a former senior associate at Pinsent Masons (then Pinsent Curtis Biddle), left with former Pinsents equity partner Julian Harris to form a highly successful licensing and gaming boutique, Harris Hagan, in 2004. He is in no doubt that the freedom to make quick decisions is an attraction both personally and commercially. 'Many partners at large firms can become frustrated by the tortuous decision-making processes in play,' he says. 'One of the big conferences

Using the Gemological Institute of America's standard for determining the clarity of diamonds, assessed by the number of inclusions (imperfections) in the stone, we have run our loupe over five leading boutiques, giving them a rating based on their directory rankings, client base, lawyer satisfaction and financial performance.

GAMBLING

HARRIS HAGAN

Quality: The firm is rated as one of the two top licensing and gaming firms in the country, according to *The Legal 500*, and has a market-leading reputation for high-quality gambling and licensing work for casinos and nightclubs.

Clients: Aspinall's Club Holdings Ltd, MGM MIRAGE Development Ltd, Royal Opera House, Stanley Casinos

Lawyer satisfaction: Formed in 2004 as a spin-out from Pinsent Masons (then Pinsent Curtis Biddle), the firm has attracted other high-profile recruits, most notably Elizabeth Southorn, the former head of licensing at Richards Butler.

Finances: Three partners share the equity. Founding partner Julian Harris said that the first year, after being an equity partner at Pinsents, was tough. But the firm has turned a profit every year, and Harris says that he is now better off than he would have been had he stayed at Pinsents, and certainly better off than he was in his final year there.

Verdict: Very slightly included (VS1)
A very good-quality firm, with excellent market position and a solid, if unspectacular, revenue stream.

INTELLECTUAL PROPERTY

POWELL GILBERT

Quality: The firm was a new entry into the third tier for IP in the 2007 edition of *The Legal 500*, ranked only behind Bird & Bird, Bristows, Herbert Smith and Taylor Wessing. Partners Simon Ayrton, Zoë Butler, Penny Gilbert, Tim Powell and Alex Wilson have long been recognised as IP experts.

Clients: It represented Yeda in the House of Lords in its long-running battle with Sanofi Aventis and ImClone over the cancer drug Erbitux, worth about $400m in sales each year. Other clients include Monsanto and Human Genome Sciences.

Lawyer satisfaction: As it was only formed a year ago, it's too early to say. Partners defected from IP specialist Bristows to focus exclusively on IP. The founding partners report satisfaction with the positive start, and Penny Gilbert comments that they are 'definitely enjoying life in a boutique firm'.

Finances: No figures have been published yet. These former Bristows partners would have earned more than the average PEP at their old firm (£243,000), and with reduced overheads one would expect to see a significantly higher PEP than this. Patent litigation, a staple for the firm, can generate huge fees as cases require a great deal of evidence and can run for a long time, making it among the most lucrative types of litigation. Partners expect their take-home profits to be comfortably more than average PEP at their old firm.

Verdict: Very slightly included (VS2)
It's still early days for this boutique, so it's hard to tell just how profitable the practice will be. There is no doubting the quality of the work handled already and the pedigree of the personnel. At the moment, they're just happy to be doing their own thing.

'It's not hard to convince your client that you're a true specialist when your entire practice is devoted to that area.'
John Hagan, Harris Hagan

for our business is in Las Vegas, and Julian and I can sit in a room and decide when we want to go and whether we want to become sponsors in five minutes. At larger firms you might have to prepare a paper on it or make a submission to a relevant committee.'

For the five partners that spun-off from Bristows in 2007 to form IP boutique Powell Gilbert, the motivation to strike out on their own boiled down to a fundamental difference of opinion on strategy. Tim Powell, one of the founding partners, says: 'We felt there was a need to concentrate on what we saw as the core of the business. When it came to it, the only way to really achieve that was to split off and form a new firm that wouldn't be diluted in any way.'

INSTANT ATTRACTION

It's this accountability and added responsibility that is a major lure for dissatisfied senior associates at full-service firms. Fed up with being a cog in the machine, waiting for the partnership light to shine upon them, some have taken the plunge and moved out. And against expectations, they are taking home profits that compare favourably to the City mid-market and national full-service firms.

Toby Starr, co-founder of the commercial boutique Starr & Partners, trained at Linklaters before moving to Debevoise & Plimpton for, he admits, 'the money'. But, like so many associates, he quickly realised that it wasn't the be-all and end-all, which is why he set up his own firm with private equity specialist Lisa Booth.

'I thought I could do it better,' he says. 'I think there are major deficiencies in the full-service model, which are countered by the small-firm set-up because you're very responsive and you're directly accountable; your business depends on your clients in a way that it doesn't in a big firm.'

Onside Law is a sport, fashion and entertainment boutique formed in 2005 by former associates from Clifford Chance and Nabarro. Clients include Justin Rose, Sony Ericsson, Betfair and Storm Model Mangagement. Simon Thorp, one of the firm's three founding partners, says hands-on management is a major attraction for the would-be legal entrepreneur. 'If you're a junior partner or even a mid-ranking partner at a City firm, you're only one of many or perhaps even one of several hundred,' he says. 'So even though you are an owner in that business, you would query how much say you would have in the direction of it.'

Starr gets the hands-on thrill of running his own firm, and financially it hasn't been too shabby either. Starr & Partners acts for clients such as Tesco and Novartis on corporate finance, litigation and employment matters, providing, according to Starr: 'partner-led advice at boardroom level'. Four years on and it has four partners (two more having signed up from City/US firms in London). While Starr is reluctant to publish financial details, PEP stands at a level that would hold its own among a sizeable chunk of the firms occupying the *LB100*, and would make a few partners at full-service London or national firms somewhat jealous.


Starr: small firms are very responsive

Thorp says: 'We're coming up to the end of our third year, and our overall profitability is certainly commensurate with being a senior associate or salaried partner at a leading City firm. Even if I had remained at Clifford Chance, I would have been a salaried partner at best by this stage of my career.' In equity stakes, the firm is definately comparable to partners at the mid-level firms and has future growth potential.

Starr thinks that a boutique model can work even in corporate finance because of how some major firms run deals these days. 'My particular concern was that at big firms the client is led through the door by a partner and handed over to someone more junior. Transactions are over-engineered in terms of lawyering; there are too many people on them and their relevance is not obvious to the client, but is rather a way of making money.'

The attraction for clients is obvious. Where you don't need bodies, why pay for them? And there's further proof out there that the corporate finance boutique can work very well. Just ask Dickson Minto, which many describe as an 'über-boutique'. The firm has for years been mostly involved in the biggest deals (usually private equity-related), such as last year's £6bn Saga-AA merger. With an average of £933,000 going to 15 equity partners, it underlines that being small is no hindrance to big money.

Starr does not pretend that his outfit is in the same league as

'There was a lack of involvement in the marketing process at Lovells. A boutique practice allows you to get involved from top to bottom.'
Julien Rutler, RLS Solicitors

MEDIA

WIGGIN

Quality: According to *The Legal 500*, the firm is top-ranked for broadcasting and digital carriage work and film and TV work in London and the South West, and highly rated for publishing and music work. It is also widely acknowledged as the leading firm in the country for handling the full range of services for key broadcasting clients.

Clients: BT, Channel 4, Five, Fox Searchlight, ITV, Manchester United FC

Lawyer satisfaction: With just 13 partners, the purse is held quite tightly. The firm was hit by the departure of high-biller Mike Turner, who left to become chief executive at Nobok, so at least he didn't go to a rival firm. The firm's excellent work and the chance to spend half the week in the Georgian splendour of Cheltenham is a key attraction to lawyers at rival firms, evidenced by the 2007 hire of David Quli from Bird & Bird.

Finances: With PEP at around £400,000, a Wiggin equity partner picks up a little less on average than at rival technology firms Olswang or Bird & Bird, but it is still doing well for handling interesting and focused work.

Verdict: Very slightly included (VS1)
Not the most profitable outfit for a City partner, but there's no denying the quality of the work in an open and pleasant environment. The client base speaks for itself.

Dickson Minto or the global elite, but does highlight that it's possible to make money on a par with many full-service firms without the bureaucracy. 'To an extent boutique firms are actually high-end outfits where you don't have to deal with the crap: the whole office politics, structuring and managing, and dealing with people in your own firm,' he comments. 'They are basically there to be what they should be: client-service outfits.'

Another firm that has enjoyed success with the small model and has similar levels of profitability to Starr & Partners is RLS Solicitors, a commercial property firm founded by two former Lovells senior assistants with over seven years' PQE at the time. Given their legacy firm's reputation in the commercial property market, their credentials are impeccable, and RLS's unique selling point is to offer clients a partner-led commercial property service at half the rate of many of its City rivals. The firm mainly services occupier clients in significant property deals, including the Swiss government.

Explaining his reasons for setting it up, co-founder Julien Rutler says: 'There was a lack of involvement in the marketing process at Lovells. Influence and scope are limited. We wanted to run our own firm. A boutique practice allows you to get involved from top to bottom.' Singling out his main competitors as mid-sized, full-service firms, including Field Fisher Waterhouse, Finers Stephens Innocent and Beachcroft, Rutler argues: 'We saw a gap in the market. You don't need huge manpower on every deal, particularly on mid-sized deals. When we were at Lovells we found that we were opposite very junior lawyers.'

DIMMED BRILLIANCE

Lest anyone is kidding themselves that life at a boutique firm is one bijou Mardi Gras, it's worth acknowledging the downside. Firms such as RLS, Starr and Onside Law have given young and experienced lawyers a chance to plough their own furrow and be highly successful, but while profits put some full-service firms to shame, they are hardly at Magic Circle levels unless you're at the top of the pile. The message is clear: if you want to make serious money, then you have to offer something more than first-class client service – a USP is vital.

For Dickson Minto, its USP is simple: unrivalled quality. There are very few experts in the private equity market on a par with Alistair Dickson or Bruce Minto. Given that the competition are all at leading global firms or top US or London players, it is doubtful that there could ever be a boutique deals firm to challenge Dickson Minto. How could a small group of corporate finance partners ever compete at the top end of the market? For another Dickson Minto to form now, who would have to be in it? Probably the likes of Linklaters' David Cheyne and Slaughter and May's Nigel Boardman.

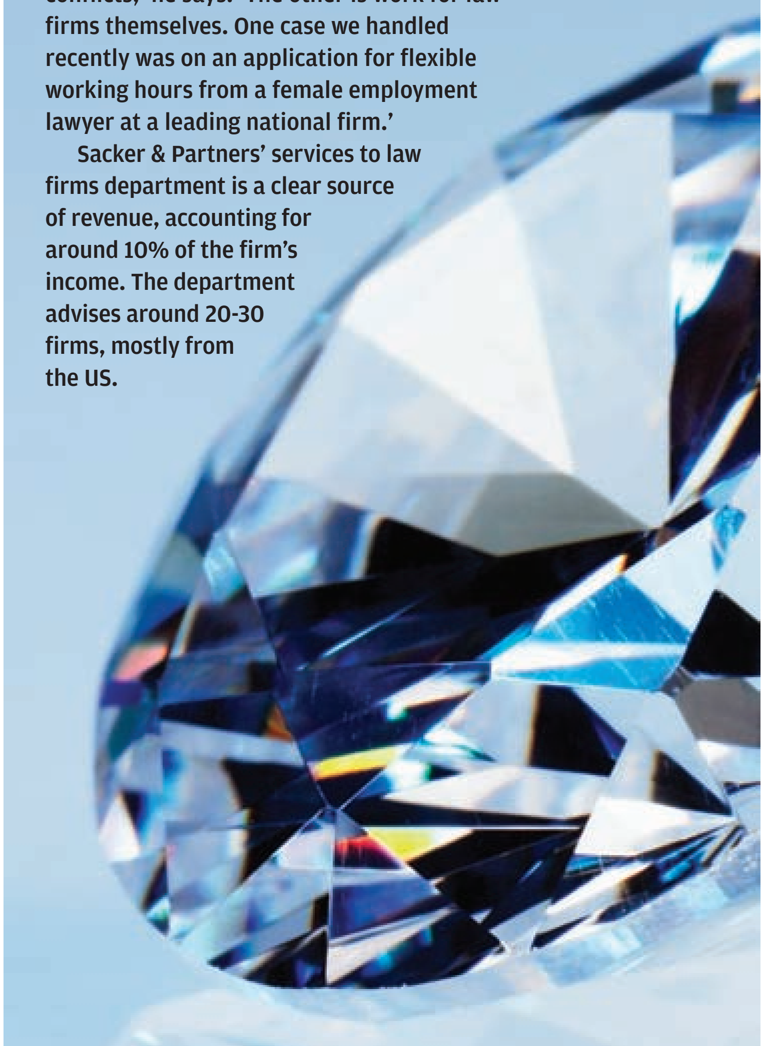
For Sackers, its success lies in the fact that it is a true niche player: it found a place in the market that no other firm could fill. Twenty years ago, when pensions work was kicking off, a typical model would have been a full-service firm acting for a company and its trustees. But when pension fund deficits emerged, trustees' interests were not always the same as the company's. With major law firms reluctant to jeopardise their relationship with the corporates, the trustees came to Sackers and have kept on coming. In 1996, the firm's turnover was £3m. This year, it is projected to be around £21m. 'The inherent conflict between companies and trustees has worked to our advantage,' Pittaway says. That's putting it mildly. He adds: 'It may be that there's a rule that niche firms can only grow better or survive in an area that is still developing itself. So it was easy for Sackers to grow when pensions was on the ▶

SERVICES TO LAW FIRMS

The independence of boutique law firms is particularly attractive to full-service firms, not only as a trusted option for referring conflicted clients, but also as a provider of legal advice to firms themselves. For some boutiques, the process of targeting a client base from a specific industry sector leads them to professional services firms, particularly law firms. The most prominent example of this is Fox Williams, which derives a sizeable chunk of its revenue from advising law firms on partnership issues, as does Fox, a spin-off boutique formed by the well-known partnership expert Ronnie Fox in 2006. Tim Powell and Penny Gilbert, for example, were indebted to the legal and personal advice given by Ronnie Fox in setting up their own firm, Powell Gilbert, last year.

Toby Starr at Starr & Partners points out that law firms are a two-lane source of income. 'One is referrals from law firms in case of conflicts,' he says. 'The other is work for law firms themselves. One case we handled recently was on an application for flexible working hours from a female employment lawyer at a leading national firm.'

Sacker & Partners' services to law firms department is a clear source of revenue, accounting for around 10% of the firm's income. The department advises around 20-30 firms, mostly from the US.



ground floor because we sort of grew with it and got lucky.'

This is a view echoed by John Hagan at Harris Hagan, who emerged as an expert in gaming and licensing law while at Pinsents. 'We offer a genuine specialism,' he says. 'It's not hard to convince your client that you're a true specialist when your entire practice is devoted to that area. Because we're specialists and understand the business better than anyone else, we can estimate accurately what a job is going to cost, and therefore tailor our fixed fees accordingly. That's really attractive to clients.'

But carving a niche isn't bulletproof, especially when all your eggs are in one basket. Only time will tell what effect the downturn in the private equity market will have on Dickson Minto's stellar financials. When asked in early autumn about the likely impact of the credit crunch on his firm's business, Alistair Dickson said: 'There will be less activity in the next 12 months. There could be pressure on firms with big private equity teams.' In addition to major City players feeling the pinch, that could include his own firm, with private equity accounting for around 70% of its London turnover.

SMALL IS BEAUTIFUL

Ironically, it could be the smaller, less prestigious boutiques that are better geared to weathering the financial storm. 'There's plenty of pie out there,' Starr says. 'There are people who will lose their market share when there's a downturn, but there's far more work than we can do. A downturn will probably make clients more price sensitive; they will start looking at what they're getting for their money. Those factors helped us in the dot-com bust, and I think they will help us in 2008 if things turn down. And that just covers corporate work; I think we'll get lots more employment, banking and commercial litigation at this stage in the cycle.'

PENSIONS

SACKER & PARTNERS

Quality: Top ranked in *The Legal 500* for pensions and pensions disputes, it is arguably the best pensions firm in the country.

Clients: BBC, BT, Citigroup, GlaxoSmithKline, ITV, Law Society Pension Scheme

Lawyer satisfaction: Equity is spread generously throughout the partnership, with very few high-profile departures. Jane Kola left to become Wragge & Co's pensions director in 2007.

Finances: The profit margin is 54% and PEP is £876,000 – global elite levels.

Verdict: Internally flawless (IF)
There are no visible signs of imperfections. Its work is market-leading and capable of weathering a downturn. The financial rewards are superb.

'It was easy for Sackers to grow when pensions was on the ground floor because we sort of grew with it and got lucky.'
Ian Pittaway, Sacker & Partners

The other way to secure yourself in a fickle market is to offer a service that cuts both ways. Unsurprisingly, Harris Hagan can do just that. 'We've embedded ourselves so firmly in the gambling industry, and it will always have legal requirements,' says Hagan. 'If a downturn comes, we'll move on to whatever the clients need next and react accordingly.'

Offering a boutique service to an industry may be one way of being countercyclical, but that's no help if you aren't offering clients a genuinely bespoke service. Carol Williams, company secretary of Northern Foods, says she prefers to use full-service firms because she likes the range of services available. 'Boutique firms may offer cheaper rates, but if they have to go to other firms to get advice on certain areas, then by the time they finish liaising you've won nothing on cost.'

However, Clive Weston, head of pensions at Boots, disagrees. Last year he instructed Sackers to advise on complex pension trustee issues linked to its takeover by a Kohlberg Kravis Roberts & Co-led consortium. Sackers worked alongside Ashurst, which provided the key corporate advice. 'I don't think it could have been

PRIVATE EQUITY

DICKSON MINTO

Quality: The firm has an outstanding reputation in private equity, ranked only behind Clifford Chance, Ashurst and Freshfields Bruckhaus Deringer in *The Legal 500*. It is one of just three premier firms in Scotland for corporate work.

Clients: BC Partners, Charterhouse, CVC

Lawyer satisfaction: You have to be very, very good to cut it here. Equity is tightly held: 14% of the firm is made up of equity partners, and usually only one partner is made up each year. Quite a few former Dickson Minto lawyers pop up at Magic Circle firms.

Finances: The profit margin is 45% and PEP is £933,000. Some partners take home more than their Magic Circle counterparts.

Verdict: Very very slightly included (VVS1)
It has sensational work and unbeatable financial returns – if you make it to the top. Question marks hang over 2008 profits because of a downturn in private equity markets, but an excellent Scottish practice will offset losses.

done better if it had been handled by one firm,' he recalls. 'We felt that by going down that route we had best of breed in both cases. From my perspective as a client, the way in which Sackers and Ashurst worked together was seamless.'

In response to the argument that boutique firms can offer more senior lawyers, Williams is also unconvinced. 'I think it depends on the nature of the relationship you have with your law firm,' she says. 'I have a rule, and I'm not afraid to enforce it. If it takes a partner half an hour to do a job that would take two hours for an assistant, who would then have to get it checked by a partner, I will have the partner doing it. I insist on small teams, unless we're talking about a massive disposal or acquisition.'

For a client like Northern Foods, with a large in-house team and no specialist requirements, the boutique firm would only be attractive in very rare, highly specific occasions. Chris Arnull, associate general counsel at KPMG, says: 'In pitching to large clients with considerable in-house resources, boutique firms have to offer something quite unique. In more mainstream areas, it must be difficult for niche firms to get over the brand or resources issues.'

The smaller and more specialised the market, the easier it is to be successful as a boutique. Powell Gilbert, for example, offers clients specific ability in IP litigation, and this is only matched by a handful of other firms, most of which are full-service. Penny Gilbert, Tim Powell and their fellow partners have first-class reputations. Like Harris Hagan, they had a skill set that could move away from a larger firm quite easily. 'IP lends itself to the boutique model,' Gilbert says. 'We can act for major clients and offer a self-sufficient service that doesn't require huge teams and many support services. This allows major clients to instruct us direct,

Harris: it can be difficult to be unique

and larger firms aren't afraid to refer work to us as we won't try to cross-sell to other departments.'

UNIQUE PRACTICES

Why aren't more specialised teams at full-service firms seeking to spin-out and become self-sufficient? A number of very strong teams stand out at full-service firms that could quite easily lend themselves to the boutique model. Take, for example, CMS Cameron McKenna's and Denton Wilde Sapte's first-rate advice to energy-sector clients. The firms' strength in regulatory matters means that the practice does not depend on corporate work for companies in that sector. Could those teams run themselves as 'energy boutiques'? The answer is perhaps not, as energy is a sector where global coverage and corporate expertise is important. But for, say, the computer games team at Osborne Clarke, the aviation team at DLA Piper and the educational institutions team at Eversheds, there's possibly a case for breaking free.

Offering something different is key though. 'All of our clients have other firms they go to for corporate and property work,' says Julian Harris at Harris Hagan. 'On work that requires big teams, it's more difficult to use a firm such as ours. But what we handle is key to gaming companies' existences; it's at the core of their business. If you are a waste management specialist, then there is an industry there probably wanting your services. The same is true for aviation or oil and gas. But if you're a property lawyer or a corporate lawyer, then there are so many other firms competing, and it's very hard to offer something unique.'

Gilbert says the strength to set up on your own comes from knowing your market. 'You have to be sure about your sector,' she explains. 'Do you have everything the client needs in your unit? How big do you have to be to service your client? Do you have the confidence that your clients will come to you in your new standalone format?'

However, lawyers are risk averse at the best of times. If you're not all about the money, though, the cultural change can be very rewarding. 'I don't think what's going to work in the current economic climate is mid-level full-service firms saying: "We're big enough to do big deals",' Starr says. 'Clients want more than that. I think the model for these firms is "forever expansion", to just get bigger and bigger. Their sole attraction is having bodies to put on jobs. That isn't going to compete with the likes of Slaughter and May, and it isn't going to compete with us because clients get fed up with two-year qualifieds that can't do the work being their only point of contact.'

For the senior lawyer thinking of going it alone, the choice is simple. Either offer something very unique and focused or have a market reputation so strong that clients will bite your hand off for your services. Then wait for the financial rewards that go with it.

If you're an associate or salaried partner wanting to be more than just a number, then there are different kinds of rewards to be unearthed. But if you can convince clients how precious you are, you will always be worth paying for. **LB**

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