

Mid-Market Report

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David Gialanella



Lizzy McLellan

Aug 03, 2018

It seems each day accounting firms are taking another step into the world of legal services. Large law firms are certainly taking note, but should midsize firms be just as concerned? Or should they be even more worried?

Midsized firms, we want to hear your story. Interested in contributing a firm leader Q&A, a column, tip or coverage suggestion? Reach out to Lizzy and David at: dgialanella@alm.com and lmclellan@alm.com.

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The Big Four Threat is Real. Are You Ready?

By Lizzy McLellan and Ben Seal

As non-law firms become increasingly bullish about providing services traditionally provided by lawyers, now is not the time for complacency in the legal mid-market.

Midsize law firms are not in an outright panic **about the Big Four** and other accounting firms—they represent just another competitor, firm leaders said. Still, they said, the increasing competition from these service providers is nothing to take lightly.

"Every single law firm should be concerned," said James Goodnow, managing partner at **Fennemore Craig**, in Arizona. "Mid-market firm leaders need to operate as though there will be competition from the Big Four...it's just good business sense."

Charles Maier, a managing officer at Minneapolis-based **Gray Plant Mooty**, said the threat is real.

"It's something we saw a little of before the Great Recession but it's back again. It feels different this time," Maier said. Accounting firms are "able to hire lawyers a lot more directly overseas and they're getting a lot more experience with that ...and then there's just the sheer size" of these competitors, he said.

Maier noted that in the U.S., accountants still can't appear in court or provide many of the services law firms do. However, he said, they've been providing more counseling to clients on general matters, including business governance and risk-benefit analysis, particularly with midsize companies in the \$100 million to \$1 billion revenue range.

"To the extent the Big Four are able to get into those boardrooms, that's a threat to us," Maier said.

However, Goodnow noted, "midsize firms are in the best situation to be protected." That's due in part to the limitations on legal work non-law firms can do in the U.S., he said, at least for now, and most midsize firms have kept a domestic business focus. Midsize firms, he said, can adjust their business model more easily than larger ones, to adapt to the competitive landscape.

Agility and Investment

Maier said Gray Plant Mooty is now looking at how it will invest in technology, as a way to stay ahead of competition, because that's an area where accounting firms and larger law firms may have an edge.

Goodnow agreed. "We have to bite the bullet and make the investment for the benefit of our clients," he said, including artificial intelligence and data analytics. That's an easier investment to make for a large law firm or an accounting firm, he acknowledged, but it's crucial.

"What we need to do in the world of mid law is to be as agile and as nimble as we can, to undercut on cost where we can," he said. "If we're not investing as midmarket firms, we won't be able to compete."

Gerald Roach, managing partner of **Smith Anderson**, which has a single office in Research Triangle, North Carolina, said his firm competes with accounting firms in the same way it would compete with anyone else—by fostering strong client relationships, offering lower rates and embracing alternative fee arrangements.

"For right or wrong, I think of accounting firms as another competitor along with large national firms or national specialty firms, rather than something unique," Roach said. "The notion that some midsize firms could be picked off because they're easier targets, we have not found to be the case with Smith Anderson."

Roach added that accounting firms tend to work with clients that have multiple offices in various locations. "They can get in and get the work, and say we provide it everywhere you have an office," he said. But Smith Anderson isn't going after those kinds of client relationships, he added.

Smith Anderson has been deliberate in deciding what types of work to pursue, Roach said, going after practice areas that accounting firms and large national firms are not targeting.

"At least in my experience, the accounting firm work tends to be siloed, targeted, specialized," he said. "So I think if we're careful about what we go after, there's plenty of room to both compete head to head with and also to navigate around accounting firms."

The 'Symbiotic Relationship'

Beyond that, law firms may be able to seize on opportunities to collaborate with non-law firm competitors.

"The clients we have often are choosing us because it fits our size, and their accounting relationships are not with the Big Four," Maier, of Gray Plant Mooty, said. "So we can partner with those second-tier accounting firms a lot more than the giant ones because we can see the symbiotic relationship there."

Bryant "Corky" Messner, CEO and founding partner of Denver-based **Messner Reeves**, said his firm has utilized accounting firms for certain legal-type services, primarily document review, on behalf of clients. Working with them directly provides him with a good grasp on what accounting firms are doing to compete in the legal industry, he said.

"The way I like to say it is that we're both a provider of legal services and a consumer of legal services," Messner said, noting that he also hires other law firms regularly to assist with client matters. "I get to see the rates, I get to see the way they work, how they bill."

Messner Reeves stays in the game, he said, by continuing to provide quality services and prompt response, while keeping costs carefully controlled. "This business is extremely competitive no matter what, and I think will always be. I think it's just another competitor," Messner said.

And as accounting firms venture into providing other kinds of services to their clients, there's no reason law firms can't do the same, it seems. Goodnow suggested that firm leaders "take a page out of the Big Four's playbook and try to offer more consolidated services." He pointed to law firms with ancillary businesses focused on consulting, investments, or other areas relevant to their existing clients.

Like accounting firms, Goodnow said, "We need to be following the same blueprint in terms of being the one-stop shop for our clients as well."

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