

Law Practice Watch

Firms Prioritize 'Micro Niche' Specialties in Tight Market

By Lisa Singh

Earlier this year, a mid-size, full-service law firm headquartered in Roseland, N.J., established a practice group focused on emerging technologies. The move—the first of its kind in the practice's 88-year history—speaks to a gradual industry shift.

In this changing environment, many mid-size law firms are maneuvering for ways to stay relevant. While the industry is seeing its strongest revenue performance since the recession—up 5.5 percent in the first half of 2018—a closer look at the data, from Citi Private Bank's law firm group, reveals a tilt.

Much of the growth is concentrated in the AmLaw 50 at the top and smaller, niche-focused boutique firms at the bottom. This past year, both saw the same 1.7 percent growth in billable hours, compared to the overall industry growth of 0.7 percent, suggesting firms either benefit from name recognition or, in the case of niche practices, a focus on highly specialized areas.

"There are some aspects of this market that do favor larger firms—increased consolidation, for instance—but our view is that [growth] is more a commentary on the importance of brand in this market versus growth for growth's sake," said David Altuna, one of the Citi study authors, citing demand across sectors such as technology, life sciences, energy, real estate, and pharmaceuticals.

"Many smaller, niche firms are built around strong brands in certain practices, industries, or possibly regions. We believe this focus has helped them achieve a certain level of success."

Firms in the middle are slowly taking note.

In the case of the New Jersey firm, Mandelbaum Salsburg, its technology group has already catalogued a diverse list of clients—among them, a company that uses cannabis to treat diabetes, and another that's developed software to increase automobile sales and after-market purchases. The firm assigns a client advocate to guide accompanying legal needs spanning the entire business life cycle, from IP protection to regulatory compliance.

"Year after year, if you assess supply and demand, paying for legal services continues to increasingly lean toward a buyer's market," said Peter Levy, an attorney who chairs the firm's 11-member technology group. "It is not that lawyers will be providing 'new services'—rather, lawyers will be providing more specialized services in a team approach."

By now, factors whittling away at market share are well-documented—namely, since the 2008 financial collapse, the rise in technology-based alternative legal service providers, the continued shift of legal work in-house, and, for firms with an international presence, growing competition from the Big Four accounting firms.



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The phrase "micro niches" has commensurately migrated into the legal field from marketing, said Michael Scharf, dean of Case Western Reserve University's school of law. The term encompasses one aim.

"It's so focused, valuable, and responsive, the firm effectively de-commoditizes itself," said Kevin Burke, chairman of the national law firm Hinshaw & Culbertson.

Technology is driving much of this need for specialization, particularly in addressing privacy issues that accompany advances in areas like machine learning, artificial intelligence, and robotics, Burke said. "Just as cybersecurity began as a niche, so will data ethics, usage, and breach, as the data revolution and analysis stores massive amounts of information."

Meanwhile, finding a specialty area requires a disciplined strategy, said Kent Zimmermann, a law firm management consultant based in Chicago.

"For most firms, the way to develop preeminence in a given area is usually not to do a frontal assault on the highest-performing firms such as Kirkland & Ellis and others," Zimmermann said. "Instead, most firms would be wise to double down on their existing areas of strength in less rate-challenged areas of focus and then use those strengths to bridge into adjacent practices—or industries or extend their existing strengths into new geographies—to build additional preeminence in them."

Yet focusing on a niche doesn't guarantee revenue.

"I think there will be premium niches in virtually every practice area," said Eric Goldman, a professor at Santa Clara University School of Law who co-directs the school's High Tech Law Institute. "The key question is, how much inventory of work is available for those niches? Is it enough to support a full-time practice?"

Firms may benefit from thinking regionally. "You need to find a unique practice area that does not exist elsewhere," said James Goodnow, president and managing partner of Fennemore Craig, a 300-plus person law firm headquartered in Phoenix that's developed niches specific to local environmental issues, such as water, mining, endangered species, and public lands regulation.

The firm also runs a venture accelerator program that helps secure funding and grow emerging businesses in areas like blockchain and cryptocurrency. Much of that work occurs out of the firm's office in Reno, home to many Silicon Valley transplants.

Subspecialties may guard against the next economic downturn. At least that's what firms entering niche markets are betting on, particularly those at risk of being squeezed in the middle.

"The mistake a lot of firms are making is they are conducting business as usual," Goodnow said. "When a market declines, you're going to see a dramatic downturn in general activity for general corporate work and litigation. It may be the niches that will sustain a firm through any downturn we may see."

Lisa Singh is a writer specializing in business and technology matters.