

# THE LAWYER

## Spin doktors

11 July 2011

**Small boutique firms spun out of larger outfits are fast becoming big business in Germany.**



Ulf Renzenbrink

Germany is becoming a latticework of spin-off law firms. If one thing defines the country's legal market it is the increasing presence of narrowly focused firms.

The trend kicked off in 2000 when Freshfields Bruckhaus Deringer partner Andreas Rittstieg set up Hamburg independent Rittstieg. Frankfurt-based Smeets Haas Wolff was created in the same year. In 2005, Greenfort was established by associates from Freshfields and Hengeler Mueller, while Freshfields Hamburg associates set up corporate boutique Renzenbrink Raschke von Knobelsdorff Heiser. Over the years other firms have established their presence, such as Trüon Rechtsanwälte, Core Business Lawyers, Raue and Toth-Feher & Partner.

"In Hamburg it seems that every year there's a big spin-off," says Karl Koenen, partner at Wendelstein Rechtsanwälte, one of the newest kids on the block. The firm specialises in business law and was formed in January this year by a group of six associates from Hengeler Mueller. After working together for about five years they discovered that they gelled well.

"That was one of the most important reasons for setting up this firm," explains Koenen. "It seemed like a good opportunity to create our own business. We could decide quickly what we wanted to do because we only had to coordinate the six of us."

For Renzenbrink Raschke partner Ulf Renzenbrink, the motives of the four partners for creating a spin-off were more wide-ranging.

"Some didn't like the big firms," says Renzenbrink. "For others, working for the big firms was to get training and then do their own thing. In Munich I came to a dead end. The other partners came up with the idea at that time and I was confident we'd be able to establish our own firm."

The past few months have been a busy period for Germany's spin-off boutiques. M&A, litigation and real estate transactions have dominated workloads. Areas that kept spin-offs busy through the economic crisis continue to generate work.

At the start of the millennium the concept of the spin-off was relatively unknown in Germany, according to academic Andreas Günther of Leuphana University, who recently completed a study on the entrepreneurial foundations of professionally focused boutiques in the country.

"Clients didn't know these firms and weren't sure they could trust them," he says. "The German market is a long way behind the British and US ones. There's a traditional picture of what lawyers are. It's not so open-minded. It tries to stay within tighter boundaries. This is the reason spin-offs grew slowly. They didn't all have the knowledge or experience to grow as a business. Now, they are starting to grow as others have shown them it is possible. Market education needed to develop."

### **Alternative energy**

In the economic crisis spin-offs offered an alternative to large firms.

"Clients are willing to pay for specialised information," says Günther. "The majority of spin-offs are commercial law firms. Most spin-offs are in high-margin areas where partners have a chance to play with the big guys and earn a lot of money."

Partner Andreas von Oppen of Greenfort, one of the most well-known of these tightly focused firms, says there are two types of spin-off. First, there is the boutique formed by associates from a larger firm.

"The philosophy of Greenfort is that every partner is equal," says von Oppen. "This is shown in our name. Greenfort is a strong brand rather than the name of a single partner. Associate spin-offs need to work on their reputation but can be highly rewarding, particularly if you are successful."

Second, there is the arrangement whereby a well-known partner leaves a firm and has a group of 'soldiers' around him to help with the work. Both arrangements are popular in Germany, but von Oppen thinks that young associates find the former more attractive because the atmosphere in these firms tends to be friendlier and more relaxed.

"From a hiring aspect, we see an increasing interest in small, top quality firms," he says. "These days it's not all about money. It's also about atmosphere, interesting work, prospects and a good work/life balance."

For these firms the potential revenue benefits of a lean structure are clear, especially if costs are in the region of between 10 and 15 per cent. "It can be profitable," says Renzenbrink. "If you go to a second- or third-tier firm your remuneration will usually be lower. But it depends on your business."

Of course, life as a spin-off in Germany is not without its challenges. Coming from a large firm such as Hengeler meant that the Wendelstein team were not prepared for some of the day-to-day details.

"Hengeler has a professional administration team to deal with nitty-gritty admin work such as ordering office supplies," says Koenen. "Admin work takes up about 10 per cent of our time, together with creating all our systems from scratch. We came from a firm that worked incredibly well."

Learning from experience is good for business. It is crucial to focus on the atmosphere within the firm and not to try to grow too rapidly, stresses von Oppen.

A clear focus on a specialism is also important, adds Renzenbrink. His firm's strategy is in a state of transition. In the beginning, there was no specific strategy: the firm simply wanted to be a focused corporate boutique offering low fees compared with larger organisations.

"We were really successful in attracting big transactions from the beginning and that helped us get new clients on board," says Renzenbrink. The outfit has now ceased almost all of its work on small transactions after finding that it is able to compete with the larger German firms.

Renzenbrink Raschke now plans to be one of the leading boutiques on a countrywide level in the next two years. It is currently well known in Hamburg.



Karl Koenen

### **Staying power**

The longer term survival of these boutiques is a key question.

"There's no guarantee of survival for anyone," acknowledges Renzenbrink. "It depends on the personal relationship of the partners. You have to offer prospects for your associates or the system will collapse."

Von Oppen is confident that spin-offs can survive because clients like having external counsel with similar entrepreneurial experience. Meanwhile, Koenen stresses the importance of focusing on individual clients.

"The client has to see the added value of working with a smaller firm: we can focus on clients who wouldn't usually get such partner attention in a larger firm," says Koenen, who describes his firm as a partnership of "hardcore lawyers".

"The advantage of a spin-off as opposed to a lawyer who just starts his own firm right out of legal training is that we have large law firm experience."

As part of one of the more recent spin-offs on the legal scene in Germany Koenen shares some words of wisdom.

"It's really important to prepare," he says. "Also, you should communicate openly with your current employer. Hengeler understood and the [people there] were very supportive. You don't want to get into a fight with your current employer when you're trying to start your own firm."



Dieter Schenk

## **Big vision**

As spin-offs look set to take advantage of internal growth opportunities, Germany's larger firms are setting their sights on foreign markets. Noerr opened an IP office in Alicante at the start of July as part of its work in international branding.

"We're the first competitor to Hogan Lovells on an international scale there," says co-managing partner Dieter Schenk. "We think our IP strategy is the right way to go."

The past two years have been positive for Noerr's work in Moscow and Bucharest, while particular difficulties were faced in Hungary, where a poor economic climate hampered performance.

"The further you go eastwards the more problems there are with having a solid legal situation," explains Schenk. "We sometimes face challenges but clients face these - challenges too. With big challenges come big rewards. That's why some firms move to the Ukraine and Russia."

Schenk says Noerr is unlikely to set up offices in Paris or Madrid due to the presence of large international firms in those locations.

"It's important to find a unique selling point," he says.

Hans-Georg Hahn, a managing partner at Luther, says it is looking towards India, Hong Kong and South America in an "abstract" way.

"For a German law firm to go abroad, you need to make it clear that you're fully internationally minded and in contact with the economics of the country," he says. "We're thinking about where to go from Singapore - Brazil, for example. We're also thinking how we can make a move in China."

Hahn's advice when it comes to expanding abroad is always to bear in mind the difference in mentality between people in different countries to ensure clients get a service they are used to.

"Us Germans have a certain discipline and speed that you have to transfer to colleagues who may not be accustomed to this," he says. Hahn also points towards recruitment as an important factor in a foray into a new country.

"If some firms fail it could be because they only look at whether a person can speak the language and not the network they're in," he says. "Take time to look at the personalities of people - what is the reputation of the person and their network?"

Regardless of the approach of firms looking to expand abroad, it is clear that any move should be considered with care.

“The relationship between a new office and existing offices needs to be strong,” says Schenk. “Also, try to put yourself in the shoes of clients and decide what’s in their best interests.”

Both the big firms going abroad and the boutiques spinning off from them feel their models will serve clients well, and both are likely to continue to develop.