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Multi-Disciplinary Firms and IP Practice

presented by

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Those of you who have followed recent U.S. law firm news will have noticed that two of the largest IP boutique firms in the United States announced their merger on October 25, 2005. Merchant Gould and Welsh & Katz have joined to form a firm with 160 lawyers and agents, and 6 offices (all in the United States) dedicated solely to IP work. This is in sharp contrast with a trend that has been happening in the United States for the past several years in which some of the best known and long-established boutiques have been absorbed by general firms.[1]

In Europe, many boutiques have gone cross-border, and it is now common to see boutique firms that have a component in England, a component in Germany and often components in other places as well. General law firms in all European countries are adding at least some IP expertise. Also, multi-national law firms, particularly the giant English firms, are opening IP departments in many different countries.

What is happening? When I started in the profession, most IP firms were restricted to one country. Most were quite small. There were prosecution firms that were formed of agents or lawyer/agents, and which did only prosecution, and sometimes only patent prosecution. IP litigation was usually done by general litigators instructed by a Patent Agent or Patent prosecution lawyer.

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[1] For example, Arnold White & Durkee; Pennie & Edmonds; and Burns, Doane, Swecker & Mathis have all disappeared by being absorbed into general law firms.

I think that the model of a small, prosecution-only firm, of the type I used to know, will always be with us. However, it will co-exist with other models and the other models will probably take more and more of the IP work, at least in the next few years.

I see three trends which are happening at the same time. These trends are an increase in firm size, the formation of IP practices in multi-disciplinary firms, and the formation of multi-national IP practices. I will discuss each in turn.

INCREASED SIZE

It has been said in many contexts that bigger is better. Without debating this in the abstract, I would like to look at the advantages of size for an IP practice.

As computerization has become more widespread, the expectations of clients have risen about timely diarying, the ability to create complex documents, and general computer literacy. Additionally, good computer access is now essential for such things as patent searching and communicating with clients and associates. Diary software is very expensive, and there are many different types being offered. Similarly, there are many types of accounting software, specialized search and watch software and the like available. In a small firm, it falls on the Partners to determine what is available, the cost, and the necessity for bringing in new computers and software. Further, the Partners have to become intimately involved in the installation.

Size reduces this problem. In most large firms, there is an information technology department, which can solve the routine problems of computer implementation and staff training, and can also be of great help in assessing new systems. Such a department would not be possible in a small firm, as there would not be enough billing professionals over whom the cost of the department could be spread.

Additionally, a large firm can often give better employee benefits than a small firm. It can afford specialized human resources personnel and its buying power may be able to purchase better deals for the employees, in everything from additional health care benefits, lower cost transit passes, to deals through bulk purchasing for discounts from local merchants, or day care services for employees. The cost of these would often be prohibitive for a small firm.

Another advantage to bigger size is the possibility of having increased specialization within IP. A small firm can of course specialize in patents for one field of technology, or in trademark prosecution. or in litigation. However, such specialization restricts the type of clients, and requires that clients whose needs go beyond the bounds of the firm's specialty must be handed off to other specialists. Many small firms therefore try to be generalists, so that they can meet all of their clients' IP needs. However, being a generalist means that you have to keep up with developments in all areas of IP. A bigger firm can have people specializing in the different branches. It can attract a larger variety of clients, and have an easier time serving them.

These advantages of bigness are available to either boutiques or multi-disciplinary firms. However, multi-disciplinary firms have the potential of getting much larger than boutiques. Most very large boutiques, even those which are multi-national, do not have over about 200 professionals. Most have considerably fewer. There are at least 10 multi-disciplinary firms with 2,000 lawyers or more, often spread in many offices around the world. Therefore, sheer size often gives the multi-disciplinary firm an advantage over the boutique, in purchasing expensive systems, conducting human resources, and exercising purchasing power.

There is of course one big disadvantage to being big. This is the question of conflicts.

Conflicts are a difficult topic to discuss at an international gathering, because different countries look at conflicts in different ways. Also, IP boutiques tend to look at conflicts differently than multi-disciplinary firms. Because of this, I will make only some general comments on conflicts.

The first comment is that there is always a tension between being able to develop enough expertise to be of use in a particular subject matter and incurring conflicts by working for more than one company in the subject matter. Often, the conflict rules in a jurisdiction reflect how many available firms there are. In a jurisdiction where there are only a very few firms, the conflict rules may be more relaxed than in a jurisdiction with many available firms.

Secondly, sometimes certain companies in an industry have enough in common so that they do not mind the same firm acting for several of them. For example, in the pharmaceutical industry, firms often represent either brand name pharmaceutical companies or generic pharmaceutical companies.[2] However, there are very few places where the same firms represent both generic and brand name companies, without at least some of the clients being uncomfortable.

In most jurisdictions, the biggest money-maker in intellectual property is patent and/or trademark prosecution. However, in a very few jurisdictions, the big money-maker is litigation. This is particularly the case in the United States, where the procedure gives rise to numerous and expensive depositions and motions before a case is reached for trial.

One consequence of the importance of litigation to U.S. firms is that some U.S. firms are very selective about the prosecution work they take. This is because they do not want to receive a small amount of prosecution work which will prevent them from acting in a later, much more profitable, piece of litigation. There are some U.S. firms which will not even take an associate patent application unless this is cleared by its conflicts committee.

There are of course recognized ways of dealing with conflicts, such as by getting a waiver from the client at the time an application is filed, that will permit the firm to act in later cases which might otherwise be conflicts, or by forming barriers to the flow of information[3]

[2] Generic companies typically manufacture others patented products under compulsory license whereas the brand name companies do not.
[3] So-called "Chinese walls"

between different parts of the firm so that client information is not passed inadvertently. However, the problem of conflicts remains, and the problem of conflicts gets worse as a firm (boutique or multi-disciplinary) gets bigger.

BOUTIQUES VERSUS MULTI-DISCIPLINARY FIRMS

Intuitively, one might think that there is no real difference between boutiques and multi-disciplinary firms except the work that they do. However, that difference has a major effect on the structure of the firms. I will discuss differences in billing, marketing, computer systems and the handling of conflicts.

(a) Billing

The billing systems of a boutique and of a general law firm are often quite different. General firms tend to bill everything (or almost everything) in terms of hours. Boutique firms often bill fixed amounts at different stages of a file. Also, a patent or trade-mark prosecution practice tends to generate many small bills. Many general practice firms accrue time and bill the client only once monthly. The bills therefore do not necessarily go out with the reports on the work done. This means that there are fewer bills, and therefore a lesser accounting cost, but the bills are received by the client at a different time from the report on the work. This can be very frustrating if the client is a foreign associate, because that associate then has to retrieve the file once to report the work, and a second time to bill it.

As a result, when a general firm and a IP firm mate, there is consternation in the billing departments of both. Each has to re-do billing procedures to accommodate the needs of the other.

Another related problem is how to assess the work of a person who does mostly prosecution. In a general firm, with lawyers doing many different types of work, the common denominator

by which the performance of individual lawyers is assessed is the number of hours they have billed.

In a typical prosecution practice, a lot of the routine work is not professional, but instead is done by clerical personnel. Further, it is not billed in terms of the number of hours of these personnel, but rather on a flat-fee per file. Also, one can probably make a much larger return per hour doing simple amendments than writing a complicated patent application, but the patent applications must be written before the amendment work is generated. This leads to interesting discussions and some head scratching when the general firm tries to assess the contribution of its patent and trade-mark prosecution people.

Similarly, the payables system is often more complicated in IP firms than in general law firms. A general firm which deals only with domestic clients (not a multi-jurisdictional firm) tends to have few transactions in foreign currency, whereas an IP boutique has many such transactions. Therefore, the IP boutique's payables and receivables function is usually more sophisticated than a similar function in a general firm of the same size. Again, when a boutique and a general firm merge, the added work in dealing with payables and receivables is an unpleasant surprise to the administrators of the general firm.

(b) Marketing and client retention

In an IP boutique, the idea that one must travel to international meetings is taken for granted. In a general firm, particularly a small one with a local focus, the other Partners may be involved mostly in local things, like real estate or small company law. The trips that they have are usually to a neighbouring town for a local conference. International trips (and even more, transatlantic trips) are considered suspiciously by them as being something that could not possibly have a business benefit.

On the other hand, a general firm will do marketing in their local area to a wider group of people than an IP firm will. Further, as they have more clients actually visiting, usually they

will have a higher standard of reception facilities, conference rooms, and the like. These provide amenities which benefit the IP portion of the firm, even though an IP boutique would probably not wish to spend the money for them.

One big marketing advantage that a multi-disciplinary practice has is internal referral of clients. A client who does corporate work with the firm may have a patent or trademark problem. If so, there can be an immediate and automatic internal referral. This can be a reliable source of work for the IP practice of the firm. Further, since the firm is already doing work for that client, the client would already have been cleared from a conflict point of view before the general work was done. This does not ensure always that there will be no conflict when taking on the IP work, but it reduces the chance of a conflict.

One other advantage of being in a multi-disciplinary firm is the possibility of instant advice on non-IP matters. In dealing with a patent or trade-mark file, the patent agent or lawyer may run into problems such as insolvency, or ownership of an invention. In a boutique without the expertise to handle these things, the question will arise as to whether it is necessary to refer the client out to another law firm, with the added cost and delay that this involves. Often in a multi-disciplinary law firm, there is expertise in such matters in the same office. The IP person can then get an answer quickly at minimal cost (or sometimes no cost) to the client.

However, not everything favours the multi-disciplinary firm. The IP component of a general firm has one serious disadvantage in obtaining local IP work. A general law firm without its own IP department is unlikely to refer work to another general law firm with an IP department. There is too much danger that, if the client likes the IP work, the client may decide to switch all of its legal work to the law firm with the IP department. As a result, most general law firms without their own IP departments use boutiques for work that they have to refer out of their office. Many also have one or two IP practitioners who do transactional work (but not prosecution), so that the transactional IP work does not need to be sent outside.

(c) Computer systems

I said above that one of the advantages of size is that one can have upgraded computer and information technology services. However, this does not mean that a multi-disciplinary firm has a necessary advantage over a boutique. Usually, the information technology professionals in a general firm are often not familiar with the particular problems of an IP practice, such as maintenance fees and due date diary systems. As a result, the IP specific information technology needs are handled by purchased program packages or systems which are separate from the general firm-wide systems. The information technology people within the firm have not worked on them and do not know how to modify them. Therefore, instead of getting better service from the computer and information technology professionals than in a boutique, IP practitioners in a general firm sometimes get worse service on their specialized systems.

(d) Conflicts

As mentioned above, when you get work from somebody who is already a client of the firm, there has already been some screening for conflict possibilities. Therefore, such clients are less likely to get into conflicts than are ones coming in off the street. However, a multi-disciplinary firm brings with it a much broader scope for potential conflicts. For example, if your firm does pension work for a company, you probably would be prevented from suing that company on a patent, even if the legal conflict rules of your jurisdiction permit it. There is a "business conflict" aspect to this. If you sue the company on a patent, it may well withdraw its pension work from your firm, so that your firm loses more than it gains. An even more worrisome type of business conflict occurs when you do not actually do work for a company that you would like to sue, but where another branch of the firm (for example, pensions or corporate) has been trying to get work from that client. Also, when the firm has a very large client, that client may consider it a "business conflict" if you sue one of their suppliers or major customers.

Therefore, the IP boutique which merges with a general law firm may find that there are many more potential conflicts than internal business referrals.

MULTI-NATIONAL FIRMS

The number of multi-national firms has developed greatly in the past few years. Most of the multi-national firms are also multi-disciplinary but there are many multi-national boutiques, particularly in Europe and Asia. European multi-national boutiques often arise because a firm outside Germany wants to have representation at the European Patent Office, or a firm outside Spain wants representation in Alicante for better dealing with OHIM . However, other boutique linkages also occur.[4]

Generally, multi-jurisdictional firms say that they open their offices based on the needs of their clients. If the firm has a large multi-national client it may open offices in places where that client has major offices, so better to serve that client. It is also possible, however, that some degree of firm prestige is involved as well.

Opening an office outside one's own jurisdiction does give rise to a number of problems. One is compensation. There may be partners in several jurisdictions which have different living standards and different expectations. Should compensation be tailored to the higher cost of living in some offices, or should it be based only on productivity. In firms having offices in different currency areas, there is a further problem. Exchange rates may fluctuate, making it difficult even to determine who is most productive. These factors give rise to a number of different models for sharing of profits and paying compensation. They also mean that management time has to be given to these issues, which reduces the efficiencies that the multi-jurisdictional firm was supposed to provide.

[4] For example, Marks & Clerk, which was previously largely in England, has recently announced an office in France.

For multi-jurisdictional firms who do prosecution, another danger occurs. When they have an office in a jurisdiction, this deters other firms in that jurisdiction from sending work to the offices in other jurisdictions of that multi-jurisdictional firm. Sending them work is viewed as helping a competitor. Local firms are concerned that, if they use the multi-jurisdictional firm, then their local clients may be tempted to go directly to the local office of that firm in the future.

PREDICTIONS FOR THE FUTURE

Although multi-disciplinary and multi-jurisdictional firms are on the increase, I think that there will always be a place for the small IP boutique.

Patent and trade-mark prosecution requires contact with the client and is essentially local from that point of view, even though applications may eventually be filed across the world. A small firm that knows the client's industry well gives good value to the client and, because it is small, is less likely to be disqualified by conflicts.

That said, I think that the move of boutiques to multi-disciplinary firms is likely to continue. One thing that is driving this is litigation. The average boutique is not as well set up for litigation as is a large general firm. Also, large clients often like to have as few legal service providers as possible, and this encourages boutiques to join with a multi-disciplinary firm.

I think there comes a point, however, where the economies of scale become less important than the potential conflicts. It therefore seems to me that unless the multi-disciplinary firm is strictly limited to a few large clients and has offices where they serve those clients, there is not much advantage to having a very large multi-disciplinary firm for the practice of IP prosecution. In many cases, the multi-disciplinary firm is very eager to get an IP prosecution group as this rounds out the services that it can offer to its clients. However, the advantages to the IP prosecution people are not so clear. I think, therefore, that in some of the multi-disciplinary firms which have recently acquired IP practices, the IP practitioners may not be

too happy and the marriage may eventually fall apart. In firms which have had IP practices for a long time, an understanding of the special features of such practices is more likely to have occurred, and that the mergers may well be more stable.

As to multi-jurisdictional firms, I think this trend is just in its infancy, and that many more such mergers will occur. This follows from the wider trends in the economy to globalism and multi-national companies. However, as with multi-disciplinary firms, people within the multi-jurisdictional firms will eventually start to question the supposed advantages from them ,and I expect that at least some which are currently being formed will not survive. The ones that do survive will be the ones where there is a clear client justification for the multi-jurisdictional aspect. Such firms will do very well amidst the wreckage of other failed expansions and mergers.