OF COUNSEL
The Legal Practice and Management Report

ASPEN PUBLISHERS

Electronically reprinted from Vol. 30 • No. 2 • February 2011

Bruce Jeffer's firm seems to be a midsize practice built to last. It's a particularly relevant story now as we wait to see if the gains that such firms made during the downturn outlast the recovery. The odds may favor firms like Jeffer Mangels that were strong pre-recession and remain debt-free today. Hildebrandt's been predicting our demise for years, quips Jeffer, but the reports are apparently exaggerated...

Of Counsel Interview . . .

Bruce Jeffer Leads a Firm That's Regional, Midsized, Diversified, Debt-Free, and Had Its Best Year Ever

It's no secret that during the Great Recession midsized regional firms fared better, generally speaking, than the megafirms. Their success, generated, in part, from their ability to operate efficiently and keep rates low and attractive to budget-tightening clients, stands in stark contrast to the environment five or six years ago when so many such firms merged with larger partnerships or went belly up.

Still, while attorneys at many regional firms of, say, 175 attorneys or fewer can proclaim that they've held their ground or done well, not many can say that they're flourishing in this downturn.

Lawyers at Los Angeles's Jeffer Mangels Butler & Mitchell can. In fact, the firm, which is and always has been debt-free, had its best year ever in 2010. "We all worked very hard last year from the staff to the associates, the partners and the people on the management committee," says partner Stanley Gibson, adding that the leadership of managing partner Bruce Jeffer fosters hard work, success, and teamwork.

"Bruce's door's always open to anyone," Gibson says. "He builds consensus very well and listens to all the partners. He's built deep friendships and those relationships make up our foundation. He's led us well and has helped construct a pattern of success."

Of Counsel recently talked with Jeffer about his career, his management philosophy, the firm's ability to thrive during the recession, marketing, and other topics. The following is that excerpted interview.

Of Counsel: Bruce, I'd like to take you back a few years for this first question. Why did you choose to become a lawyer?

Bruce Jeffer: Well, we're going to have to go back more than a few years [he chuckles]. I wish it were just a few. When I graduated from college I was really not sure whether I wanted to go to law school or business school. I met with both sets of people and was set to go to either Harvard Law School or Harvard Business School. The business school, at that time, preferred that people sit out a year to work, and they were also working on a joint [business-law] program. So it was a coin toss. I thought that I'd go to law school and then business school or get a joint degree and then practice law and later go into business.

I went to law school, and for three years they were telling me they were working on a joint program, so I took courses that would be acceptable for the joint program. But it never materialized. I had waited long enough and thought that in couple of years I'd come back if they had it (and they did in a couple of years) and get the joint degree. By that time, though, I was launched into something else. With my linear personality, I couldn't get off that track. I was successful and there wasn't a need to do it [get the dual degree]; sometimes I regret it. Occasionally, I say, "What if?"

OC: Of course, you've had an incredible career as a lawyer. What did you do right after law school?

BJ: I was one of the assistants for the mayor of New York, John Lindsay. There were three of us who served both in the mayor's office and the office of the super-administrator, and we were the liaisons between them. It was interesting and taught me valuable lessons, but I dislike politics. It was too political for me, with a lot of ambitious people trying to one-up each other.

Thrust into Oil & Gas

OC: Then you joined the firm of Nossaman [Waters, Scott, Krueger & Riordan, now just Nossaman].

BJ: Yes, I got a job out here [California] when I left New York. My greatest expertise was in the real estate area; my family was in real estate and I studied a lot in this area in school. But when I got there in 1968 and reported to the real estate department, they asked me what I knew about oil and gas. I said, "Nothing." They said, "Would you like to do it?" I said, "Not really." They said, "Do you want a job?" I thought about that for about three seconds and said, "Yes, I do want a job." And they said, "Well you're now in oil and gas. Welcome."

It was very positive for me because I got lucky, and a lot of life is just being lucky. I got in on the early part of what became the oil embargo in the early '70s when oil and gas was the hottest commodity in the world. I wound up doing oil and gas deals, the corporate side of that area. I did get back to real estate but not as much as I wanted. But I learned one of the most important rules in life: You don't get to call your game all the time; you get to play in the game you got, so learn the rules, work hard, and play well.

OC: Then you went to McKenna & Fitting and then Manatt [Phelps & Phillips]. When did you start your own firm?

BJ: In 1981; we've been doing this 30 years this year.

OC: As I understand it, despite the recession, your firm has done quite well. You obviously didn't have to merge like a lot of midsized firms did, you didn't have to lay off a lot of people, and your profits are up. How did you manage to do this?

BJ: People do ask me this. We are really a *sui generis*, a thing of itself, something that's unique in the sense that many people think that [the firm's model and size] doesn't really work. But it does work; you just have to be smart. Regional firms have strengths and they have weaknesses. Most of the people who [manage] regional firms focus into a narrow niche. I do it a different way because I believe that you can, that it's more fun, and that it's safer.

We have a full-service firm but it's regional. We do specialties within the broader practice. We only practice in areas that we can compete at a reasonably high level. In other words, we do real estate but only what we can command premium rates for. So we do hospitality, hotels, and we have one of the best such practices in the country. We do land use and the government stuff, and we have one of the best practices in California, but we don't try to do all real estate. And we've moved away from commodity work.

In real estate, for example, there's no sense doing commercial office leases because all you have to do is walk to the street corner and three of your friends will slit your throat for the work and cut your rates. They'll do it again and again because they need market share. They need work. What they end up doing is driving themselves into an unprofitable position. So you have to give up on things that are commodity work and find things in which you can be as good as anybody. Because we can do this, we ask for decent rates and get them and provide service at the highest level.

Proving Hildebrandt Wrong

OC: Several years ago, we heard a lot about the supposed demise of the midsized firm. Many people were ringing the death knell for such firms. As it turned out, a lot of midsized firms, including yours, have done quite well during the economic downturn.

BJ: [Brad] Hildebrandt [the law firm consultant] said that you couldn't survive if you were a firm like ours. He buried me at least a half a dozen times. The Hildebrandt people said that you had to get bigger, you had to staff up. They even admitted that they were wrong. They've said, "OK we've overstated it. You can do it. You can be more nimble."

What we have effectively done is something that you can do but you have to have the discipline to do it. That is, we run an old-fashioned business where we provide services at which we're good and can compete, and avoid things that we may be good at but where we can't compete.

OC: So the Hildebrandt people said that they were wrong?

BJ: Yes, to their credit they did come out with an article in which they said, "We may have been premature about the death of the midsized, regional firm." In the business environment of a few years ago, everyone saw gloom and doom.

Now what's happened over the past several years is that being able to control overhead expenses has become even more critical. It used to be that people thought that if you didn't have leverage you couldn't make money. Well as it turns out, in a downturn you can have too much leverage. That's what hurt a lot of the big firms. They were unwilling to retrench fast enough to deal with the problems.

OC: I read that many years ago you had considered expanding and growing into a national firm but that you decided not to. What was your thinking in deciding not to go national?

BJ: In the early '80s, within the first three or four years after founding the firm, I was very friendly with a bunch of other people who were running firms. I remember talking to some of the people at Latham [& Watkins], and they wanted to go national and they asked if I wanted to join them in doing it. I thought about it and decided that for me it was not the right answer. For them, obviously it was. And it's worked well for them; they're one of the best firms around.

But the price you have to pay is that you have to corporatize your partnership. You have to give up the semblance of having good relationships with your partners. That didn't appeal to me. I felt that I could make basically as much money and have a lot more autonomy in the sense that you can deal with the people. If I wanted to run a corporation, I'd go into business and run a big company. For me, the best part of the practice over the years has been all the great partners that I've had and continue to have and the great clients. Just to grow a firm and have 1,000 people with 300 or 400 partners would not excite me.

OC: You had mentioned that one reason why Jeffer Mangels has done so well during the recession is that you have a diversified practice. What else has allowed your firm to flourish during the downturn?

BJ: Yes, most of the firms that get in trouble either reach for the stars or are continuously shifting their modus operandi.

But I feel that it's like investing: If you keep a steady profile, yes there will be some issues, but if you have a structure that's built right, it will weather it. You won't get through if you try to be something you're not. A lot of the firms that failed tried to morph into something different. They got taken with the fact that they were making a lot of money in the up times and never thought about the down times. So they got creamed.

Our business model is very simple. We don't have any debt; we've never had any debt. We don't borrow in any way, shape, or form. Most law firms talk about running a business, but they don't distinguish between a profit business and a cash-flow business, where the cash flow simply keeps you going. What they try to do is create a number that they want to hit. In the old days, let's say, they told people that they'd pay them $100,000. The year stayed open until they had $100,000. I remember one firm kept the year open until April or May so it could make the number. The firm fudged.

Today they do it differently, but they still fudge. [He offers a different scenario.] In effect, law firms today are borrowing from themselves. That is a dangerous thing because, if you understand what happened in the real estate market, you know that people believed that the value of real estate never went down. So you could basically put nothing down, leverage and just keep rolling it over. As long as the receivables are good, as long as business is going up and not sideways or down, you can cover your bets. But you are borrowing. You're hocking your future to the present to look good, to make people believe that you're doing better than you're actually doing. Essentially, some firms take money from the next year to pay people for the past year.

Never a Down Year

OC: And you've never done that?

BJ: Never. We even-up in December. Every one of my people is paid. They take it home. We start anew. We don't borrow any money because we don't have any debt. We actually prepay every year, so we're ahead of the curve.

We may see a couple more years of this downturn, and if we do you're going to see a lot more people at law firms who say, "Our business is the same or it's only off a little." But what they haven't told you is that the quality of their business has changed dramatically. That is, to keep up the levels to support their overhead, they're taking bigger risks on clients who they shouldn't be taking risks on. They're doing it simply to keep the machine going, to keep up the appearance that they're profitable. In these times, everything's comparative. Everyone's concerned about *The American Lawyer* [the *AmLaw* rankings of profitability, etc.].

Our model, on the other hand, is simple and it works; it has for 30 years. We've never had a down year in the whole history of the firm. And this past year was our best year, partly because we're not over-leveraged.

OC: That's amazing. Earlier you suggested that what you like most about the legal profession are the people you work with and those you serve. What do you like least?

BJ: Yes, I come in in the morning so that I can see the people I love working with. And yes, I've been fortunate to have great clients. I've never taken a client that I didn't want to take on. This conservative, debt-free approach I've told you about has allowed me to take only the clients I want. If you find yourself in a situation where you're in debt, you have to take clients you might not like to feed the beast, if you will. I don't do that. Never have.

OK so what I don't like. Early in my career when I finished a good assignment, I'd invariably get a call or a letter from the client thanking me, saying, "It was great to work with you. Let's do it again." There was a sense of camaraderie, a sense that you were truly a service partner to them. Today, simply because of the costs, I think a lot of the joy of the relationship has come out. Costs are high and people expect to make a lot of money and it's a different profession. Clients are on edge because their profitability is at risk. There's more strain.

OC: Let's talk a little about marketing. Of course, your firm's reputation attracts a lot of clients, but what else do you all do on the marketing front? What's your thinking on that?

BJ: As you probably know, most lawyers at law firms are extraordinarily territorial and proprietary. Whatever you say about cross-selling and working together is purely babble, at most firms. Most lawyers, if they're very successful, are not only jealous they're almost spiteful of your trying to encroach upon their clients. They'd rather not have their partners involved with a client because then their importance is diminished. They don't really want to have shared relationships, even if it makes them money.

At our firm, most of our marketing is within a system and a partnership relationship that is not only supportive of each other but our lawyers are required to work together. And the people who don't like to work together generally wind up leaving. But the people who stay are good cross-marketers. Some of the people in our firm are some of the best marketers in the business. We encourage it.

One story that hasn't been told but should be is that a lot of lawyers are losing the skills to market. Why? Because the big firms feed them. They're institutionalized to the point that not only do they *not* want them going out looking for clients, small clients, but they discourage it. So they lose all their instincts for marketing because the thrust of these bigger firms is that they can only handle bigger clients or institutionalized clients. They don't want to spend the time growing smaller clients. Most of these guys think that marketing is doing RFPs or hiring some ex-senator to go in and promise something that he probably shouldn't be promising. It's art that's being lost rapidly.

Strategic Hiring

OC: Finally, Bruce, as you look to the future, the rest of 2011 and beyond, do you expect Jeffer Mangels to grow? Will you remain steady? What do you think the future holds?

BJ: That's a good question. There's an article by one of my competitors. I think well of the firm and well of the person, but he wrote that he's stockpiling people in the downturn—and overpaying, by the way, because that's the only way to do it—because he wants to catch the upturn. I think he's got a good theory, although his timing may be wrong. It depends on 2011 and '12 and how good or bad they'll be. I'm not sure they'll be that good.

But I am acquiring people, in areas that will be of some value even in a down economy. We'll grow, and I think we'll continue to do well. ■

—Steven T. Taylor