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Ancillary Businesses Broaden Scope Of Law Firms

By Syndie Eardly

Corporate consulting groups spun off from law firms are not only filling a necessary service niche for Ohio companies, but providing a broader financial base that may help law firms become recession proof, according to the attorneys who manage them.

More importantly, the new businesses are challenging and just plain "fun" for attorneys who are interested in new ventures, as the consulting work provides an opportunity for them to broaden their influence in the business world.

For Brian Powers who heads up Baker & Hostetler's new employee relations venture, BakerER, the new assignment was a great fit for his career goals.

"I actually always knew that I wanted to end up in business management," Powers said, even though he chose law school over an MBA program after completing his under graduate work in business management. After working for several years with Baker & Hostetler right out of law school, Powers went on to pursue opportunities in the business world. When Baker & Hostetler started thinking about launching an ancillary business, they called in Powers.

"They knew me as a person who had experience running businesses and doing business plans and asked me to come in as a consultant and analyze all of these ideas and decide if ancillary businesses in general were a good idea and, if they were, where in particular they should start," Powers said.

Finding The Niche

According to Leo Keevican Jr. of Doepken, Keevican & Weiss in Cleveland and James McGraw with Keating, Muething & Klekamp's KMK Consulting in Cincinnati, finding and filling a niche is what law firm ancillary businesses are all about.

Keevican, who is one of the grandfathers of law firm ancillary businesses in Ohio, started his Renaissance Partners in the 1980s out of DKW's home office in Pittsburgh. "We put that together in the '80s because we wanted to better serve the client base," Keevican said. "We felt that Renaissance Partners, which was a one-stop shop for management leveraged buyouts, would do that."

Renaissance Partners was inspired by the business climate of the time, according to Keevican, and aptly filled an expanding niche.

"If you go back to the mid-80s until the slow down of M&A in the early 90s, you had a number of corporations that were doing, frankly, what they are doing today, they were getting back to their core divisions," Keevican explained. He said the companies would try to divest themselves of their unprofitable subsidiaries but would often end up with one or two that wouldn't sell.

"What we recognized is that we could provide a service to the client base, by saying to them 'You are now faced with the choice of either liquidating the company or just shutting it down. You can't operate it, you weren't able to sell it,'" Keevican said. "What we did is provide an option — a potential for a management leveraged buyout."

For McGraw, who set up KMK consulting three years ago with partner Mike Burke, the transition to the consulting firm dovetailed with Keating, Muething & Klekamp's business focus as well.

"We were doing so much consulting that we knew we had an opportunity to build and grow a company," McGraw said. "It was the issue of what is the best model to accelerate the whole idea of consulting. It's a much more successful effective model to do it as a pure consulting company as opposed to doing it when everyone just thinks you're a lawyer and they just want to pay you for how many hours you put on a project rather than the value that you bring to a particular deal."

McGraw is now on his own, as president and CEO of KMK consulting, as his long-time friend and partner, Mike Burke, passed away last year.

"Mike Burke was one of the most prominent lawyers in this town," McGraw noted. "He was really the visionary behind the consulting company and now that he is gone he has left it to me to take care of."

McGraw, who was with another law firm before joining Keating, Muething & Klekamp, said he and Burke had discussed the concept for some time before venturing into the ancillary business arena. From their humble beginnings with just McGraw and Burke on staff, the company has grown to 12 full time employees plus a stable of 20 part time consultants available for specific assignments in various areas of expertise.

Their continued success led KMK Consulting to recently open a new office in Columbus with Joe Robertson at the helm, a partnership that McGraw openly praises.

"I do a lot of economic development work nationally and Joe Robertson is considered one of the real deans of business and economic development," McGraw said.

Robertson was the director of the Ohio Department of Development for Gov. Bob Taft and was the assistant director for Gov. Voinovich before that. McGraw said that Robertson's excellent reputation was well-earned in the 1990s when Ohio was considered one of the most pro-business and pro-growth states in the country.

"Ohio was in such an envious position relative to their programs and policies in terms of business growth that about 44 states around the country modeled their incentive policies after Ohio's, which Joe Robertson was instrumental in creating," McGraw said. "That gives us a big national presence in terms of being able to work with companies anywhere in the country in terms of how they want to grow and why and where and what incentives there might be available from the government to do that."

For Baker & Hostetler, employee relations represented a natural outgrowth of their national labor and employment law group, a heritage practice of the firm, according to Powers, and the business was very much client driven.

"Clients were requesting services beyond what lawyers were able to provide them," Powers said. "Most good lawyers are strategic counselors and not just legal technicians. All good lawyers have a counseling component to what they do. This is just taking it one step further and realizing that there are people who are not lawyers who can do certain aspects of that better."

While Powers said that BakerER provides a broader financial base for Baker & Hostetler and, more importantly, extends its brand reputation, he noted that Baker & Hostetler generally is not affected by business cycles.

"Generally large multi-location, multi-practice firms like Baker & Hostetler tend to even out the cycles of business on their own," Powers said.

National Trend

Though ancillary businesses are still few and far between among Ohio's law firms, it is a national trend that continues to grow. Currently, about 10 percent of the top 250 law firms in the country have ancillary businesses of some kind.

Powers, who researched ancillary businesses across the country, came across a host of businesses covering a wide range of expertise.

Employment law training, HR management, benefits consulting, real estate, health care management, IT consulting, ADA compliance, government relations, escrow structuring, political risk analysis, and business restructuring are just a few of the dozens of ancillary businesses currently owned by law firms.

Ohio is just scratching the surface.

DKW offers the widest range of services including DKW Capital Markets, an investment banking firm; FiCap Strategic Partners, consulting services for mid-range financial institutions; Concord Health Partners, consultants to the health care industry; and most recently, DKW Value Recovery, offering interim crisis management, turnaround advisory management, bankruptcy advisory managing and information technology services to troubled middle-market companies.

KMK focuses its efforts in economic development and community initiatives, executive and business solutions, business formation and government affairs.

BakerER provides strategic employee relations consulting to clients facing workplace issues due to reorganizations, mergers, acquisitions, IPO activities, reductions in workforce and organizational cost-cutting efforts. Since many of the issues that arise may be technology related, BakerER combines technology and experienced professionals to address the myriad problems faced by companies in transition.



Separate Books

While the spin-off companies are owned by the law firms, Powers noted that the businesses are kept very separate. "It is entirely a separate staff and there are no attorneys here, other than myself, and I refer to myself as a recovering attorney," Powers quipped.

Keevican agreed that it is critical not only to keep the books separate, which is required, but to make sure it is separate in the client's mind as well.

"First and foremost, you have to have total and complete disclosure," Keevican emphasized. "We explain to the client that it is a wholly-owned subsidiary of the law firm. We are very careful in terms of conflict. We very carefully segregate all of the information. Anything within the law firm, stays exclusively within the law firm. There is no sharing of information. We've been doing this for 17 or 18 years so we think we are getting pretty good at it."

Future Ventures

According to McGraw, KMK Consulting is not likely to expand into other areas in the near future.

"We really like where we are," McGraw said. "Half of the company is focused on government affairs and economic development and the other half is focused on pure management types of strategic consulting and helping clients do deals relative to M&A and restructuring."

For areas they do not address, KMK has set up strategic alliances with other firms who can step in quickly to help a client with issues such as human resources.

The focus of Doepken, Keevican & Weiss has always been in middle market companies and Keevican said he continues to find areas in which the middle market companies are not well served by certain consulting businesses. One area in particular is in human resources.

"There are some wonderful large companies who do HR consulting for Fortune 500 companies," Keevican said. "What we have experienced from our clients is that there is a dearth of consultants that provide that same service to the middle market."

Powers said he envisions Baker & Hostetler extending their presence in additional ancillary businesses in the future.

"Baker & Hostetler is a little bit unusual in that it has had, for a long time, a research and development arm called the New Products and Services Task Force," Powers said. "That group is absolutely alive and well and exploring other things."

According to Powers, the concept of ancillary businesses will continue to grow among the firms that have historically positioned themselves as counselors, not just attorneys.

"Baker & Hostetler has always been counselors at law, and have taken a very solutions-oriented approach to providing legal services," Powers stated. "In firms like that, it's much more probable that you will see that growth in ancillary businesses."