

# The value of branching out

Published 27 June 2008

**The experiment of opening offices across Brazil by various law firms in the 1990s bore mixed results. Those that carried it into the second wave are standing by the strategy, finds Rosie Cresswell**

Exporting goods from Fortaleza, in the north-east of Brazil, rather than from São Paulo's closest port, Santos, can slash shipping times to Europe and the US by up to a week.

What's more, getting Brazil's goods or commodities to Santos - Latin America's busiest port - meanwhile can be a logistical nightmare. Major routes to the port run through São Paulo's congested streets, and a rail route is yet to materialise.

Put together, these two facts make a winning case for export-dependent businesses to head up Brazil's coast and set up manufacturing plants in the north-east, within easy reach of Fortaleza.

In turn, the presence of such companies in the vicinity creates a strong argument for law firms to set up a branch there. Today four of Brazil's leading firms - Machado, Meyer, Sendacz e Opice Advogados, Siqueira Castro - Advogados, TozziniFreire Advogados and Veirano Advogados - have offices in the city.

Fortaleza is not the only place that these firms and others have regional offices. For a number of factors - client demand, a booming local industry, core practices such as litigation - some law firms find having offices across the country a profitable venture.

But not all of them. Brazilian law firms are divided over the value of branching out across the country: some find this increases profitability and enables them to offer a universal level of service to their clients. Others believe associations are sufficiently effective for the type of legal work required outside of São Paulo, Rio de Janeiro and Brasilia, and also allow them to concentrate on their core activities.

During the boom for Brazilian law firms created by the wave of privatisations in the 1990s, many of them spent the new-found extra revenue on opening regional offices, the idea being they could develop untapped business in areas of the country where legal communities were smaller and less sophisticated.

Firms headed to Belo Horizonte in Minas Gerais to target the mining sector, or Vitória, the capital and port of another resource-rich state, Espírito Santo. The southern city of Porto Alegre attracted many because of its wealthy inhabitants and businesses. Other potentially viable destinations included Recife and Salvador in the north-east.

Reasons for trying the ploy varied from firm to firm. **Siqueira Castro** followed a client to Bahia, while Veirano opened in Macaé to be close to the offshore drilling industry. Baker & McKenzie affiliate Trench, Rossi e Watanabe Advogados opened in Porto Alegre betting on extra business being brought by Mercosur, the regional trade agreement between Brazil, Argentina, Uruguay and Paraguay, while Mattos Filho, Veiga Filho, Marrey Jr e Quiroga Advogados tried an office in Salvador.

The experiment bore mixed results. Some branches took off, but others were unprofitable, leading firms to close them down.

"There was a surge of regionalisation, but not all firms participated and some have receded," says Andrew Janszky of US firm Shearman & Sterling LLP. "My suspicion is that in many cases it was not a huge success."

Leite, Tosto e Barros Advogados Associados partner Daniella Teixeira de Carvalho Tavares agrees with Janszky that, for some firms, the era of opening offices everywhere is in the past. "What happens now is those branches are closing," she says.

Leite Tosto decided to pull out of Florianopolis. Mattos Filho's Salvador office closed after a couple of years. "It was a good idea at the time, but in the long run it didn't succeed and there was no point in keeping an office there for the sake of it," says partner José Eduardo Carneiro Queiroz.

But others have enjoyed substantial success. Of the 25 full-service firms listed in the Brazilian section of LatinLawyer 250 today, a third have at least one advertised office outside the triangle of Brazil's three most important cities, from a legal perspective.

**Siqueira Castro** has steadily multiplied since its first Ceará office. "My father enshrined regionalisation in the 1990s," says partner **Carlos Fernando Siqueira Castro**. "Today we are Brazil's most regionalised law firm and we are very happy about that. We plan to open two or three offices over the next two years."

**Siqueira Castro is indeed the champion of regionalisation**, with offices in 15 state capitals. Others with significant regional networks include Demarest e Almeida Advogados, which has three regional offices and four "integrated units", while Machado Meyer, Veirano and TozziniFreire have four branches outside of Brazil's three biggest cities. A number of others have branches in places specific to a client's needs.

Regionalisation in Brazil began as an opportunistic experiment, but those firms that have withstood the initial teething problems now follow clear business plans for opening and running regional offices - and greatly increase their chances of profitability.

Veirano's Ricardo Veirano fully acknowledges that making a regional office work is not easy. After some initial trial and error, the firm is more circumspect today. "We are very happy with our core network now, but it is important to recognise that experiments can fail," he says.

Today, for example, the firm's Porto Alegre office motors along with 35 lawyers thanks to strong leadership and good business opportunities. But the firm learnt a lesson in Recife, in which it is no longer present, says Veirano: "That was the only office we opened through a merger. Mergers can work, but both cultures have to be very, very similar. The people we teamed up with are excellent, but they practice in a different area and have a different outlook."

The path to Veirano's newest office in Ribeirão Preto, in São Paulo state, was well mapped out and an example of how firms set up offices in what some refer to as the second wave of regionalisation.

"A law firm is a business," says Veirano. "We have to study the market to see if it is viable, ask ourselves how much we are willing to spend and how soon we can recover that outlay." Veirano entered Ribeirão Preto with set targets, clients, and projected figures. Two years later it is profitable.

**Siqueira Castro** also has a very strict format for its regional offices to ensure the firm's level of service is universal. When entering a new market it starts from scratch, buying a building before hiring lawyers from the area who are sent to São Paulo or Rio to learn about the firm's culture. Or it will merge with a local firm after careful consideration. Partners from the head offices are sent to oversee it for a year or two. The firm has the same colour scheme, artwork and decoration in all their offices. "This shows clients and employees that they are in the same environment," explains **Siqueira Castro**.

## Mapping the strategy



\* Key cities in which full-service law firms originating in São Paulo or Rio de Janeiro have regional offices advertised

Demarest has a similar format. It hires local talent, for their connections with the local courts and businessmen, and encourages them to spend time in the São Paulo office to understand the firm's culture.

TozziniFreire also recognises the value in local talent. "Brazil is a large country with different cultures. You have to respect that as much as possible," says founding partner José Luis Freire. "We have learnt it is better if you find a group of local lawyers rather than sending partners to start from scratch."

Also included in the business plan is the matter of lawyer remuneration and ranking. Should a partner in Recife receive the same compensation and status as one in São Paulo? Firms with regional offices have their own ways of dealing with this.

**Siqueira Castro** has national and local partners, and a national board comprised of the heads of offices, as well as local boards. "Board members and those lawyers with seniority can be invited to become national partners, as is the case with two or three per year," says Siqueira

Castro. "For external purposes they are all partners, but responsibilities differ." TozziniFreire on the other hand makes no distinction between partners.

Previous attempts - and mistakes - have given firms a keener eye for the most lucrative destinations. Veirano also attributes the short lifespan of his firm's Recife office to the city's market. "The market for big firms is not there yet," he notes.

Offices in the south and south-east, where most of the country's wealth is, seem to have a greater chance of survival. Mapping out the movements of the 25 full-service São Paulo or Rio law firms that have offices outside Brazil's three big cities (see page 17) reveals that six firms have offices in the south-east and six in the south.

Five firms have offices in the north-east, although this is where most closures have occurred. São Paulo is a very strong state with a lot of money, so four firms have chosen to open beyond the city's borders in the state's smaller towns. Similarly, Rio Grande do Sul has the highest GDP per capita of Brazil and a thriving agribusiness sector, and so, not surprisingly, five of those firms with regional offices have them in the state capital Porto Alegre. While there are strong industrial and chemical sectors in the north-east, opportunities there are more thinly spread.

But perhaps the biggest determiner of a regional office's profitability is a firm's core practices. **Siqueira Castro** sums up the legal work he believes firms can capitalise on through regional networks. "Outside of São Paulo and Rio, the most developed areas of work are litigation, consumer class actions and labour. The more sophisticated work - M&A, banking and tax law - remains in the bigger cities."

There is certainly a correlation between the type of work a firm specialises in and its reach over the country. **Siqueira Castro** and Demarest, for example, profit from their regional grasp because of their strong litigation and labour practices - lawsuits can unfold in any part of the country and having a local presence is vital. "Brazil is a huge country. You must have lawyers that know the state culture and local judges," says Siqueira Castro.

While Machado Meyer is most recognised for its banking and finance work, it also has a very strong litigation practice. The regional clout of TozziniFreire, Brazil's largest firm, is partly down to a boost to its litigation practice in 2005.

But Freire says the firm's provincial offices are kept busy with niche work too. "Our lawyers in the north-east have a lot of work connected to tourism now. In the south there is a lot of work in the pulp and paper and petrochemicals industries," he says. "Then there is the ethanol boom, which is spread all over the country. If our ethanol clients want to do M&A and due diligence work in connection with a sugar mill, it is easier for us to have an office rather than send people from São Paulo."

For those firms that corner the mid-level legal market, cities throughout Brazil can offer a regular flow of work. But everyone still conducts the more sophisticated legal work from São Paulo or Rio. The larger, more complex transactions, for which firms can charge the highest rates, have their home there, meaning that is where firms that concentrate only on big ticket M&A, financial and corporate work are best placed.

Out of the triangle of São Paulo, Rio and Brasilia, Pinheiro Neto Advogados, with its determined focus on top-end work, has never felt a strong enough need to justify opening offices elsewhere in the country. For the moment Mattos Filho doesn't have a need for offices elsewhere either, "considering our core practices, we don't need other offices," says partner José Eduardo Carneiro Queiroz.

Barbosa Müssnich & Aragão takes a similar view. "Our focus is high-end work, transactions which are national, rather than regional," says the firm's managing partner, Bruno Camara Soter da Silveira. "Everything we put into the firm supports this. We pay our lawyers more, our

offices are designed to deal with large-scale transactions."

Soter makes the example of the firm's labour practice: "Big labour firms work on lots of small cases around the country, while our labour cases concern employees at the higher end of a company."

There would be little case for Pinheiro Guimarães - Advogados, a capital markets firm, to have a regional presence either. "To have offices all over the country which are not profitable is not a good idea. If you open an office in a city, you need clients that will provide the deal flow," says Plínio Pinheiro Guimarães. Equally Souza, Cescon Avedissian, Barriou e Flesch Advogados, a transactional firm, does not need one either.

For the time being, companies seem happy to go to the lawyer rather than the other way round when it comes to big transactions. "There are industrial clients with operations in the north-east



Bruno Soter

or the south, but they don't have their headquarters there or expect you to start an office there," says Marcelo Barbosa of Vieira Rezende Barbosa e Guerreiro Advogados.

"Even those companies with headquarters in other states come to São Paulo and Rio so often there is no need to have offices elsewhere," adds Levy & Salomão Advogados' José Barreto Netto.



Alexandre Bertoldi

Lower-end work means lower rates, another reason not to be drawn to Brazil's provinces, says Alexandre Ribeiro Chequer of Tauil & Chequer - affiliated with Thompson & Knight: "It's hard to find the same standards of business that have developed in big cities such as São Paulo and Rio de Janeiro in the countryside. We chose not to focus on regional offices because it is very difficult to provide the same quality service that we provide in Rio or São Paulo due to the rates constraints we would have in such smaller cities."



Alexandre Chequer

Certainly, the value of much of the work available regionally lies in its volume. Law firms don't expect to charge the same rates for work done there. "You're not going to have the same revenues in Fortaleza as you do in São Paulo," says one lawyer. "You can charge lower rates and have more deals, but they are smaller ones."

But even those firms that remain centralised have clients requiring services in far-flung corners of Brazil at one time or another. The difference in strategy used by Brazilian firms to assist clients across the country can be loosely compared to those of international law firms.



Daniella Tavares

Clifford Chance LLP and Allen & Overy LLP, for example, have strong global footprints and Baker & McKenzie is known for rolling out offices around the world. Cravath, Swaine & Moore LLP meanwhile serves clients around the world out of its offices in New York and London, while Slaughter and May keeps its talent under one roof and works with a friendly firm network.

A similar distinction on a smaller scale can be made between leading Brazilian law firms. Veirano inherited Baker & McKenzie's taste for regionalisation - where its founder Ronaldo Veirano worked until he started his own firm in 1972. And if **Siqueira Castro**, Demarest and TozziniFreire have developed Clifford Chance's taste for a presence on the ground, then firms such as Pinheiro Neto and Mattos Filho are the Cravaths and Slaughter and Mays of Brazil.

"We rely on a large network of local correspondents, who are not associated administratively with the firm but with whom we have long-term relationships based on helping each other serve our clients better," says Pinheiro Neto's managing partner Alexandre Bertoldi.

There are a plenty of firms that share this view. Barbosa Müssnich uses "good friends". Gouvêa Vieira Advogados is "happy with local firms' legal skills and like the fact that they know the courts and officials", according to Jorge Hilário Gouvêa Vieira, while Mattos Muriel Kestener uses long-established friendly firms because "we prefer local lawyers as they know the courts and local environment," says Ubiratan Mattos. Mattos became acquainted with some of these firms while he was at Pinheiro Neto.

For individual reasons these firms do occasionally have regional outlets. Barbosa Müssnich has one in Belo Horizonte, but doesn't advertise it. Mattos Filho has one in Campinas because its lawyers go there so frequently it made more sense to have an office space and lawyers permanently based there. That isn't advertised either.

There are strong arguments for the use of associations over regional offices. Demarest, which enjoys the benefits of regional offices, recognises they do not work everywhere, hence the firm's integrated units. Associations, in their various forms, are cheaper than setting up an office, and can deal with day-to-day work. "Clients don't want to pay for one of our lawyers to fly across Brazil just to get a petition signed," says Demarest's Paulo Frank Coelho da Rocha.

"Clients prefer to deal with a limited number of law firms. If we need services in smaller cities we can work with good local firms and this has proved to be a good formula." says Chequer.

"We go to Curitiba with alliances," says Leite Tosto's Tavares. "We don't have a commitment to develop an office, we hire local lawyers for a service and pay them for it and that's it."

Alliances can also generate new work. "We exchange clients with our association firms all the time," says Levy & Salomão's Eduardo Almeida.

Advances in technology have dramatically cut the need for a physical presence across the country. "Thanks to fast-paced technological enhancements, the practice of law has changed tremendously in the last decade from the standpoint of the requirement for physical presence where your client is," says Pinheiro Neto's Bertoldi.

Demarest's Rocha illustrates this point: "So many court procedures are done digitally. If the case is in Amazonia, then we can have a local lawyer e-mail the file over, we prepare it and send it back for him to present to the court. Some states are even beginning to accept files by e-mail. It will all go digital soon."

The issue of how best to foster the best client-firm relationship when legal assistance is required where the firm does not have a presence is debated. Even firms determinedly staying in Brazil's centres of power admit this is the key problem. "Of course, nothing replaces personal contact, which is vital for a good client-firm relationship - and that will always be our priority," says Bertoldi.

It's one reason some firms value regional offices so highly. "Large companies want large law firms," says **Siqueira Castro**. "We maintain control of decisions to make sure quality is the same level throughout. If one of your clients has a major problem with its operations in the north and you are not on hand to fix it, then that could damage your relationship with the client back

in São Paulo."

"We have our own offices in what we consider to be the most important cities because we want to offer clients the same level of service," agrees Demarest's Rocha. Employee ties are stronger than those held with a correspondence firm, meaning more can be done to streamline services. TozziniFreire has a similar "one firm in all locations" policy.

Of course, all firms strive to offer their clients the best service - great consideration goes into associations. Barbosa Müssnich sends its own lawyers to its alliance firms to understand each other's cultures. Demarest has a thorough process for its integrated units.

Some firms would argue that a less successful regional office could actually jeopardise the client relationship. "It's hard to have the same standards - values and cultures are too different," says Leite Tosto's Tavares. "Which is why we keep everything corporate in São Paulo and Rio now."

"You need to be able to provide clients with the best people from the firm and they will always be in São Paulo or Rio," says Pinheiro Guimarães's Guimarães. "You are never going to send your best partners to a smaller office."

There is also the matter of what the client prefers. Brazil's biggest brewer, AmBev, has a continuous stream of litigation in labour, civil and tax matters all over the country. Its general counsel, Pedro Mariani, will always consider local law firms.

"Even if a firm has offices all over Brazil, that doesn't mean the quality of work is consistent between those offices," he explains. "We tend to choose law firms which will be most effective in any given jurisdiction. We would never have one law firm dealing with labour cases throughout Brazil unless we feel comfortable that it has the best lawyers everywhere."

His opinion is not universal. Gabriela Falcão Vieira, a partner at Leite Tosto, says her uncle has the largest law firm in Salvador. "It's a good firm, but big companies won't hire him because they prefer familiar names," she says. "Even local businessmen with sophisticated demands don't look for local lawyers."

Associations with big city firms and company preferences like AmBev's can give local law firms a big boost.

Rogério Goes of Sette Camara, Correa e Bastos Advogados Associados, based in Belo Horizonte, certainly agrees and thinks provincial firms can market themselves well on the back of such connections. "São Paulo's top law firms use big regional law firms in key states. They are well established and have competitive costs. Feeding such firms year after year leads to inevitable growth."

The strongest example of a law firm that has risen from provincial roots is Azevedo Sette Advogados, which originates from Belo Horizonte but now competes with São Paulo's and Rio's top-flight firms, although this is largely down to its own foresight than support from other firms.

The fact that Slaughter and May and Clifford Chance are both in the UK's magic circle with vastly different business models suggests that both strategies can continue happily side by side in Brazil for the time being. Whether this second, perhaps better-planned, round of regionalisation meets the same fate as the first as Brazil globalises rapidly remains to be seen.