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Slaughter and May v Clifford Chance: which is pursuing the best route?

Dominic Carman
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Slaughters has swum against the tide to emerge as clear winners in profitability.

"There is not room for more than one Slaughter and May in London," suggests David Morley, senior partner-elect at Allen & Overy. "It's a fantastic firm, but they're quite a bit smaller than us now. That brings its own challenges: they don't do the same volume of deals, they don't appear at the top of the league tables, they've got more to explain to potential clients."

After last year's record-breaking profits at all the "magic circle" firms — Allen & Overy, Clifford Chance, Freshfields Bruckhaus Deringer, and Linklaters — it was Slaughter and May that emerged as clear winners in profitability: its highest earning partners comfortably passed the £2 million-a-year mark.

"Profit per equity partner is important," Guy Morton, joint senior partner of Freshfields, says. "It's a very emotive measure of comparative performance and, over time, a reasonable proxy for quality. Our aim is to narrow the differential with Slaughters and ultimately eliminate it."

During the past decade, while its competitors were busy planting the flag from São Paulo to Shanghai, Slaughters closed down offices in New York and Singapore; its French lawyers, meanwhile, joined Bredin Prat. The only remaining offices outside London are in Brussels and Hong Kong.

Narrowing its focus exclusively to English and European Union law, Slaughter and May has formed a tight-knit relationship of "best friends" firms in the big four European economies: Bredin Prat (France), Hengeler Mueller (Germany), Bonelli Erede Pappalardo (Italy) and Uría Menendez (Spain). The five firms share space in Brussels: the names etched in the glass reception of their Square de Meeûs office are symbolic of an ever-closer relationship. But Slaughters rejects the suggestion that any merger is imminent or even on the horizon. So is this arrangement enough for Slaughters to take on the global elite — firms where lawyer numbers are destined to be ten times their own within the next decade?

Size is not the issue, argues Tim Clark, who retires as senior partner at Slaughter and May at the end of the month. “The challenge is to maintain the quality if you expand as the other magic circle firms have done,” he says.

Nigel Boardman, the firm’s star corporate dealmaker, agrees: “We are a bespoke product firm, not a commodity firm.” Slaughter and May advises 29 FTSE 100 companies, more than any domestic competitor.

The firm’s strategy provokes inevitable comment. “The future for the magic circle is international,” Morley says. “There is a limit as to how much firms can grow with a Fortress London approach.”

The Clifford Chance vision represents the antithesis of the Slaughter and May model: “We’re at the other end of the spectrum,” David Childs, the global managing partner, says. “We want to practise local law wherever we can — it’s important that partners in all offices are remunerated out of the same profit pool.” Within five years, he predicts, 75 per cent of the fee income will come from outside London.

The one-stop shops have a very powerful weapon, Clark suggests: their brand. “This helps them to appear to the outside world as having a uniformity of approach and quality that is the same as their London office. Because that’s not necessarily the case, it allows us to compete very effectively.

Morton counters by arguing that “the disadvantages of relying on a non-integrated network will become more pressing as clients become more truly international and more used to going to a single firm for multijurisdictional work”. There will not be a sudden implosion of the Slaughter and May model, he suggests, but the Freshfields model will gradually gain competitive advantage.

He may be the new kid on the block, but Chris Saul, Clark’s successor as senior partner, has heard it all before: “I remember being told ten years ago by Morgan Stanley that our approach wouldn’t work: the move was towards the one-stop shop. When you talk to people at Morgan Stanley now, they say: you were right. Our project over ten years has convinced really discerning clients.”

And what about Clifford Chance, the biggest player in the magic circle? “Our No 1 priority is developing our practice on the East Coast of the US,” Childs responds. That means Washington as well as New York. The point is echoed by Morley: “All the leading US law firms know that firms like us, Freshfields and Linklaters would be interested in talking about merger. But they are not interested because they have a different business model, what you might call: Fortress New York.”

As long as Cravath, Davis Polk, Simpson Thacher, Sullivan & Cromwell and Wachtell Lipton focus mostly (or entirely) on practising US law, Saul believes that Slaughters maintains a clear advantage: “It allows us to work with all the leading US firms and other top-notch firms worldwide, which our competitors cannot.” And if that dynamic changes — via the credit crunch or top-flight transatlantic mergers — it will make things more difficult at Bunhill Row. Saul and his Slaughter and May cohorts seem prepared for the challenge.