



END OF THE EARTH

BRAZIL, ROME
NEW JERSEY, LAKE ONTARIO
SHREVEPORT, NIGERIA, KIEV
PIKES PEAK, OAKLAND AND
EVERYPLACE ELSE.

Death of a golden age?

2008 saw the end of two decades of prosperity for lawyers. So where does that leave them now? Tony Williams reports

The period from the mid-1980s until 2008 was a truly spectacular period for many law firms. Revenue and profits rose by 10% or more annually. Any downturns were short lived and afterwards an upwards trajectory re-established. A recent Jomati Consultants report – *After the golden age: the new legal era* – identifies that period as a golden age for lawyers and considers how they will come to terms with the new and very different environment that prevails following the current downturn.

All change

A number of key factors have changed:

- **Revenue and profit growth can no longer be assumed.**
The UK is now a mature market. For firms to grow both their revenue and profitability they need a very compelling offering and to be able to take work from other law firms. A firm not managing this will find other firms taking work from them.
- **Clients have finally realised that if they spend a significant amount in legal fees they have buying power.**
They are using it, not just because they can but because if the general counsel is not able to control and preferably reduce his external legal spend, his job is in jeopardy.
- **Above inflation increases in hourly rates are now a thing of the past.**
Furthermore, the use of fixed fees and portfolio fees is becoming common.
- **The classic law firm model is being reconsidered.**
Firms are considering how many trainees they need, how to use contract lawyers and paralegals and the extent to which legal work can be sent to lower cost centres either in the UK or abroad.
- **Partners are not immune.**
Until relatively recently an equity partnership position was seen as a job for life. No more. Firms are being increasingly clear as to what they expect from a partner and actively reviewing partner performance. Partner de-equitisation and exits are increasingly normal. Indeed, it is almost considered best practice for a firm to “prune” a few percent of its partners every year.
- **Cost of sales is increasing.**
In the past, law firms had no concept of the costs of getting and keeping a new client. Now serious effort needs to be invested in first developing, and then maintaining, a client relationship. Clients expect their lawyers to invest non-chargeable time in getting to know them and their business and in proactively helping the client. This takes time but also a fundamentally different approach to the service most lawyers have given to their clients.
- **Technology is getting real.**
In many ways in the past, technology was used to speed up production or for back-office purposes. Now it is central to the delivery of a cost-effective service.

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This includes intelligent drafting tools, project management programmes, just-in-time training, client information systems, transparent billing information and financial diagnostics to learn where time was spent and how the product can be produced quicker and cheaper next time. This may require significant additional investment but the client may demand that much of the saving is passed onto them.

- **New competitors.**
The first ABSs will soon be authorised by the Solicitors Regulation Authority. About 50 organisations have applications pending. Although much of the focus may, initially, be at the retail level it is unlikely to remain there. Innovative, compelling and disruptive new models for the delivery of legal services will emerge. Some will fail, others will succeed, but the market will change.

Coming of age

With such a daunting array of changes, one reaction may be denial or a nostalgic yearning for the good old days. But this change need not be negative. Other industries have faced these sorts of challenges over the past ten years whether they be component suppliers to the motor industry, food suppliers to the major supermarkets or clothes suppliers to the leading fashion retailers. They have faced significant price deflation (even while their own costs have been rising), a requirement to innovate and a need to keep close to their major clients. Accordingly, what is happening in the legal sector could be seen as a coming of age.

The more far-sighted firms will embrace the opportunities this change produces. Some will merge to achieve critical mass and to provide the depth and breadth of service offering their clients expect. Others will completely re-engineer their production methods to provide the client with the quality of service at a price they find acceptable while achieving a credible return for the firm's owners. A few firms will pursue international expansion while others will develop particular niches where they can establish a dominant position.

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