



The good news: recovery is one year closer

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As we stumble towards the end of 2009 we can take solace in the fact that we are a year nearer to economic recovery and the stabilisation of law firm revenues and profits.

So what were the 10 highlights - or lowlights - of 2009?

We relearnt that law firm profits can go down as well as up. The profession has had a great run but we have no preordained right to rising incomes. Indeed, profits go up on the escalator and down in the lift.

Clients finally realised that they have buying power and started to use it - don't expect this to get any easier any time soon. Firms are having to come to terms with new pricing models and the more efficient delivery of legal services.

The much talked-about use of legal process outsourcing took a major move forward when FTSE100 company Rio Tinto outsourced some legal work to CPA Global in India. We saw the first transatlantic merger of equals with the proposed creation of the 'game-changing' Hogan Lovells. Other firms are now reviewing their options, both domestically and internationally.

Mallesons Stephen Jaques and Clifford Chance talked again, but Deacons and Norton Rose pulled off the first major UK-Australia merger. Will others start a-waltzing?

Job insecurity became a reality at all levels but firms and their staff showed maturity and flexibility in trying to keep compulsory redundancies to a minimum. But have they done enough?

More than 1,000 small, mostly sole- practitioner firms folded, whether by retirement, merger, insolvency or Solicitors Regulation Authority (SRA) intervention. Unfortunately more will fail in 2010 even before the Legal Services Act unleashes new retail competition in 2011.

The Legal Services Board got up-and-running and showed a level of determination and professionalism that shook the foot-draggers at the Law Society, SRA and the bar. Legal Disciplinary Partnership happened more with a whimper than a bang.

Bankers, having brought the world to its knees and bankrupted our economy (with some help from Gordon and Alistair), decided to squeeze law firms for high arrangement fees and obscene margins so they could get their bonuses. At least they now beat lawyers as the most hated group in the UK.

With no expense spared, the new Supreme Court was born with a shiny new building. Will anything change and who will be the last Supreme Court Justice to be appointed?

With a year like 2009, 2010 can only be better. But not so fast. First we have to endure six months of a lame duck government, hopefully a clear election result and then an austerity budget followed by the probably inevitable Winter of Discontent as the public sector undergoes its own reality check.

There is a risk that activity levels will remain subdued in 2010 as corporates rebuild their balance sheets and preserve cash. There is no more cash for government bailouts, and major tax rises and spending cuts are now inevitable. However, as a result of major restructuring and refocusing, some firms will clearly bounce back strongly in 2009-10. But most will not and some will fall further in revenue and profitability. Others will limp on with the Micawberish hope that “something will turn up”.

By the end of 2010 the clear winners and losers will start to appear but there will have been more restructuring and a few more mergers. A more focused, better-run, cost-efficient and client-responsive profession will emerge with the ability and confidence to lead the world in the provision of legal services fit for the 21st century. Now that’s something to look forward to.

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