

# What the state of the nation means to business development



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**Business development (BD) must always take place in the real world, not an idealised one where new business lines will necessarily take market share, or where a firm can safely ignore new entrants. The UK's legal market no longer permits such illusions. Richard Tromans and Tony Williams consider the 'state of the nation' and what it means to BD teams' strategies.**

## Top 25 and international

**A**nalysis of market share by revenue of the largest 100 UK law firms reveals that the top 25 firms were the best performers over the last five years by a significant margin. This quartile has seen their aggregate revenues increase by around 30% from 2007/2008 to 2011/2012. The group of large, often international firms now represents 76% of all revenues recorded by the UK 100, positive proof of their increasing strength.

But how can they be succeeding when M&A, private equity, IPO work and real estate have all been flat in this nation since 2008? Some of the growth is from international mergers, such as that of Hogan Lovells, but mergers are not the only reason. Other than for UK-centric firms, such as Irwin Mitchell, the bulk of the growth has been driven by overseas demand, with increasing revenues from the Asia-Pacific and new office openings from Australia and Korea to Morocco and Turkey. Many of these firms have also increased their litigation practices, taking roles in complex, high value, disputes around the world, whether litigated in the Rolls Building in London, or arbitrated in Hong Kong or Singapore.

BD professionals of these nominally 'UK firms' face a challenge. How can they realistically business plan, or plot the course of a new practice line, when around half of the firm's potential markets are 7,000 miles away in Asia, southern Africa or South America? Some firms have moved BD staff abroad, notably to regional hubs such as Singapore. This is sensible, but raises another question: do transplanted BD staff have sufficient local knowledge to design business winning strategies for Chinese or Brazilian clients? This cross-border shift demands that BD staff have a strong grasp of how

globalisation works and an open and creative mind as to where interesting legal work may come from. They will need to build substantive market knowledge in potentially dozens of developing nations and gain real insight into how clients from sometimes quite alien legal cultures see the world<sup>1</sup>.

## The mid-tier (Top 26 to 75)

For many years the message has been that the mid-tier could not survive. The story went they were undifferentiated, too small, too numerous and generally had little to offer.

And yet they survived largely because a mid-tier client base buoyed by public spending, a booming real estate market and highly leveraged SME sector provided work. Now, in 2013 the public spending is dead or dying off, real estate is flat and high leverage speculative investors are rare in this segment. At the same time large corporates, led by the insurers, which used the mid-tier for a range of process to mid-value work have begun to demand firms develop national coverage or else face panel ejection. Some have responded to this call and merged, a number with Scottish firms. Many others have stayed static, sacking staff and waiting for the 'new normal' to go back to the 'golden age'. In five years this huge segment of 50 law firms only saw in aggregate eight per cent growth. In such an unsustainable environment what can their BD teams do to help grow their firms' market share?

The main strategic fact is that market share now can only be gained among these mostly UK-centric firms either by merger, major team hires and/or developing new ways of producing work that are so compelling they can win extra client work. BD professionals will have to learn from their business process

colleagues and be able to explain to clients their firms' new proposition based on process mapping and unbundled production. BD teams will have to think far more about how their firm produces legal services, rather than focussing on what they are selling by way of sector or practice type.

## Lower quartile and consumer-focused regional

Those firms in the lower quartile of the largest 100 UK firms - i.e. the £20m to £30m range - fall primarily into three groups. One group is doing better than the rest: small but profitable, regional leaders that have a strong private client following and enduring loyalty from the local SME sector. A second survivor group are the clearly defined niche firms, such as Sackers which focusses on pensions.

But, the third group, which is the majority, face serious challenges. These firms have large PI claimant practices but not the scale to make them profitable after the Jackson reforms. Some handle lower value family and employment matters, which along with the PI work face

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the growing encroachment of consumer-focussed Alternative Business Structures (ABS) that have scalable strategies, the right structure and significant finance. They will also face the fast-growing accumulator firms, such as Shakespeares, that are rapidly building market share and process capability for the battle to the death that is to come.

Some BD teams will be held hostage by their firms, trapped behind a strategic wall their management team are unwilling, or unable, to break through. This will leave some BD professionals no choice but to leave for more competitive platforms. For those within the progressive, high growth firms and new entrants, there will be new challenges, namely seeing the legal sector not through the eyes of the traditional equity partner, but from the view point of entrepreneurial investors who understand the benefits scale gives to growth margins. They will need to develop BD strategies that please consumers who will have a wide choice of national brand names to choose from. They will also have to consider how to approach larger City firms to manage lower value work via Mexican wave arrangements.

## Conclusion

In short, BD professionals face the best of times in terms of being stretched and challenged to be creative, to learn fast and do more for their legal businesses. But, it will also be a difficult time for those BD teams that cannot adapt to the new world, or those trapped in firms whose partnerships refuse to acknowledge the new state of the nation.

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