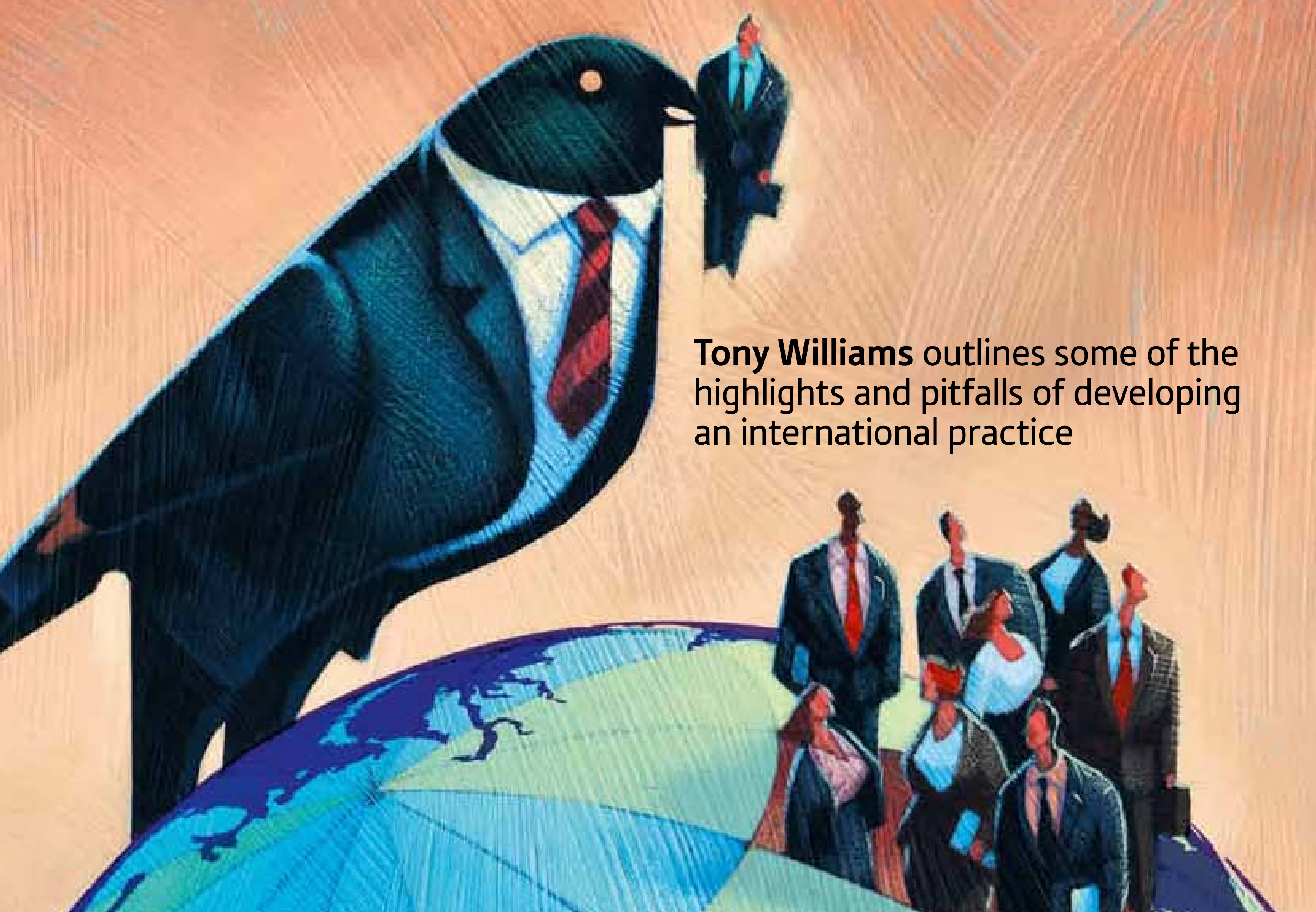
No one size fits all



Tony Williams outlines some of the highlights and pitfalls of developing an international practice

With the UK now in its fourth year of economic downturn with, at best, limited recovery prospects in 2012 and 2013, an increasing number of law firms are considering how to develop their international client base, whether by opening new offices, forming alliances with other firms or participating in law firm networks.

For the largest firms this is not new. The four largest magic circle firms have a major international footprint and derive over 50% of their work from their international offices. This is the result of 30 years of investment and a range of mergers, particularly in Germany around 2000. However, for many other law firms their international footprint is limited or even non-existent. Developing international offices now is not easy. Many of the larger markets have now matured, so to achieve a credible presence a firm would need a decent sized office with, say, five partners, a number of whom were leading players in that market.

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As we saw in Hong Kong last year, developing such a capability can be difficult and expensive. In 2011 several major US firms decided to open or develop a Hong Kong law capability with a view to capitalising on Hong Kong's position as the world's leading initial public offering (IPO) market. However, the pool of talent was limited and rumours abound that partners were offered guaranteed packages in the US$3m–US$5m range. A significant investment even for the largest and most profitable firms especially as Hong Kong is probably the most price-competitive market for IPOs in the world.

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Credible footprints

The larger firms with a credible footprint also have the advantage that the cost of developing those offices has generally been incurred many years ago and these offices are now making a significant contribution to the firm's profits. For firms wishing to build even a limited international capability now this presents a further challenge. In a flat UK market where profits are generally static, a firm has a limited investment fund for new initiatives. This can be spent on lateral hires and/or new offices but most firms will only be able to develop, at most, one international office a year. Any more and profitability may fall to an unacceptable level. Such new offices also consume a massive amount of management time when the leadership team has plenty of issues to address at home.

Some firms are seeking to develop their international practice not by green-field offices but by merging with local firms or firms with a broader geographic footprint. This significantly reduces the initial investment required and provides an established and credible market presence. However, international mergers are not without their own challenges and are certainly not an “easy” option.

Norton Rose has been particularly successful using this route and has expanded into Australia, South Africa and Canada as a result. Other firms have made similar moves or are contemplating them as a means of developing a comprehensive international footprint quickly and at a manageable cost. A review of international mergers is outside the scope of this article but it appears that these will continue as firms look for rapid and significant international growth. Indeed, we have seen the emergence of a range of firms of over US$1 billion revenues and about eight with revenues at, or close to, US$ 2 billion. We can probably anticipate a US$5 billion global law firm by 2020.

However, an international footprint is not about flags on the map. It is about meeting the needs of your existing clients, protecting those relationships and developing opportunities to service more international clients. Firms need to take a long, hard look at their client base, where the clients operate and who currently services them. They also need to consider what they will be able to offer their clients internationally and how credible it will be compared with the offering of local firms and major international firms. With limited investment available markets need to be properly researched, the offering and target client base clearly defined and the markets effectively prioritised. A “me too” strategy to international expansion is just not credible.

Other options

As part of any such review a firm also needs to consider whether it needs a physical presence in any market. Will a close working relationship with a local firm provide the service the client wants? This is a cheaper but not a no cost option. To work well it requires a level of proactive interaction, possibly secondments, joint training and joint marketing and promotional visits including joint pitches to clients and potential clients. Like any business endeavour the return is directly linked to the effort expended. A best friend to whom you rarely speak or rarely refer work to is unlikely to work well with you, and the client will notice.

A further option is membership of a law firm network which gives access to an extensive number of member firms around the world. Again, these can be an effective way of developing a range of contacts and meeting them cost effectively as a group a few times a year. But, membership should not be passive; it should present opportunities to form good relationships with a range of firms and to actively develop opportunities for cross-referral and joint working. Unfortunately, some partners seem to treat the network events as purely a social experience, although this is important, and are insufficiently rigorous in both making their partners aware of what the network can provide and actively exploring opportunities for joint marketing and joint working with the network members.

There is no one size fits all approach. Indeed, many firms with a large spread of offices also have close and active relationships with a range of firms in locations where they do not have a presence. As firms are challenged to achieve profitable growth in their home markets it is natural and appropriate that they should explore new markets. However, this is now a far more competitive area and firms need a clear strategy and a clear and differentiated offering if they are going to provide a service which appeals to their increasingly sophisticated existing and potential clients.

Tony Williams, principal, Jomati Consultants LLP

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