

The inevitable internationalisation of The legal services sector

One thing is for certain: the legal services sector is in the early stages of a seismic shift. Law firms that do nothing in the face of this changing landscape, do so at their peril.

Let me describe the context of the changing international face of this industry. First I will address the emerging segmentation of the top end of the law firm market, then I will talk about some of the other forces that are at play in this industry, forces that will change the sector forever.

There are two main segments emerging internationally, the Global Elite and the International Business Law Firms. The Global Elite are transaction focussed firms looking to the Fortune Global 250 and comparable companies as their core client group. To give a feel for the market activity, there were 16 cross Atlantic mergers consummated in Q1 2011 alone with another 22 being openly discussed. These numbers do not account for the more confidential discussions that are taking place. It is common knowledge that all major single geography firms have at least considered the international situation they are facing. A number of these firms are actively working on an international merger/combination strategy.

Other dynamics in the sector include:

1. Larger single geography firms have “no-where to go”, they often have too many partners and “full service” is no longer a valid strategy - the very real danger is in becoming an undifferentiated generalist with attendant pressure on rates and margins
2. New international firms are taking strong niche positions in selected countries
3. Mergers of mid-tier firms to target corporate base-load work are being considered
4. New risk sharing pricing and delivery models – usually being pushed by clients
5. Pressure on rates and margins are growing from procurement processes – clients are less tolerant of open ended fee arrangements
6. New models of service delivery are emerging, e.g. LPO and Advent, and Axiom Legal to name but a few;
7. More buying decisions are being made offshore
8. There is an oversupply of commodity lawyers both locally and globally, and
9. There is significant competition for top-end partners and talent.

I believe the “war for talent” in the industry is here to stay. Whilst at lateral levels candidates' decisions are largely based on reputation, work and clients of the partner and practice area, the brand also impacts on the quality of the lawyers who firms will be able to attract in the first instance. The impact of the brand is most significant at graduate level where candidates have yet to identify with individual partners or practice areas and therefore focus almost solely on the brand in determining where to apply and where to

accept a job offer. Being within a large international brand will almost certainly help firms to continue to attract the best and brightest to their firm.

A major issue for single geography Managing Partners and their firms in the future is the percentage of market share their firm can retain in client spend and whether the overall growth in the market will compensate for their loss of share. The commercial certainties to which law firms have been used have gone: the rules of engagement are being re-written by competition and a shifting international marketplace; clearly the relentless pursuit of chargeable time and profit per partner is at risk, especially for those firms unable to embrace change!

There is much to be won and lost in this new legal services landscape. Firms that embrace change, become more corporate and strategically disciplined and remember that their clients are their reason for being, cross sell and remember their fellow/sororal partners and move with the inevitable globalization of their industry will likely be the winners.

I have heard a couple of firms describing the choice to go with an international strategy as a “leap of faith,” I rather tend to see it as the opportunity to take a “quantum leap”. The strategic drivers are aligned; business is becoming more aligned to the movement of capital to the east, a natural fit with international firms looking to Asia and a potential accelerator to strategic imperatives as a business. There are clearly risks but I believe that single geography law firms and groups of partners will continue to be of great interest to a number international firms considering their international and Asia strategies.

The author – *Dr Stephen Moss, Chairman of Eaton Capital Partners, is an international law firm advisor and strategic consultant. He has worked with a number of Australian, UK, US and Asian based law firms on their international strategy and introduced a number of mergers over his 25 year track record in the legal services sector.*