



The Law Society

Legal breakfast summary

Creating growth: innovation in law firms as the springboard for
recovery

September 2009

supporting
solicitors

The Law Society legal breakfast series was established in May 2008 with the aim of exploring the opportunities for legal business operating in the regulatory environment created by the Legal Services Act. Now in its second year, the series is focused on identifying what a successful legal business and a thriving legal sector will look like within the framework created by the Act.

The seventh legal breakfast – and the first of the new series - was held on 24 September 2009 to address the question of how large legal businesses can be more innovative in order to overcome current difficult market conditions and to build a platform for future market leadership.

The speakers were (in order of appearance):

- Tony Williams, principle, Jomati Consultants
- Paul Maher, chairman, Greenberg Traurig Maher
- Nick Grant, head of legal services, Sainsbury's

Each speaker gave a ten minute address, after which questions were taken from the audience and a debate ensued.

The current legal market

The speakers were largely united in their perceptions of the current legal market.

Tony Williams thought that there is an over-supply of lawyers in almost all areas of practice and that the market's subsequent adjustment to this will be one of the key drivers to change over the next few years. Paul Maher stated that the marketplace is too fragmented. Whilst an expanding market could absorb so many firms occupying the same space, a contracting market - alongside the effects of the Legal Services Act - will lead to greater consolidation.

There was consensus among the panel that doing nothing is not an option for any firm. It was agreed that cost-cutting is only a superficial measure in reacting to current market conditions and that firms need to look at their businesses on every level. There are plenty of opportunities for firms that are run well, have a strategic approach and are prepared to re-examine their business and their client relationships.

Business structures

A large part of the discussion centred on the impact of ABS and the need for firms to innovate to meet that particular challenge.

Paul Maher was adamant that all parts of the profession will be affected by ABS and that the Top 250 will not be untouched by the new structures. He made the point that outside investment could have a major impact in a crowded market by giving average firms added recruitment muscle and propelling them beyond their competitors.

Tony Williams felt that firms who have not already done so will need to focus increasingly on business processes and to drive inefficiency out of their systems in order to compete and to attract outside investment. He thought that strategy, sustainability, managerial quality, decision processes and accountability will all play a key part in making a firm attractive to an investor. The panel agreed that there needs to be a step change in how lawyers manage their businesses. Paul Maher felt that many firms are hamstrung by an inability to take business decisions, which he ascribed to a propensity of many lawyers to avoid risk and to act too slowly.

Tony Williams thought that there is also a question of how best to use outside investment to generate profitable growth.

Client servicing

One contributor from the floor made the point that in-house teams have grown significantly over recent years and that firms nowadays are extensions of strong in-house departments.

This matched the perspective given by Nick Grant, who said that he had wanted his external advisers to work more closely and collaboratively and to become more integrated within the Sainsbury's business. He related the way in which Sainsbury's has re-branded its panel as a 'legal community', designed to create greater communication between otherwise competing panel firms for the good of their mutual client – creating one big integrated 'firm', rather than a panel of lawyers from several legal businesses.

He identified weaknesses of the traditional panel model - good ideas travel slowly across the panel, which is not good for the client, and that a panel implies separation. Consequently there is a lack of motivation which a sense of collective identity encourages.

He called on his 'legal community' members to compete not only on price, but on leadership within the community, innovation and a willingness to collaborate and to share ideas and information in the interests of their client. Firms are judged on their willingness to collaborate, to innovate and to adapt to the client's needs.

Both Tony Williams and Paul Maher stressed a need for firms to learn to appreciate the pressures that in-house general counsel is often under - of having to remain within budget, to cut costs, yet to provide an optimum service to their organisation.

They agreed that the most successful firms will be those who excel in the management of client relationships and who add real value to their clients and their businesses.

Nick Grant illustrated this point further. He discussed the importance of building networks with and between 'community' firms, but also between their other clients and Sainsbury's – demonstrating value to all concerned by introducing them to other key clients and possibly developing business partnerships as a consequence.

Tony Williams emphasised the point that firms are going to have to look more holistically at the whole client relationship - how they're perceived in the market, how they gain relevance, how they operate throughout a transaction and how they execute their after-sales service. Paul Maher agreed that there are too many lawyers who fail to explore with their clients how they would prefer work to be done, or what it should look like.

Billing

The future of billing was questioned by the panel, in particular whether fixed fee billing would ultimately supplant the hourly rate as the norm.

Whilst doubting that the hourly rate will fall into disuse, Tony Williams felt that the need to work to the needs of clients and to inject both predictability and efficiency means that the legal sector had to take the notion of fixed price projects seriously. He cited the example of the construction sector, which changed from a 'cost plus' model to fixed price competitive tendering in the 1980s, resulting in a greater business focus and costs being driven out of businesses.

Paul Maher agreed that the hourly rate is no longer suitable as a catch-all device. He predicted that some clients will pay for high value consultancy at an hourly rate, and that others will look at fixed prices. He added that the emphasis will fall increasingly on a firm's 'value-added' proposition.

Nick Grant said that predictability is key from a client's perspective and that he would prefer something as close to a fixed fee as possible for every piece of work.

Tony Williams backed up the point on predictability by highlighting a trend for clients in the US to reduce litigation spending due to its sheer cost and uncertainty.

Paul Maher felt that there is an issue over the manner in which firms charge for the work of junior lawyers. He said that many clients do not accept that they should pay large amounts for junior lawyers and that there may come a time when firms will not

be able to charge very much for them. Many clients believe that junior lawyers are effectively being trained from their pocket.