

## Louise Verrill examines the legal sector outlook for 2010 and how to emerge unscathed.

The insolvency of Lehman Brothers presaged an unprecedented collapse of the global economy that had a dramatic effect on the legal profession and its income streams. Almost overnight, transactional corporate and banking work went into freefall. With fewer clients and scarce work for panel firms, law firms were forced to review, among other areas, business strategy, administrative efficiency and practice focus, and, ultimately, most had to consider effective cost management. The recession brought increased scrutiny to the traditional law firm business model whereby clients were charged for layers of junior lawyers billed on an hourly basis.

The tsunami effect of Lehman caused the most obvious and painful workforce reduction borne out of the ensuing recession and the dramatic cut in demand for legal services. In the USA, the largest firms reported lay offs of 5,259 in 2009. Experts are predicting in the UK this will be as high as 10,000 by the end of the 2010.

With UK corporate insolvency figures reaching record levels (27,000 companies in 2009), law firms will not be unaffected. While the figures for 2009 have not been published, statistics published in June 2009 by the Solicitors Regulation Authority show that closures of firms were up 34 per cent from June 2008. This figure is expected to rise substantially for 2009-2010.

Some UK law firms, especially those with panel retainers, are reporting that overall chargeable hours are at their lowest levels since 2006, there has been significant drop in profits per partner, and capital calls have been recorded across the board. Virtually no traditional full service law firm has been unaffected, and, given that the economic 'boil has not been lanced fully' within the UK and Europe, no improvement is on the horizon. It is interesting to note, however, that for the first time since the Woolf reforms, recruitment levels of litigation lawyers are proportionally higher than those for transactional lawyers.

Paradoxically, some firms across London have reported that they are working above 100 per cent capacity. Law firms with restructuring capability, who successfully assist clients in the restructuring arena, have also, after a number of false starts, begun to reach and in some cases exceed capacity. Despite these pockets of activity, recruitment overall has remained dramatically lower.

Although there have been widespread redundancies, steps have been taken to stem the flow of permanent fee-earner loss and many firms have introduced shorter working hours, reduction in pay and other cost cutting measures. The offer of voluntary sabbaticals has also been introduced as a means to retain talented lawyers.

Many law firms have started to acknowledge that, to survive, there has to be some dramatic structural change in the landscape of the UK profession.

Some have predicted market consolidation as this downturn drives mergers. Many of these have been reported in the press, with the latest being Lovells and Hogan & Hartson. Others, quite rightly, predict firms that ignore their international markets do so at their own peril.

So how will firms survive and emerge from this unprecedented period?

With far fewer retainers and panel appointments narrowing, fierce competition is causing firms to look for their 'USP' (unique selling point) and focus on what they can do to distinguish themselves from the competition. They must step up to the plate and be prepared to develop first-rate client service and stewardship whilst retaining the best lawyers.

The recession, coupled with the introduction of the Legal Services Act 2007 (which allows the formation of alternative business structures), will open doors to others such as banks, insurance companies and supermarkets to enable lawyers and non-lawyers to work together on an equal footing to deliver legal services, particularly in the mid-market arena. This will create new and difficult challenges, but ones that should be embraced by the profession in the name of survival – and good business.

Many experts are predicting that this is likely to be the 'decade of the client'. With the idea of selling hours for pounds seen as a broken business model, to thrive, law firms must:

- ◆ Provide personalised help and bespoke guidance to arrange the client's legal affairs;
- ◆ Anticipate and minimise legal troubles;
- ◆ Be a trusted adviser truly concerned with the client's interests and welfare; and,
- ◆ Above all, deliver a product expeditiously and affordably.

Clients are challenging their law firms to take a fresh look at the legal service model in order to deliver greater value. However, provision of quality service on the commoditised basis sought by panel selectors is hard work at low margins. In order to deal with shrinking corporate legal budgets and more sophisticated buyers of legal services, law firms will have to restructure their business practices or face reduced profitability or the toll of the death knell.

Many firms seem to have risen to the challenge and change appears to be underway. However, those who ignore the need for change may find that in operating in a global village, as we all do today, they may become the global village idiot and miss the next wave of the tsunami to emerge from the economic crisis. *FDLegal*

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