Altman Weil, Inc.

Report to Legal Management

July/August 2005
Volume 32, Number 10/11

OUR 31ST YEAR

The Business of Law in 2005

Ward Bower

By Ward Bower

Much has been said and written about the impact of globalization on the legal profession. Most important has been its effect in focusing the attention of law firms and clients worldwide on common issues – those deemed most important in today's legal marketplace. These issues range from pricing to MDPs, to law firm cultures and management practices, to IT and communications. There are three global legal trends that appear to transcend all the others.

Emergence of the Buyers' Market

Foremost among all the trends is the shift of the legal services marketplace from the sellers' marketplace of 15 or more years ago to an increasingly buyers' market today. In a sellers' market the supplier (i.e., law firm) determines price, staffing and strategy. In a buyers' market these roles are reversed and it is the buyer (i.e., client) who determines price, staffing and even service strategy. Increasingly today, clients determine what they are willing to pay for legal services, how many lawyers and at what levels are needed to serve them, and even how case management, strategy and communications are to occur.

This change is attributable to a combination of factors, including those listed below.

- A shift between supply and demand for legal services as:
  - suppliers saturate the marketplace and clients reduce demand by backward integration (internalization of the legal function in the form of corporate law departments);
  - prices are reduced by commoditization (introducing price competition into more of the marketplace); and
  - new competition emerges from non-traditional outsourcing to legal research and litigation support vendors, contract and temporary lawyers, even offshore resources.
- Increasing sophistication of clients driven by:
  - management of the corporate legal function by in-house lawyers rather than lay business executives;
  - ready availability of information about the profession in the legal and business press, including economic data regarding fees, earnings, and profits; and

continued on page 10

Inside This Issue

Business of Law... *continued from cover*

- buyer collaboration in organizations (Association of Corporate Counsel and others) and in seminars and conferences with a focus on management of the corporate legal function, including outside law firms.

• Active efforts by in-house lawyers to reduce outside fees and prices, including:

- "convergence" or reconsolidation of outside legal work into smaller numbers of firms to better manage and leverage the economic relationship.

- partnering, by requiring law firms to align with law department objectives and to provide greater value for fees expended.

- requiring task-based and electronic billing to facilitate cost control and comparisons between firms on a functional and case-by-case basis.

- tendering legal work on the basis of RFPs and selecting outside counsel on the basis of price.

- panel reviews to coerce existing outside counsel into competitive pricing to retain the client relationship.

Cross-Border Consolidation

Cross-border consolidation is occurring as evidenced by international mergers, multi-national firms and international law firm networks. The best evidence of this is the 100+ US law firms operating in London, many of those offices created by mergers or staffed by lateral hires, or both. UK firms in the US are dramatically increasing their US staffing components. Recent trans-Atlantic mergers of significance include Kirkpatrick & Lockhart-Nicholson Graham & Jones, and DLA-Piper Rudnick Gray Cary.

Multi-national practices offer new opportunities to serve foreign clients. Apparently, enough clients are interested in one-stop shopping for global legal work to drive these international mergers. Global law firms enable "convergence" or reconsolidation on a global scale. Although there will always be a need for "horses for courses" on specific matters, general representation on a global basis will enable corporations to exercise leverage over global law firms with regard to aggregate legal fees on a worldwide basis.

War for Talent

Law firms operate simultaneously in two markets – they are sellers in the marketplace for legal services, and buyers in the marketplace for legal talent. Ultimately what they have to sell is the human talent they can attract and develop. As law firms grow from dozens to hundreds to thousands of lawyers, more firms are competing for more top graduates of top law schools. The number of new lawyers coming into the marketplace is basically constant – 40,000 per year in the US. Thus the pool of graduates from the top ranks of top law schools is constant, while demand is increasing. This "war for talent" with respect to incoming lawyers is resulting in a dramatic increase in starting salaries, over $135,000 in some US markets. In addition, lateral recruiting provides immediate access to new clients and markets, and movement of partners and associates between law firms is occurring at unprecedented rates. Successful law firms must be sufficiently profitable to retain their best lawyers, attract new lawyers, and to pay starting salaries enabling them to hire new lawyers with the best credentials. Increasing numbers of law firms will be unable to compete in either the lateral or new lawyer markets, resulting in their demise. This "shakeout" of firms unable to compete in the marketplace will in turn drive the consolidation as groups of lawyers from the failed firms join other major firms.

There are many other trends in the legal profession these days. In the view of Altman Weil, however, these are the most important. Law firms that wish to be successful in the future will be thinking constantly about means by which they can create competitive advantage in the marketplace for clients, both domestic and international, and for lawyers. ◆

Ward Bower *is a principal of Altman Weil, Inc., working out of the firm's offices in Newtown Square, Pennsylvania. He can be reached at (610) 886-2000 or wbower@altmanweil.com.*