

# AUSTRALIAN LAW FIRMS: INVITATION TO INTERNATIONALISE

*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. Allen & Overy and Clifford Chance have entered the Australian market and Linklaters will likely enter the market within the next 12 to 24 months.

The other segment is the International Business Law Firms who are focused on building a capability in locations where the Global 500 have their headquarters, hence their interest in all major and secondary jurisdictions globally.

DLA Piper and Norton Rose are examples of these firms. There are several more US based international firms launching into this space, including Squire Sanders who merged recently with the Minter Ellison Perth practice.

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 each of the top 10 Australian 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 Australian firms have “nowhere to go”, they have too many partners and “full service” is no longer a valid strategy
2. Australian firms choosing an Asia only strategy face the very real danger of becoming an undifferentiated generalist with attendant pressure on rates and margins
3. New international entrants are taking niche positions in selected countries
4. Mergers of mid-tier firms to target corporate base-load work are being considered
5. New risk sharing pricing and delivery models – pushed by clients
6. Pressure on rates and margins are growing from procurement processes – clients are less tolerant of open ended fee arrangements
7. New models of service delivery are emerging, e.g. LPO and Advent Lawyers in Australian and Asia and Axiom Legal in the US
8. More buying decisions are being made offshore
9. There is an oversupply of commodity lawyers both locally and globally, and
10. 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 Australian 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. Firms operating in Asia as a major focus will likely feel the pressure less, but they will also need to keep aware of the changing commercial and competitive landscape they now work in. 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/sorority 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 Asia, 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 Australian law firms and groups of partners will continue to be of great interest to a number international firms considering their Asia strategies. ❖

**The author** – *Dr Stephen Moss, Chairman of Eaton Square, 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.*

