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Should you (also) be thinking about a different operating model for your law firm?
by Steven De Keyser

The legal services industry continues to face a number of challenges. It is our view that the pressure on fees and the desire by clients to obtain alternative fee arrangements will not go away. At the same time, we will see a legal market that is getting more and more mature in what were traditional growth areas for law firms.

It is also to be expected that we will see further consolidation and globalisation of legal service providers. Although this will also lead to an increasing number of niche and boutique firms, the underlying trend will be one of larger and larger law firms taking a bigger and bigger chunk of the overall legal spend.

Against the background of these developments, many law firms have been looking at ways to respond to those and in some instances, firms have examined whether these challenges present certain opportunities for them.

One of the opportunities we have looked into is that of considering a different operating model for at least part of the services provided (or to be provided) by a law firm.

The basic context is the one described above. As a result we see more and more companies working on schemes to reduce their overall legal spend. An objective to reduce legal spend by 10 to 15 % in for example the financial industry (a traditional important consumer of legal services) is not uncommon.

In addition to the aim of decreasing costs, there is also an increased demand for “real value” being brought by law firms. What is meant by “real value” is a very interesting topic and we propose to come back on that in one of our future newsletters. Today, we want to focus on one of the ways to provide an answer on the cost dimension of what clients want.

The cost discussion may be best addressed by a law firm, by looking very critically at the services it actually renders and distinguish between those services that are truly exceptional and those services that are more and more commoditised. In fact, this has been done by a series of firms who have chosen to focus exclusively on premium services and have decided to let go in their offering what does not match with it. The majority of law firms however has not been in a position to make such choice or has not been willing to. Some consider that against the background of the challenges described at the introduction of this newsletter, a full relationship model with the client is key and therefore one need to be willing to provide all the needed services at the right price (and hence cost).

For a law firm that considers broadening its relationship with clients on a larger platform as an essential ingredient of its strategy, we believe that there is an additional opportunity in today's legal market.

The idea is simple. It is reserving the traditional law firm model to the premium services and applying a different – more corporate like – model to the more commoditised services.

In fact, one could argue that this approach is taking the client's needs very seriously and also taking the partnering relationship at heart. In some ways it is trying to make sure that the firm can offer the required type of services in the most effective way. The investment in getting to know the client, to understand its business, to understand its risk profile and its overriding commercial and other policies and the regulatory framework, justify for many corporate organisations their desire to broaden the relationship with a smaller number of law firms.

While the traditional law firm model will no doubt remain in place for the premium services, we suggest you reflect as to whether it would not make sense for your firm to offer (and/or continue to offer) the less sophisticated legal services, but to present them through a different operating model. An operating model that is geared towards generic or repetitive law services.

We have analysed the economics of such a different model and believe one can deliver the more commoditised services to its clients from premises in all key jurisdictions, at prices that are 20 to 30 % cheaper than what are current prices offered by many law firms from those jurisdictions and allow a profit margin of 30 % and more to be realised by the structure offering those services.

The operational model that we have examined for an organisation providing these services is not a partnership, but more of a corporate-like nature with a clear shareholding. These shareholders may be the existing partners of partnering law firms who continue to offer the premium services, outside shareholders (including private equity or at some stage the market) or a combination of both.

The services will typically be presented through the relationship partners of the law firm, but it could also be offered through sales teams of the different model. The different model will handle most of the repetitive and generic work currently otherwise done by lawyers in a law firm or respectively done by in-house lawyers. The corresponding workload would be handled by qualified employees at a lower cost than the average cost of a lawyer in a law firm and in some instances even at competitive rates to those of in-house lawyers. The model will require a specific approach in terms of people management, knowledge management and operations, but those models are not entirely new and have proven their merit in other industries.

Some of the services that could be part of such a different operating model are : company secretarial including corporate housekeeping, due diligence work, regulatory & legal compliance policies, standard contract terms & conditions reviews, proof reading & drafting, IP, trademark & patent related legal services, basic property law, employment advice, debt recovery, remortgage & mortgage security work, paralegal services, discovery work in litigation,...

Fundamentally this offering is about providing onshore certain legal services in the relevant jurisdictions, ensuring contacts and service providers with local law knowledge and local language skills.

We are convinced that such a different operating model will not be a real opportunity for a number of law firms, who will no doubt continue to be extremely successful. We are however certain that it may provide a real opportunity for some law firms and future legal services providers and that is why we wanted to talk to you about it as part of this newsletter. It may be something your firm wants to think about or it may be something that your firm will be faced with in the near future. Whatever of those two, we wanted to share our thoughts on this with you.

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