

LEGAL SERVICES

INVITATION TO INTERNATIONALISE

THE CASE FOR AUSTRALIA AND ASIA

One thing is for certain: the legal services sector globally is in a process of change. 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, look at some of the industry drivers of these changes, 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, Clifford Chance and Linklaters have entered the Australian market and Freshfields will likely enter the market within the next 12 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 such firms. Herbert Smith have announced a combination with Freehills; Ashurst has merged in Asia with Blakes. Chinese firm King and Wood have announced a combination with Mallesons that could be a transformational industry changer, most likely embracing Singapore and perhaps Canada as a next step before they are big and strong enough to take on a major US firm and remain dominant.

There are several more US based international firms launching into this space, including Squire Sanders who combined recently with the Minter Ellison Perth practice. Other major US firms are

reviewing their strategic views about Asia and Australia. It is common knowledge that each of the top 20 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.

Growth in China and India has already sparked significant changes in the legal market in Australia and Asia and will continue to do so. Australia has genuine scale in the form of some serious global companies like BHP Billiton as well as significant in-bound and out-bound work from China. We in Australia are seen as a significant bridge into the Asia-Pacific region. Asia wants resources and BHP and other Australia-based miners such as Rio Tinto and Xstrata have coal, iron ore and LNG in abundance. Inbound investment from the north to acquire Australian assets is getting stronger and stronger. Gaining access to that kind of trading flow and the inevitable movement of capital into the East is obviously attractive to the professional services sector.

Australia also has talent. Australian lawyers are among the best in the world and are at least as good technically and from a professional point of view as lawyers anywhere. We certainly have a reputation as being more culturally sensitive to Asia than English or American lawyers.

Many markets in Asia-Pacific are still growing at a much faster rate than the established economies in Europe and North America and it is therefore likely that the rate of global law firm arrivals will not be slowing down anytime soon.

Interest from global law firms in Australia has been off the back of the rise in the economic strength of the Asia-Pacific region in general. There is the premium work being driven by the region and internationally.

The latest valuation for the Asian market for legal services is over \$75 billion, and there are literally hundreds of top firms competing for this business. As business has become more global, law firms have had to follow the money to remain relevant to their client base.

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 Balance Legal 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/sororal 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 Capital Partners, 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/combinations over his 25 year track-record in the legal services sector.