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Beyond ABSs, firms must maintain their values and embrace technological change

The market for legal services is undergoing a unique period of change and many commentators have been predicting consolidation, the entry of low-cost competitors and changes in ownership structures.

We wanted to get the perspectives of those on the front line – managing and senior partners, finance directors and other management figures, as well as academics and others working closely in the market – on how things could look in three to five years' time. So we surveyed 30 individuals over a period of two months, through a series of short interviews and questionnaires.

While serious consolidation among firms has been treated almost as a *fait accompli* by many observers, our research suggests that the impact of the Legal Services Act and the forces of globalisation and low-cost competition are still viewed very much as an unknown quantity. Fifty per cent of respondents believe that the aforementioned factors will have a significant or transformative impact on their market, while 63 per cent believe that there will be either no impact or a minor impact on their own firm.

Christopher McKenna, director of the Novak Druce Centre for Professional Service Firms at Oxford University's Saïd Business School, believes that the question is twofold. "To what extent will larger organisations start selling commoditised services, and how much aggregation will there be of smaller firms? The middle market is where the potential problem lies – medium-sized businesses offering a local service in a market with national scope. However, firms currently do a good job of serving the middle market. If we look to Australia, consolidation and the impact of external capital has been limited."

This suggests that firms could be rightly cautious of exaggerating the degree of change. As one senior lender told us, "there is unlikely to be a 'big bang'". This reflects

the views of a number of partners – that the state of the economy and the availability of bank credit will be significant determining factors in developments in the market.

While one respondent believes that only 20 per cent of competing firms in the mid-market will survive, most put the number at between 60 and 90 per cent – again suggesting a degree of caution.

The opinion of partners on the impact of external capital is also mixed. While most acknowledge that it would have some effect, views about where in the market investment would be concentrated varied widely.

"The overwhelming majority of respondents believe that the key to success will be technological change"

Some believe that the only attractive level would be the top national and international firms, but others feel that aggregation of smaller firms and the entrance of new, low-cost competitors offering commoditised services is inevitable. Interestingly, most believe that this would have little impact on their own firms. Whether this reflects complacency or realism remains to be seen.

Response to market changes

There was far more consensus on the response that firms should adopt. The overwhelming majority of respondents believe that the key to success will be technological change. As one managing partner said, "it's all about driving down the unit cost, and thus driving down the cost to the end user. We are concentrating very hard on improving internal efficiencies, and technology has a crucial role to play in this".

Professor Mari Sako of Oxford University believes that models of service delivery will change significantly in the next five years. "Firms are investing heavily in information-processing technology to assist in efficiency, and moves to offshore or nearshore locations will continue. As the scale of cases grows, and litigation is a prime example, technological change is a no-brainer. The support and mid-office areas will change markedly."

But technology and service delivery are not just questions of internal efficiency. A finance director of a medium-sized firm told us that the way firms reach and communicate with their clients must also change. "Our online service is expanding. Face-to-face contact is still our priority, but we must also embrace the internet as a way to service and reach our clients. Facebook and Twitter cannot be ignored anymore."

In an environment where competition for business will only become more intense, respondents feel that firms could follow one of two paths. Competing with potential new entrants on price would require a certain critical mass – something that many partners feel would not be a viable option for their firms. Therefore, most favour a greater degree of specialisation and a continuing focus on relationships and quality of service.

According to one senior partner, "it's not just about the client's problems. We need to be completely in tune with their business; we have to be ready and willing to work with other professionals".

No one yet knows how far-reaching the market changes will really be, but if there is a common theme emerging from our research, then it is that firms must maintain their values – of quality service and strong relationships – while embracing technological change. ^{mp}

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