

Smaller firms get in for their fair share



by Trish Carroll

Two interrelated trends are challenging the distribution of legal work in Australia – more corporate legal work being done in-house and niche specialist firms taking a growing share of the external legal budget from the larger, national firms.

These trends are linked because they stem from corporate client perceptions that the biggest law firms are so similar as to be indistinguishable, and that value for money does not increase with higher hourly rates and the size of the firm.

The senior in-house lawyers driving these trends in Australia know how the game is played inside the country's biggest law firms. Well-respected former partners from Allens Arthur Robinson, Freehills, Mallesons Stephen Jaques and Minter Ellison now lead in-house teams in prestigious companies. They know the marketing and branding challenges for these big and largely undifferentiated firms.

In search of value

The growth in size and importance of in-house legal departments is partly driven by the continued dissatisfaction

Firms that continue to base their offerings on the popular 1990s premise that clients want a one-stop shop for all legal services are experiencing static growth

with the value for money delivered by private law firms. This is one of the reasons for the continued growth of in-house teams.

The 2005 Australian In-House Lawyer research conducted for the Australian Corporate Lawyers Association revealed that 56 per cent of respondents strongly agreed that the amount of legal work being conducted in-house is increasing. In Europe, this figure was 43 per cent in the 2005 European In-House Counsel

Survey, up from 34 per cent in 2003.

Big firms and the few mid-tier, multi-office firms that continue to base their offerings on the popular 1990s premise that clients want a one-stop shop for all legal services are experiencing static growth.

Law firms brought the demise of this strategy on themselves. They thought they were, or could be, equally competent across all areas of legal practice and in all geographic locations. Clients bought into it by appointing mainly national firms to the panels of the country's largest organisations. Through experience, these organisations learned that even the biggest and supposedly best firms were not consistently good in all their chosen areas of practice.

A review of the panels of many large purchasers of legal services in the public and private sectors confirms this state of affairs. Rather than the handful of large, national firms dominating legal panels of five years ago, now there are many lesser-known firms providing niche services in diverse areas.

Narrowing the focus

The likelihood of this change in purchasing habits was signalled in 2002 when Westpac's head of legal services Richard Willcock spoke at the Australian Corporate Lawyers Conference. He discussed new outsourcing models based on complexity and volume.

The key message was around different firms for different risk-volume conditions. This opened the door for many less than mega-firms with deeper and narrower areas of specialisation to find their way on to Westpac's legal panel, where there is a high volume of low to medium complexity work.

This approach has now been adopted by many of Australia's largest companies, resulting in enormous opportunities for firms agile enough and smart enough to know the value of narrow but deep service offerings aligned to the market's needs for reliability and cost effectiveness.

Firms of any size that offer this narrow but deep expertise combined with cost-effective pricing and service reliability are flourishing, and not just in Australia. Recent coverage in leading US legal

journal *The American Lawyer* reveals that while bigger usually still means richer, there are smaller firms operating in specialised areas or taking commoditised legal services and operating very profitably. Most of the stand-out smaller US firms have a clearly defined and narrow service offering, sometimes described by marketing people as a niche offering.

The focus on single niche offerings is less prevalent in Australia but is beginning to emerge as a competitive advantage. A stunning example is Brisbane firm Gilshennan & Luton. Winner of the Australian Legal Practice Management Association's 2004 Innovation Award for firms with fewer than 50 people, Gilshennan & Luton specialises in the commoditised niche of mortgage processing.

The impact of financial deregulation resulting in more intermediaries such as mortgage brokers, originators and mortgage managers prompted Gilshennan to address the need to provide a national service on a 24-hour-a-day basis and with online tracking and reporting. Through a combination of clarity about market needs, investment in technology, systems and people, this firm now runs a successful, profitable national mortgage processing practice from Brisbane.

Revenue growth in the past two financial years has increased by 50 per cent.

Listen and learn

It is interesting that a small firm has done what so many large national firms have not – identified their market, accurately listened to its needs and devised and implemented a strategy that meets the market's needs for narrow-deep expertise and cost certainty and the firm's profit objectives.

Clients have every reason to be cautiously optimistic that agile, smaller firms are alive to the issues and reinventing themselves to offer better value.

Is your firm taking advantage of these opportunities by actively and accurately listening to what clients are seeking? ■

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