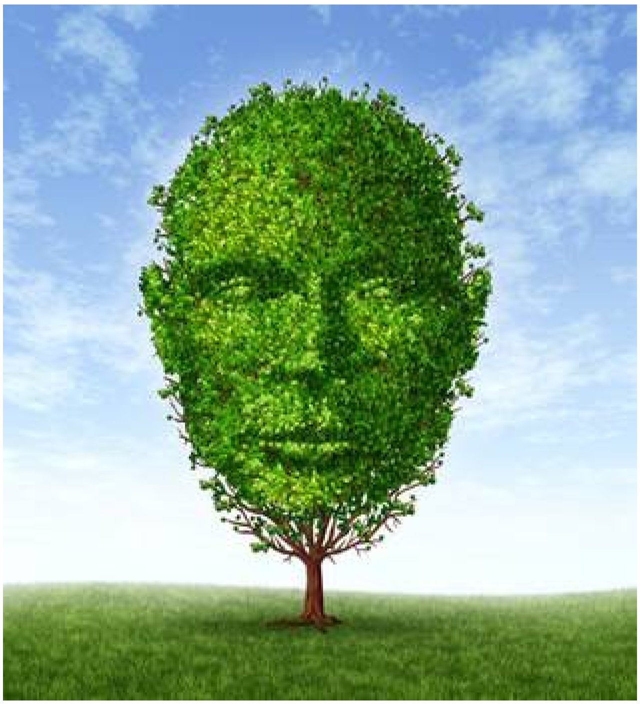
THE CHANGING FACE OF LAW FIRM CLIENT RELATIONSHIPS

The twin drivers of many General Counsel are a desire to avoid risk on behalf of their employers and an avowed intention to minimise outside counsel spend.

At the start of the financial crisis in 2008, the dramatically reduced deal volume created a buyer's market. General Counsel faced with slashed legal budgets naturally put pressure on their external counsel to reduce their hourly rates, to adopt alternative fee arrangements, such as fixed fees and value billing and to provide value- added services. General Counsel also bowed to internal pressure to allow their colleagues in procurement to have a role in the purchasing of legal services.

This combination of factors dramatically altered the shape of law firm relationships with their clients. Firms could not rely on retaining existing clients and work streams. Tender processes felt soulless and ran roughshod over relationships that had been nurtured over years and even decades. Private practice lawyers are often now heard to bemoan the absence of client loyalty and to question whether clients really want relationships at all. For the record, I think that most still do, but that is a topic for another blog.



A common response of General Counsel required to reduce external spend has been to try to take as much work in-house as possible. At times this has seen in-house functions balloon. Whilst this may smack of empire building, the preferment of in-house teams has been founded on the principle that in-housers can operate more cost effectively than their private practice rivals, with no rain makers and equity partner profits to maintain. Furthermore, in-house lawyers pride themselves on being closer to the businesses that they serve, and therefore being able to provide a more useful and user friendly service than external law firms.

The net effect has been that clients are competing with their providers. This has become a whole lot more explicit with the advent of the ABS structure.

In an article in The Lawyer of 1st June, entitled "How the Servants Became Masters," Jonathan Ames reports on a roundtable held with public sector lawyers in association with Thomson Reuters. This describes the phenomenon whereby a number of local authorities have gained ABS licences to enable them to provide legal services on a commercial basis to outside entities, generally other public sector bodies.

The more business minded authorities are going head to head in competitive tenders against their former external advisers. To add insult to injury, they are poaching their employees too.

Perhaps recognising that "if you can't beat them, join them," one adaptive, public sector specialist firm, Bevan Brittan has become the designated law firm partner of HB Public Law (the ABS set up by Harrow and Barnet councils.)

This isn't just a public sector phenomenon. I was privileged to hear Gareth Tipton, Director of Compliance and COO at BT, addressing the Professional Services Marketing Group Annual Conference last year. BT still spends around £40m per year on external counsel so they are immense buyers of legal services but, given that they have around 400 in-house lawyers of their own, they have changed the profile of the work that they outsource, reducing the volume and seeking law firm support only when it represents real value-add to the company. Not only this, but they too are competing directly with law firms for third party business having established their own ABS to handle motor insurance claims for corporate clients such as National Grid and G4S.

Again, making a virtue out of the vice of client competition, Parabis Law, the first private-equity backed ABS, has entered into joint ventures with insurance industry partners such as RSA, Direct Line and Saga. An example of the result is RSA Law which was formed to handle road traffic accident claims. Of course, evolving to meet new market conditions and client demands can be painful. Redundancies at Plexus Law (part of the Parabis Group) were recently reported in the legal press as the firm continues to re-model its offering. Whilst not belittling the impact on individuals of such upheaval, in the words of Geoff Wild, leader of Kent Legal Services, law firms "need to adapt if they are to survive." Cuts in one area may ultimately lead to longer term viability and success. In the case of Parabis, not only did they win the FT Innovative Lawyers' award for Legal Industry Pioneer in 2014, they have grown their business in a time of intense competition from traditional law firms, new market entrants and clients alike.

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