

March 2010

Issued by Mattison Public Relations on behalf of Sweet & Maxwell

## **Downward pressure on fees from clients now seen as biggest threat to commercial law firms**

- 60% of Finance Directors at Top 100 law firms believe downward pressure on fees is putting profitability at risk
- Concern over continued downturn in corporate work subsides as economic pressure eases

Commercial law firms now see the downward pressure on legal fees from clients as the greatest threat to their profitability, reveals the fourth annual research carried out amongst Finance Directors of the Top 100 law firms by Sweet & Maxwell, the leading legal information provider. **(Full results below)**

60% of the Finance Directors of Top 100 law firms surveyed by Sweet & Maxwell said that downward pressure on fees from clients will pose a very significant risk to the profitability of commercial law firms in 2010 whilst the remaining 40% view it as 'medium risk'.

Law firms reported that the recession has prompted the first real efforts from clients to negotiate down hourly rates – something that many lawyers haven't encountered before in their careers.

However, Sweet & Maxwell says that as the economic recovery shifts the focus from cost cutting to expansion and demand for legal advice heats, the pressure on law firms to cut their hourly rates may lift.

Sweet & Maxwell says that law firms are also making greater efforts to defend their hourly rates by offering clients added value services such as providing onsite legal training.

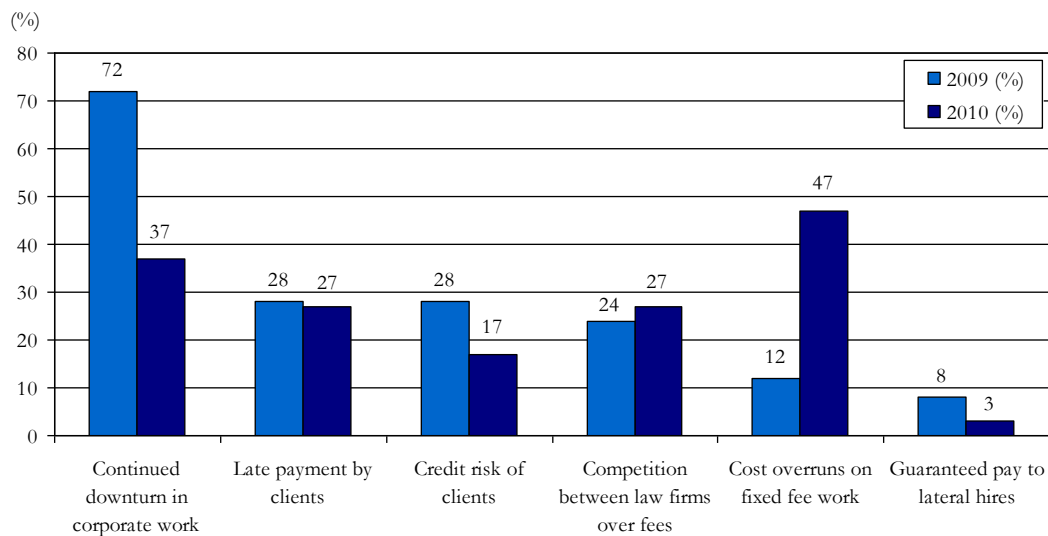
Cost overruns on fixed fee work is now perceived as the second greatest threat to the profitability of commercial law firms with 47% of Finance Directors viewing it as a very significant risk in 2010, up from just 12% in 2009.

Sweet & Maxwell says that during the recession end users of legal services have been pushing law firms to switch from billing by the hour to fixing the cost of work in advance. Traditionally law firms bill on an hourly basis, which ensures that all the time spent on a client is paid for by the client. With fixed fee work comes the risk that law firms have to absorb the cost of any extra hours performed beyond the estimated time.

Sweet & Maxwell points out that accepting a higher proportion of fixed fee engagements will require law firms to shake-up their billing model to make sure their business stays profitable. One Finance Director said: “The most important step any law firm can take to improve profitability is to ensure that the total costs of a project are accurately reflected in the fixed fees. All law firms need to improve on that.”

Fear over continued downturn in corporate work has subsided considerably as the economy stabilises with just 37% of Financial Directors now viewing it as a significant risk to profitability compared to 72% a year ago. But despite some green shoots in M&A activity and corporate finance work, 57% of FDs are still moderately concerned that a slow recovery in M&A and corporate work could hit their profitability.

**Percentage of Finance Directors of Top 100 law firms identifying risks to profitability as “very significant”**



The percentage of Finance Directors who feel that competition from other law firms over fees could be a significant threat to profitability is slightly up from 24% in 2009 to 27% in 2010. Sweet & Maxwell says that reduced demand for legal work as a consequence of the economic downturn means that law firms have to fight harder to secure contracts.

Late payment by clients continues to be a significant concern for 27% of the Top 100 law firms, slightly down from 28% in 2009, with many Finance Directors reporting that tight control of credit has been crucial in maintaining their profitability over the last two years. At the same time worry over credit risk of clients has dwindled with just 17% of FDs citing it as a significant threat in comparison to 28% a year ago.

Interestingly the least significant risk to law firm’s profit margins is that posed by the competition from other legal services providers as a consequence of the Legal Services Act with 70% of FDs quoting it as ‘low risk’ whilst the remaining 30% view the risk as ‘medium’.

Sweet & Maxwell says that The Legal Services Act 2007, which allows non law firms to provide legal services, is expected to open the door to new entrants at the commodity

end of the legal market. Top 100 law firms may feel that this represents little menace to their businesses.

### **Results summary: Risks to the profitability of commercial law firms**

(Percentage of responses)

<b>Risks to the profitability of commercial law firms</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
Continued downturn in corporate work	37%	57%	7%
Downward pressure on fees from clients	60%	40%	0%
Competition between law firms over fees	27%	67%	7%
Work being taken in-house	10%	47%	43%
Late payment by clients	27%	33%	40%
Disputes with clients over bills submitted	7%	50%	43%
Professional negligence claims	7%	37%	57%
Credit risk of clients	17%	53%	30%
Cost overruns on fixed fee work	47%	30%	23%
Competition from other legal services providers as a consequence of the Legal Services Act	0%	30%	70%
Guaranteed pay to lateral hires	3%	34%	62%
Poaching of staff by competitors	3%	41%	55%
Lack of capacity to meet increasing demand	0%	10%	90%
Cost of the law firm's own property	3%	40%	57%

**ENDS**

#### **Notes to Editors:**

**Sweet & Maxwell** ([www.sweetandmaxwell.co.uk](http://www.sweetandmaxwell.co.uk)) is a leading provider of information and solutions to the legal and professional markets in the UK and Ireland. With over 200 years of history and heritage in legal publishing, Sweet & Maxwell offers detailed and specialist knowledge, understanding, interpretation and commentary across a wide range of subjects in a variety of formats to meet customers' needs - books, journals, periodicals, looseleaves, CD-ROMs and the market leading online services, Lawtel and Westlaw UK. Sweet & Maxwell is part of Thomson Reuters.

**Thomson Reuters** is the world's leading source of intelligent information for businesses and professionals. We combine industry expertise with innovative technology to deliver critical information to leading decision makers in the financial, legal, tax and accounting, scientific, healthcare and media markets, powered by the world's most trusted news organization. With headquarters in New York and major operations in London and Eagan, Minnesota, Thomson Reuters employs more than 50,000 people in 93 countries. For more information, go to [www.thomsonreuters.com](http://www.thomsonreuters.com).

**Press enquiries:**

Fay Israsena or Nick Mattison  
Mattison Public Relations  
Tel: 020 7645 3636

Peter Wylie  
Corporate Communications Manager  
Sweet & Maxwell  
Tel: 020 7393 7123