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Downturn in corporate work confirmed as greatest threat to commercial law firms

- 72% of Finance Directors at Top 100 law firms believe fall in corporate work is putting profitability at risk – up from 48% a year ago
- Survey reveals credit risk of clients a growing concern

The continuing downturn in corporate work is now seen as by far the most serious threat to the profitability of commercial law firms, reveals the third annual research carried out amongst Finance Directors of the Top 100 law firms by Sweet & Maxwell, the leading legal information provider. (**Full results below**)

72% of the Finance Directors surveyed said that the drying up of M&A and corporate finance related work poses a very significant risk to the profitability of commercial law firms. Sweet & Maxwell points out that this is up from just 48% in 2008, giving an indication of the extent to which the legal sector is feeling the impact of the downturn in M&A and corporate finance activity.

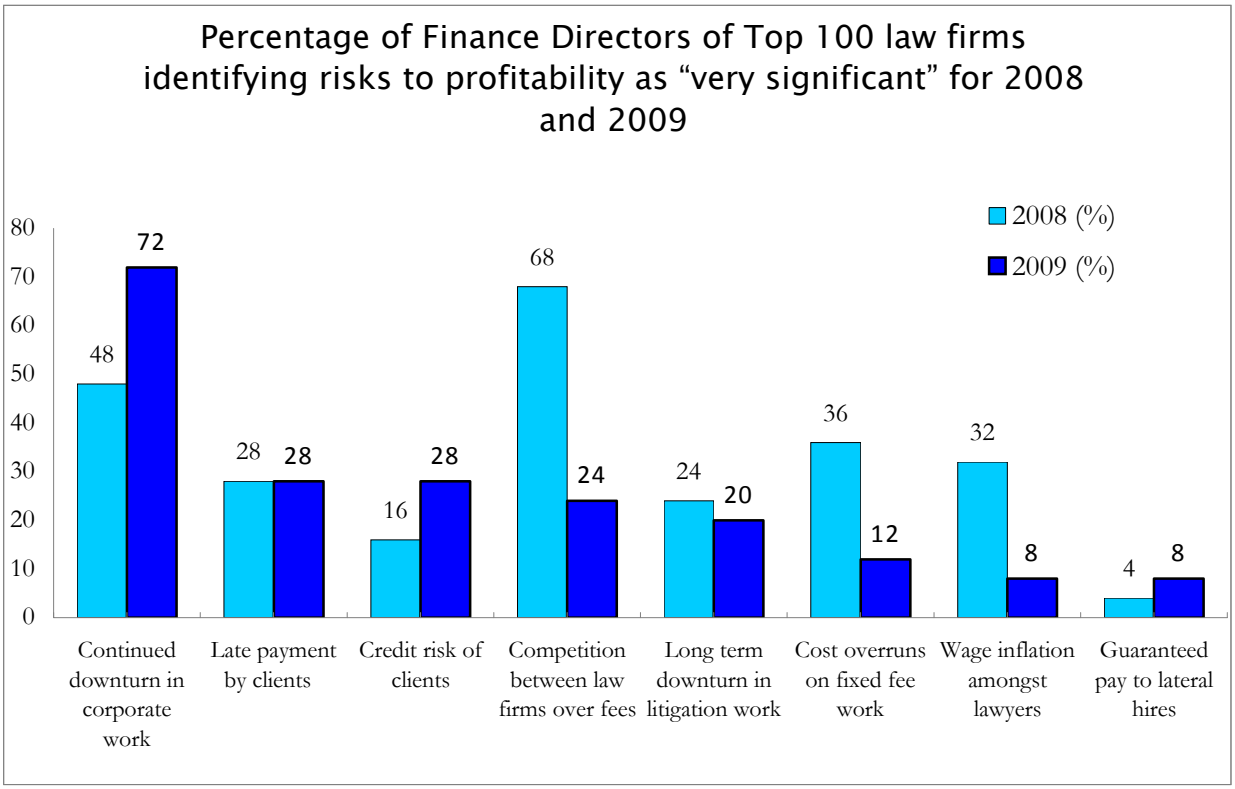
Whilst the research reveals that the decline in corporate work is now seen as the single biggest threat to commercial law firms' profits the credit risk of clients is also a growing concern. 28% of Finance Directors believe that this could pose a very significant threat to profitability compared to just 16% in 2008.

Sweet & Maxwell says that the worsening economic crisis that has seen a growing number of large companies from Lehman Brothers to Woolworths enter into administration has prompted law firms to tighten up in this area and to ensure that late payments do not go unchecked.

In 2008 competition between law firms over fees was seen as the greatest threat to profitability but this is no longer the case. Whilst 68% of Finance Directors cited this as a very significant threat to profitability in 2008 this has now fallen to just 24%.

Sweet & Maxwell says that the smaller pool of work available in areas such as corporate finance and real estate have overshadowed anxiety over fees available on work put out to tender or competitive pitches. Law firms would now rather take on work at a lower margin to ensure that a greater number of their lawyers are working.

This also explains why fears over cost overruns on fixed fee work have also fallen considerably, with just 12% of Finance Directors citing this as a very significant risk, down from 36% in 2008. One Finance Director commented that whilst cost overruns on fixed fee work are increasing firms would rather take on the work and risk not making a profit than have too many lawyers not working at all.



Sweet & Maxwell says that law firms are benefiting from the increase in litigation. Litigation work had reduced in volume over the past few years but the credit crunch has triggered an increase in the number of commercial court cases. According to the latest figures available and obtained by City law firm Reynolds Porter Chamberlain LLP the number of High Court commercial cases leapt by 30% between 2005 and 2007 from 49,442 cases to 64,046 – to reach the highest level since 2000.

Fears over the long-term downturn in litigation work are beginning to subside, with 20% of Finance Directors viewing this as a significant risk to profitability, down from 24% in 2008. Sweet & Maxwell says that this is likely to become even less of a concern for law firms as the recession continues and more and more organisations become embroiled in disputes.

The current market has meant that wage inflation amongst lawyers is now seen as far less of a problem for law firms. Just 8% of Finance Directors said that this is a very significant risk to profitability compared to 32% in 2008.

Sweet & Maxwell says that whilst the credit crunch has brought an end to the frenzied bidding war for lawyers the number of Finance Directors concerned about guaranteed pay to lateral hires has doubled from 4% in 2008 to 8% this year.

Sweet & Maxwell explains that this could become a problem for law firms who offered guaranteed salary packages to new hires before the economic downturn began in earnest.

This means that new hires within practice areas that have since seen a dramatic fall in work are likely to struggle to deliver the fees needed to cover their guaranteed bonus.

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Notes to Editors:

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