

Wednesday 20 May 2009

UK law firms to brace for rocky ride during second half of 2009

UK law firms are being told to brace themselves for a rocky ride during the second half of 2009, as predictions for spend on corporate legal services (as of 30 April 2009) are set to drop by a sixth (17%), according to latest figures published by global legal sector researcher Acritas (www.acritas.com). The bleak prediction also reveals that legal spend is declining at a much faster rate than the overall Treasury's GDP estimate of 3.5%¹.

Acritas's monthly tracker survey², in February predicted a modest drop in spend amongst legal buyers of 6% in the year ahead, in March this prediction fell to 12% but in April, fell further again to 17%, bringing the average for the three months combined to a drop of 12% in the year ahead.

The predictions are even gloomier amongst the largest of organisations as they predict making larger cuts. The hardest hit practice areas are corporate finance and property legal services and the most buoyant area is litigation followed by employment and regulation.

Other key highlights of the survey include:

- International spend is holding up well, with a 5% average increase in legal spend levels internationally anticipated by internationally active respondents. Those firms who have successfully pursued international strategies to service their UK clients, such as Freshfields and Linklaters, will benefit from continuing income in relation to overseas advice.
- More than a quarter of respondents (27%) anticipate increasing spend in the next 12 months representing an opportunity for firms alert to market trends and close to clients.
- Average hourly rates paid to partners in law firms have held up at 2008 levels*. Average hourly rate paid to partner at 'most used' law firm was £328 in 2008 and currently stands at £339 in 2009, a 3% increase.
- Change is likely with over half the legal buyers (60%) anticipating changing their legal strategy which includes greater control of their external spend. 26% of legal buyers are looking for discounts on rates and the same proportion is looking to move to fixed fees, rather than the traditional pricing model of hourly rates.
- 9 out of 10 (90%) buyers also see room for improvement in efficiency at law firms and only 10% believe the market operates 'highly efficiently'.
- Despite the drive for lower costs, legal buyers are not supportive of firms outsourcing, with 67% feeling negative about law firms outsourcing legal processes to companies in emerging markets, such as India. Legal buyers are positive, however, about firms moving some resources out of costly City of London locations as long as quality levels are maintained.

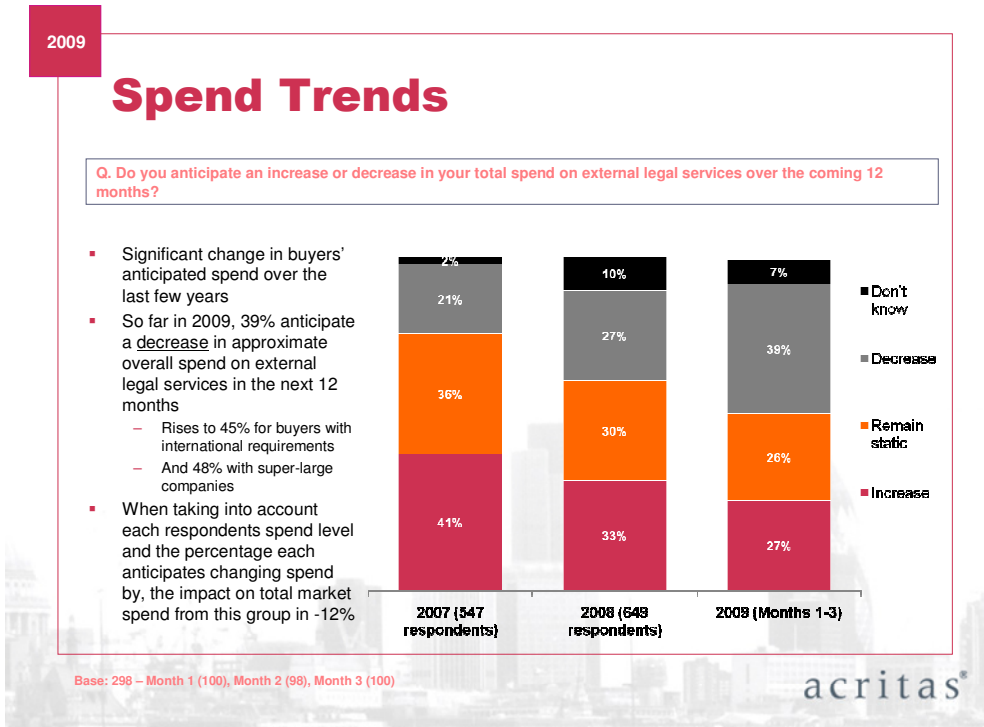
According to Lisa Hart, CEO of Acritas: "There has been a delay between the onset of the credit crunch, the loss of jobs, and a measurable decline in legal spend. Whilst many headlines have reported law firm redundancies over the past few months, only now are we seeing evidence of how deeply the economic crisis is going to shape legal spend. We are seeing even more negative results in our US research."

¹ Source: http://www.hm-treasury.gov.uk/bud_bud09_speech.htm

² Acritas's Sharp Legal programme has surveyed 300 legal buyers of large UK corporate and financial institutions between February and April 2009 together representing over £1bn in legal spend.

"Firms are managing to maintain high hourly rate levels but this is not sustainable in most areas as supply starts to heavily outstrip demand. They need to look to better meet their client's needs and support them during this difficult time to ensure they are not one of the firms cut as large corporate trim their legal panels. Firms that make aggressive bids to provide more cost-effective services will win market share."

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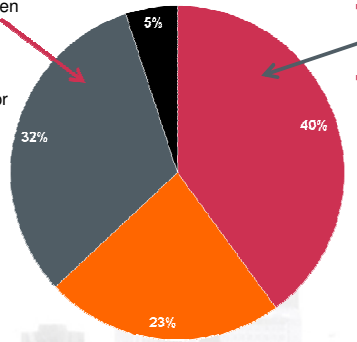


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Change in international spend

Q. Will your organisation be spending more or less this year on international legal work?
Q. By approximately what percentage?

- 44% anticipate the decrease to be between 26%-50%
- 33% anticipate the decrease to be 25% or less
- 52% anticipate the increase to be between 11%-25%
- 5% anticipate the increase to be over 50%



■ More ■ Remain the same ■ Less ■ Don't know

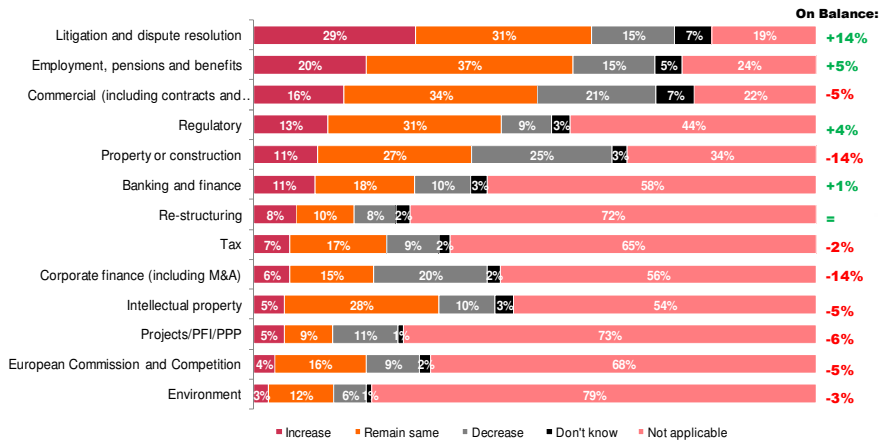
Base: 97 – Month 1 (44), Month 2 (22), Month 3 (31)

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Change in Spend by Service Line

Q. Do you anticipate an increase or decrease in spend on each of the following service lines purchased by your organisation over the next six months?



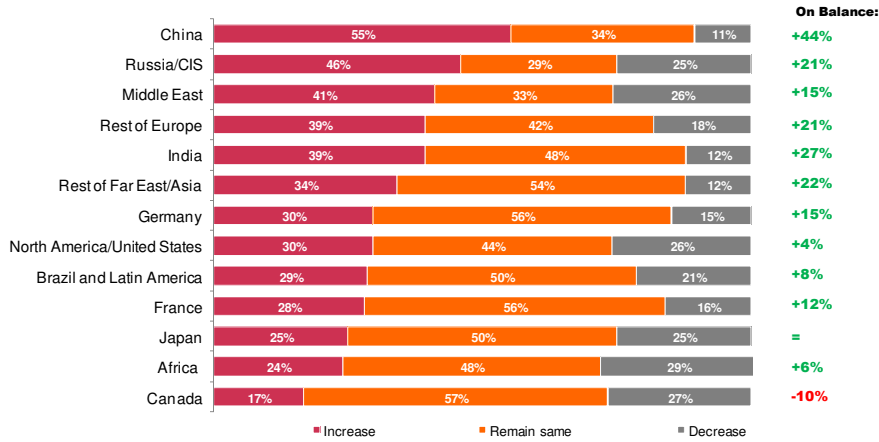
Base: 300

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Change in Spend by country

Q. In which of the following regions does your organisation have a need for legal advice?
Q. Will this need increase or decrease in each of the following regions over the next 6 months?



Base: Africa (21), Brazil and Latin America (28), Canada (30), China (38), France (25), Germany (27), India (33), Japan (16), LOW BASE, Middle East (39), North America/USA (54), Rest of Europe (33), Rest of Far East/Asia (41), Russia/CIS (28)

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Notes to Editors:

Sharp Legal is the only multi-country law firm management tracking survey available in the UK and US markets. The survey measures changing buyer attitudes and behaviours and trends and law firm brand performance. This document reveals the UK data from 300 structured telephone interviews conducted with senior legal buyers (legal specialists and deal-makers) between 11 February and 29 April 2009. The same study is being conducted in the US on a monthly basis. Additional studies will be conducted in Canada and the Middle East. Acritas has also launched a 'Global Elite' version of the study which will comprise 1,000 interviews with international legal buyers from the world's largest organisations across the globe.

Issued by Kelso Consulting (PR advisers) on behalf of Acritas.

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About Acritas:

Acritas is a leading provider of specialist research programmes to the professional, financial and public service sectors in the UK, Europe and the USA. They specialise in providing comprehensive and insightful interpretation of information extracted from key stakeholders. Acritas is a Market Research Society company partner. For further information, please visit www.acritas.com