



REUTERS/Mark Bader

# 2015 Australia: State of the Legal Market

The Melbourne Law School and Thomson Reuters Peer Monitor® are pleased to present this report setting out the dominant trends impacting the legal market in 2015 and the key issues likely to influence the market in 2016 and beyond.



Melbourne Law School



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## FOREWORD

### Professor Carolyn Evans, Dean Melbourne Law School

Only ten years ago it would have been a particularly farsighted partner or pundit who could have predicted the depth and breadth of changes that would lie ahead for the legal profession in the coming decade.

The Australian legal profession has been impacted by trends seen around the world, including client demand for greater value and lower costs, the increasing use of digital solutions for legal problems and off-shoring. While the resources boom and the healthy state of the Chinese economy gave Australia protection for a period of time, the global financial crisis caught up with us in the last few years with grim effects in terms of employment and profitability in many firms. We appear to also be behind lawyers in the northern hemisphere in recovering from the GFC's effects, although this report does note some promising tendrils of new growth. It has been a challenging time for the Australian legal profession, as it has for the profession in many parts of the world, with disruptions on a scale not seen for a long time and with the likelihood of many more reforms to come.

Some of the changes have been more specific to Australia, including the rapid expansion of the local presence of global firms either in their own right or through various forms of relationship with existing Australian firms. Despite the trying times, a number of medium sized firms flourished to become substantial players on the national and even international stage. And from a legal educator's point of view, it is also worth noting that while enrolments to US law schools have plummeted in recent years, in Australia both the number of law graduates and law schools continues to grow.

For the person aiming to predict the next wave of change and to read in the tea leaves either signs of hope or warnings of further hardship, the contents of this report will be invaluable. It deliberately focuses only on the portion of the market that includes the Big 8 and several selected large commercial law firms with a view to analyzing the current position and trends in recent years against a range of important indicators.

The striking and sustained decline in demand for the work of these firms is the grim opening to the report. The drying up of demand is not shared equally around all practice areas or firms but it is a signal, as the author notes in his conclusion, that firms that choose complacency and mediocrity will rapidly find themselves on the outer. The environment is too competitive to allow firms to engage in business as usual while their clients are demanding innovation and cost containment – if clients are not finding their demands met, there are plenty of old and new firms with a hunger for the more limited work available.

Firms are taking up the challenge with increased investment in legal project management and other innovations. This report will provide very useful data for the strategic planning that now must be given laser-like focus in firms looking to not just survive but to flourish in this challenging environment. Melbourne Law School is pleased to be associated with this project and the value that it provides for the profession.

## DEFINITIONS

This report is based on the financial data provided by 23 firms (Australian offices only) and analysis undertaken by Thomson Reuters Peer Monitor. These firms are categorised as follows:

Big 8 Firms	Large Firms	
<ul style="list-style-type: none"> <li>• Allens</li> <li>• Ashurst</li> <li>• Clayton Utz</li> <li>• Corrs, Chambers Westgarth</li> <li>• Herbert Smith Freehills</li> <li>• King &amp; Wood Mallesons</li> <li>• Minter Ellison</li> <li>• Norton Rose Fulbright</li> </ul>	<ul style="list-style-type: none"> <li>• Baker McKenzie*</li> <li>• DibbsBarker</li> <li>• DLA Piper</li> <li>• Gilbert + Tobin</li> <li>• Hall &amp; Wilcox</li> <li>• Henry Davis York</li> <li>• Holding Redlich</li> <li>• Hunt &amp; Hunt</li> </ul>	<ul style="list-style-type: none"> <li>• Jackson McDonald</li> <li>• Lander &amp; Rogers</li> <li>• Lavan Legal</li> <li>• Maddocks</li> <li>• McCullough Robertson</li> <li>• Piper Alderman</li> <li>• Sparke Helmore</li> <li>• TressCox Lawyers</li> </ul>

\* recent data not included

- Time periods reflect financial year July 2014 to June 2015 and the corresponding quarters.
- All data is for AU domestic offices only, unless specifically noted.
- Key Performance Measures: Defines the rate of change from the stated period to same period 12-months earlier; includes values from all timekeepers (i.e., firm-employed qualified fee earners (partners), unqualified fee earners (paralegals, legal secretaries, etc.) and contractors).
- Demand: Total billable hours worked from all fee earners.
- Worked Rates: Reflects hourly rate after negotiated discounts from the Standard/Rack Rate.
- Fees Worked: Worked Rates multiplied by Demand.
- Productivity: Hours worked by all qualified fee earners divided by qualified fee earner FTEs (Lawyers including Partners).
- Rates & Realisation Progression: Results reflect all fee earners.
- Expenses: Results reflect a rolling 12 months to annualize heavy expense quarters (i.e., Q4 2015 contains data from July 2014 to June 2015).

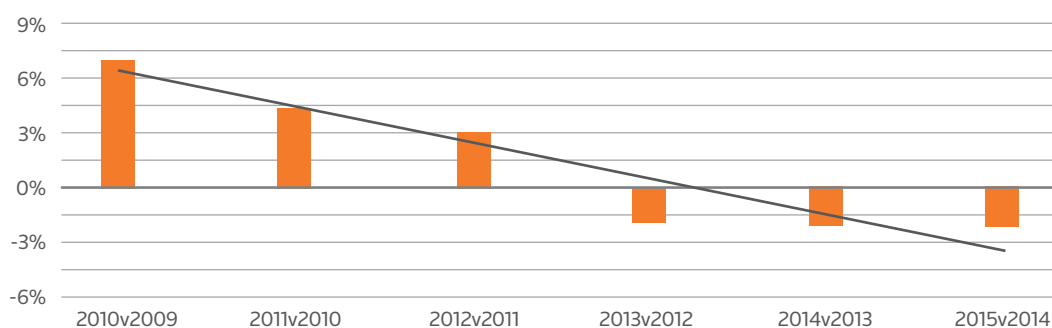
## BY THE NUMBERS

### Demand Decline

Demand for commercial legal services has been on a relatively steady downward trajectory for the past five years, and 2015 failed to break this trend, with demand again falling 2.0%. Notably, Q4 2015 saw a slight increase in demand, the first quarter in almost 3 years of declining demand.

The overall decline in demand is primarily attributable to the decline in demand for the industry's three biggest practice groups: dispute resolution, banking & finance and corporate general. These three practices represent 48% of all legal services provided.

**Chart 1: Demand Y/Y Change (2009-2015)**



Source: Thomson Reuters Peer Monitor

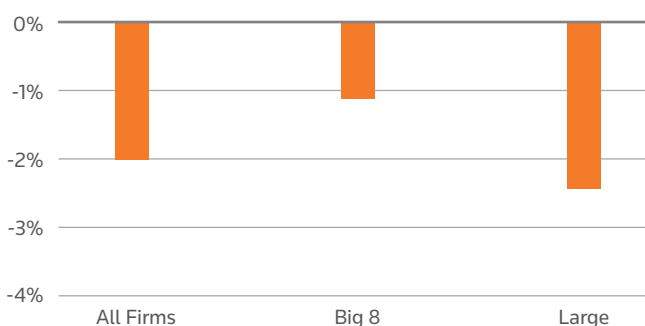
All timekeepers/billable time type

While still experiencing falling demand for their services, the Big 8 firms nevertheless fared better than the Large firms for the year (-1.1% and -2.4%, respectively). This is largely attributable to the more substantial decline in demand for the dispute resolution services of the Large firms (-6.4%) compared to the Big 8 firms (-4.8%), as well as a decline in demand for banking and finance advice (-11.7% and -9.4%, respectively). Further, the growth in demand for real estate services experienced by the Big 8 (6.1%) was substantially higher than the growth experienced by the Large firms in the same practice area (3.5%).

It is worth noting that while the Big 8 firms collectively may have fared better than the Large firms in the market in terms of demand for legal services, there were anomalies. In particular, HWL Ebsworth (data not included in the Peer Monitor statistics) has seen its revenue increase from \$102m to \$219m over the past three years.

The data also reveals that the demand for the services of both the Big 8 and Large firms traditionally increases in the November-December period before significantly dropping away in January. This trend appears to be more pronounced in recent years, with the peak demand in December growing higher, and demand falling lower through January.

**Chart 2: Y/Y Demand Growth (2015v2014)**



Source: Thomson Reuters Peer Monitor

All timekeepers/billable time type



## CORE PRACTICES SLUMPING

**Banking:** Demand for the second largest practice area (banking and finance) slumped significantly over the 2015FY, with the Large firms suffering more than the Big 8 (-11.7% and -9.4%, respectively). As of year-end 2015, demand growth was down -10.5% industry-wide, following a modest but significant growth in demand for this practice area for the previous year (up 1.8%).

**Corporate:** General corporate law advice remained the third biggest practice area in 2015. Demand for the practice area was down 5.5% for the year industry-wide. Much of this decline was amongst the Large firms (-7.0% for 2015FY). It is worth noting that the Big 8 firms experienced substantial growth in general corporate law demand in Q4 2015FY (up 9.4%).

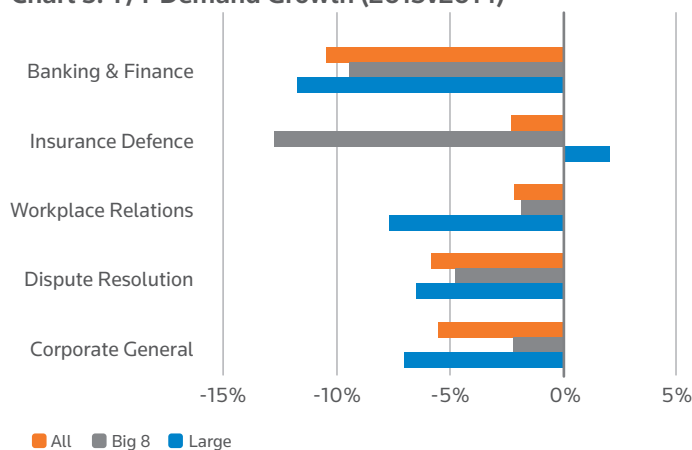
## TRANSACTIONAL WORK GROWTH

**M&A:** M&A work for all firms saw a 2.1% increase in demand for the year, spurred in part by significant growth in Q4, which saw demand rise 10.5%. *Mergermarket* reports that Australia is the second-largest M&A market in the Asia/Pacific region, second only to China. Mid-market (\$10m–\$250m USD) deals continue to dominate the M&A market in Australia, accounting for 68% of the total M&A work in 2014. Notably, 40% of all M&A transactions in Australia fell within the lower end of the mid-market work (i.e., between \$10m–\$50m USD). This demonstrates that mid-sized Australian businesses continue to feel the need to consolidate so as to remain competitive against the larger market players. Nevertheless, M&A activity numbers from the 2015 financial year also reflect a number of large deals, such as the \$8bn takeover of Toll Holdings by Japan Post and BHP Billiton's demerger from South32, among others.

These increases in demand are reflective of the growth in business confidence, low interests rates, and the privatisation of government assets, collectively creating an economic environment particularly more favourable for mergers and acquisitions. This economic environment is made further fertile by the falling Australian dollar, making investing in Australia cheaper and reducing the risk of currency fluctuation for foreign bidders.<sup>1</sup> Consequently, in 2014 a higher proportion of bidders were foreign in all M&A deals (reportedly two-thirds of all bidders). There is much speculation that these factors will again combine to significantly increase M&A activity in the 2016 financial year, with the potential reform of the Foreign Investment Review Board to also play a role<sup>2</sup>.

Importantly, the China-Australia FTA is likely to carry with it a flurry of transactional activity for Australian law firms, particularly as the PRC invests in agriculture and infrastructure/large residential property<sup>3</sup>. Consequently, as the fallout from the recession and mining boom continues to unwind, M&A deals will continue to shift away from the mining industry toward the real estate, agriculture and construction sectors.

Chart 3: Y/Y Demand Growth (2015v2014)



Source: Thomson Reuters Peer Monitor

All timekeepers/billable time type

Chart 4: All Firms Growth

Practice Area	Proportion of Work	Growth (2015 v 2014)
Construction	5%	3.2%
Real Estate & Projects	10%	3.1%
Intellectual Property	4%	2.2%
M&A	6%	2.1%
Regulatory	3%	-0.8%
Workplace Relations	7%	-2.2%
Insurance Defence	6%	-2.3%
Taxation	2%	-5.4%
Corporate General	13%	-5.5%
Dispute Resolution	22%	-5.8%
Insolvency & Restructuring	3%	-6.4%
Environment & Planning	2%	-7.1%
Banking & Finance	13%	-10.5%

1 Corrs Chambers Westgarth – <http://www.corrs.com.au/thinking/insights/australias-m-and-a-market-2015-ten-trends-that-are-shaping-the-market/>

2 <http://www.smh.com.au/business/markets/mergers-and-acquisitions-to-dominate-markets-in-2015-20150105-12idk1.html>

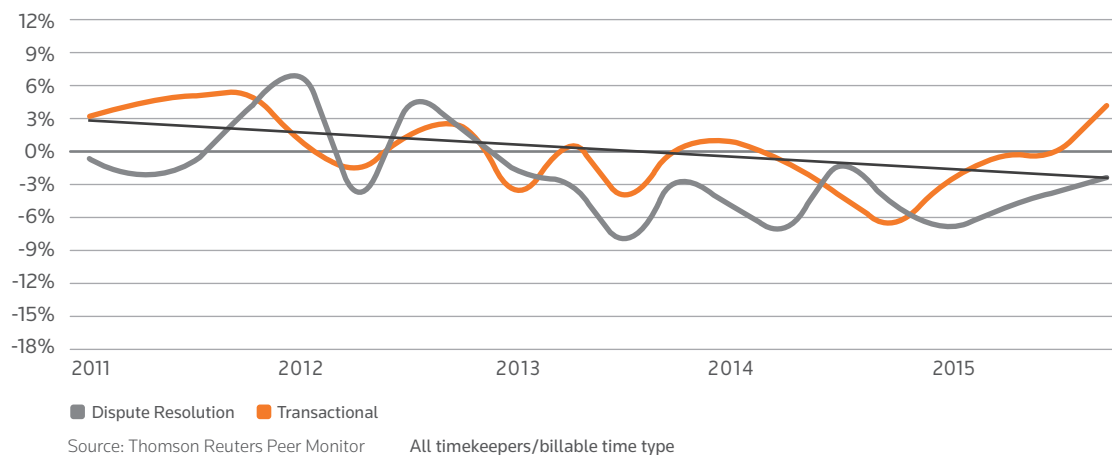
3 *Merger Market Mid Market Report March 2015*

**Real Estate:** For the full-year 2015 period, real estate and projects work experienced increased demand over the previous year, up 3.1%. Notably however, the Big 8 Firms have experienced a far greater increase in demand in this area than the Large firms, with 6.1% and 3.5%, respectively for 2015.

## LITIGIOUS WORK

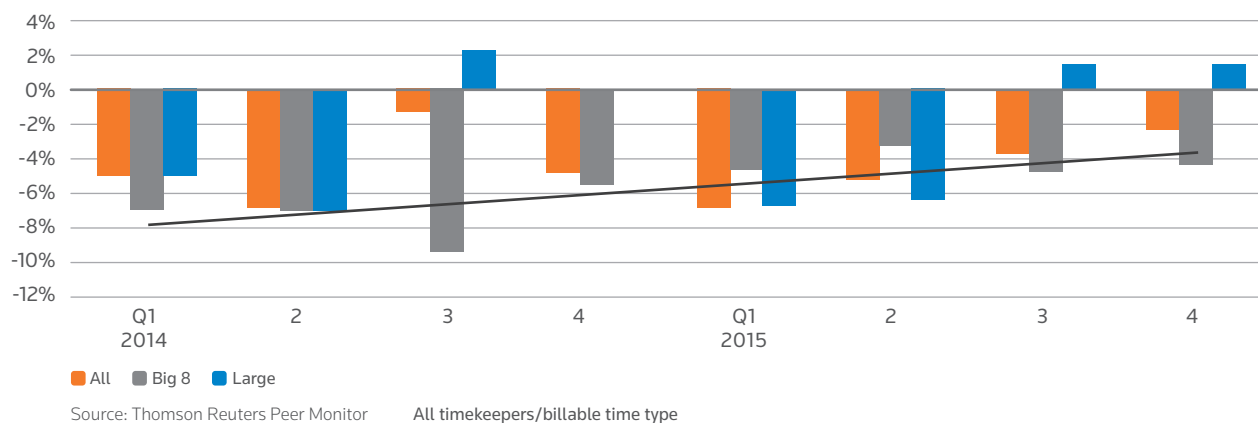
The notable decline in the demand for litigation work has continued throughout 2015, with total market demand for dispute resolution services declining 5.8% on last year's figures.

**Chart 5: Dispute Resolution vs. Transactional**



The demand for dispute resolution work by the Large firms peaked into positive demand growth in the third and fourth quarter, potentially indicating a neutralizing of the sector. Further, as indicated by the trend line on the below graph, the decline in dispute resolution work appears to be slowing.

**Chart 6: Dispute Resolution Y/Y Growth by Quarter**



## Productivity

For 2015, the industry saw a decline of 3.8% in the number of lawyers employed and a 2% decline in demand. Consequently, the lawyers retained by each firm had to service a greater proportion of the total demanded legal work. As a result, productivity increased by 1.3% over the 12 months.

As Chart 7 shows however, this overall increase in productivity is overwhelmingly attributable to the Big 8 firms, which experienced a disproportionately greater decline in lawyer resources compared to their decline in demand. In contrast, the Large firms experienced a greater decline in demand comparative to the number of lawyers retained, resulting in a slight decline in productivity in 2015.

According to Peer Monitor data, the hours per quarter worked by lawyers as a whole in all the firms over the preceding 13 quarters generally maintained the expected cyclical trend (see Chart 8).

As Chart 9 demonstrates, Big 8 lawyers worked approximately 25-35 hours per quarter more than their counterparts in Large firms. The trend lines indicate that this difference appears to be increasing slightly.

Chart 7: Productivity

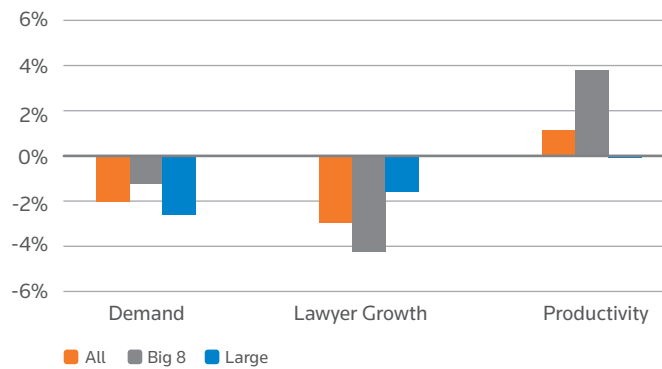


Chart 8: Productivity per Lawyer

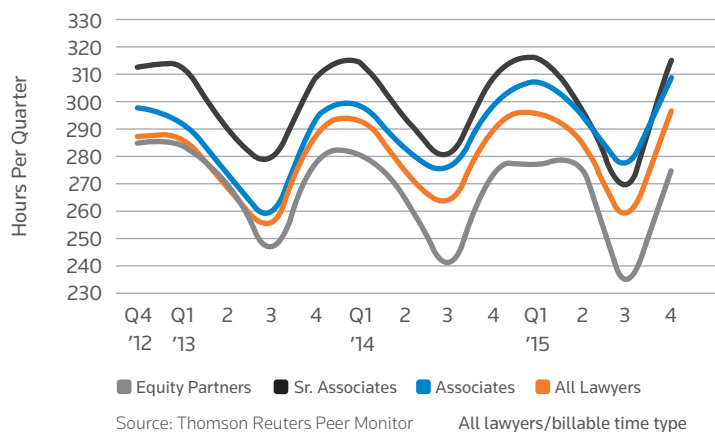
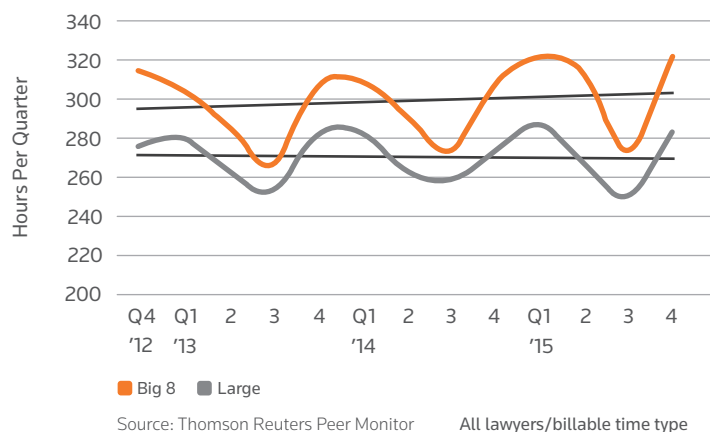


Chart 9: Productivity per Lawyer



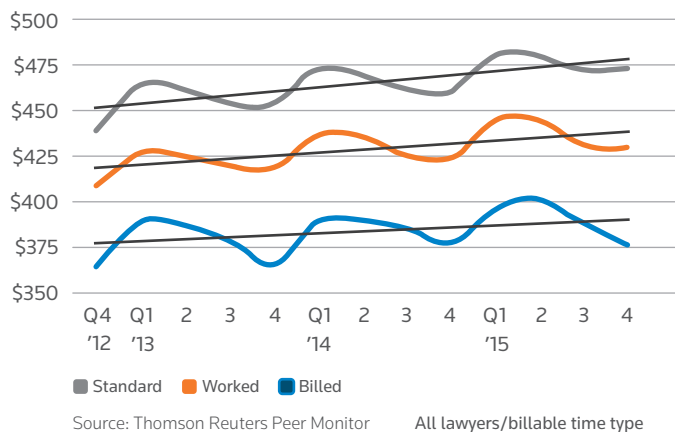
## Rates and Realisation

As Chart 10 shows, billing rates for all firms have steadily increased over the past three years, from \$365 in Q4 2012, to \$377 in Q4 2015. However, this 3.3% increase in billing rates correlated with a slight decrease in realisation, down from 84.1% to 82.0% against the standard (rack) rate.

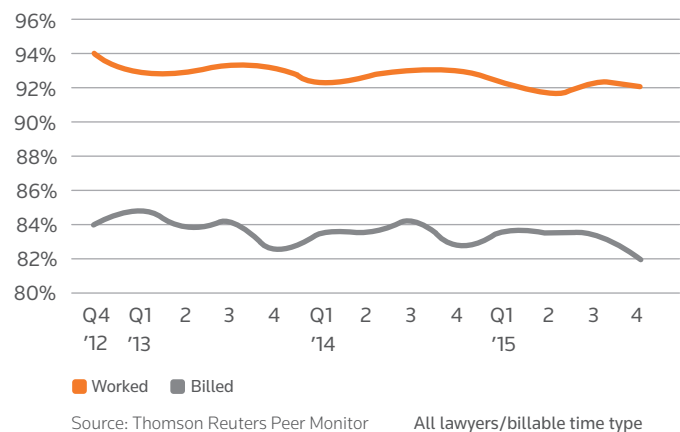
From Q4 2012 to Q4 2015, Big 8 billed rates have increased 5.1%. By contrast, over the same three-year period, the Large firms increased their billed rates by just 2.3%.

It is interesting to note that Q4 billed rates in 2013, 2014 and especially 2015 declined quite markedly. This perhaps reflects some heavy discounting to drive revenue and achieve financial year budgets.

**Chart 10: Rate Progression**



**Chart 11: Realisation Against Standard**



## Expenses

Law firm expenses continued to decline over the 2015 financial year, with indirect expenses down 1.5% and direct expenses down 1.4% in Q4. It is interesting to note that if the 2015 trend continues, direct expenses may increase in 2016. Sector-wide, recruitment expenses experienced the biggest growth (17.5%), with Big 8 firms and Large firms spending 49% and 6.5%, respectively, more this year compared with the same time last year. Compared with 2014, 2015 staff compensation rose 1.5% and benefits increased 4.7%. Most of that growth in staff compensation was driven by the Big 8 firms (up 4.8%), although the Big 8 firms spent considerably less (-5.0%) on benefits comparative to 2014. In contrast, the Large firms experienced a minor increase in staff compensation costs (1.0%), and a 2.4% increase in expenditures on benefits.

Highlighting the continuing trend of developing reliance on achieving efficiencies through technology, expenditures on technology increased 2.4% on last year. To some degree, this is also a factor in the increase to lawyer productivity. Nevertheless, the legal services market remains labour intensive, and the level of technological change is relatively low within the market.

**Chart 12: Expense Growth Y/Y% Change**

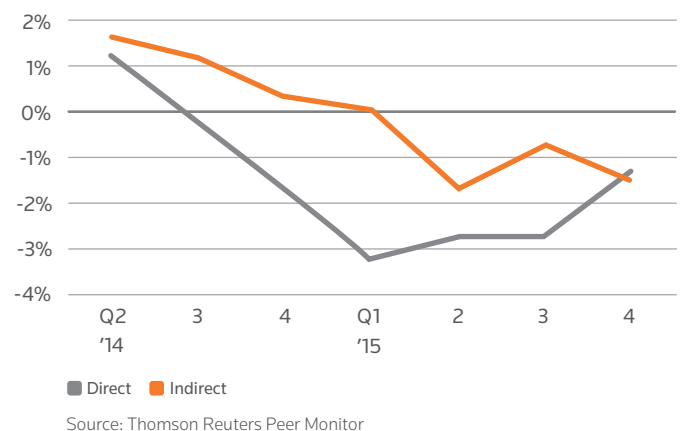
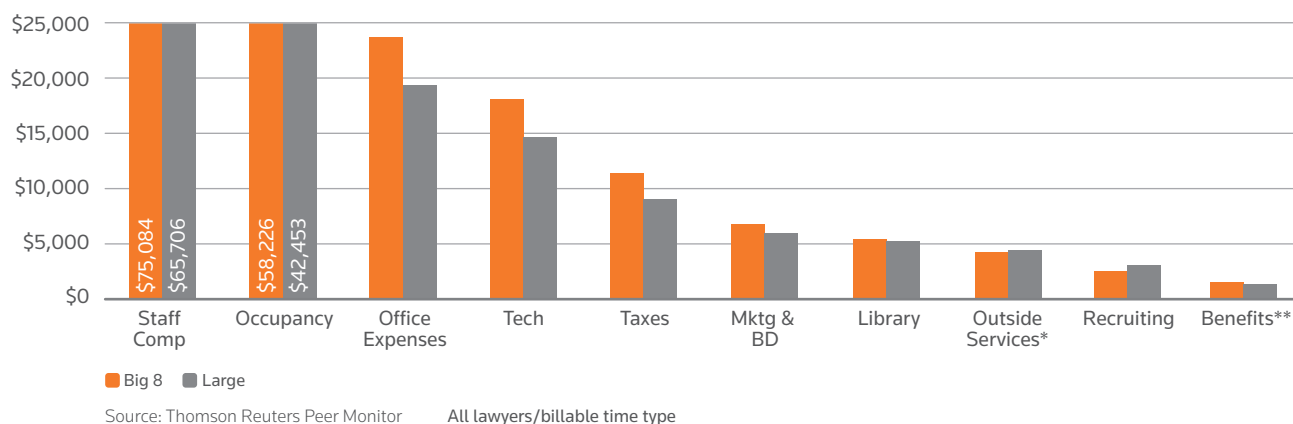




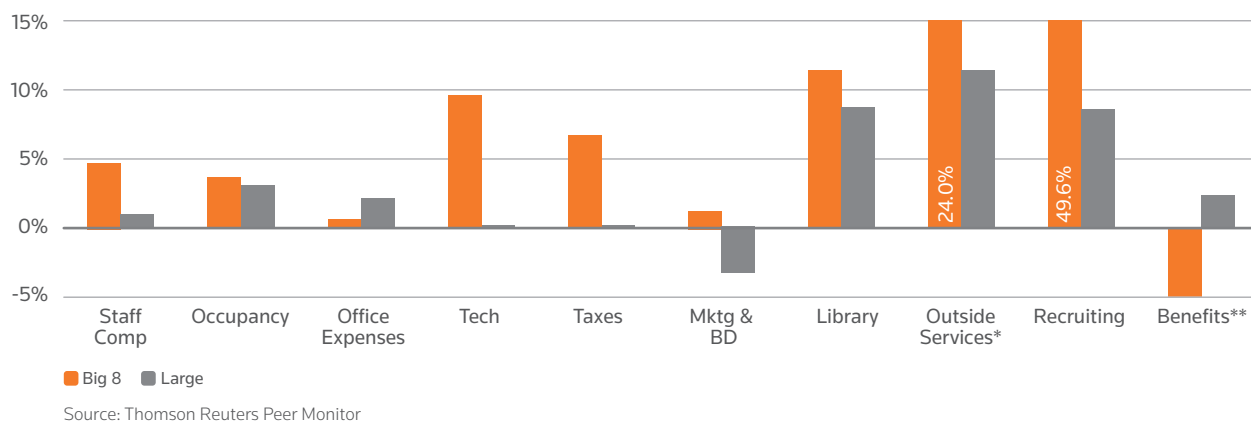
Chart 13: Per Lawyer Expenditure (Rolling 12 Months)



Interestingly, Marketing and Business Development expenditure was 1.4% less than 2014. Evidence from many other industries shows that when demand starts to decline, firms spend more on revenue generating activities and attempt to cut other overheads. The data suggests Australian law firms on the whole are not following this strategy.

For Big 8 firms, expenditures on Outside Services experienced the most significant growth, up 24.0% on the previous year, while the Large firms increased their expenditures in the same area by a more moderate 10.2%.

Chart 14: 2015v2014 Expenses



\* This includes outsourced services for mailroom, copy center, and records management, etc. This also includes professional services such as tax return preparation, outside legal services, payroll processing, trust administration expenses, employee benefit consulting and other consulting services. This does not include outsourced technology functions, (e.g., helpdesk and datacenter, see Technology), or outsourced marketing functions, (e.g., public relations and market research, see Marketing). This category does not include temporary help.

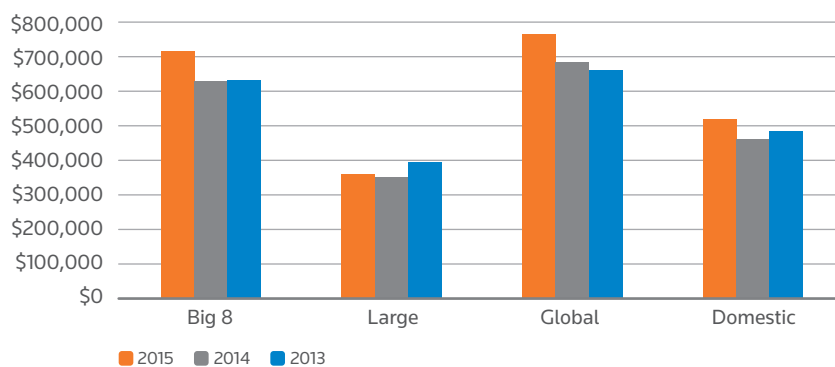
\*\* This includes firm-paid employee insurance (medical, dental, and other health and welfare coverage, life/disability/long-term care, accidental death coverage, travel insurance, income protection, etc.), firm-paid retirement benefits (pension plan/profit sharing contributions, retirement plan expenses), and other firm-paid benefits (e.g., employee assistance programs, transportation allowances, overtime transportation, childcare assistance, golf/health club memberships, wellness programs, physical exams, tuition reimbursement for dependents, etc.)

## Profitability

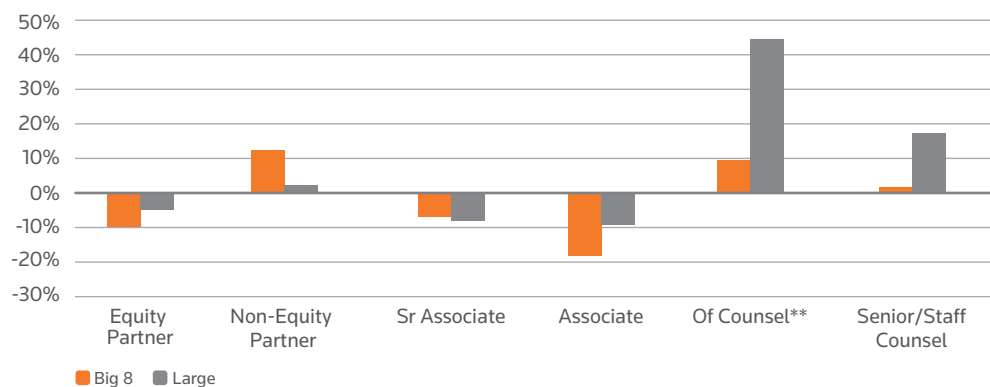
For this report, we are calculating profitability by dividing total firm profit by the total number of equity partners (regardless of point allocation).

Chart 15 demonstrates that the profitability of the Big 8 firms has improved over the past three years. In comparison, as of Q4 2015 the profitability of the Large firms has fallen below 2013 levels after taking an even steeper decline in 2014 – figures rebounded slightly in 2015 over 2014. The data suggests global firms have enjoyed a steady increase in PPEP from 2013 to 2015.

**Chart 15: Profit per Equity Partner (PPEP)\***



**Chart 16: Three-Year Growth by Lawyer Title**



The data suggests that firm profitability was largely maintained or increased through a combination de-equitisation and reducing headcount. It is striking to note that the number of equity partners reduced by 10% in the Big 8 firms and by just over 5% in the Large firm segment (Q4 2012 versus Q4 2015). Equity partner status is not only more difficult to achieve, it's also more difficult to maintain.

Big 8 firms reduced total lawyer FTEs by 10.8% over the three-year period ending Q4 2015. The figure was 6.9% for the Large firm segment. Senior Associate and Associate roles appear to be the ones most at risk. Associate positions at Big 8 firms decreased by 18.6% over the analysis period.

\* PPEP is the total profit divided by the number of equity partners (regardless of their point allocation).

\*\* An Of Counsel timekeeper is a high-profile lawyer but is not a Partner. They may have a special relationship with an industry or the government or are hired for another unique reason. Retired and former partners are included in this category. We would expect these fee earners to have a billing rate similar to Partners.

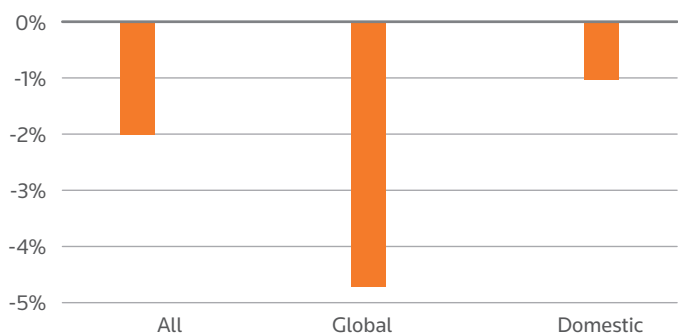
## Domestic vs. Global

The Peer Monitor data was analysed further using another segmentation method: Global and Domestic firms. The Global firms (Australian based firms with international offices) included Allens, Ashurst, Herbert Smith Freehills, King & Wood Mallesons, Norton Rose Fulbright and DLA Piper. All other firms comprise the Domestic group.

Demand growth in Australia for the global firms was down -4.7% for the year. In contrast, the domestic firms suffered a far more moderate decline of -1.0% over the same time period. Despite this, global firms such as Herbert Smith Freehills and Ashurst publicly reported increases in revenue as a result of their Australian operations. HSF full year global results report that the firm's profitability rose 12% over the 2015 financial year, and 24% over the past 2 years. Ashurst also grew its global revenue, reportedly up \$6.23m on last year to \$1.156bn. However, neither HSF nor Ashurst has made regionally-specific financial data publicly available.

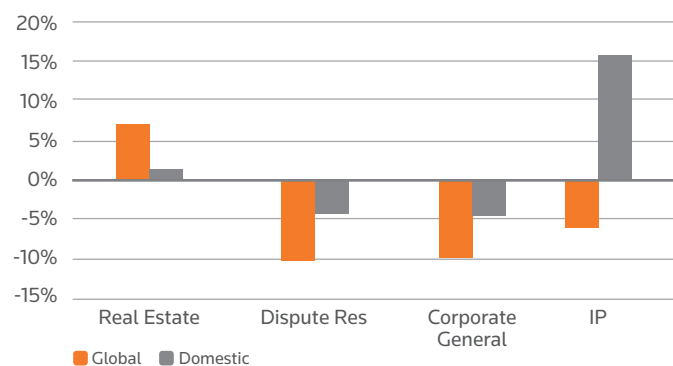
The data suggests that despite a relatively larger decline in demand, global firms have increased profitability by capturing a bigger share of high-margin transactions work, partner de-equitisation and reduced headcount.

**Chart 17: Demand Growth**



Source: Thomson Reuters Peer Monitor All timekeepers/billable time type

**Chart 18: Domestic vs. Global by Practice**



Source: Thomson Reuters Peer Monitor All timekeepers/billable time type

In line with the market as a whole, both the global and domestic firms experienced growth in demand for real estate advice (7.2% and 1.4%, respectively). However, of note are two particular anomalies.

Firstly, the global firms have seen a substantial 9.7% decrease in demand for corporate general advice, while the domestic firms have seen a decrease of -4.4% for the year.

Secondly, the global firms have seen a substantial decrease in demand for IP advice (-5.8%), while the domestic firms have seen a very substantial increase in demand for IP work (15.6%).

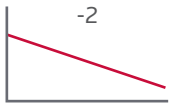
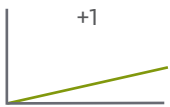

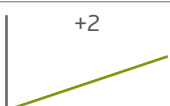
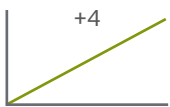
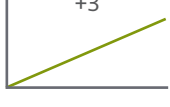
Further of note is the discrepancy in the demand decline for dispute resolution services between global and domestic firms. Global firms saw a 10% decline in demand for their DR services, while the domestic firms only saw a 4.1% decline.

According to the **IBIS report**, this discrepancy in demand growth could be attributable to small and medium size domestic businesses being "deterred by the international brand and its rates." In any case, the global firms are not immune to the domestic market conditions in Australia.

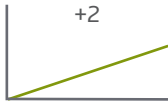
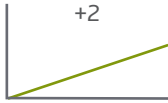
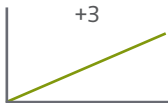
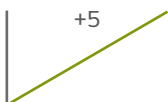

In line with the poorer demand and increasing productivity, lawyer growth rates were negative for both the global and domestic firms. However, lawyer growth rates for the global firms were substantially worse than the domestic firms (-6.7% and -2.7%, respectively).

## Qualitative Market Assessment

There are a significant number of macro trends impacting the Australian legal market. The table below presents the author's analysis of these trends, the trajectory of the Pace of Change trend line and further commentary and evidence supporting the analysis.

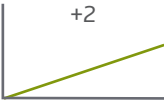

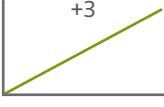
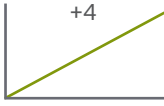
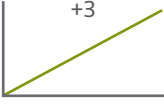
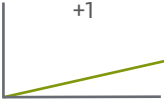
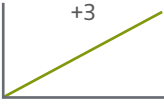
Macro Trend	Pace of Change*	Comments
Entry of global firms into the Australian market		<ul style="list-style-type: none"> <li>2014/15 has seen modest single-practice entry of global firms such as Pinsent Masons in infrastructure and Hogan Lovells in corporate. There have been no mega-mergers over the past 12 months.</li> <li>Corrs, Clayton Utz, Minters and Gilbert &amp; Tobin have all proclaimed independence as a core strategy and are focusing on having multiple best friend relationships with non-aligned firms.</li> </ul>
Shift of work in-house		<ul style="list-style-type: none"> <li>While the number of commercial lawyers working in-house has been estimated to have grown from 10% of all practicing commercial lawyers to 35% over the past 10 years, the pace of change has slowed somewhat.</li> <li>Recent presentations by several senior General Counsel indicate that they are under pressure to "do more with less" and contain headcount.</li> <li>Many in-house teams are turning to process redesign, legal project management and use of technology to improve in-house legal team productivity.</li> </ul>
Lateral partner movements		<ul style="list-style-type: none"> <li>There are currently about 3,000 partners within the international and national firms based in Australia. For the period 2012 to 2014, the turnover rate was around 5% per annum. 2015 has seen a number of lateral movements, the most noteworthy being six Sparke Helmore insurance partners joining Hall &amp; Wilcox.</li> <li>As Steve Nunn of Carlyle Kingswood notes, "10 years ago there were six international law firms in Australia, now there are over 25. If you add the independent local firms there are now 45 major brands all competing for talent in this market – this is the new norm."</li> </ul>
Convergence (mega firms getting smaller; some mid-tiers getting bigger)		<ul style="list-style-type: none"> <li>From July 2012 to July 2015, HWL Ebsworth grew from 146 to 196 partners; Mills Oakley from 36 to 75; CBP from 36 to 61 and Thomson Geer from 58 to 89.</li> <li>Over a similar period, many of the larger Australian firms have recalibrated their service capacity to match a decline in overall demand. Allens has decreased from 176 to 148 partners; Corrs Chambers Westgarth 122 to 113; Clayton Utz 198 to 178 and DLA Piper 111 to 89 partners.</li> <li>The demarcation of law firms based on size will become increasingly irrelevant. Aligned to this trend is the fact that almost all larger mid-tier firms now have offices in 3 or more locations.</li> </ul>
Growth of boutique firms		<ul style="list-style-type: none"> <li>A 6-month analysis of <i>Lawyers Weekly</i> articles to 25 July 2015, indicates over 20 boutique firms were established in Australia over the preceeding 18 months.</li> <li>Interestingly, <i>Lawyers Weekly</i>, reported the Brisbane boutique law firm Talbot Sayer outranked top-tier firms on M&amp;A league tables just 12 months after opening its doors. This firm was established in 2014 by two ex-McCullough Robertson partners.</li> </ul>
Increase in price-based competition		<ul style="list-style-type: none"> <li><i>The Asian Lawyer</i>, January 1, 2015 reported that HWL Ebsworth's growth could be attributed to aggressive lateral partner hires and pricing. They cited the firm willing to offer a 40 to 50% price discount to comparable firms in order to win work.</li> <li>A market survey conducted by Barolsky Advisors indicated some firms willing to enter a bidding war on some transactions "just to make sure they kept their place on the M&amp;A rankings". In these instances it appeared profitability was a very low consideration.</li> <li>There have been reports of government clients requesting three competitive quotes from pre-approved panel firms for work of less than \$5,000 in value.</li> <li>Price appears to be much less of a decision criterion in cross-border transactions work, bet-the-company disputes and complex advisory matters.</li> </ul>

\* Pace of Change: on a -5 to +5 scale, where -5 is slowing significantly and +5 is increasing significantly

Macro Trend	Pace of Change*	Comments
Growth of New Law firms		<ul style="list-style-type: none"> <li>After a flurry of New Law startups in 2012, 2013 and 2014 including Hive Legal, Keypoint, Nexus, Marque, Nest, LawPath, Bespoke, View and LawCentral, just to mention a few, the pace of new entrants slowed slightly in 2015.</li> <li>Anecdotal feedback is that many of these NewLaw firms are enjoying double digit growth but off a very low base. One indicator of size and growth rate is that after eight years of operation Advent Balance has around 150 freelance lawyers in its network.</li> <li>One new entrant worthy of note is Salvos Legal. This is a commercial law firm owned by the Salvation Army where all profits are channeled to the humanitarian efforts of the Salvos. One could imagine many government, trade union, industry super fund, statutory authorities and other not-for-profit organisations giving preference for their non-complex business law work to a firm like Salvos Legal.</li> </ul>
Growth of Multi-Disciplinary Practices (MDPs)		<ul style="list-style-type: none"> <li>PricewaterhouseCoopers (PwC) has publicly proclaimed that they aim to be a top 20 global legal service provider within the next five years. Ex-King &amp; Wood Mallesons Managing Partner, Tony O'Malley, is leading the charge for PwC in Australia. At the 2015 Managing Partners Forum, O'Malley indicated his intent not to replicate the mistakes made by PwC in its foray into legal a decade prior. He said growth would be modest and targeted in key areas that complemented the rest of the PwC offering, particularly international and domestic tax, deals, corporate finance, regulatory and human resource consulting.</li> <li>KPMG, EY and Deloitte have also flagged interest in growing their legal capability. Each of these firms currently has over 1,000 lawyers working for them, mostly in their tax advisory practices.</li> <li>It is evident that many other consulting and business advisory firms are expanding their offers to include legal or quasi-legal advice. Similarly, real estate firms are offering "one-stop shops" that include legal conveyancing and leasing services.</li> </ul>
Growth of diversification or hedge strategies		<ul style="list-style-type: none"> <li>With declining core business, some Australian law firms have sought to diversify their offering. Four interesting case studies in this space include: <ul style="list-style-type: none"> <li><b>Orbit</b> by Corrs Chambers Westgarth – a network of freelance lawyers, including Corrs' alumni, offered to clients for a fixed fee for a defined scope of work. This is similar to Allen &amp; Overy's Peerpoint service.</li> <li><b>Lexvoco</b> by McInnes Wilson – offering an in-house legal counsel on-call for those organisations that cannot justify hiring a permanent employee.</li> <li><b>Accelerate</b> by Allens-Linklaters – a suite of fixed-fee services aimed at start-ups and emerging companies. The "hook" is a collection of essential documents offered free-of-charge with user-friendly guidance notes. It appears that Accelerate does not cannibalise Allens' existing client base and potentially allows them to start servicing an acorn that might one day become a massive oak tree.</li> <li><b>Claims Funding Australia Limited</b> – a litigation funding business owned by partners of the specialist plaintiff litigation firm Maurice Blackburn.</li> </ul> </li> </ul>
Supply of legal graduates		<ul style="list-style-type: none"> <li>The supply of legal graduates continues unabated despite the fact that most cannot find work in law. To illustrate this point, 12 years ago there were only two law schools in Melbourne. There are now eight universities offering law degrees in Melbourne plus a range of on-line and distance education providers.</li> </ul>
Focus of talent diversity		<ul style="list-style-type: none"> <li>The 2015 <i>Australian Financial Review</i> partnership survey revealed that women associates now dominate the legal industry but "the percentage of female partners has barely budged."</li> <li>A report by the Asian Australian Lawyers Association, published in April 2015, found that a 'bamboo ceiling' may be preventing lawyers with Asian heritage from rising to senior levels in the profession. The study found that six large law firms in Australia have no partners with Asian backgrounds and that only 0.8 percent of the judiciary have Asian heritage.</li> </ul>

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Macro Trend	Pace of Change*	Comments
Growth of pricing arrangements other than time-based billing		<ul style="list-style-type: none"> <li>Notwithstanding the well-documented downsides of time-based billing and celebrated value-based pricing success stories like Bendigo and Adelaide Bank, the evidence suggests that most commercial clients still like to be offered a choice of pricing structures. This includes hourly rates, fixed fees, capped fees, retainers, and if appropriate, contingency fees.</li> <li>Some smaller firms like Moores Legal and Bowen Buchbinder Vilensky have successfully differentiated themselves by offering agreed fee pricing only.</li> <li>E-billing and cost analytics are gaining momentum.</li> </ul>
Use of off-shore LPOs		<ul style="list-style-type: none"> <li>The push to use low-cost legal process operations in India, Philippines and South Africa has diminished for a variety of reasons: the fall in the Australian Dollar, labour cost arbitrage and competition from captives and on-shore LPOs.</li> <li>A number of global firms, including Herbert Smith Freehills, Ashurst and Baker &amp; McKenzie have announced expansion of their “nearshore” captive operations providing lower cost discovery, due diligence and document management services. This supports the prediction by noted legal commentator Richard Susskind of the “decomposition” of legal services with clients demanding to pay less for process work and happy to pay more for high-value advisory work.</li> </ul>
Growth of legal project management		<ul style="list-style-type: none"> <li>Responding to client demands for better price estimation and resource planning and control, many firms are increasing their investment in legal project management training and tools.</li> </ul>
Investment in sales and pricing capability		<ul style="list-style-type: none"> <li>In response to increased competition, many firms are investing heavily in upskilling their partners and senior staff in selling and pricing skills. Some firms have upgraded the sales support technology and are using more sophisticated CRM systems to get better at client/prospect selection, pipeline management and account management.</li> <li>The Patrick on Pricing roll call indicates 10 firms with an Australian presence have a pricing director or equivalent role.</li> </ul>
Growth of social media use		<ul style="list-style-type: none"> <li>The number of Australian lawyers using LinkedIn, Twitter and other online social networks is gaining momentum. Most use it for personal branding, networking and as a channel for distributing thought leadership material.</li> </ul>
Growth in the cloud computing and the mobile lawyer		<ul style="list-style-type: none"> <li>Concerns over data security and privacy have put a handbrake on the growth of cloud and mobile computing amongst many commercial law firms.</li> <li>Notwithstanding this trend, intra-firm mobility has seen significant investment. For example, Corrs Chambers Westgarth is currently redesigning all their offices to allow solicitors to work, print and collaborate at any workstation, meeting room or cafe table in the office.</li> </ul>
Legal software and technology		<ul style="list-style-type: none"> <li>The power and functionality of software enabling legal work continues to grow. This includes workflow tools, data search, document composition, document review, storage and sharing as well as in practice management and analytics.</li> <li>Some Australian firms have shown strong interest in the future use of artificial intelligence in legal work. Two notable AI examples gaining attention are Ross, the IBM Watson powered legal problem solving application, and Lex Machina, the IP dispute predictive tool.</li> </ul>

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## In conclusion

There is little doubt that the Australian legal market is in the mature phase of the life cycle with declining demand, increased price-based competition and pressure on operating margins. In this environment or the “new normal,” as some refer to it, clients want more for less and it appears they are getting it. Other than a substantive lift in general economic activity or major regulatory change, it is hard to see what will accelerate demand in the short to near term.

In the past, a combination of high demand, naïve clients and old boys club competition meant even mediocre firms could thrive. It is clear the market will no longer tolerate mediocrity. The war for top talent will intensify. Quality people will seek out quality firms that are well led and have a coherent strategy. Firms that don’t make the grade will simply fragment or fold.

One of the most challenging aspects of this new phase of competition is that much of the investment to improve and innovate gets matched by rivals. If everything is matched, everyone stays roughly in the same position. For example, if all firms train their partners in sales skills, no one firm will gain an edge by being better at sales. For the firms that truly wish to outperform, the key lies in “softer” capabilities that are harder to emulate. These include things like agility, discipline, execution, cultural cohesion, diversity and true collaboration. In our view these will be the traits of the firms that will fly in 2016 and beyond.



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