

## OPINION

# RESTRUCTURING LEGAL MARKETS: Brace yourself

Global response to COVID-19 proves false the notion that change is slow. When push comes to shove, restructuring happens fast

**FOR MANY PROFESSIONALS** in the legal market, the beginning of the end starts now. For some, it will be their own damn fault. For others, it won't and they'll suffer collateral damage.

Warning signs have been in place for many years. Legal industry consultants and observers have persuaded and harangued about it forever. Smart law firms took steps to change how they face the market and do business. Others chose to ignore the signals. Now, the difference between the two will be made clear. As Warren Buffet said, "It's only when the tide goes out that you learn who's been swimming naked."

The global pandemic has created a perfect storm: uncertain economics causing clients to withdraw work combined with legal market upheaval. This combination is causing a shuffling of deck chairs on many legal Titans and it's inevitable that some will go down, just like that ship.

## The legal business 'social club'

Much of what happens could have been avoided if traditional law firms had ditched the notion that they were glorified social clubs — some with partner lounges! — rather than hard-nosed, laser-focused, bottom line-driven businesses.

The truth is simple: Legal service is a business. Business is about commerce. Take your eyes off the money and your margins and you're in trouble fast.

Canada's Heenan Blaikie LLP collapsed in 2014 for several reasons, one being that it was run more like a social club than a business. Proof is in Norman Bacal's book *Breakdown* in a description of a meeting with

Coopers & Lybrand where the firms compare philosophies. It reads: *Roy (Heenan) began, explaining how "Heenan Blaikie is about the practice of law at the highest level in a collegial atmosphere among people who genuinely like working with one another. We take care of clients and one another and let the bottom line take care of itself." A few minutes later it was the turn of the chair of Coopers, who said, "We run a business with a view of maximizing our bottom line." He had nothing more to add.*

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That's because there was nothing more to say. Heenan failed and Coopers & Lybrand merged to form PricewaterhouseCoopers, which, along with the other Big Four professional services firms, includes legal among its business offerings.

## We're all legal service providers now

Lines are blurring further between Big Law, Mid-Law, Small Law, solos, Big Four, ALSPs, LPOs, paralegals, technology, etc. Clients who have WIP with any of them want it done efficiently. Otherwise, collection problems will become worse than they are now.

Clients are caring less about professional designations of who does the work. This started playing out last year in the U.S. with Arizona, California and Utah considering changes to law firm ownership rules. This situation is already entrenched in the U.K. and, obviously, it's spreading.


Those stealthy opportunists, the Big Four, will keep making big plays. Ernst & Young recently announced intentions to manage the supply chain between corporate law departments and legal service providers of all stripes. This is a business-based, finance-oriented management role for which EY is and always has been well suited — as are other Big Four members, because their first language is money, and by handling audit, tax or advisory work, they have a CFO's ear.

## Restructuring and retooling

Legal service providers that went into this pandemic in a weakened state are vulnerable. Some will continue to drag their historical legacy like a ship drags an anchor and the results will mete out.

Those that are determined to survive and thrive will need to do three things fast: Face the market by industry, spin off non-core practices and adopt a sales culture. All require resolve to release traditional operations and lawyer controls. They also mean business.

I speak from experience. During the 1990s, I was hired to lead two business turnarounds involving restructuring divisions that struggled for years: one for nine, the other for 19. Both required fixating on the core business, eliminating anything ancillary, enabling change based on hard data and exact timing and keeping intact a team that embraced the vision. These turnarounds took six and 19 months, respectively, and caused sleepless nights, but both entities remain solvent to this day.

I didn't win any popularity contests while getting these jobs done. Neither will you. But with grit and guts, the results will be well worth it. 

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