

"A YEAR OF CHANGE AHEAD"

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Law firms preparing for potential slowdown in 2008

The potential for an economic downturn is firmly on the agenda of Iberia's top lawyers as they look forward to 2008, reveals the latest Group of Experts survey. But most believe that the changing global economic environment will bring both opportunities and challenges for their law firms.

La encuesta al Group of Experts de Iberian Lawyer concluye que en 2008, nos enfrentaremos a una posible recesión en la economía. Otros apuntan como elementos a destacar en el próximo año, el creciente intervencionismo del gobierno en materia fiscal o la demanda continuada en fuentes de energía renovable en España y Portugal como sectores que brindan oportunidades. Muchos, sin

embargo, afirman que la influencia de la globalización en la economía puede presentar tanto oportunidades como retos para los despachos y hay que mantenerse alerta.

"The challenge will be consolidating our firms in an economic downturn after several years of permanent growth," says Pedro Rueda of Araoz & Rueda. Like most survey respondents he sees opportunities for developing wider areas of expertise such as "restructuring (both corporate and finance), insolvency, bankruptcy, debt recoveries, purchase and sale of defaulted debt portfolios, etc".

Paulino Fajardo, managing partner at Davies Arnold Cooper, in particular, highlights the potential impact of a downturn in the commercial property market, which has proved very profitable for law firms over many years. But also the opportunities that come from an increase in property-related disputes, for example, professional negligence actions against valuers and surveyors in relation to mortgage fraud, and disputes between banks.

Others point to a range of more specific opportunities in 2008, among them the increasingly interventionist approaches of governments to taxation, as well as the continuing demand for renewable energy sources across Spain and Portugal.

What are the main challenges and opportunities facing iberia's law firms in 2008?

"The emphasis will surely be put on M&A operations, market consolidation, joint ventures, and the support which law firms can provide during the increasing internationalisation of the Spanish economy and business interests... it all seems to indicate that the slow down of the European economy will lead Spanish businesses to explore external markets with more interest." Miguel Roca, Roca Junyent

"2008 will see a deeper commitment by Portugal of its century-old desire to act as the gateway between Europe and the South Atlantic, as Angola, Brazil and the other Portuguese-speaking African countries attract more investors from Portugal and other EU countries, and also the other way around." Nuno Brito Lopes, PLMJ

"Spanish law firms will have to adapt to an uncertain economic environment, they will have to ensure that their practice areas appropriately match the market. This in itself will trigger a restructuring of the size of some of them, as happened a few years ago, and which will no doubt give rise to further mergers." Francisco Guijarro, Hammonds

"We need to get ready for an increase in bankruptcy work. The new Law calls for teams and experts to handle bankruptcy administration and rigorous and complex proceedings, as more companies will be facing insolvency the increase of work for those with teams in place will be an interesting opportunity. There may also be an increase in litigation. Good times for firms with a balance between corporate and litigation groups." Rafael Truan, Diaz-Bastien & Truan

"During the last few years a significant portion of the growth of Spanish law firms has been based on M&A, many private equity deals, and real estate transactions. The challenge and the opportunity will be to reallocate these efforts and resources to new products and other players." Luis Crespo, Deloitte

"In Portugal, mergers, mass lateral hires and splits are presently the order of the day. Specific sectors of the Lisbon legal market appear to be feeling the pressure of competition more acutely than others, leading to potentially knee-jerk reactions in some cases." Manuel Barrocas, Barrocas Sarmiento Neves

"With the Endesa transaction over, those in and out of that transaction will be hungry for something similar and we all hope this happens in 2008 despite the uncertainties of the current business

climate. Also, those firms investing in international expansion will wish for the consolidation and return of their overseas investments." Javier Fernández-Samaniego, Bird & Bird



"If there is no major recession in the USA, which is transported to Europe and Asia, I would imagine that the rate of growth will be more or less flat, with a focus by law firms on providing increasingly specialised services." Manuel Castelo Branco, GPCB

"The biggest opportunity, and at the same time challenge, for Iberia's law firms in 2008, and beyond, will be their ability to adapt to new markets, which are not yet properly developed such as parts of Africa and Latin America, and to a smaller extent parts of Asia. The Western European market is unlikely to grow substantially in the foreseeable future so law firms must be prepared to look elsewhere for growth." Pedro Guimarães, F. Castelo Branco & Associados



"Private equity on the side of the buyer will be clearly affected, with a reduction in the volume of operations and the prices that they are prepared to pay. However, this is not necessarily bad for the M&A market: industrial businesses are profitable, with capital reserves and the opportunity to grow. For a law office with a base of clients that are basically industrial, like ours, the opportunity of growth in 2008 will come from our ability to know how to be, as always, on the side of a large global business in their operations in Spain." Luis Riesgo, Jones Day

Recruiting and Retaining

While 2007 was a year dominated by issues regarding law firm "talent", opinions differ as to whether the potential for economic downturn will assist or in fact exacerbate the current difficulties.

For Charles Coward, managing partner of Uría Menéndez in Barcelona: "One scenario envisions a reduced demand for lawyers and therefore the relieving of some of the competitive pressures recently reflected, inter alia in the rise of associate salaries. Another scenario suggests that as the best talent is always scarce, a slowdown in the economy may create difficulties for some firms to keep up with an inevitable rise in associate compensation."

Coward himself expects the latter scenario. "Talent will be even more scarce and harder to hold onto. I think firms will have to dedicate more time and resources in order to retain the best and the brightest. Those that have the extra resources and are willing to put them to work will emerge strengthened from challenging times."

These concerns are mirrored in Lisbon where, however, there still remains an expectation of further growth. "Junior talent recruitment and retention will remain at the heart of firms' concerns. The most recent years have seen the Portuguese legal market become significantly more mature, competitive and specialised. Firms able to recruit and retain the best junior lawyers will gain a crucial advantage over competition for the years to come," says Ricardo Oliveira of PLMJ.

More professional management

Ultimately, more effective management becomes more important in times where income is less certain. For many this means getting closer to clients, and to define firms' target work, and clients and resourcing work more profitably.

"Focusing more on client needs than profit share distribution will be key to long term success and sustainability," says Manuel Barrocas of Barrocas Sarmiento Neves. "Only firms with a tight strategy and recognisable culture will succeed in attracting better talent, moving into new markets and increasing their margins."