ARE SPANISH PROFITS PER EQUITY PARTNER BASED MAINLY ON HIGH LEVERAGE?

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Using recent statistics from Europe and the USA, Manuel MartÃn, managing partner of GÃ³mez-Acebo & Pombo, suggests that Spanish law firms may have relied too heavily on high leverage in order to maintain profitability.

It seems clear that, for some time, the old indicators of gross turnover and lawyer numbers alone have not been of great use. Likewise, I would like to see in our market the transparency existing in more mature markets like the USA or UK.

Of all the indicators above, the one that always gets a lot of attention in my conversations with colleagues about the Spanish market is the profit margin ratio. We all want to see if, on this important point, we are in-line with our European competitors.

Figures suggest, the top ten US firms by turnover had an average profit margin of 36.7%, slightly above the top 10 British firms that came in at 32.4%. If we compare these with figures published for other jurisdictions in the November 2004 edition of the European Lawyer we can see that both are less than the average in Sweden, Germany and Belgium which exceed 40%. They are in fact very similar to Spanish profit margin levels of around 35–36%. It appears that a profit margin ratio of 35% could be considered as a benchmark average for a 5–7 year period. We all know there are good and bad years.

Ratios and percentages are a helpful way to evaluate whether the financial dimensions of our practices are correct and competitive, however, a wide profit margin does not in itself mean the firm is going to have a high level of profits. That will obviously depend upon the turnover used to calculate the profit margin.

This is where the Spanish firms drop far behind the US and British firms. The combined turnover of the top fifty Spanish firms, which are traditionally included in the figures used by the national media, scarcely reach that of the first US or British firm. The first US firm reaches the same income with one fourth of the attorneys and half the partners of the Spanish top fifty and in the case of the first British firm, half the lawyers and half the partners.

Having said that, it is interesting to note that according to the report in The European Lawyer average profits per partner among the top Spanish firms is more than the German, Swedish and Belgian firms, and not too far below the British.

We seem to be properly sized regarding costs, but how can that be if our turnover, productivity per lawyer and per partner is significantly worse? In large part the answer can be found in the leverage of the Spanish firms. Here they are at least double the top US and British firms and more than triple the Belgian, German and Swedish firms. Even if the pie is small, if the pieces are divided among a few, they will continue to be significant.

Most of the big Spanish firms, if we compare them with their common law cousins, still need to reach acceptable levels of productivity, profitability and leverage (associates per partner). If we continue with high leverage we are not going to be able to offer a career with a future to our associates, and they will end up leaving.

If a profitable structure is not maintained, and an attractive career is not offered it will be difficult to attract and keep the best. Without the best, sooner or later the quality of services, and as a consequence, clients and income will be lost.