

GAINING MOMENTUM

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With new research showing that law firms in Spain are expecting growth in profits and revenue in the coming year – while many also anticipate an increase in headcount – the mood is certainly optimistic. However, it is important that law firms’ growth strategies are backed by a sound business case.

It appears that law firms in Spain are back on the road to increased profitability. Nine out of ten law firm partners and business development professionals in Spain expect that their firm’s profits will grow in the next twelve months, according to research by Iberian Lawyer.

A massive 93 per cent of respondents to a survey said ‘yes’ when asked if they anticipated an increase in profits at their firm in the coming year. Just over 70 per cent of those that did expect an increase said they thought their firm’s profits would grow by between one and six per cent. However, a further 16 per cent of those that anticipated an increase said their profits would grow by more than 10 per cent.

Expectations regarding revenue are similarly optimistic. More than 93 per cent of respondents to the survey also said they thought their firm's revenue would increase in the coming year. Around three-quarters of respondents that expected an increase in revenue said they thought it would grow by between one and 10 per cent. However, around one in four respondents said they thought revenue would increase by more than 10 per cent.

So what are the factors that will drive this growth in law firm revenue and profits? More than 85 per cent of respondents cited "a more positive economic outlook", while 45 per cent said "new service lines" would create growth. One in three respondents said "regulatory changes" would be a key factor, while 14 per cent of respondents said fee increases would be a driver. A total of 12 per cent of respondents said reductions in costs would drive growth. Other drivers of growth cited by respondents included: greater demand for compliance advice from Spanish companies; firm consolidation; and an increase in workflow and "commercial activities". Meanwhile, another respondent remarked: "My firm is a start-up that will naturally grow."

Which practice areas will generate this growth? A total of 79 per cent of respondents said they expected growth in corporate/M&A, while just over half (51 per cent) of participants in the survey said they expected growth in the area of dispute resolution. Meanwhile, half of respondents (49 per cent) anticipated growth in their tax practice, with a similar proportion (48 per cent) expecting their real estate practice to grow. Other types of practice commonly cited as growth areas included: banking and finance (36 per cent); capital markets (30 per cent); EU and competition (30 per cent); and intellectual property (26 per cent). However, around one in four respondents (23 per cent) said restructuring and insolvency would be a growth area, indicating that, while there may be generally a more positive outlook for the Spanish economy, some sectors are experiencing difficulties.

By how much will your firm's profits increase?

Nine out of ten respondents to the survey said they expected their profits to grow in the coming year, but by how much?

Growth	Percentage of respondents anticipating this level of growth
1-2%	21%
3-4%	27%
5-6%	22%
7-8%	7%
9-10%	6%
More than 10%	16%

Methodology: Partners and business development professionals at leading law firms in Spain completed an online survey in November and December 2014.

Spain to be the main driver

However, it is growth in the domestic market that most firms are relying on. Slightly more than half of the respondents to the survey (51 per cent) said Spain would be the region that contributed most growth to their firm in the coming year. Only four per cent cited Portugal as the region that would contribute the most growth. One in five respondents cited the rest of Europe (excluding Spain and Portugal) as the biggest growth region, while 11 per cent highlighted Latin America. A total of seven per cent of participants in the survey said the US would be the region that generated the most growth, while five per cent said Asia would be the main driver.

Meanwhile, almost two-thirds of respondents (64 per cent) said that most of their growth would be generated by "inbound work from clients outside Spain". The remainder (36 per cent) think most of their work will be driven by "clients within Spain". When respondents were asked how they proposed to capitalise on potential foreign growth opportunities, nearly half of respondents said they would do so via their existing foreign offices or through existing 'best friends' relationships with foreign firms. However, one in four participants (24 per cent) said they would aim to exploit foreign opportunities by developing 'best friends' relationships with foreign firms. More than nine per cent of respondents said they planned to open new foreign offices.

There are also signs that the legal recruitment market will be buoyant in the coming year. More than half the firms surveyed (52 per cent) said they expected their firm to increase its headcount in the next 12 months. Of those that said they would be increasing headcount, 72 per cent they would be doing so through lateral hires. Meanwhile, a total of 69 per cent of respondents said they would be bolstering their headcount by increasing their intake of trainees.

Uría Menéndez and Pérez-Llorca are Spanish firms that are increasing headcount and opening offices abroad. Earlier this year, the firm announced that, from 1 January, 2015, it will operate in Chile and Colombia under the guise of Philippi, Prietocarrizosa & Uría – a firm in which it has acquired a 30 per cent stake. Meanwhile, Pérez-Llorca opened in London. Commenting on the results of the survey, an Uría Menéndez spokesman says: “During 2014, the main drivers of growth have been M&A, capital markets and real estate – we expect these areas to keep pushing hard in 2015.” The spokesman adds the firm will also be growing in terms of lawyer numbers in the coming year. “Regarding headcount increases, we expect to attract around 70 lawyers during 2015,” he says. Meanwhile, a spokesman for Cuatrecasas, Gonçalves Pereira remarks: “We still need to close the economic year before confirming such an increase in profits and revenues.” He adds that with regard to headcount, the firm’s policy is to recruit trainees with “huge potential and give them full support for reaching the partnership”.

Lateral hires pose challenges

Alejandro Kress, senior manager and Iberia head at legal recruiter Shilton Sharpe Quarry, says recruiters anticipate an increase in lateral hires involving Spanish law firms and international law firms. However, he adds that he does not expect all of the major Spanish firms to make lateral hires at senior level because some of them “still have too many underperforming partners”.

It is vital that law firm’s growth strategies are backed by a sound business case. Kress says that there are a number of challenges involved in making lateral hires and that it is important that, before recruiting in such a manner, firms consider “compatibility with the culture of the firm, quick integration and clients following lawyers to a new firm”. He adds that any potential growth in headcount at law firms needs to be backed with a sound financial argument for doing so. “They [firms] need to look at the business case for newcomers, clients and books of business.”

In which practice areas do you anticipate growth?

The chart below shows the main practice areas identified by survey respondents:

Corporate and M&A	79%
Dispute resolution	51%
Tax	49%
Real estate	48%
Banking and finance	36%
Capital markets	30%
EU and competition	30%
Intellectual property	26%
Restructuring & insolvency	23%
Employment	21%
Projects & energy	21%
Environment	11%
TMT	11%
Insurance	8%
Transport	4%