

WSG Annual Meeting 2014

The Advance of Global Verein Firms – Threats and Opportunities

GUEST SPEAKER PRESENTATION

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#wsgagm2014

The Advancement of Global Vereins Threats and Opportunities

Tony Williams 11th September 2014

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The Advancement of Global Vereins

- Vereins cover a range of structures from de facto full financial integration e.g. Hogan Lovells to a more federal structure e.g. Dentons.
- There may be a process for further integration of management, remuneration structures, practice groups or the looser arrangement may apply for the foreseeable future.
- The Swiss Verein is neither good nor bad – it really depends what you do with it.

The Advancement of Global Vereins

- What is a Swiss Verein?
- Why is it used?
 - Business imperative of a global platform outweighs immediate management and financial integration.
 - Regulatory issues.
 - Speed.

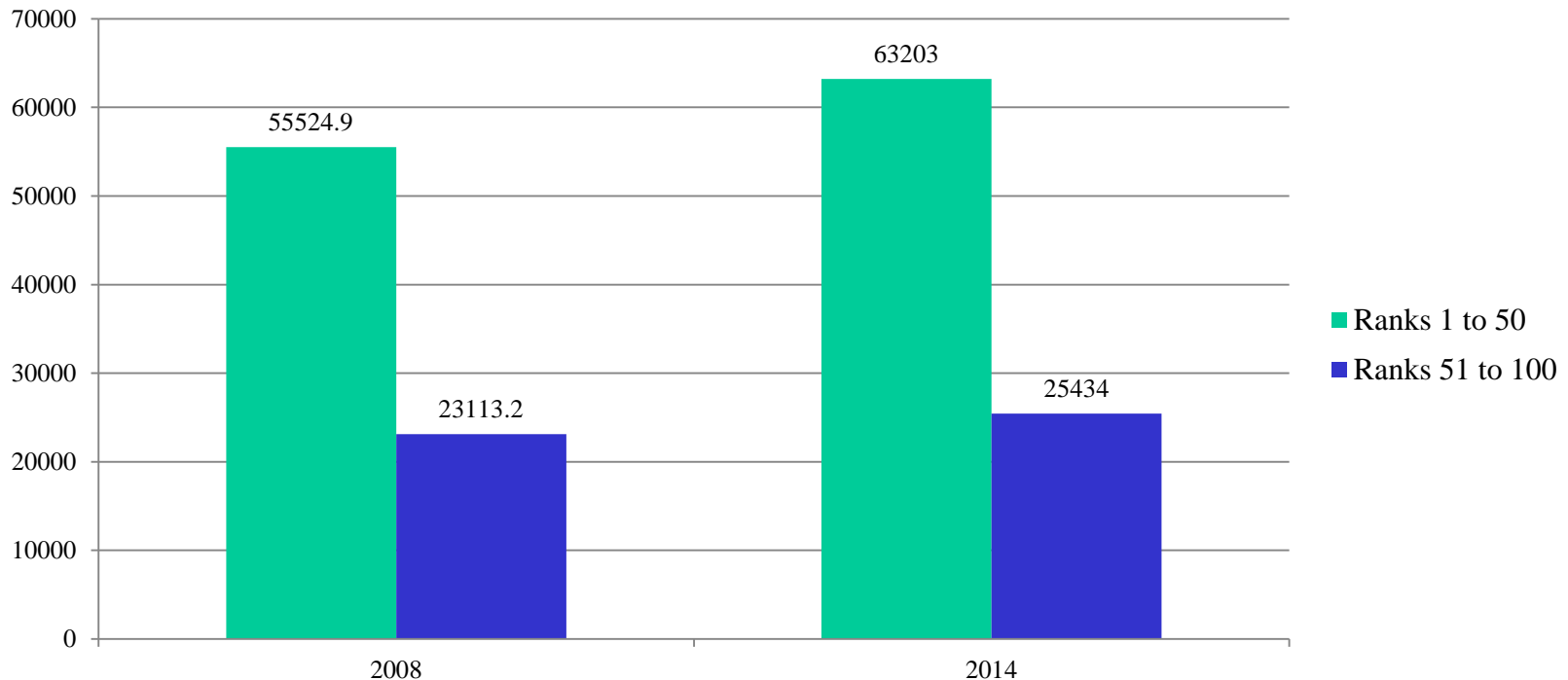
The Advancement of Global Vereins

- It's all about the client.
- Can you give me the level of service and legal skills I need where I need them in a co-ordinated, joined up and business focussed manner?
- Are you operating in countries and industries of interest to me?

The Drivers for Vereins

Size is a factor

**Legal Business Global 100 Firm Aggregate Revenues
(Combined Totals, \$M)**



The Drivers for the Verein

- About 30 law firms now have global revenues over US\$1bn.
- About eight law firms now have global revenues close to or over US2bn.
- The two largest law firms are Swiss Vereins (DLA Piper US\$2.48bn) and Baker & McKenzie (US\$2.54bn) and five of the largest 20 firms are Swiss Vereins.
- Partly due to mergers the top 50 global law firms grew revenues by 13.5% from 2008 to 2014 despite the global downturn whilst the next 50 grew by 9%.

The Global Fortune 500

Country/Region	2008	2013	Increase/Decrease over Five Years
EU	184	128	-30.4%
US	153	132	-13.7%
BRICs	46	112	143.5%
China	29	89	206.9%
France	39	31	-20.5%
Germany	37	29	-21.6%
UK	34	26	-23.5%
Canada	14	9	-35.7%
Australia	8	8	0.0%
Brazil	5	8	60.0%
India	7	8	14.3%
Russia	5	7	40.0%
Switzerland	14	14	0.0%
Turkey	1	1	0.0%

Potential Issues with a Verein

- Are there sufficient incentives to play nicely together?
- Will the client get the service they expect?
- Will the members accept closer integration?
- Are the firms bound together?
- How much time will be devoted to management?
- How will costs and benefits be allocated?

The Drivers for the Verein

- If you don't already have it, it is now too slow, too uncertain and too expensive to grow a top tier global platform by greenfield offices and organic growth.
- As markets mature a small office may not be credible.
- The target firm may have a different financial model and cherish its autonomy.

The future of the Verein

- Given the business imperatives verein type structures are here to stay.
- But they will evolve.
- Putting them together is relatively easy – the test is making them work from a client’s perspective.
- They will facilitate the creation of more firms of over US\$1bn revenues. We may even see a US\$5bn law firm before too long.

What space is there for global firms?

- The top “bet the farm” firms.
- The high value co-ordinated service firms.
- The mid level, co-ordinated and price competitive firms.
- How credible is the firm, can it keep and attract talent, does it have the profit to invest, can it credibly gain promotion or is it easier to be relegated?

The Accountants are coming too

- They may have messed up before but don't assume they will mess up every time.
- Recently in Asia PwC added a Singapore firm (Camford Law) and is prioritising Japan, Hong Kong and China with interest in Korea and Indonesia. It already has legal teams in Australia (where it recently added leading lawyers Tony O'Malley and Tim Blue formerly of KWM), India, Vietnam, Taiwan, Laos, Thailand and the Philippines.
- Their legal offering will be closely integrated with tax, corporate finance, immigration, employment, insolvency etc.

The Accountants are coming too

- Variations of a verein type structure but the accountants are increasingly moving to regional rather than national firms.
- They are big beasts

FIRM	REVENUE	HEADCOUNT	PARTNERS
PwC	\$32.1bn	184,000	9,597
KPMG	\$23.4bn	155,000	8,664
Ernst & Young	\$25.8bn	175,000	9,897
Deloitte	\$32.4bn	200,000	10,189

The Accountants are coming too

- They have a formidable brand position and very effective cross selling skills.
- In the UK they will get ABS (alternative business structure) licences.
- They have deep pockets – PwC bought the management consultants Booz & Company which had 3,000 people in 57 locations worldwide.

Conclusions

- The legal market is consolidating and the number of “global” firms will increase before they in turn consolidate.
- The accountants will make mistakes but they have the ability to grab a large piece of the mid and upper mid legal market.
- Neither trend need damage independent law firms that have a clear and compelling offering of relevance to their clients.

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11 - 12 SEPTEMBER · HONG KONG

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