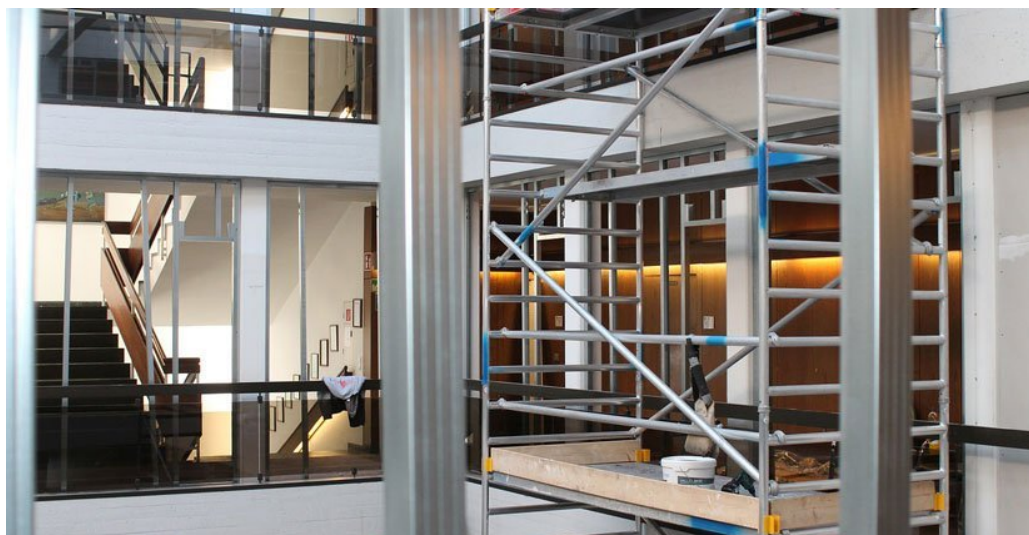


IN-DEPTH: RESTRUCTURING AND REORGANIZATION OF LAW FIRMS - A NEW CHALLENGE IN THE LAW FIRM MARKET



1 Restructuring and reorganization of law firms - a new challenge in the law firm market

By Christoph H. Vaagt and Thorsten Zulauf

In this series of articles, we look at the experience we have gained as consultants in the law firm market in recent times. Whereas in the past the focus was on the question of strategy, then on the organization of growth, we are now dealing with restructuring and reorganization needs, which is also reflected in our law firm benchmark studies. This has consequences for the law firms as well as for the individual lawyer.

The economically successful management of law firms is no longer a matter of course in today's economic environment. Differentiated positioning vis-à-vis the firm's competitors in the market, the creation of close ties with clients in a competitive environment, the retention of employees and the creation of an attractive working environment while at the same time ensuring profitability demands a great deal from the partners.

The law firms that manage to do this belong to the future, the law firms that are not competitive have unclear future prospects. What is only visible on the horizon in the law firm market is already much more visible with auditors, for example.

1.1 Partnerships will only grow through consolidation

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Without sustainable growth, it becomes difficult for a law firm to find a perspective for continuation if there is no vision of where the firm should develop and a clear understanding of a focus on working the market. If a partnership is no longer attractive, they can no longer find "partners" to take it on, and thus lack the resources that have so far characterised the business model. Growth used to come automatically with the expansion of the range of services on offer, as the market was a supply market: clients could not find enough competent lawyers to meet their ever-increasing need for legal advice.

But this has changed: on the one hand, the needs are now largely covered, on the other hand, there were more and more lawyers on the market. Then clients started to equip their legal departments in such a way that they could cover the majority of legal issues themselves. And thirdly, they started to examine the law firms to see who they need for which business and who they pay how much to whom. As a result, the situation has reversed: it is now a buyer's market, clients are more critical in their decisions about awarding contracts, and law firms are in fierce competition for clients and the next generation of lawyers.

Some law firms were tempted to merge with other firms if organic growth did not succeed to a sufficient extent. However, law firms, as well as the integration of teams into their own firm, are of a complex nature and require the attention and commitment of all partners. Without this basic attitude and the creation of an environment that supports the merger, the associated expectations of growth, an improved market presence and thus the sustainable strengthening of the market position can rarely be fulfilled. Only a few mergers among German law firms in recent years can be regarded as having been truly successful - they mostly rescued themselves into the arms of UK and US law firms, which, with their superior management processes, then put the firms on track (and in the process parted ways with a number of partners). Restructuring was thus achieved by delegating the problems to a new unit.

1.2 Summary

The changes outlined above offer opportunities, both for the firm as an organization and for the lawyer as a partner or associate as part of the firm.

The firm as an organization must provide lawyers with an environment in which they can find the best conditions for professional, growth-oriented work. The firm must provide processes that ensure the strategic development of the firm, the services offered and the lawyers.

At the same time, however, lawyers are also required to adapt to changing market and competitive conditions in order to achieve sustained success in the firm.

For partners, this means in particular dealing with the role of the partner and the changing requirements of the clients, as well as the provision of legal advice as part of the legal services. For associates, this means in particular developing the necessary skills to enable them to work successfully in the firm on a long-term basis. It is also important that, in addition to the partnership's previous career goal, alternatives are considered

and actively brought into the organization. The law firm as an organization, in turn, has the challenge of bundling and integrating the various perspectives on successful legal work and ensuring that it meets the economic and other expectations of the partners.

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2.1 Disappointing earnings performance

Without growth, the partners of the firm find themselves in a situation where the firm's profit is steadily decreasing at the same cost structure, i.e. the profit per partner is getting lower from year to year. The necessary reorientation of the firm, the strengthening of its competitiveness, increased efficiency at lower costs and other measures are much more difficult to implement in a crisis mode in the community if they have to be borne by all partners. The attempt to reduce tensions in the partnership by changing the profit distribution system will only work well as long as the over-performers and the under-performers still accept the results.

2.2 The firm is eroding, the successful ones usually go first

If the lack of growth or even a decline in the volume of business becomes apparent, this often affects the cohesion in the partnership. Conflicts between partners increase, the partners deal with themselves instead of jointly advancing the development of the firm, client relationships are shared less with others, the distribution of profits is questioned by the service providers.

A frequently observed consequence of the negative developments is that the service providers leave the firm and, as a rule, the client relationships as well, so that the negative economic development is further intensified.

2.3 The partnership actively deals with the development

In a doomsday scenario, the firm's options are limited, so it is critical to be aware early on of the symptoms that could lead to this scenario. It is also important to regularly review the development of the firm and your own role as a partner. This requires an intensive and regulated communication within the partnership to deal with these issues openly and to actively measure the development against goals agreed upon by the partners. Although many partnerships talk to each other regularly, this communication does not necessarily lead to a discussion of issues relevant to the firm. It is important to break the taboo here in order to drive development forward in a targeted manner.

In this case, it is helpful to present the financial development of the last few years, both on the turnover side and the cost side, in order to provide a rational basis for decisions. This also covers the personnel structure of the firm and how these resources are used - also across locations and practice areas.

2.3.1 About the adjustment of the profit distribution system

If the economic development does not go as planned, e.g. if there is less growth than expected, and if newly appointed partners contribute only to a limited extent to the firm's profits, and perhaps clients switch to competitors, then the firm's overall profits will be reduced relatively quickly.

The partnership can retain the top performers here by giving them greater economic recognition through an adjustment of the profit distribution system. This can counteract the erosion in the partnership, but does not release the partnership from the obligation to actively engage with the future economic development together. On the contrary, it is often just window-dressing.

2.3.1.1 On the establishment of multiple profit pools

If the profit distribution system itself cannot help to clarify the situation, it is possible to better reflect the economic performance of individual areas by setting up profit pools. This is especially true for MDP law firms, where tax advisors, auditors and lawyers work together, but the business models and profitability of the divisions differ greatly. Even in law firms with legal areas that differ too much in economic terms, e.g. traffic law to company law, a separate profit pool can avoid distribution discussions. The extent to which the accumulation of different legal areas is then suitable for sharpening the market profile is another topic.

2.3.1.2 On the exit of a part that can operate better at lower cost, in a consensual manner

The fields of law domiciled in a law firm sometimes have very different profit opportunities, e.g. administration of trademark rights. In the past, this was always a part of the Intellectual Property department, because the advice sometimes resulted in the protection of rights. However, these departments, some of which have become very large, have experienced very high cost pressure from specialized competitors, so that it is seldom worthwhile to maintain these departments in expensive chancellery premises and not to use the cost reduction possibilities offered by the use of technology. Here, a solution may be to outsource these departments to an economically independent unit that can provide this type of consultancy / administration with a suitable cost structure. These units will then have growth options at their disposal again, which were not possible in the previous structure, for example by developing further services that fit in with this unit.

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3.1 The competitiveness of many law firms can be improved

These and other factors are the reason why law firms are no longer sufficiently competitive in individual business areas. This is a process that is also visible in other types of business, when individual markets develop differently. As "generalists", law firms are active in many business areas and the challenge is to have clear investment and

divestment strategies. Only where the business areas are interdependent does it make sense not to separate them.

The threat to the firm's competitiveness is visible in many facets at an early stage. This can be seen in the loss of client relationships because the offer no longer fits or the lack of new clients. The firm's attractiveness for its own employees is diminishing, and the firm also has difficulties in finding good new employees. The signs of declining competitiveness are evident early on in the firm's development. The partnership needs the openness and strength to face and overcome these challenges together. Sometimes it is helpful if the message is formulated from outside, as we as consultants often (have to) do. A partnership often avoids internal conflicts, as internal solidarity is highly valued, especially in law firms with profit distribution systems.

3.1.1 The short-term pursuit of profit dominates

The law firms make a profit each year, which can be up to 50% of turnover, in some cases even more. In the majority of the law firms, this profit is distributed in full to the partners, so that there is hardly any fluctuation reserve for payment defaults or investments. The firm lives from the substance in favour of the distributions, comparable to an investment backlog in real estate where maintenance / modernisation is not carried out and future buyers - in this case the future partners - have to make up for this. Also, the distribution behaviour rarely takes into account the increased operative capital requirements due to the growth of the firm, higher costs, changed payment behaviour of clients, which is covered by external financing and, in exceptional cases, deposits from partners. The previous business conduct of a law firm thus contributes to the fact that it is not future-proof enough. Although this is understandable in view of its long history of growth, it is neither necessary nor future-proof.

3.1.2 Little investment in strategic development

The strategic gap in law firms is often very large. For one thing, it is not clearly formulated what kind of advice a law firm stands for, what target group of companies it wants to work with or what the underlying business model should look like. On the other hand, it deals only in part with the economic, legal, technological and social environment and its effects on the present and future of the law firm.

Clients who do not deal with their clients, their products / services will sooner or later disappear from the market. Therefore, investors, shareholders and banks have insight into the business situation in order to be able to take countermeasures if necessary. Law firms lack these external sources of inspiration, and even avoid any openness, especially since they choose legal constructs that do not force them to do so. Their partners must therefore think, act and invest in a goal-oriented manner as entrepreneurs in order to maintain the future viability of the firm. It seems necessary to include an outside perspective.

3.1.3 Economic management opens up new opportunities

A large number of law firms limit their economic management to data from the

accounting department. Often there is a budget, but this is only set up and coordinated to a very limited extent and therefore has more of a recommendatory character than a real control. Key figures are only used by the larger law firms, but in the process they repeatedly develop blind spots, namely when it comes to asking critical questions. The focus is too much on the people involved, rather than on the business areas and the business opportunities that lie within.

Law firms that do not manage and economically control their resources sufficiently lose a lot of time and therefore money if action is not taken quickly enough. With a focus on increasing turnover, especially partner turnover, which is still very widespread today, it is negated that every new mandate must also make a contribution to profits. If this is consciously accepted (new relationship, new legal area, etc.), it must be ensured that the missing profit is generated by other mandates or the total profit decreases accordingly.

This is a great challenge, especially in law firms with a strong partnership approach. This is often perceived as a "banishment from paradise"; it is indeed a fundamental change in the way we work, which must be no less cooperative and solidary, but it avoids closing our eyes to economic developments.

3.1.4 The firm is threatening to disintegrate

A permanent impairment of competitiveness leads to the erosion of clients, employees and thus to a lack of profits, to the disintegration of the firm, but at least to shrinking to the still competitive parts or spin-offs of areas such as spin-offs or partner team changes to other firms.

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4.1 Dealing with succession issues at an early stage facilitates the future

Partnerships in law firms are subject to permanent change, and the observation of the age structure is of particular importance in this respect. This applies not only to the ongoing management of the firm - often by the older partners - but also to the inclusion of younger partners in the client relationships of the senior partners in order to bind the clients to the firm in the long term. If succession issues are not discussed in the circle of partners at an early stage, all those involved lose the possible scope for action, which can also have a negative effect on the development of the firm and its image in the market.

4.1.1 Seniors score points through experience

It is often difficult, especially for the founding generation, to share the responsibility for the firm / clients with other partners or to let go completely. What at first glance seems comfortable - the seniors are experienced - can quickly turn around, as they sometimes tend to focus more on the successful development of the past and less on the present / future competitive conditions. In the long term, the seniors damage the reputation of the firm and thus its legacy.

It is therefore important that the partnership discusses the seniors' plans for the future at an early stage in order to be able to organize the succession and avoid conflicts in its development.

4.1.2 The juniors show maturity

The younger partners in the firm often lack the courage to take the initiative and thus gain experience for the management of the firm / clients. If older partners leave, a vacuum is created in the firm, which the younger partners sometimes cannot fill sufficiently.

The seniors can only encourage the younger partners to a limited extent, the initiative must come from them themselves in order to do justice to their status as entrepreneurs. In this process it is helpful if the younger partners also make use of external help, e.g. through coaching, which helps them to find clarity about their present and future role in the firm. The sooner a communication of mutual expectations and fears between juniors and seniors takes place, the better the mutual understanding is developed and the more goal-oriented the cooperation.

4.1.3 Succession is also found in the market

In addition to the internal continuation of the firm, the sale of own shares is always available as an option. Here, a market for the succession of law firms has only established itself in the lower segment of the market. The likelihood of finding an external buyer or convincing partners is currently less and less in the market, as neither one nor the other is in abundance, especially outside the big cities.

Here it is also important to develop a realistic picture of the firm and its inherent potential, otherwise the price expectations will not match the potential. It is especially important for the younger partners to enter into negotiations with the seniors on the basis of realistic price expectations.

4.2 If no action is taken, a strategic crisis becomes an earnings crisis, which then leads to a liquidity crisis

The aforementioned influences can cause lasting damage to the development of a law firm. Securing sustainable competitiveness can only succeed if the firm finds and consistently implements suitable strategies for dealing with the economic developments in the individual business areas. A strategy must be questioned at regular intervals; it is a learning process as to what extent a law firm is still in line with the requirements of the market, clients and competition.

Law firms that neither have a clear strategy nor regularly review it show no growth and develop less well than the competition. Staying with the current market position is a step backwards as competitors change. The longer the counteraction is delayed, the fewer options for action are available and the more radical these options become.

The lack of growth has a negative impact on the earnings situation, as costs usually continue to rise. The partners' profits stagnate or decline, and dissatisfaction within the firm increases. At this point at the latest, the law firm culture suffers lasting damage,

which should actually be avoided. If no action is taken now, a tense and persistent liquidity crisis will occur in the medium term, which could threaten the firm's existence. This situation has already arisen in auditing firms; here, earnings are under so much pressure that profits can sometimes no longer be paid out.

The law firm runs the risk of getting into a vicious circle, which leads to a situation in which first the partners waive withdrawals, then even capital contributions by the partners are demanded. Time is becoming increasingly scarce to take countermeasures. At this point in time, the partnership has usually experienced personnel upheavals, blame is assigned, and the inability to act increases.

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5.1 The "Zeitgeist" as a threat to the legal profession

In addition to strategic, financial and operational issues, the market position of a law firm is increasingly influenced by general economic developments and trends discussed in the scientific community. It is difficult to distinguish between developments that actually influence the market for legal services and supposed trends from other economic sectors (e.g. the use of technology towards digital law firms).

The most important trend is the one that denies lawyers a special role, and thus privileges, in society. Lawyers are "like normal companies". This means that the important contribution that lawyers make to securing trust in society is no longer being rewarded. Lawyers are in competition with politicians and journalists, who both believe that they have a special role to play here. Furthermore, the privatisation of state activity means that the role of lawyers as an antipole to state arbitrariness is seen as less necessary, especially in highly developed societies. This is countered by the observation that even in western societies there is often arbitrariness on the part of the state, that parts of society no longer have access to justice, or that liberalisation does not lead to everyone sharing in prosperity. In some countries of the world, lawyers are still the only ones who deserve to be trusted at all (e.g. Asian, Eastern European and African countries where politics and administration, including the judiciary, are corrupted). But this does not change the trend.

Lawyers can no longer rely on receiving the protection of society as a matter of course, but have to earn their position every day.

5.1.1 Partnership as a role model is attacked

The partnership as the role model has often been predicted to come to an end, but now the organizational disadvantages are becoming more and more obvious. What has changed is, on the one hand, the reduced chance for lawyers to make it to partner in the first place and, on the other hand, the requirements for a partnership. The disadvantages mentioned above are real disadvantages in the management of these organisations, which are developing into competitive disadvantages compared to alternative providers.

The introduction of so-called alternative career paths results on the one hand from the

fact that the law firms are no longer growing so strongly (ergo the number of partners can also no longer grow so strongly without diluting the profits). On the other hand, not all lawyers strive for a partnership, also due to different motivations (work-life balance, focus should be on professional work, ...). By establishing career levels below the partner (named Counsel, Associate Partner, Salary Partner,...), the law firms now offer these qualified lawyers an alternative without losing them to the competition, even if, in the back of their minds, the "civil servants" of individuals are not really desired.

The role model of the entrepreneurial partner is therefore under pressure. The challenge is to offer the partnership to those who ensure the continuation of the firm, but also to take into account changing priorities such as family time or part-time work.

5.1.2 Everyone talks about disruption (even if it is not yet there)

Disruption in the legal market is another trend that dominates the headlines, although it has so far been barely noticeable. The effects on the business model of medium-sized law firms in particular have not yet been felt. Disruption occurs sporadically at the edges of the legal market through the entry of new market participants such as Xenion or Lawyers on Demand, but these have not yet established themselves in the broad market.

It is still unclear whether the disruption expected here can be compared with the entry of the personal computer into a broad market dominated by mainframe computers. The simpler, easier, more convenient, accessible and affordable the legal services are designed, the more likely it is that disruption will nevertheless occur. In the area of standardised legal services with high volume / low added value (understood here as a product), such as simple purchase agreements, general terms and conditions, bond documentation, there are already a wide range of providers. Their use is usually more strongly observed after crises, because the willingness to try out is increasing.

Successful disruption has so far taken place in many markets such as commerce (Amazon), software (Microsoft), consumer electronics (Apple), hospitality (Airbnb), transport (Uber), social media (Facebook) and others, but the legal market is still waiting.

5.1.3 Legal market has become a topic of discussion where everyone has a say

The status of the legal market is intensively monitored from many sides, unfortunately in many cases without a deeper understanding of it. There is therefore a high degree of uncertainty in the market as to which developments will dominate and how these will affect your own law firm. As the market for legal services is very segmented, e.g. focused vs. generalist law firms, the "market" does not exist, but rather the law firms active in this part of the market that compete with each other and with law firms of adjacent segments that want to break into certain client relationships.

Without a precise knowledge of the existing segments as well as the law firms active in these segments, it is hardly possible to make valuable statements about the development of the market.

Frequently, some management consultancies refer to these trends as the "new thing" in the market, without which further development does not seem possible. It is important to

weigh up carefully what is really relevant for a law firm to survive in the market as a company. Just as simple economic recipes are not always good, just as each trend is not equally threatening. Nevertheless, it makes sense to deal with these topics without committing oneself completely to them.

5.1.4 Legal Tech is the new competitive driver

Legal Tech is one of the "buzz words" that is driving the industry, although so far hardly in Europe, but increasingly in the USA and UK, where there is a lot of investment in corresponding providers. Legal Tech as a derivative of technology - often disruptive - for the legal market, such as the so-called "FinTech" for the financial industry or "InsuranceTech" for the insurance industry.

At present, Legal Tech has little penetration in the market, even though e-discovery, automated document review in due diligence procedures or automated contract management are already in use, the use of artificial intelligence is widely used and being further developed.

The impact on the competitiveness of law firms will be immense. The job profile of lawyers will change. But change always brings with it opportunities, as new professional fields are emerging, such as legal project managers who coordinate complex mandates with a large number of participants (people, service providers and software), while simple processing is automated.

This is certainly comparable to the process in accounting, where it was initially unthinkable that documents could be automatically assigned to accounts. Thanks to the development of scanners and corresponding reading software, the accountant no longer just books, but is now only responsible for quality assurance to a large extent.

6 Restructuring and reorganization of law firms - a new challenge for the law firm market

6.1 Challenge: unbalanced:change with high process uncertainties

The change will come. Here, change is to be understood as an opportunity, not a threat, so the change must be shaped with the participation of all those affected.

The opposing themes, on the one hand the need to restructure the company, on the other hand the need for innovation and improvement, must be shaped during the ongoing business. This is certainly the greatest challenge, which we describe as "unbalanced:change".

Some of these changes have to be reflected in the standardized processes, otherwise it leads to a multitude of approaches that make the change obsolete. Other changes lead to internal dislocations and learning processes that take time to be processed. Therefore, project management is absolutely necessary to control this in a way that neither displeasure nor euphoria are too strong and distract from the real thing.

Here, strict attention must be paid to compliance with the processes, communication must be accompanied and the experiences made with the new processes must be shared

with all those concerned. As a rule, this leads to an adjustment of the defined processes and thus to greater acceptance.

If this does not happen, the investment in the "new" law firm is endangered and makes the organization feel insecure in the long term.

6.1.1 Simultaneous restructuring

The change brings opportunities to question existing processes and to adapt them to the changed market/competitive requirements. This demands a lot from the organisation, ties up resources and must be actively supported and communicated by the partnership. It can be helpful here to accompany this change together with consultants, since radical changes in the organisation take place here and changes do not work on announcement.

Restructuring opens up opportunities to adapt the business model to the new competitive requirements and to align the organisation more strongly with the legal problem-solving for clients.

6.1.2 And initiate innovation / business development

In addition to the organizational changes, it is also a question of the firm's ability to innovate, its ability to position new service offerings on the market and thus increase its competitiveness. These innovation efforts are to be integrated into a holistic business development concept, which coordinates and accompanies the innovation process for the partners and adapts the firm's market presence accordingly. The more the business development is integrated into the ongoing client relationships, the more custom-fit and coordinated the retention and innovation processes can be. The partners must be involved here, as their experience and knowledge of client needs are the key to initiating innovation.

6.2 Restructuring

The restructuring of law firms is based on a substantive analysis of the economic situation. In addition to the analysis of the financial situation, this also includes the analysis of the personnel structure, the range of services, the client portfolio, the law firm processes and governance.

6.2.1 Competitive comparison relevant (ie Economic)

A competitive comparison according to common market indicators, e.g. via the UBT (turnover per professional) as an expression of the performance of the professionals or via the UEP (turnover per equity partner) as an approximation of the partners' ability to acquire, helps the individual law firm to better understand its own competitive position.

If the profitability and thus the ability to make sufficient profits is not given compared to the competition, then measures have to be taken in the law firm to get back on a profitable path. Law firms that regularly monitor their profitability, e.g. on the use of resources (capacity utilisation ratio), the billability of the work done or the contribution margin of the mandates/clients, are at an advantage here because the symptoms become apparent early on.

6.2.2 Check the capital situation, the capital accounts (in particular if not booked continuously!)

The capital accounts represent the working capital of the firm and must be maintained in a timely manner, this applies in particular to ongoing withdrawals and the determination of any possible necessary contributions.

The withdrawals are to be coordinated and authorized within the circle of partners, and the withdrawal policy plays an important role in this. It determines, on the basis of the planned profit, how high the advance withdrawal is and how much liquidity at least must remain in the firm, this in comparison with the actual development. If credit-financed withdrawals are made, these must be questioned very critically, as they must first be generated in the future.

When admitting new partners, it must be assessed how they will be accepted into the firm. In the case of naked-in / out there is no obligation to contribute working capital, otherwise this must be paid up in accordance with the share of profits.

6.2.3 Separation of clients / divisions / locations

The analysis of the client/client portfolio brings clarity about which clients one has worked with in the past, what services were provided here and how these relationships have developed. In many law firms it has been shown that 80% of the turnover is generated with 20% of the clients, so the dependence on a few clients is high. The analysis may also show that the firm has established long-term relationships with certain clients, but these relationships contribute little to profits. On this basis, the individual areas of law can also be examined for their contribution to profits, although dependencies between areas do exist. By comparing both levels, the picture obtained is balanced.

It is much more important that the range of services offered / the client portfolio is in line with the strategy adopted and the market positioning aimed at. The desired match then leads to a more focused offer, whereby previously offered services can then be dropped. The same applies to clients who can no longer be served because the law firm in its new form no longer suits the clients and also because the firm has to charge rates for profit protection which are too high for the client. This development can also affect locations which the firm can no longer maintain because they are subsidized and contribute little to positioning in the market.

Particularly in the case of merged law firms, there are many examples of the listed developments which do not always occur immediately, but over a period of time.

6.2.4 Digression : Transformation from Linklaters Oppenhoff & Rädler to Linklaters LLP

Linklaters' entry into the German market in 2001 was one of many mergers at the beginning of the new millennium. This was the beginning of the fusion of German and English law firm culture, which today is more English than German in internationally positioned law firms; however, it has also brought with it a great deal of growth potential.

6.2.4.1 Adaptation of services

In the years since the merger, Linklaters' range of services has been strongly oriented towards the focus on corporate law and capital markets, supplemented by associated additional legal areas that are, however, transaction-oriented.

This has also led to a significant reduction in the number of partners in the non-focus areas, so that tax law, for example - formerly a hallmark of Oppenhoff & Rädler - has been concentrated on transaction-related and capital market-related elements. It is in these areas that the partners are most likely to be able to achieve the profitability the firm expects.

This applies equally to many other areas of "commercial law", such as competition law, employment law, real estate law or IT law.

6.2.4.2 Outsourcing of services - Jonas Attorneys at Law in Trademark Law

In addition to adapting the services internally to a level appropriate to the support provided, individual areas that no longer fitted the business model of the firm were outsourced. This was implemented with the area of trademark law / trademark administration under the name Jonas Rechtsanwälte, so that this service could be operated independently with an adjusted cost level. Investments in the area became possible as there were no longer high costs and partnership as an instrument of employee retention became possible again.

6.2.4.3 Spin-off Locations - Kinstellar (Eastern Europe)

Regional expansion made sense as long as the business opportunities promised growth. In the case of Eastern Europe, the period following the fall of the Iron Curtain in 1989 was predestined for this, but the level of remuneration only corresponded to international standards when it came to investment transactions. With the decline in investments, this region was taken out of focus and the Eastern European locations were repositioned on the market as an independent law firm under the name Kinstellar in 2008. With this clear regional focus and the appropriate level of costs and profitability, this law firm has clearly positioned itself and continues to expand in the region (Belgrade, Istanbul, Almaty, Sofia and Kiev).

6.2.4.4 Relocation of offices - closure Cologne, opening Düsseldorf

In individual cases, mergers also lead to a revised location policy. In addition to the commitment to focus on transaction-oriented corporate law, one of the historic Oppenhoff offices was closed in 2008 in favour of a new opening in Düsseldorf with lateral hires. Linklaters' focus on the Düsseldorf office was brought into line with the alignment of transaction-oriented corporate law with the physical proximity to the industrial location of Düsseldorf. The firm's culture was further homogenised in that only those employees who saw a perspective here changed.

The Cologne office then became the nucleus for a new, now independent law firm, Oppenhoff & Partner, which continues the entrepreneurial tradition of the old

Oppenhoff firm. This idea was continued in 2013 with the opening of a second office in Frankfurt.

7. restructuring and reorganization of law firms - a new challenge for the law firm market

7.1 Rehabilitation

The restructuring of a law firm is based on the findings of the restructuring, those elements of the firm that promise potential are continued, others are discontinued. In addition to this radical reorganization, however, much can be achieved during ongoing operations without immediately affecting the substance of the law firm. For this purpose, however, it is necessary to continuously deal with the profitability and positioning of the law firm in order to avoid undesirable developments.

We distinguish here between short-term, medium-term and long-term measures.

7.2 Short-term: Resource optimisation / cost control

We consider short-term measures to be those that can be introduced with the existing personnel structure, IT structure and business model. In most cases, these measures lead to an immediate improvement in the result, sometimes also to an improved market presence.

7.2.1 Audit of mandates / clients: critical examination of unprofitable

The audit of the existing client and mandate portfolio must be examined with regard to the contribution to earnings. Mandates that do not bring a contribution margin can be discontinued at any time, or the overall result can be monitored with the client.

If mandates can only be processed at a loss, they must be closed as soon as possible in order to minimize the loss. At the same time a renegotiation of the fee / the resources used should be initiated with the client.

Furthermore, the client acceptance process should be revised in order to determine the expected contribution margin in advance of acceptance.

7.2.2 Cost control and securing liquidity

The cost structure of the law firm can be derived from the accounting and the BWA, a large part of the costs here is accounted for by the personnel (professionals and business services) which can only be influenced in the medium term. The personnel costs also include external service providers (freelancers, lawyers not employed, ...), whose further employment should be questioned.

All contractual obligations are to be recorded centrally and evaluated with regard to the continuing benefit / competitive conditions. Badly negotiated contracts should be terminated and new offers should be obtained. Basically, this is the starting point to determine the new service level of the law firm in order to identify the providers who can offer this service level with the best cost / quality mix.

If the firm has liquidity problems, a higher level of bridge financing can be agreed with the bank or additional deposits from the partners can be requested to secure the firm's liquidity. A continued withdrawal has to be checked with regard to the liquidity situation and adjusted if necessary.

7.2.3 Resource management

The time recording of the professionals has to be checked for timely and complete input, since experience shows that about 10-15% of additional billable hours can be entered. This usually results in 15% msat, and with a 50% profit rate this means a doubling of the profit. The restructuring is therefore quickly economically possible, if the firm is not already caught in a vicious circle.

The professionals must be closely managed and time recording must be made binding.

7.3 Medium-term: Investment in branding / governance

In the medium term, the firm's position in the market and vis-à-vis the competition must be strengthened. One instrument for this is branding via a communications agency, which differentiates the firm in the market and makes it unmistakable. This process is to be strengthened not only through the printed materials (business cards, stationery, brochures) but also through the redesign of the website, since many clients also use the website - in addition to personal recommendations - to get an idea of the firm.

Governance in the law firm serves to establish regular communication within the firm, as well as effective control through clear responsibilities. This facilitates the management of the law firm and its orientation towards the market / competition.

7.3.1 Business field optimization: value focus

The central question, which also shapes the legal market, is how and by what means the client receives a service that is of benefit to him. For this reason, the firm's business areas must be aligned with the question of what creates added value. This can be a simple refocusing of the way in which services are provided, for example by simplifying certain procedures, or by combining specialist expertise. In other areas of business it is more complicated, for example because clients' requirements have shifted. For example, the networks that lawyers have and can bring to the table are sometimes of greater value to the client than their expertise, but this often lacks both awareness and the billing processes that reflect that value.

One example is the work of a patent attorney: for a long time now, pure filing activities have been nothing more than "commodities"; the question is therefore, what do clients need in order to be able to work on patents with their portfolios? Here, for example, patent strategies make sense, and the clustering of patents according to the appropriate strategy. Or an evaluation of which patents will no longer make a contribution to the company's success in the long term, neither as property rights nor as commodities, for example for licensing purposes. Patent law firms must therefore suddenly expand their range of services or purchase the necessary expertise.

7.3.2 Business development

Business Development can provide short-term support by examining existing clients for further business potential. In doing so, it is important to share existing contacts in the partnership and to jointly promote further assignments.

The partners can also be relieved of routine tasks and can thus spend more time on strengthening client loyalty and on billable matters.

The business development budget, especially for events, can be checked for optimization possibilities, which event strengthens the positioning of the law firm and which one, where the time and cost expenditure is disproportionate to the possible profit, e.g. does the target group that can be reached agree with the law firm defined by the law firm?

7.4 Long-term: Skill building

In the long term, it is important to position the firm as a high-quality, solution-oriented, client-centred provider of legal advice. The professionals are to focus on this type of advice in their further education, the partners are to be positioned as entrepreneurs and trained accordingly.

This also covers areas such as personnel development, sales and project management, which will further professionalise the internal training and enable the client to be offered a service package in addition to the actual consultation.

8. summary

The changes outlined above offer opportunities, both for the firm as an organization and for the lawyer as a partner or associate as part of the firm.

The firm as an organization must provide lawyers with an environment in which they can find the best conditions for professional, growth-oriented work. The firm must provide processes that ensure the strategic development of the firm, the services offered and the lawyers.

At the same time, however, lawyers are also required to adapt to changing market and competitive conditions in order to achieve sustained success in the firm.

For partners, this means in particular dealing with the role of the partner and the changing requirements of the clients, as well as the provision of legal advice as part of the legal services. For associates, this means in particular developing the necessary skills to enable them to work successfully in the firm on a long-term basis. It is also important that, in addition to the partnership's previous career goal, alternatives are considered and actively brought into the organization. The law firm as an organization, in turn, has the challenge of bundling and integrating the various perspectives on successful legal work and ensuring that it meets the economic and other expectations of the partners.