

Unlocking the practice puzzle

The Madrid legal market is a barometer of the Spanish economy. If the country does well so do the capital's law firms. Spain may be in many senses federal but the Capital remains the focus of much of the country's corporate, finance and commercial activity. The city's law firms are therefore acutely aware of the prevailing economic challenges and looking to adjust their operations accordingly.

"Spain has clear economic challenges but we are nowhere near the situations faced by Greece, Ireland or Portugal. The country does not need rescuing. Our firm, like others, has been affected by the downturn and we continue to face short-term challenges. But we are still moving forward," says Fernando Vives, co-Managing Partner of Spain and Continental Europe's largest law firm, Garrigues.

Lawyers agree that the nature of day-to-day legal work has changed with the downturn. There is more housekeeping work alongside a boom in litigation, refinancing and restructuring, and labour mandates, with significantly less transactional and M&A work. The result has been firms having to adjust both their practice focus and revenue expectations.

According to MergerMarket, during 2010 there were 356 announced Iberian M&A deals with a total value of €33billion, a long way off the 482 deals seen in 2007 worth a total €121bn.

Spain may not be suffering direct contagion from the troubles affecting other members of the eurozone but uncertainties remain, says Carlos Pazos, Managing Partner of SJ Berwin in Madrid. "The downturn is evident in the streets, with protests and falling consumer demand, and the Government still faces a significant deficit. So in relation to countries such as France or Germany our position is not good."

The Government has embarked on reforms and more are needed, say lawyers. A major challenge remains in bringing more flexibility to the labour market although with official unemployment figures at 21 percent there is less political will to do so.

But there have been relative successes. The Government has dramatically cut public spending, albeit by cancelling a large number of planned construction projects, and the consolidation of the country's regional savings banks (cajas) is under way. A process encouraged by The Bank of Spain which has imposed increased capital ratio thresholds, and facilitated mergers among cajas with heavy exposure to the collapsed real estate market.

This summer will likely see the first IPOs of the year, of Telefónica's call centre division Atento, and most significantly of three new merger driven banks: Bankia, Banca Cívica and Banca Mare Nostrum, and the restructuring of La Caixa as CaixaBank (see *News page 4*).

Lawyers continue to highlight the potential negative impact of events in neighbouring Portugal, and elsewhere in Europe, but many in the market remain stubbornly optimistic over the prospects for the economy and Madrid's legal market through 2011.

"The risk issues impacting on Spain affect all of Europe and we are clearly better off in the EU than out of it," says



El mercado legal de Madrid es un barómetro de la economía española.

España tiene muchos elementos de un Estado federal, pero su capital concentra gran parte de la actividad comercial y financiera del país. Los despachos en Madrid son plenamente conscientes de los desafíos económicos actuales y ya se están adaptando a los cambios.

Ignacio Ojanguren, Managing Partner of Clifford Chance in Spain. "France and Germany are on different trajectories, but we do see Spanish companies doing increasingly well and this will ultimately be reflected in a rise in their legal needs and spending." His firm is among those to feature prominently among the proposed IPOs, alongside Uría Menéndez and Linklaters.

Others also sense a tentative return of international investors. "Recent months have seen an increase in the national and international interest for specific sectors and targets, with clear movement in the financial sector. In this context, Madrid is gaining a position as the business and legal capital of Spain and it is a trend that is unlikely to reverse," says Luis Briones, Managing Partner of Baker & McKenzie in the capital.

Management focus

The economic and productivity challenges facing Spanish businesses are though also applicable to its law firms, which are learning to better manage themselves.

"The effective utilisation of lawyers and the realisation of work is crucial. This is not a new issue and nothing that does not also apply to companies in other sectors that need to increase competitive," says Manuel Martín, Managing Partner of Gómez-Acebo & Pombo.

A recurring issue nonetheless is pricing. As clients have sought to reduce their cost base they have placed enormous pressure on their suppliers, including law firms. But for some in the market, it is unsustainable for firms to keep reducing fees.

"As regards fees, I think there is a structural component, which goes beyond the current economic circumstances and which is linked to the idea that the knowledge cycle gets shorter over time. To successfully adjust to this, we need to offer truly innovative law services, which add real value to the client," says Vives at Garrigues.

Some suggest however that clients are less concerned about fee levels and more about the value created by any advice given. Clients see through artificially low proposals. One of the 14 bids for the recent privatisation mandate of Spain's airports operator AENA – won by Cuatrecasas Gonçalves Pereira – was disqualified as being below the accepted "professional standard".

"In the current environment I understand that we cannot be paid as we were a few years ago, but if we

reduce our fees below a certain threshold we will not return, at least for a long time, to the levels we had prior to the onset of the crisis," says Julio Veloso, Partner with Broseta in Madrid.

Some may highlight the "ridiculous offers" in the market but others emphasise that the downturn has merely heightened pre-existing tensions. Nonetheless, firms need to be efficient but it is profitability that draws top professionals to leading firms. "If the challenge consists of offering high quality services but at a lower price the solution lies in reducing the cost of providing this service or in reducing margins," says Martín at Gómez-Acebo & Pombo.

But the client demand is not always to pay "less for more" but rather to pay the appropriate amount in each case, says Andrés Monereo Velasco, Partner with at mid-sized firm Monereo Meyer Marinel-lo Abogados. While an inevitable additional issue is ensuring payment. "Law firms have been compelled to devote more administrative staff for collection and recovery and to reduce as much as possible their fix costs – excluding salaries and social commitments," says Francisco Pala Laguna at Madrid-based Ramon & Cajal.

Spain may not be in the best of shape economically, but there is a more consistent optimism among law firms with a more evident practice or business sector niche, not least because the "traditional" law firm model relies on growth. "Our clients in IT and IP related businesses continue to do reasonably well, as they remain sectors which have been less affected by the economic crisis," says Pedro Alemán Laín, Founding Partner at Madrid's Pedro Alemán Abogados.

For most firms however the economic situation continues to present very real challenges. There is a degree of cost and lawyer manoeuvrability but there is less room for new growth in terms of lawyer and partner numbers. This means recurring issues on how to incentivise the best young lawyers and present credible career paths.

"I am at least relatively positive in this respect," says Rafael Sebastián, Director of the Madrid office of Uría Menéndez. "We have proved to be flexible in the way our staff work and in keeping our lawyers busy. We have a natural practice balance and the rise in disputes has, for example, shown that litigation can be as profitable as many M&A or corporate deals."

The downturn will nonetheless continue to present varying levels of demand, which will impact on how firms plan ahead, say others. "The main challenge will continue to be how to deal with such an adverse environment. Business generation and entrepreneurial spirit are an increasingly valuable asset among young lawyers," says José Luis Huerta, Managing Partner of Hogan Lovells in Madrid.

Firms have to be able to adapt, but the lack of a consistent recovery across all sectors of the economy means that firms will continue to experience variable practice demand. Flexibility and focus is



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