

ITALY



Italy 2.0

The Italian legal market has modernised over the past decade as local firms have reacted to greater client demands and the influx of foreign practices. Now there's greater pressure on fees and billing arrangements

CHIARA ALBANESE

Over the past decade the Italian legal market has gradually been modernising, entering its own 2.0 era. Firms have taken a more business-focused approach to how they run their firms. Italian lawyers who traditionally prided themselves on their ability to advise on a wide range of areas have become more specialised.

In part, the competitive nature of the market has forced Italian lawyers to adapt. There are more than 200,000 members of the Italian bar, Consiglio Nazionale Forense. The total number of lawyers is more than in Germany, even though Italy has a much smaller economy. 'The number of Italian lawyers is out of all proportion to the market and opportunities for young lawyers are falling each year,' says Marella Naj-Oleari, of Scarpellini & Naj-Oleari Avvocati. 'The new business environment is

a challenge.' Local practices have also had to react to a wave of US and UK firms setting up in the country, most recently with Linklaters and Latham & Watkins opening outposts.

Although there have been few redundancies and, with the notable exception of Allen & Overy, they have not been made public, the financial crisis has reshaped the market. Italian firms have reacted to the more competitive environment by adding more specialist areas, such as renewable energy, or by entering new markets, such as Asia and the Middle East.

As in most maturing markets lateral hires have become a much more common part of the market. 'The market today is heterogeneous and competitive, but also unloyal,' says Paolo Montironi, partner at NCTM. However, Montironi's firm has certainly been one

beneficiary of the greater fluidity in the market. For instance it recently hired labour specialist Michele Bignami from CBM & Partners, the 45th partner of the firm.

And, as in most major legal markets, clients are tougher as well. 'They ask for shorter deadlines and also discounts on fees,' Montironi explains. 'We have had to become more flexible and we now work with different fee structures,' he adds. 'As well as traditional hourly rates these include fixed fees and, on occasion, success fees.'

According to Patrizio Tumietto, managing partner of Studio Consulenti Associati, the prevailing features of the Italian market today are greater uncertainty combined with high operative costs. 'Clients are concerned about their legal budget and we get requests for low-cost quotations,' he explains. 'Italian firms are

► on average smaller than their Anglo-Saxon competitors and they must offer a better service to compensate for their size,' Tumietto adds.

Luca Arnaboldi, senior partner of respected independent Carnelutti, compares the local market to a popular feature of Italian life.

'An Italian lawyer is like an Italian trattoria: good food, affordable prices and lengthy service. Overall, a very pleasant compromise,' he says. However, many in the market are becoming accustomed to some particularly unpalatable changes.

FAMILIAR TALES

The typical gripes of the local Italian lawyer would be familiar to partners at most international firms. 'Low quality at low price is widespread,' complains Cristina Fussi, partner at De Berti Jacchia Franchini Forlani. 'Alternative fee arrangements are now a must and are offered by all the players. At our firm we still believe

that pure success fees are not a smart idea, they could limit a counsel's independence.' Among other alternative arrangements, Fussi's firm has recently offered risk-sharing structures that link the fee the firm charges to the outcome of a transaction or to the award of a litigation case. *De rigueur* in more mature markets, such as the US, but new for most practices in Italy.

However, some in Italy have become accustomed to ditching the billable hour. 'The search for alternative fee arrangements is ingrained in our firm's DNA,' says Francesco Portolano of Portolano Colella Cavallo. 'We founded the firm nine years ago with four lawyers and our very first client paid us with a non-traditional arrangement.' When the second client arrived, it was charged a success fee for an M&A transaction.

'We tell clients that we are happy to discuss whatever arrangement they deem fit,' Portolano adds. 'For example, when advising



Montironi: firm has done well in market

defendants we have been paid a percentage of the difference between the amount sought by the plaintiff and the amount awarded.'

The firm also works on a pure contingency basis or they charge a monthly rate in M&A transactions. 'In our opinion there is no silver bullet and at times traditional hourly rates may be the simplest and preferable system,' Portolano adds.

Like most European jurisdictions Italy is currently a buy-side market in which clients' over-arching goal is to cut the legal budget without a change in quality and deadlines. The changing market conditions mean that Italian clients are much more forthright when it comes to discussing fees. 'The companies we advise ask how much time a litigation is likely to last and its related budget,' Tumietto says.

'Law firms with high fixed costs have two alternatives,' insists Giovanni Lega, managing partner of Lega Colucci e Associati. 'To maintain their cost structure unaltered with a gradual erosion of profits per partners or to cut their costs losing important human resources to the advantage of other firms which are increasingly competitive.'

The firm has recently scored a significant lateral with the hire of Fabio Cappelletti, a founding partner of Bonelli Erede Pappalardo, and signed a merger deal with boutique firm Traverso & Associati.

'Discounts on cumulative work are highly appreciated by clients. They also request more feedback and details on our billing strategies,' Lega adds.

'The three most common requests by clients are reduction in fees, reduction in fees and reduction in fees,' agrees Paul Flanagan, head of A&O's Italy practice. To achieve a cost

A NEW FACE ON ITALY'S PIAZZAS

The project is ambitious and has gained so much attention that even the Italian local bar of Brescia (Lombardia) has tried to stop it, accusing the founders of breaching professional standards.

Thanks to the legislative changes introduced by the Bersani Decree, Milan-based lawyers Cristiano Cominotto and Francesca Passerini launched a unique network of legal shops all across Italy called *Assistenza Legale (AL)* in March 2007.

Since then the business and the interest in what the network is doing has taken off exponentially in Italy. In just under three years AL has opened outposts in 17 cities. More than 2,500 smaller firms throughout Italy have expressed an interest in becoming part of the AL network. Most are not exactly direct competitors of the largest firms but AL represents an interesting new dynamic in the market.

Law firms that join the network are all locally owned and operated. Lawyers work with individual clients but also with smaller businesses, or with unions and other institutions that refer a steady volume of work to the network.

'The aim is to bring lawyers and legal assistance to consumers by eliminating barriers, by responding quickly to their questions, without them having to make an appointment, and by being transparent with costs by providing written estimates,' the founders explain.

AL offers the first consultation for free and a written estimate of costs, which lowers the probability of unexpected fee quotations. They describe the shops as 'a legal champion for everyday consumers'.

Cominotto elaborates: 'This is what the market needs. Just look at the 2009 report of the Italian National Institute of Statistics (Istat), on doing business in Italy. More than 4.5 million businesses in Italy are in the service and industrial sectors. Of these, over four million are "micro" businesses, meaning businesses with less than ten employees. This number represents 95% of all business in Italy. Over 2.5 million of these "micro businesses" are run by one person. There is a very large part of the Italian business community that requires immediate access to quality professional legal advice at transparent rates.'

Passerini adds that, 'the story is even more compelling when one considers that salaries in Italy are among the lowest in Europe, on average 17% lower. In real terms, Italians earn 44% less than their English colleagues, an average of €16,000 per year. There is a very large part of the Italian community which requires immediate access to quality professional legal advice at transparent rates'. It's another mark of the Italian legal market's gradual modernisation.



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Angelo Bonissoni
managing partner

"This has been a very good year for our firm. Our revenues have increased with respect to last year and we have worked on some very successful and rewarding transactions in 2010. Unlike many others we continue to grow and as a sign of our growth we have leased new and larger office premises in Rome and in our German office in Munich."



Alessandro Varrenti
co head of
international practice

"Our international practice is growing constantly and we have resolved to invest more in our German operations in 2011. Our clients' appreciation for the international work that we do for them is such that it may soon lead us to open new offices abroad. If we should so finally resolve we will secure to keep in any new offices the same quality standards that have given us such a great reputation in Italy over time."

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‘Italy’s share of the M&A market is only 2.8% while the UK accounts for 25%, Germany for 17% and France for 9%.’

Tommaso Amirante,
Latham & Watkins

► reduction, A&O has, for example, worked with solar energy client SunRay, to create a document bank to be used across jurisdictions for future planned projects.

Although in many cases they have to, Italian firms do not exactly embrace alternative billing. ‘The traditional chargeable hour structure was very favorable to firms who were sure to get paid, even if the deal aborted,’ says Galileo Pozzoli, managing partner of Curtis, Mallet-Prevost, Colt & Mosle.

‘Success fees or more subjective arrangements, where high-added value services are charged at a premium, and more commoditised services are charged at lower rates can also work, and are increasingly requested by clients,’ he adds.

Pozzoli, a 38-year-old energy specialist who also serves on Curtis Mallet’s European managing committee, is one of the new generation of corporate lawyers in Italy. ‘In Italy the “revolving door” syndrome is widespread, with partners frequently changing firms, more often than in other jurisdictions,’ he explains.

In Italy, Curtis Mallet has gone through a radical restructuring with the hire of partner Ian Tully, an M&A specialist who was formerly at Clifford Chance, and brings considerable expertise in the energy and healthcare sectors. Over the past 12 months the US firm has also added senior M&A associate Maurizio Iacobellis from Clifford Chance and a senior litigator from Freshfields Bruckhaus Deringer, Dennis Bonvegna.

‘Although alternative fee arrangements need more time to be agreed on, and they seldom work well for both a client and a firm, they would seem to be the future,’ Pozzoli concedes. ‘As clients are now more sophisticated in the legal service purchase process in Italy as well.’

Although some parts of the market are embracing innovative approaches to things like billing, it’s fair to say that the Italian market still retains some very traditional features. Despite many of the largest domestic firms becoming more established brands in their own right, individual relationships between lawyers and their clients remain a crucial part of the market.

Alessandro Varrenti, a partner at CBA Studio Legale e Tributario, for instance offers the example of several M&A mandates that his firm has received from motorcycle producer MV Agusta thanks to a personal relationship with the company’s chief executive Claudio Castiglioni.

While outsourcing has become a commonly accepted part of the market for many US and UK firms, Varrenti does not think it will catch

on in Italy. ‘Despite a greater pressure on their legal budgets, clients are still prepared to pay for quality work,’ he explains. They also expect the partner to personally attend every meeting.

This is particularly true for the due diligence carried out before a M&A deal. ‘In Italy you cannot trust financial statements as much as in the UK or the US. This is why we make sure that a due diligence is always checked twice by a senior professional.’

Among small and medium-sized businesses, it’s hard to see the personal component of the adviser-client relationship fading. The question is, will the market eventually follow the example of the largest international firms and start outsourcing work to cheaper jurisdictions? Given the language barriers not all work can immediately be outsourced but Varrenti’s opposition reflects a more deep-seated concern. ‘I cannot imagine an entrepreneur sending its company data to India,’ he insists, before adding: ‘The same will apply to international firms with an Italian office, even if their headquarters are sending work to Asia.’

WINDS OF CHANGE

While the drop-off in transactional work has clearly had an impact on the market, Italian lawyers have seen other practice areas partially compensate. ‘Energy and telecommunications are interesting and dynamic sectors for the legal community while employment specialists have been busy with a high volume of work but of a different kind,’ Gaetano Arnò, partner of TLS Associazione Professionale, comments. ‘They

HOW NOT TO GET AHEAD IN ADVERTISING

Italian law firms are tired of waiting to find out just how much they can say about themselves. The extent to which a proper business advertising campaign is allowed for a professional services firm is still unclear. The parameters are defined on a case-by-case basis by the local bars, which can fine or otherwise punish law firms that implement a misleading marketing campaign.

Despite the risk, some legal practices are ready to face a conflict with the Bar and they have developed a proper advertisement to target their niche clients or to reach a larger audience.

While marketing is part and parcel of most US and UK firms’ businesses, sophisticated advertising is a relatively new phenomenon for Italian lawyers.

LabLaw is among the growing number of firms that have developed a campaign with the help of communication company Barabino & Partners. Their principal practice focus is employment law and they have chosen the slogan ‘Men at Work’. A rusty banner with the slogan adds: ‘Everyday we do the hard work for you.’

As for other matters, the Milan Bar under which most large commercial firms operate has shown a softer approach than other regions.

Di Stallo & Partners has given the mandate to branding company Agenzia Brand to develop and implement its advertising campaign. In their campaign a man is climbing a book and reading definitions of legal terms. Slowly, but surely, some firms are getting heard.

used to fuel the economy now their task is to slowly dismantle it.'

Together with disputes involving the public sector, renewable energy work has become one of the most active sectors drawing expertise from M&A, finance and regulatory lawyers. Research by Ernst & Young shows that investments in clean energy projects were more than double that in traditional sources this year. As a result, international and Italian practices have all been targeting work in the renewables sector. Carnelutti, for example, recently worked with the US group SunEdison, a leading solar-energy services provider and a subsidiary of MEMC, in a deal to build Europe's largest photovoltaic power plant in the Veneto region.

Not surprisingly, firms have been keen to strengthen their renewable energy teams. In a recent move, for instance, DLA Piper hired specialist Matteo Falcione as a partner from Clifford Chance.

In the aftermath of the financial crisis litigation and restructuring volumes have also risen for most Italian firms. 'In recent months litigation work has steadily increased and what is most interesting is that I have increased my court work with referrals from corporate clients,' says Mattia Colonnelli de Gasperis, managing partner of Colonnelli de Gasperis. 'Boutique independent players have a competitive edge in the market in crisis times,' he maintains. The inefficiency of local courts has helped foster the greater use of alternative dispute resolution clauses in contracts, with arbitration a particularly popular choice.

Another practice area with considerable activity is employment. 'Employment work has developed in the past months,' says Francesco Rotondi of boutique practice LabLaw. 'Clients come to us, not only to implement redundancies related to the crisis, but also for advice on the impact of new technologies on their business. A typical example is the use of Facebook by employees and the effects of the social network on their productivity.'

'Flexibility, deregulation and unrest are the three characteristics of the Italian labour market,' says Franco Toffoletto, senior partner of Toffoletto e Soci. 'In the past 12 months employers have had to be more careful in dealing with costs,' he adds.

At the other end of the scale, corporate work is still lagging behind. 'Italy's share of the European M&A market is only 2.8% while the UK accounts for 25%, Germany for 17% and France for 9%,' says Latham & Watkins partner



Arnaboldi: sees promise of Italian firms

Tommaso Amirante. 'The shortage of M&A work has resulted in a significant reduction in fees by many firms. The slow market conditions push firms to accept mandates for a fraction of what they would have asked years ago and there is no way back in this trend,' he adds.

Although little has changed in the deals market in the past 12 months, partners point to signs of an increase in private equity activity as a reflection that the market may be set to pick up. 'There is too much money in the market that needs to be spent,' comments one partner.

Despite the bleak conditions, there have been several notable highlight deals. For instance Clifford Chance assisted UK private equity fund Permira in the €805m acquisition of Findus from Unilever group, one of the largest private equity deals in Italy in 2010. The team comprised banking specialist and the firm's Italy head Charles Adams and corporate partner Alberta Figari. ▶



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'The shift from a legal practice to a strategic business is happening now and it is not only linked to the financial crisis.'

Gianfranco Puopolo,
Puopolo Geffers Iacobelli

► In the telecoms sector Gianni, Origoni, Grippo & Partners picked up the mandate to advise Russian company VimpelCom in its €5bn merger with Weather Investments. The new company will be the world's fifth largest mobile telecommunications carrier by subscribers. The deal gives VimpelCom ownership of Wind Italy and a 51.7% stake in Egyptian Orascom Telecom.

Gianni Origoni also worked with F2i SGR, an Italian infrastructure fund, and AXA Private Equity in the €1.025bn acquisition of an 80% stake in Enel Rete Gas from Enel.

'Transactional activities are still volatile, even if there is a moderate growth,' Giovanni Nardulli, managing partner of Legance, agrees. Founded in 2008 and with a turnover of €40m, Legance is the youngest top Italian player. Among its recent deal highlights, the firm

advised Total Raffinage Marketing in a 51:49 joint venture agreement with ERG, a listed Italian-based oil refinery company.

FOREIGN AFFAIRS

After 15 years of significant growth in the Italian market, international practices have firmly established themselves in the local legal fabric. For the largest US and UK firms their traditional bedrock clients are the largest financial institutions, while the independent firms maintain the closest links with corporate Italy.

'Italian firms have a more stable relationship with clients. They are a point of reference for corporate M&A and capital markets deals, and they generally offer full-service advice to their clients,' says Filippo Modulo, a partner at local leader Chiomenti.

NUMBER CRUNCHING

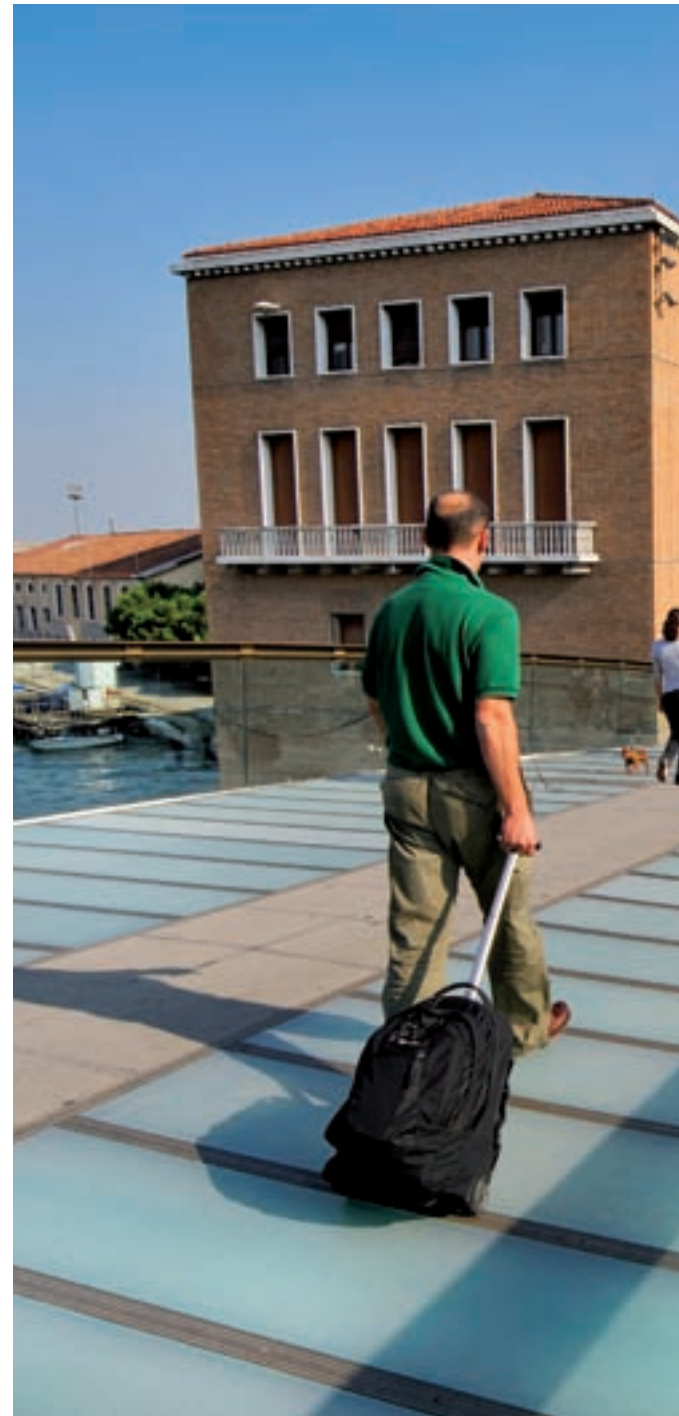
Law firms' financial results in Italy are still clouded in secrecy. Even though they are not obliged to publish their financial data, many Italian firms are now making their numbers public. In 2009 Carnelutti, for instance, billed €18.4m and expects to report a turnover of around €20m for 2010.

Not all the players in the market are as happy as Carnelutti to disclose their numbers. The top three Italian firms – Bonelli Erede Pappalardo, Chiomenti, and Gianni, Origoni, Grippo & Partners – do not publicly disclose their turnover, although Italian-based paper *TopLegal* reported them at €130m, €123m and €94m respectively for 2009. Overall, the total value of the market made up of the top 100 Italian law firms is estimated at around €1.8bn.

One of the first firms to publicly disclose financials and even to organise a press conference to present the data was DLA Piper, which in 2009 had a turnover of €37m.

The largest internationals are Magic Circle firms Freshfields Bruckhaus Deringer, Allen & Overy, and Clifford Chance. In 2009 their turnovers were all above €40m, with Freshfields the largest at €57.5m.

The largest American firm is Cleary Gottlieb Steen & Hamilton which, according to *TopLegal*, had a turnover of around €40m in 2009.



Foreign firms' strong relationships with the banks naturally lead them to dominate some areas. 'They have key roles in capital markets transactions, with an overseas offering, and have a client base from their foreign offices and global agreements with multinational clients,' Modulo explains.

'Italian and international firms have different organisational models,' Adams says. 'International law firms have a corporate and managerial approach, with common vision, principles and processes across the network. Domestic firms are driven by the decisions of the founders or name partners.'

Some of the largest local players have attempted to change their structure, to move away from the traditional model. Domestic heavyweight Gianni Origoni, for example, was among the first to introduce a formal management structure throughout the firm.



As with mature US and UK firms, power is devolved from the executive committee to various internal bodies, such as the conflict committee and the remuneration committee.

'Each practice area has a senior partner and an operative partner who are responsible for the management of the entire practice on a global level,' explains founder Francesco Gianni.

While Gianni serves as senior partner, Tomaso Cenci is the current managing partner, but each local office also has an office partner in charge of the local performance and organisation.

'Through the reinforcement of the internal structure, the creation of various governance committees, and the participation of more partners in the strategic and day-by-day management process, we want to guarantee an independent approach in terms of development and growth,' Gianni adds.

Many Italian firms have also taken their own approach to international expansion. In Asia, NCTM has received a licence to open an office in Shanghai, while Chiomenti made the most dramatic entry into the market picking up six Asia offices through its 2008 acquisition of Birindelli E Associati. Gianni Origoni, in contrast, has directed its investments to the Middle East, opening in Abu Dhabi to develop business in the Gulf and North Africa.

Given its importance as a financial centre it's perhaps not surprising that several Italian firms have established London offices. Most target work for domestic clients doing business in the UK but also with investors from the US or Asia interested in the Mediterranean market in general.

Bonelli, Chiomenti, Gianni Origoni and NCTM all boast outposts in the City. Bonelli has the largest office with 14 lawyers and a turnover in 2009 of around €5m. The other

'Clients are still prepared to pay for quality work.'

Alessandro Varrenti,
CBA Studio Legale

firms' turnovers hover around the €2m mark. Chiomenti is the only firm that advises on English law, with three English-qualified solicitors among the eight-strong team.

In each case, the firms insist that their international expansion reflects client demand to support the overseas operations of domestic companies. But they're also a defensive move to protect firms' client relationships from those US and UK firms that have Italian offices as well as large international networks.

A NEW TWIST

In the past 12 months, according to Mario Gallavotti, founding partner of Gallavotti Honorati, the overriding theme in the profession has been one of reform. 'Guido Alpa, chair of the Consiglio Nazionale Forense, has often mentioned the need to reform not only the court system but the legal profession as a whole,' he says.

He adds: 'In Italy the legal profession is on the verge of a very much-debated transformation, which will either see the profession moving towards a greater modernisation or on the other end of the scale revert back to its more historical roots.'

'The Italian market is more granular than ever. The high level of fees imposed by international law firms and larger domestic firms are no longer affordable by many domestic clients,' says Decio Morgese, founding partner of Grasso La Torre Morgese. 'Clients now look for advisers providing legal services of a high-quality and international standard, but at the same time who are familiar with the Italian market.'

Italian lawyers throughout the country are increasingly accepting the new dynamic. 'Law firms are businesses and partners are entrepreneurs,' explains Gianfranco Puopolo, senior partner of Puopolo Geffers Iacobelli & Partners. 'The shift from a legal practice to a strategic business is happening now and it is not only linked to the financial crisis. It is a must when you work with international clients.' **LB**

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