



Is the client relationship still king?

John Gould delves into the details behind EY's acquisition of Riverview Law: all hot air, or law firms beware?

In the heady days of summer, there was excited reporting of a seemingly significant story for the legal services sector. It had some good journalistic elements which, let's face it, are not that common in the world of legal service models and accountants. In nearly all media the story was essentially the same—a savvy and ambitious King Kong of global accounting acquires the upwardly mobile inventor of the Spinning Jenny of legal services.

The story of the acquisition of Riverview Law by global professional services firm EY (the accountants formerly known as Ernst & Young) is undoubtedly an interesting one. It may well be significant, but the difficult question is: what actually is that significance? Beneath the slightly gushing reproduction of press releases, hard facts in the coverage are in rather short supply.

Some information can be discovered, however, even by a moderately diligent solicitor without the skills of a trained accountant.

King Kong

EY is huge. Its constituent firms have around a quarter of a million people in 150 countries with global revenues of more than \$31bn. Those firms employ more than 2,000 lawyers already. It is a conglomerate offering a very wide range of professional services. Auditing is only a part of its business and it provides many other more exciting professional services.

For accountants as a whole, it's reported that auditing is a rather low margin and high risk way of holding client relationships. As might be expected, EY has a lot of clients and it would like to sell them more legal services.

The pioneer

Riverview Law Ltd is small. Launched in

2012, by September 2017 it had 93 employees and a turnover subject to speculation. In 2014 its turnover had been reported as being around £5m, having grown from £1.9m in the year before. Its annual net loss had narrowed to £1.7m from £2.6m in the previous year. The CEO was reported as expecting it to move into pre-tax profit within a year. By September 2017 it had net liabilities of £2,314,470 and accumulated losses of £9,358,635. Turnover figures for the period since 2014 are not readily available and don't seem to feature in recent coverage.

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Its business is to provide managed services and projects using technology with the aim of effecting the processes involved in legal services more cost effectively.

Riverview set out to build a business based on two conventional concepts of outsourcing and specialisation of function combined with a legal technology offering and the buzz of innovation and disruption. It is no surprise that a company attempting to build a share of a market accumulates initial losses. Eventually, if all goes well, the initial investors hope to make a substantial return by a lucrative sale or public offering. If things don't go well, insolvency or a fire sale may be the

only option. If an innovative service doesn't find enough customers, it may be attractive to an organisation which has numerous customers already to whom the service might be sold.

The facts behind the story

The deficiency in the reporting of the birth of the new EY Riverview is that mostly it doesn't look to establish the facts behind the story. It leaves a number of significant questions open. Was Riverview's innovative business model a success? How much did EY pay for the opportunity to sell the service to its customers and raise the profile of its legal services offering? Would the return obtained by the Riverview investors attract more investors into such a legal services venture?

Although I've no idea of the actual figure, if Riverview had grown to say £10m of loss-making annual turnover in five years, does that suggest that the acquisition will actually significantly boost the growth of EY's legal services practice? If this is better understood as an off-the-shelf purchase of back-office functions, will it make EY more competitive than the in-house innovations of existing large law firms?

Perhaps the real story here is that what really matters is who holds and can sustain an overall relationship with each client. That may be the real threat to existing law firms from broader professional service organisations. Even if the investors in award-winning Riverview didn't make the handsome return their enterprise deserved, no doubt there are many more ready to buy their own lottery ticket and dream that it says 'Amazon'. **NJ**

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