

Industry Survey Results

The Future of Small to Medium Law Firms in the UK



A survey conducted by Central Law Training Ltd with partners from law firms with between 4 and 12 partners.



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Industry Survey – The Future of Small-Medium Regional Law Firms in the UK

Introduction

Of the 9081 law firms in the UK, 20% are classified as practices of between 4 and 10 partners. Industry commentators regularly cite this group as being the most under threat from proposed legislation to reform the legal services market, from the commoditisation of certain legal services, from new entrants, and from changes in demography and consumer behaviour. This represents over 1800 businesses that could face an uncertain future.

Central Law Training, the largest national provider of courses and conferences to the legal profession, services over 90% of the firms within this size bracket. With an unrivalled access to the market, we wanted to explore a few assumptions and perhaps dispel a few myths by asking partner level lawyers working within the firms what they thought the future had in store for their businesses.

We wanted to find out if you really do feel under threat, what you perceive to be the biggest threats to your business, and what you are doing or considering to do to counter these threats. An online survey was sent out to 500 firms in October 2006. The following results are based on 122 separate law firm responses.

The survey clearly shows a collective viewpoint that the task of profitably running a small to medium sized law firm over the coming years is set to become more difficult. There is, however, strong evidence that contradicts the popular view that smaller firms are burying their heads in the sand in the face of a changing market place. It is clear from the survey that firms are actively looking at a variety of medium to long term strategies to both exploit their strengths and meet the challenges posed by new market entrants, commoditisation and changing client needs.

Finally, Central Law Training will also be using the results to create a series of regional events in 2007 that will seek to offer practical, strategic planning advice covering the range of issues brought up in the survey. Further details of these events will be available later on in the year.

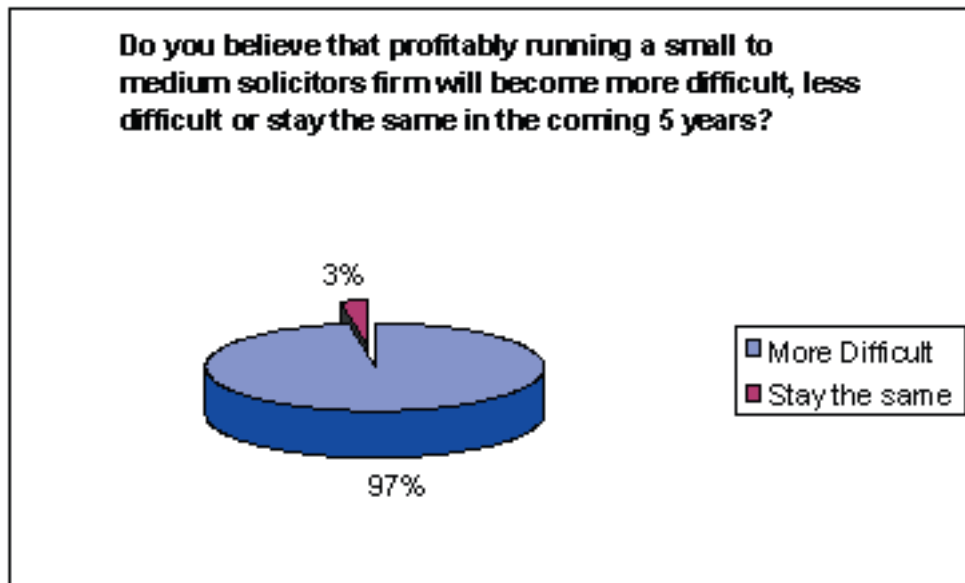
Once again, we would like to thank all those who took part in the survey, and very much hope that you find the compiled results useful.



Simon Dieppe
Programme Director
CLT

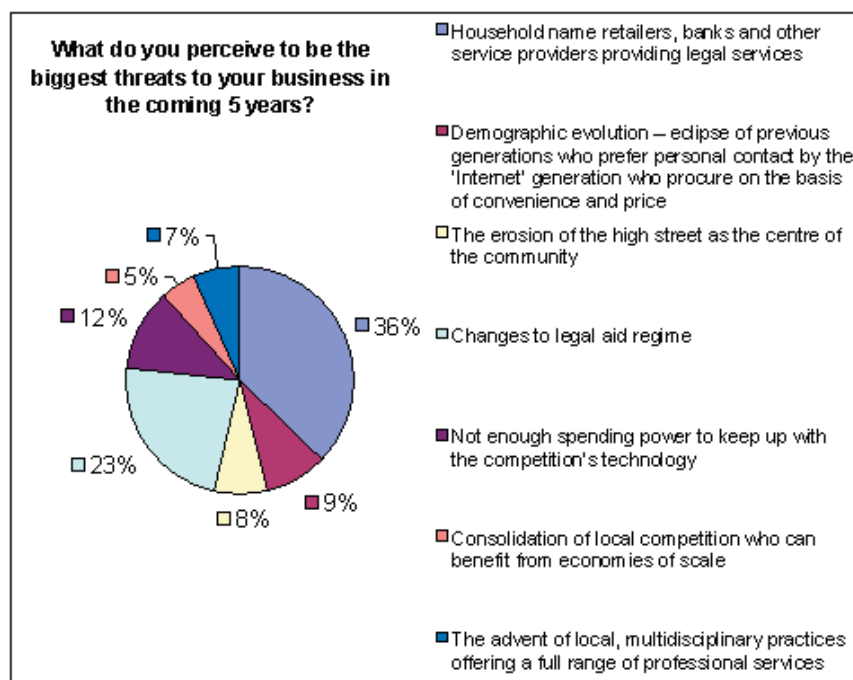
Is running a profitable small to medium sized law firm going to get more difficult?

The response to this question was quite emphatically 'Yes'. A huge 97% thought that the task would get more difficult. 3% thought it would stay the same and nobody thought it would get easier.



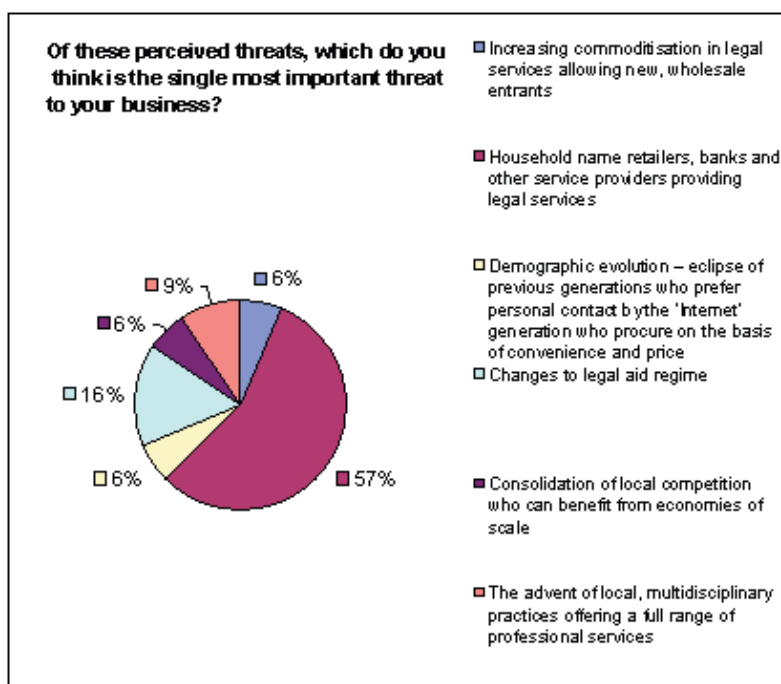
What are the biggest threats?

The next obvious question was to explore the reasons behind this perception. We offered a choice of 7 different perceived threats, and asked respondents to choose all those options that they saw as a threat to their business:



Clearly, the threat of increasingly commoditised services, coupled with the threat of household brand names entering the market were seen as the biggest threats. The two are intrinsically linked, with big brand, customer focussed corporates often having the automated processes and business systems in place to offer commoditised services. The next biggest concern was the impact of the Carter Report on legal aid provision, followed by concerns about being able to keep up with competitors' technology. Again, this is closely related to the threat of increased commoditisation.

We then asked respondents to pick just one of these options that they thought was the single biggest threat to their business:



The clear winner, with 57% was the threat of branded, household names entering the legal services market. Again, concerns about the ramifications of legal aid reform were strongly manifested.

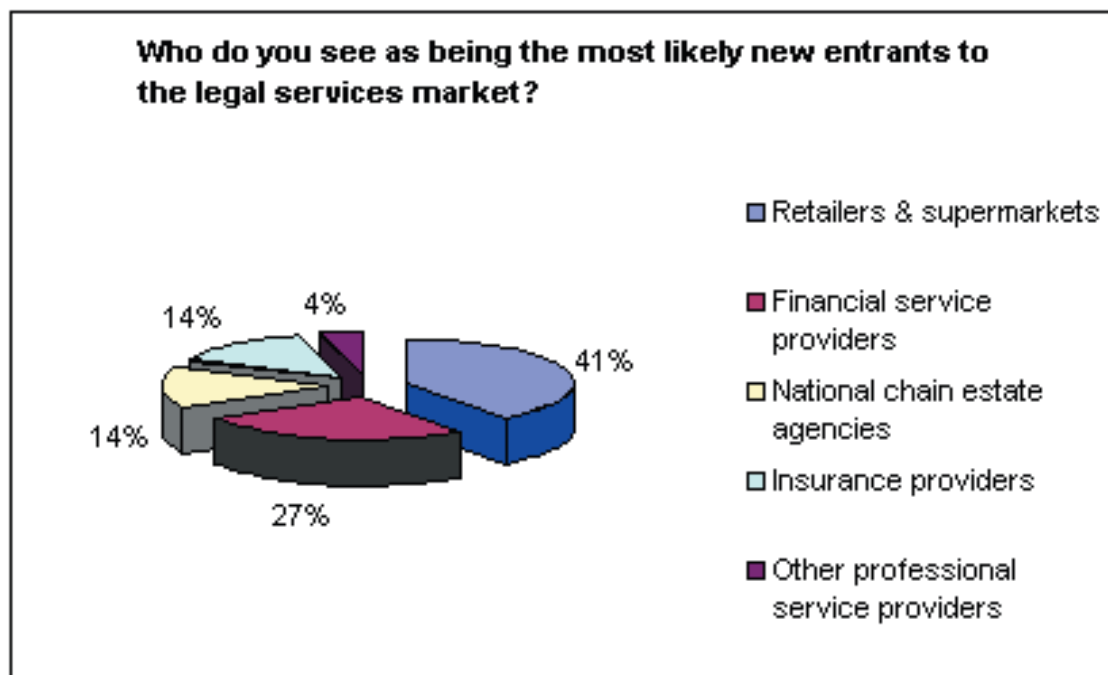
In both questions, issues relating to the changing needs of clients, both in terms of the types of services required and procurement methods were not seen as a significant concern. With the advent of the 'Internet' generation who demand services at the touch of a button, and the continued 'Tesco' effect on town centres this might seem surprising. Both, it could be argued, are intrinsically linked with the advent of commoditised, automated services and the entry of brand name retailers into the legal service market.

Who should we fear?

In a recent survey conducted by the Capita Group, 47% of the 1400 consumers and 240 small businesses surveyed said that they would be happy to purchase legal services from a provider other than a law firm.

Source – the Law Firm Gazette, September 2006

In terms of *who* the market most fears as future competitors, we asked who you saw as being the most likely new entrants entering the market place:

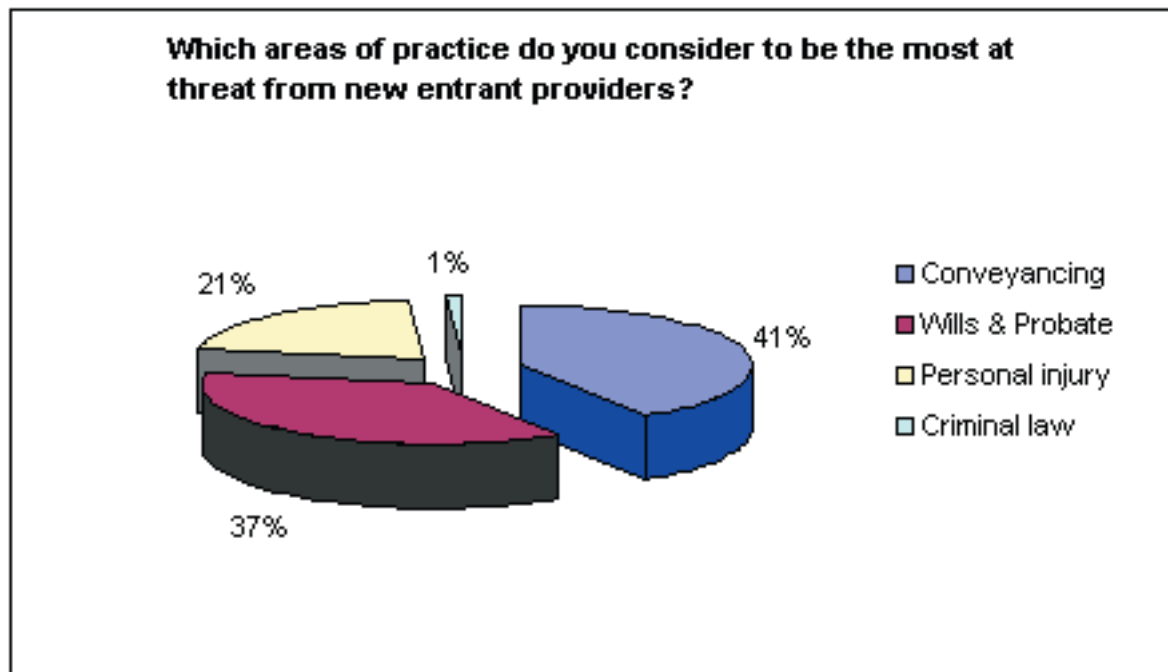


Clearly, retailers and supermarkets are the most feared. In reality, this could be a throwback to the media created concept of 'Tesco law' that preceded the Clementi Review. Although other well known brands have publically expressed an intention to enter the legal services market, namely The Co-Op, The Capita Group and HBOS, Tescos, aside from offering self-help packs, have never done so. Much to Tesco's consternation, the company has had to live with the 'Tesco Law' label ever since Lord Falconer used the term for illustrative purposes in a political speech in 2002. There is little sign yet of other supermarkets joining the fray, although Asda have reported a high profile pilot in the North East whereby they plan to offer estate agency services....perhaps a first step to the provision of legal services.

Interestingly, in a recent survey conducted by the Capita Group with both private client and business users of legal services, out of possible new entrants financial service providers were identified as the brands people would most trust to provide legal services.

What areas of legal practice are most at risk?

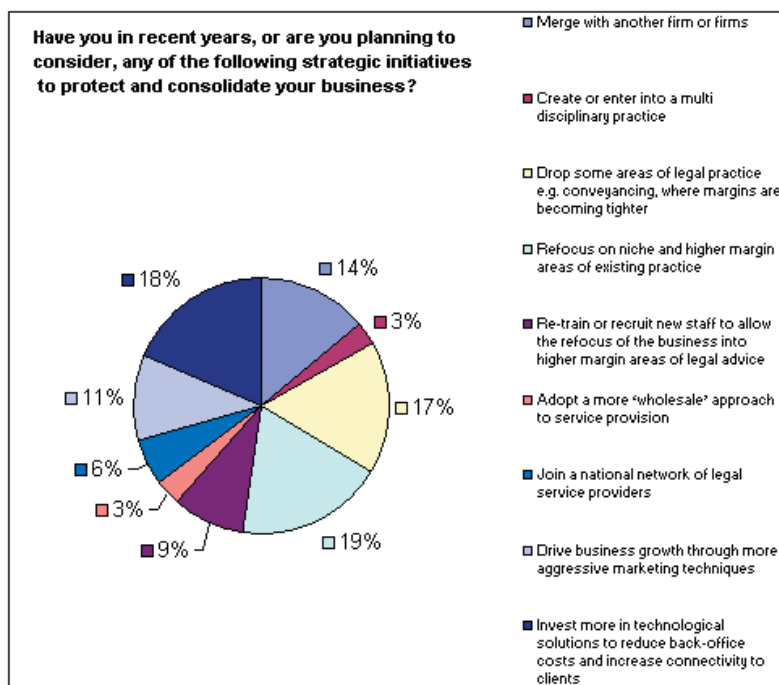
We next asked what areas of law and legal service were perceived to be most at threat from new entrant providers:



Conveyancing, already considered to be highly commoditised, was the unsurprising front runner, closely followed by wills and probate – another area of legal business subject to imminent deregulation. Perhaps most worrying for those who have an interest in the quality and access to justice in the UK, only 1% of respondents thought that criminal law was an area that new entrants might exploit. With projections of hundreds, if not thousands, of criminal law practitioners being forced to leave the criminal justice system as a direct result of legal aid reform, this begs the question of who will be left to provide advice and representation in criminal proceedings.

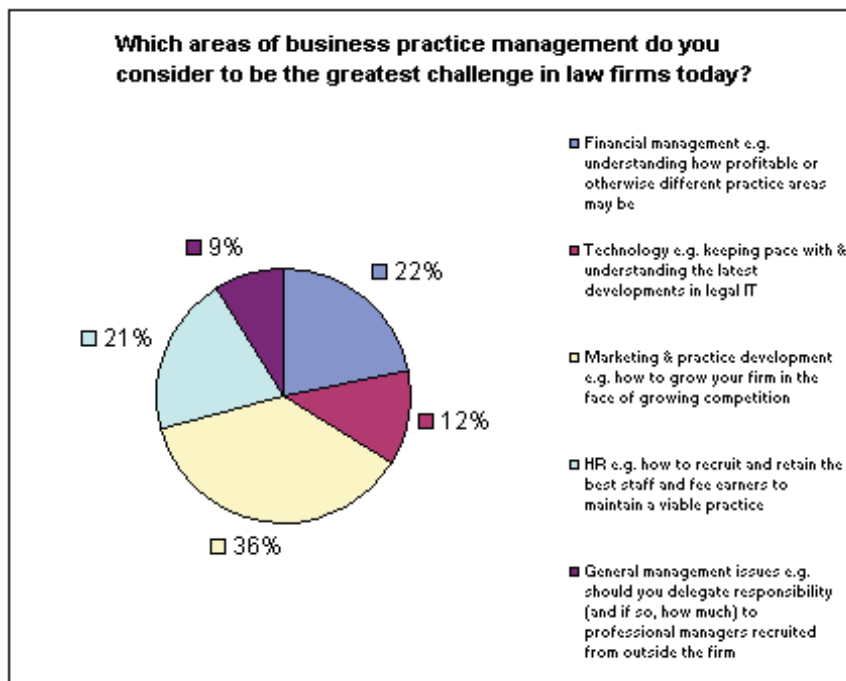
What is the law firm response to these threats?

Having examined the perceived threats to small to medium sized law firms, we then wanted to explore what firms were doing to combat these threats:



Broadly contradicting the view that lawyers are sitting on their hands waiting to see what happens, it was clear that a diverse range of strategies had either already been considered, or were due to be considered in the future. Top of this was an examination of the practice to both weed out low margin work susceptible to commoditisation and to refocus on niche, higher margin areas of practice. Perhaps in an effort to embrace commoditisation and to see it as an opportunity rather than a threat, investment in technology was also high up on the list. Alternatively, this could be viewed as a way of attacking operating costs and thereby raising margins by creating internal process efficiencies, or to improve customer service (and therefore retention) by providing quicker, more streamlined services.

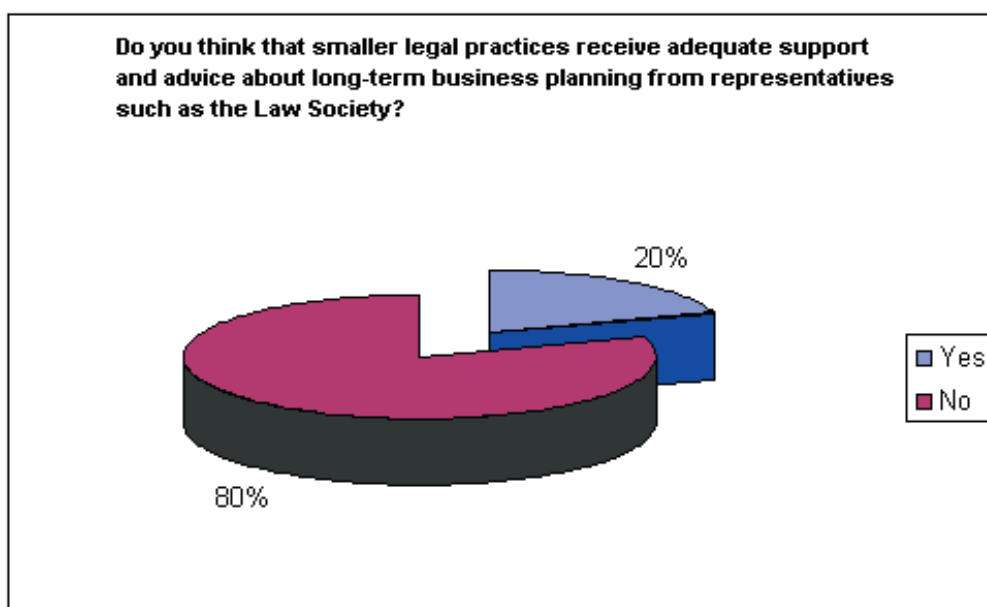
Another strategy that had received a large amount of attention was the use of more aggressive and effective marketing techniques to bring in new clients and to cross-sell services to customers. There seemed to be a recognition that small to medium sized firms knew what their strengths were and what they could offer to customers to differentiate them from new entrants, but that they struggled to get this message across. When we asked what areas of business and practice management you considered to be the greatest challenge in law firms today, it was therefore not surprising to find that marketing and practice development was chosen as the most challenging with 36% of votes.



The challenge of recruiting and retaining staff and fee earners and financial management planning also came up as key areas of concern.

Who is fighting your corner?

In a rapidly changing market, with the threat of new entrants, commoditisation, reducing profit margins and evaporating and economically unviable legal aid work, who is providing the support and advice smaller law firms need to both survive and compete in tomorrow's market? According to our survey, clearly not The Law Society:



Specific responses were split into two camps: those that looked at the Law Society in terms of its lobbying function and duty to fight the case of it's membership in respect to proposed regulatory changes, and those that looked at the Law Society as a provider of valuable and practical business advice. On both counts in our survey, the Law Society faired poorly. This obviously further begs the questions, who can smaller law firms turn to for advice and support?

Multi-disciplinary Practices

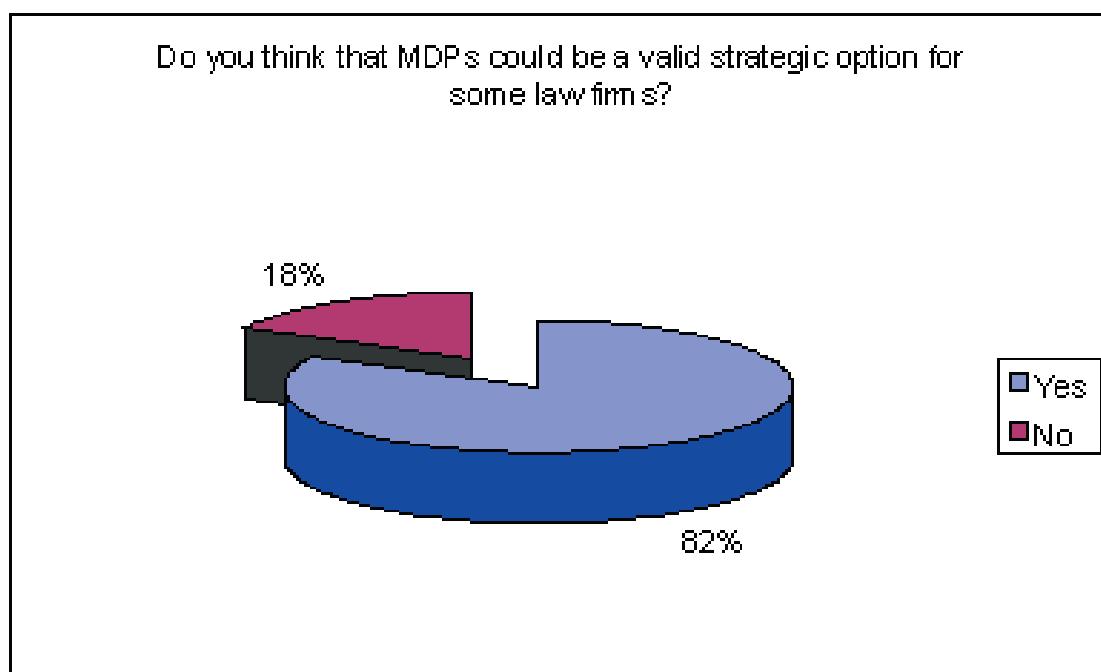
The responses to the notion of entering or creating a Multi-disciplinary Practice (MDP) offering a broad range of professional services under one roof produced some very interesting results.

Firstly, only 3% of those surveyed said that they had, to date, considered entering or creating a MDP as part of their strategic planning.

We then asked a similar question in a slightly different way, there was a significant reversal in opinion regarding the possible strategic importance of MDPs. We asked:

The advent of Home Information Packs has had the effect of creating more structured business relationships between different professional groups in local communities i.e. surveyors, estate agencies and law firms. Some commentators cite this trend as the possible precursor to the development of multi disciplinary practices offering a convenient one-stop shop for consumers who want access to a full range of interlocking professional services, and a way of local businesses competing against national competition. Do you think that MDPs could be a valid strategic option for some law firms?

82% of respondents said that yes, they did think that MDPs could be valid strategic option.



So why the disparity? It could be, as one observant respondent pointed out, that MDPs “aren’t permitted yet”. It could also be that the concept of the MDP, and the possible benefits to small to medium law firms has not, as yet, hit the strategic radar.

We also asked what lawyers thought were the main obstacles to the setting up of MDPs. These can be best summarised as follows:

- ▣ The different cultures, including business models, financial & practice management, customer service and working ethos, between the different professions
- ▣ The possible scope for conflicts of interest, and independence of advice
- ▣ The conflicting business priorities of the different parties to a MDP
- ▣ The difficulty of finding the right business partners
- ▣ Uncertainty about the exact nature of future changes e.g. in domestic conveyancing, and the resulting reluctance to commit to anything in a developing environment
- ▣ The fact that law firms would be unlikely to be the lead player in any MDP

The notion that law firms would not be the leading players in any move towards MDPs was also manifested in our question related to perceived threats. 9% of those surveyed thought that the advent of MDPs was the single, biggest threat to their business in the future. It could be construed that the view of the legal profession towards MDPs is one of threat more than opportunity.

It would seem that, if MDPs are going to become a viable option for law firms as a way of growing and consolidating their businesses in response to changing market forces, a huge amount of work will be needed to be done not only to overcome the practical obstacles, but also to combat more perception-based cultural differences between the professions, as well as the issue of status within any eventual consolidated practice.

Key Conclusions:

- ▣ 97% of respondents thought that running a small to medium legal practice over the coming 5 years was going to become more difficult.
- ▣ The entry of new entrants, as facilitated by the proposed Legal Services Act, and the further commoditisation of services were few as the two largest threats to small to medium sized law firms.
- ▣ 57% of respondents thought that branded, household name new entrants were the single biggest threat.
- ▣ 41% thought that retailers and supermarkets would be the most likely to enter the legal services market.
- ▣ Conveyancing and wills and probate were considered to be the areas of practice most at threat.
- ▣ The most considered responses to these threats was to move out of low margin areas of practice that are prone to commoditisation, and to move into higher margin, niche areas of legal service provision.
- ▣ Marketing and practice planning were identified as the greatest challenges within business practice management.
- ▣ 80% thought that the Law Society was failing to both fight their corner at the political level and provide adequate support and advice on business planning.
- ▣ Although Multi-disciplinary Practices have yet to feature highly on the list of strategic options for law firms, 82% of respondents that the advent of Home Information Packs might prove to be a catalyst for the development of MDPs in the future.

Help is at hand

Finally, we also asked respondents if they would welcome a specially designed CLT programme of conferences that focused on strategic options for small the medium firms in the context of the changing legal market. 90% said yes.

In response to this, and to the results of the survey in general, CLT would like to announce the creation of a new range of regional conferences. These will be specifically crafted for Partners at firms of between 4 and 12 partners and will include:

- ▣ A comprehensive analysis of the future competitive landscape enabling firms to better plan their mid-to-long term strategies
- ▣ Practical guidance on how to build new areas of practice and move from low to high margin work
- ▣ Expert training on marketing and practice planning, and how both can be used to create new business and consolidate existing client relationships
- ▣ Advice and examples of how law firms have worked with other local professional service providers – and how this might facilitate the development of MDPs
- ▣ Independent analysis of cost effective technology designed specifically for smaller law firms
- ▣ Regional case studies of firms who have succeeded in changing the direction of their practice and increased profitability
- ▣ Case studies from other industries where smaller businesses have had to respond to similar threats to those faced by smaller law firms

The events will take place at a series of easily accessible, luxury country hotels across the country between April and June 2007. CLT will be offering two optional packages:

- (1) A day package – offering attendance at the full-day conference and lunch.
- (2) A networking package – offering attendance at the full day event, a networking dinner, overnight accommodation and a choice of networking leisure options the following morning.

We will also be staging a nationwide golf competition attached to the events to find the 'Small to Medium Law firm Golfer of the year'.

Full details of the event programmes will be released in December 2006.

Venues & Dates:

Midlands & East Anglia:

20th/21st April
Hellidon Lakes, Banbury



North East:

4th – 5th May
Aldwark Manor, York



South East & London:

18th/19th May
Selsdon Park Hotel, Croydon



North West/North Wales:

8th/9th June
Crewe Hall, Crewe



South West & South Wales:

15th/16th June
Bailbrook House, Bath

