

# UK Small and Medium-Sized Law Firm Market 2021



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## Introduction

In an unprecedented year, the Small and Medium Law Firm (SMLF) market has largely managed to adapt and in many cases thrive. Reductions in demand in some practice areas have often been off-set by increases in others. Working practices which have often been criticised as old-fashioned and inflexible have shifted to home working and online service delivery with relative ease.

However, many firms still feel the same pressures they spoke of at the end of 2019—managing high fixed expenses and increasingly demanding clients, regulatory change, and talent shortages. Many respondents also fear the reduction in demand that could come in 2021 when Government measures for alleviating the immediate impact of COVID-19 are withdrawn.

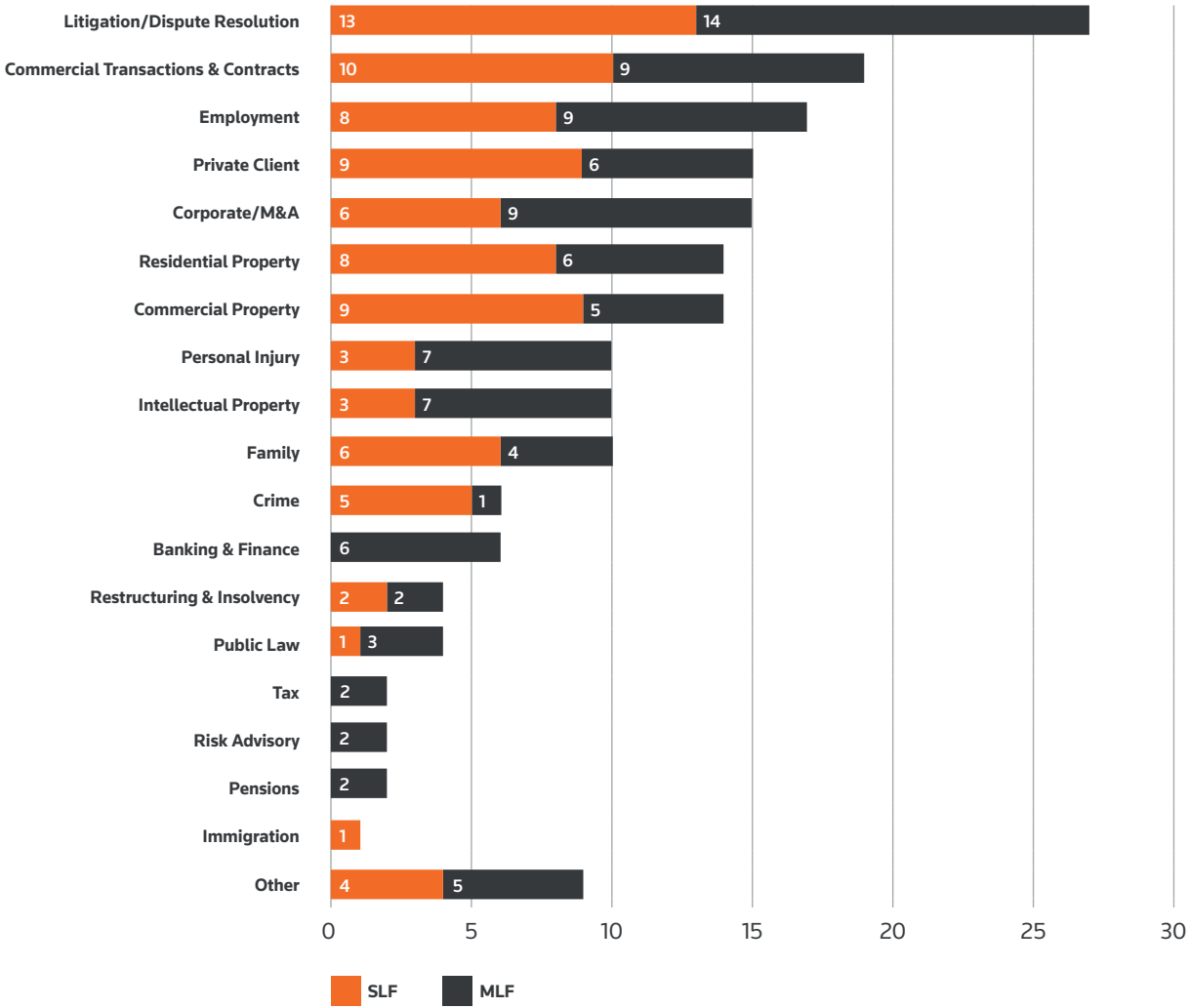
Into this mix, the competitive landscape remains tough, with online legal service providers still seen as the biggest threat to a service industry that relies on personal relationships to secure work. Increasingly, fee earners understand the potential of technology to provide value to the fee earner and improving the client experience, rather than detracting from it. However, while our survey respondents saw the clear benefits of a variety of solutions, they are cautious about implementing new solutions. Less than half of respondents planned on implementing new technology in the following 12 months. Those that intend to invest are eyeing automation, workflow and collaboration tech to provide that sweet spot of greater efficiency with an improved client experience.

We would like to thank the 90 firms that took part in the survey underpinning this report<sup>1</sup>.

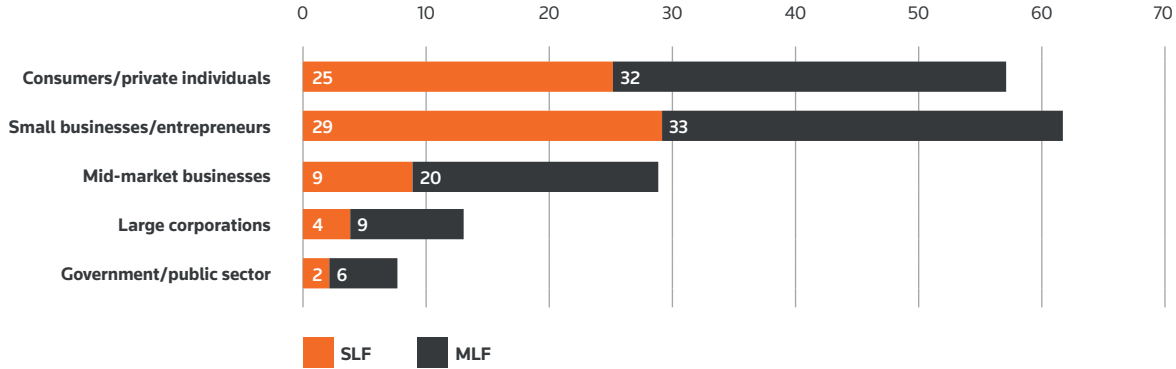
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<sup>1</sup>This report presents findings from survey work undertaken with our Small and Medium Law Firm customers during the autumn of 2020. Thomson Reuters categorises Small Law Firms (SLFs) as those with 30 fee earners or fewer, and Medium-sized Law Firms (MLFs) as those with between 31 and 100 fee earners. We also received responses from some alternative legal service providers (ALSPs). The survey is based on 91 responses.

**Figure 1: Responses by practice areas worked in**



**Figure 2: Type of clientele served**



The survey aimed to find out more about this customer base; challenges from the market and competitive landscape, and their attitudes towards technology.

Where applicable, comparison has been made to the Small and Medium Law Firm Survey undertaken in 2019.

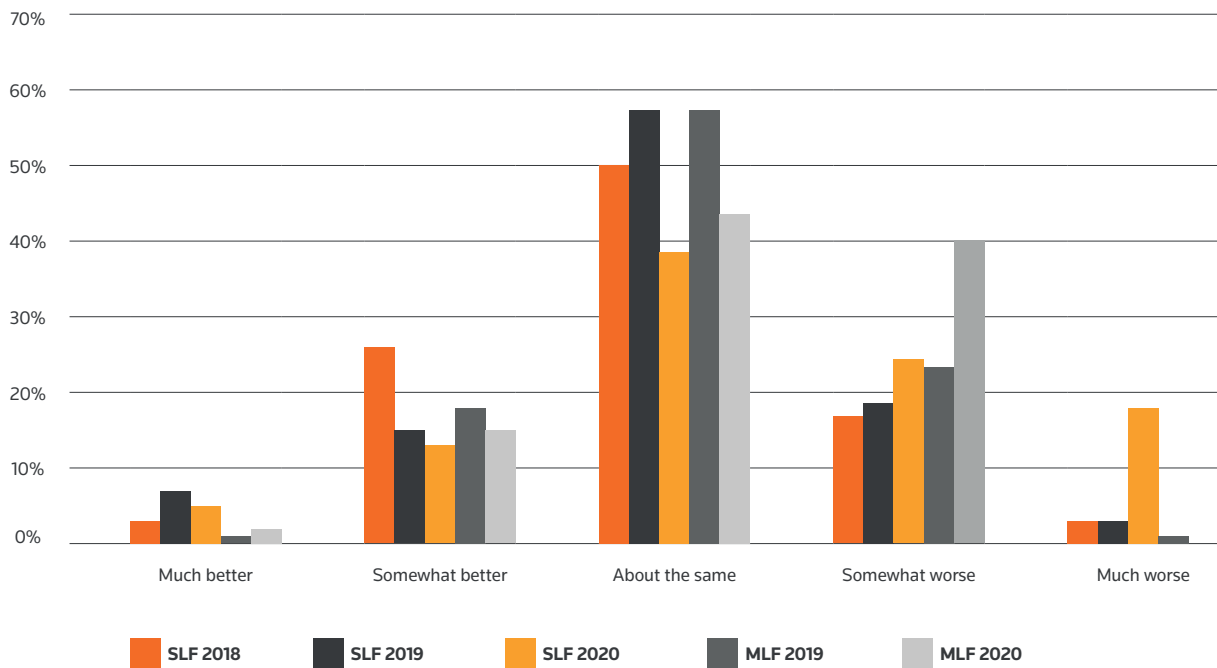
This year’s respondents mostly advised across the largest key practice areas of general litigation, commercial transactions, property, and employment. They mainly serve private individuals and small to mid-market businesses. Despite a lower response rate than in last year’s survey, there are consistencies in responses seen in prior year surveys.

## Competitive Landscape

### Respondents' views on market and revenue expectations

Survey respondents were asked for their views on the extent that the market and competitive environment had changed over the last 12 months. Despite the pandemic, 41 percent feel the market has stayed broadly the same, but there has been an increase in those who feel it is 'somewhat worse' (33 percent versus 18 percent in 2019) and a higher percentage of SLF stating that the situation is 'much worse' (18 percent versus 3 percent in prior years).

**Figure 3: Views on how the market and competitive environment have changed over the last 12 months**



The pandemic has caused challenges around uncertainty and adapting to new ways of working, from dealing with challenges around IT infrastructure, to seeing fluctuations in workload and challenges with cash flow.

Aside from COVID-19, similar themes to those tracked last year, such as managing expenses and regulatory change continue to affect the market.

“ Change in court practices, the inability to have face-to-face meetings with clients, delays caused by remote working and increased pressure caused by increased use of email.”

**High Street**

“ Keeping cash flow when the courts have vastly reduced their capacity to deal with cases, particularly the longer Crown Court cases which bring in higher fees - that work is stuck in the system, unpaid.”

**Generalist/Regional Scale**

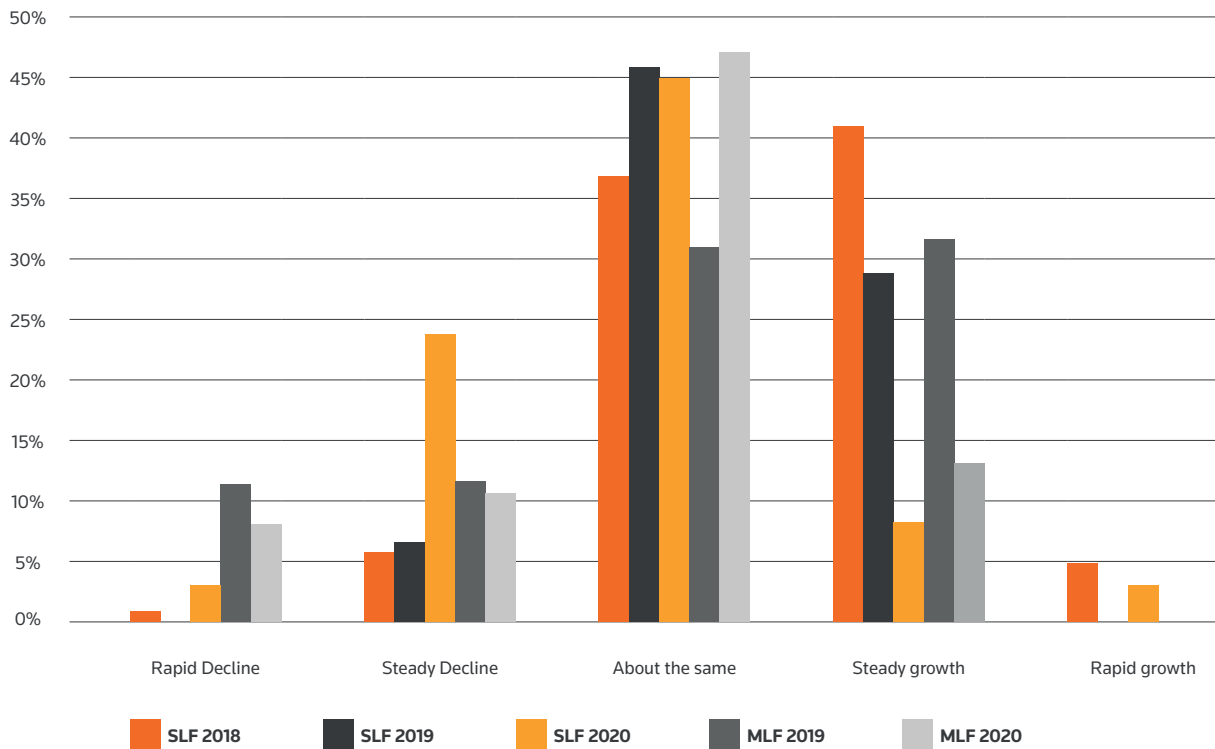
“ Keeping up to date with government guidance and changes in employment law.”

**Generalist/Regional Scale**

## Revenue achieved vs previous year

Revenue comparisons are aligned with views on the market/competitive environment. Of the respondents, 46 percent believe that revenue versus 12 months ago is about the same. SLF views are largely unchanged compared with a year ago but there is a reduction in the percent of MLF who answered that it had grown steadily versus last year.

Figure 4: Views on Revenue versus 12 months ago



## Revenue expectations for next 12 months

Expectations are linked closely to respondents' experience of the prior 12 months. There is more pessimism about the ability to achieve steady growth vs. their attitudes at the end of 2019, with a higher percentage expecting things to remain the same and more firms expecting a steady decline (particularly SLFs). Expectations around the impact of Brexit are not specifically mentioned.

Respondents noted that some practice areas have seen an increase in demand which has offset a reduction in work elsewhere and new opportunities have opened up. Some of these have been the result of Government initiatives such as the stamp duty holiday, leading to an increase in conveyancing transactions, which is due to end.

Many firms are introducing efficiencies and have become leaner.

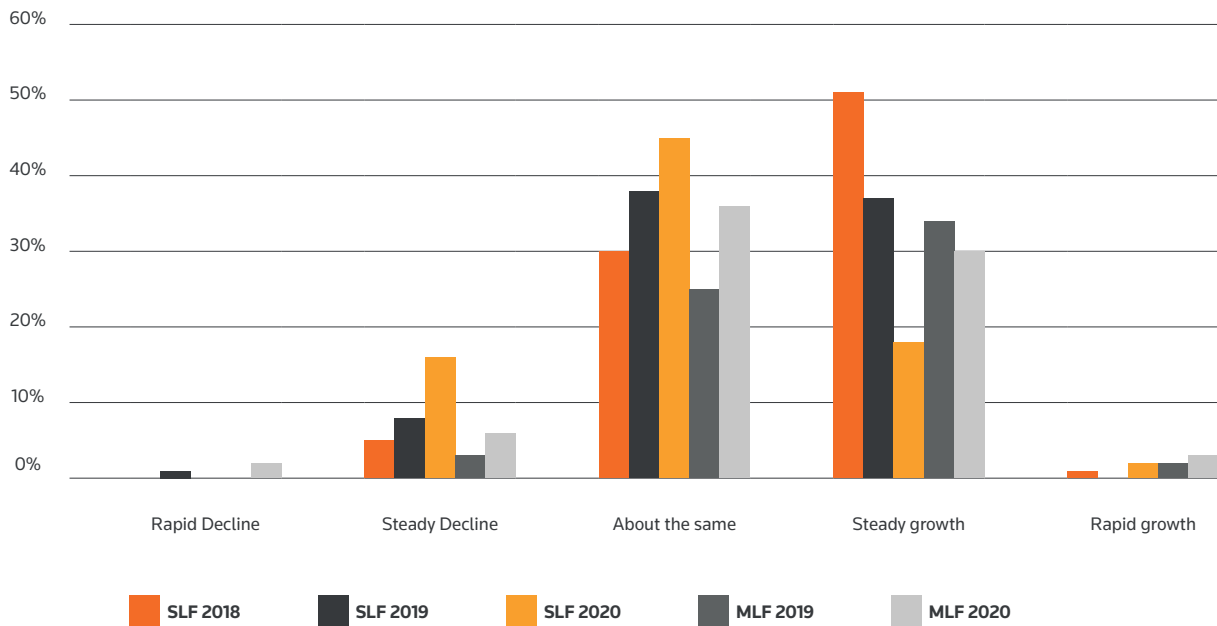
“Some areas have done better than expected such as residential conveyancing and private client, meaning any other areas of loss have been compensated.”

**Full service regional firm**

“We are more efficient and leaner now and expect to see increased instructions pre-Christmas and then again post Easter - there may be a lull post-Christmas.”

**High Street firm**

**Figure 5: Revenue Expectations for next 12 months**



Both SLF and MLF have become more pessimistic than in previous years as seen in the increase in the percent expecting a “Steady Decline” in 2021 (SLF and MLF), offset by a corresponding increase in percent for “About the same”.

**Comparison to the experiences seen in the May/June Pulse survey**

The Thomson Reuters quarterly pulse survey showed that law firms were predicting a level of fluctuating demand in these practice areas in the three to six-month period from May 2020.

**Figure 6: June Pulse Survey findings on practice areas expecting a change in demand**

Top five practice areas expected to increase	Top five practice areas expected to decrease
Employment	Commercial Property
Restructuring & Insolvency	Residential Property
Private Client	Corporate/M&A
Litigation/Dispute Resolution	Competition
Family	Commercial Transactions & Contracts

Respondents to the SMLF survey were asked whether this reflected what they were seeing in their firms. Of the respondents, 64 percent of MLFs and 58 percent of SLFs said these predictions were borne out (with a further 17 percent and 11 percent respectively saying the predictions have been somewhat borne out).

**Figure 7: October Pulse Survey findings on practice areas expecting a change in demand**

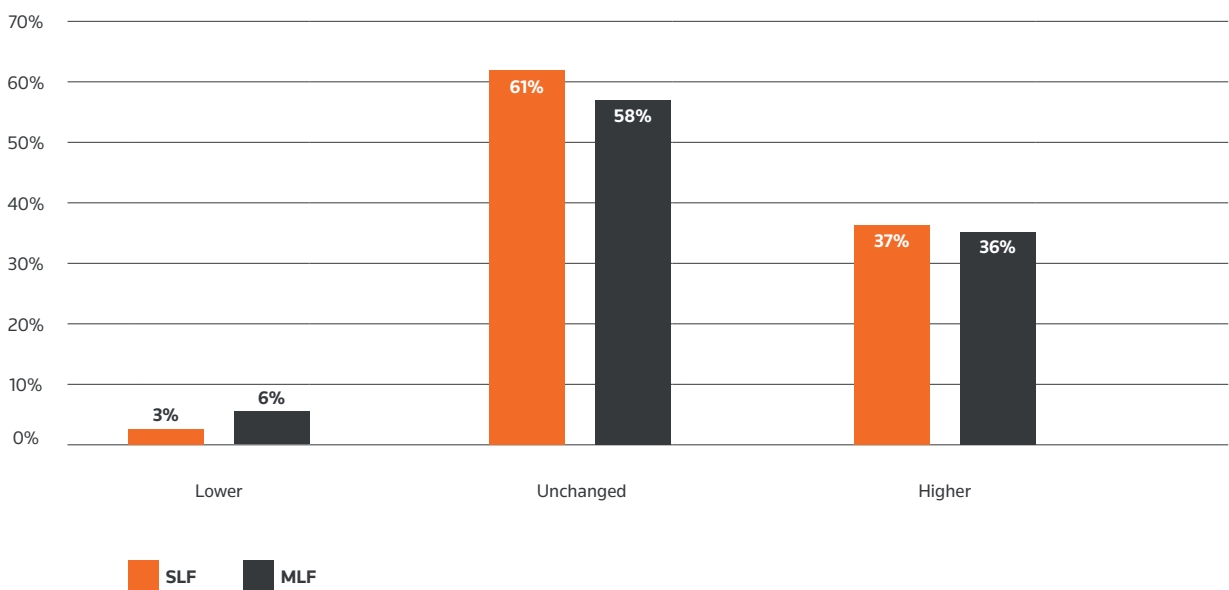
Top five practice areas expected to increase	Top five practice areas expected to decrease
 Employment	 Commercial Property
 Litigation/Dispute Resolution	 Competition
 Private Client	 Projects
 Commercial Transactions	 Tax
 Residential Property	

The October Pulse survey saw law firms becoming even more optimistic; with demand expected to continue to increase for the practice areas of Employment (from Mid-market, Large Corporations and Government clients for large law firms (LLF)), Litigation/Dispute Resolution (across all client bases except Consumer for LLF and MLF) and Private Client (Consumer clients across all segments).

### Clients' expectations

Of the respondents, 59 percent believe expectations from clients are unchanged and over a third say that expectations are higher. While there are comments that clients have been largely understanding of the challenges, where clients themselves are under pressure, they are seeking increased levels of support from their legal advisers.

**Figure 8: Changes in clients' expectations in the last year**





“ Clients still expect their work done. They appreciate there are some things that we cannot get past but they expect us to be innovative and they expect different services.”

**Boutique firm**

“ The expectations have significantly increased due to the need to guide clients through the furlough scheme with advice on contracts of employment and the extent and ability to claim through the [furlough] and new schemes.”

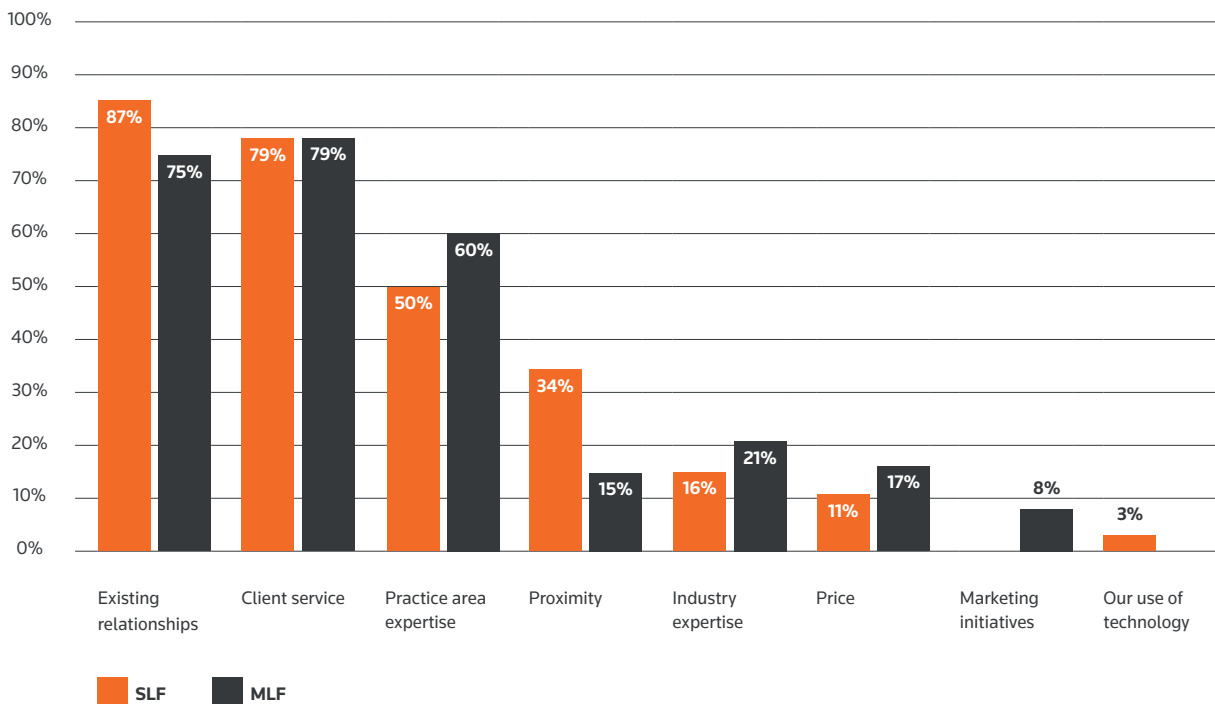
**Small firm**

“ Remote working during the pandemic has blurred lines between home and the office and more and more clients expect us to be online out of hours. A faster speed of response is also generally expected.”

**Boutique firm**

**Winning work**

**Figure 9: Reasons clients choose a firm**








Results are similar to those seen in last year’s survey with Existing Relationships, Client Service and Practice Area Expertise as the clear top 3 reasons clients choose a firm. This means a reliance on some form of existing relationship or referral system in order to attract clients and poses challenges for firms looking to attract new business if they do not have established networks to bring in new clients.

“ Clients continue to expect good service and good availability.”

**Full service regional firm**

**Figure 10: How firms win work**

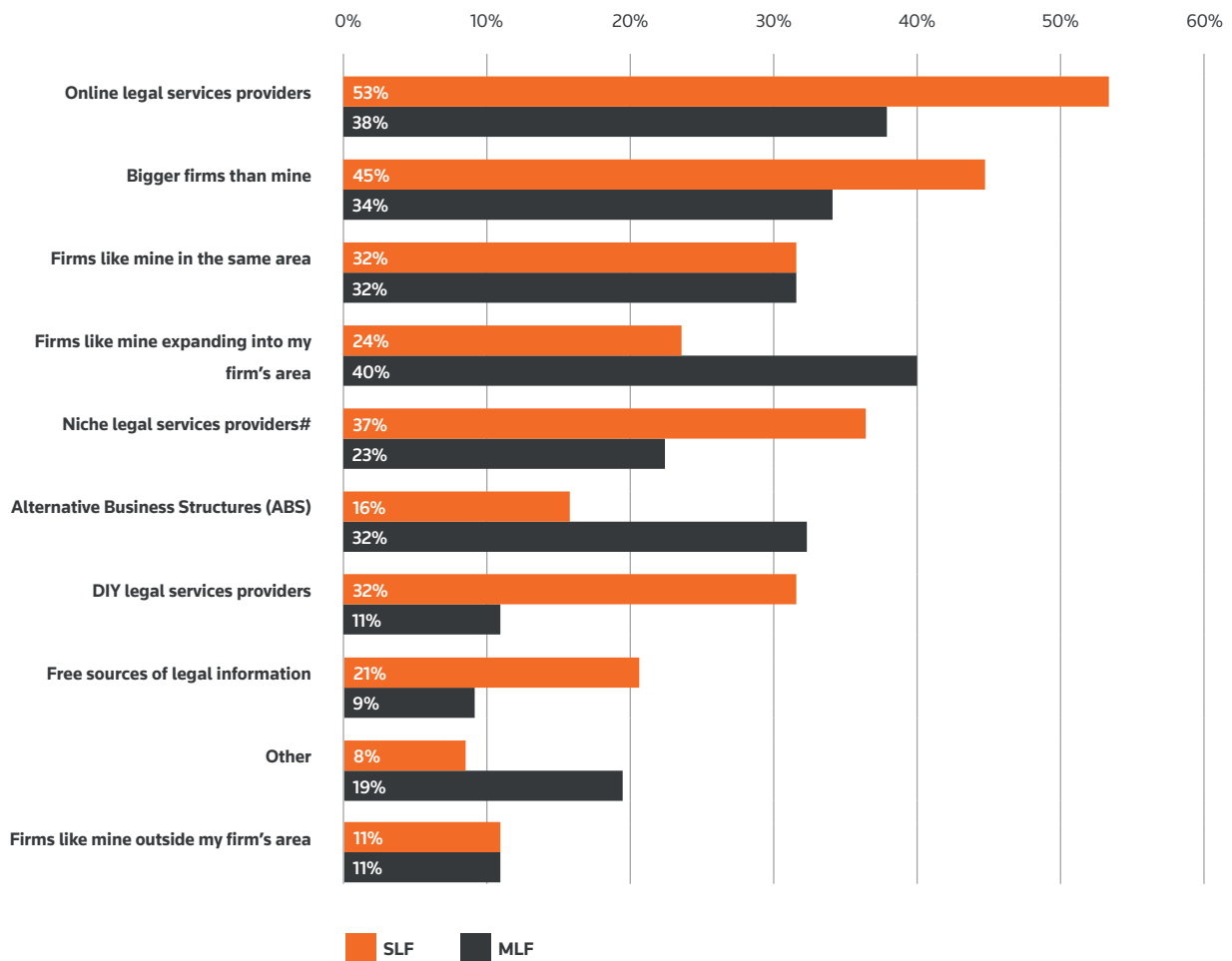
	SLF	MLF
 Mostly repeat business	92%	91%
 Cross referred within firm	68%	77%
 Direct enquiries	61%	68%
 Referred through business networks	47%	68%
 Winning tenders	5%	38%

Repeat business is the most common way across all firm types to win new business, followed by referrals. Larger firms are more likely than smaller firms to win work through tenders, reflecting their different client base.

Social media is the most preferred marketing channel among respondents' firms. Other includes Twitter Instagram, local advertising, local sponsorship, running webinars/seminars and client events

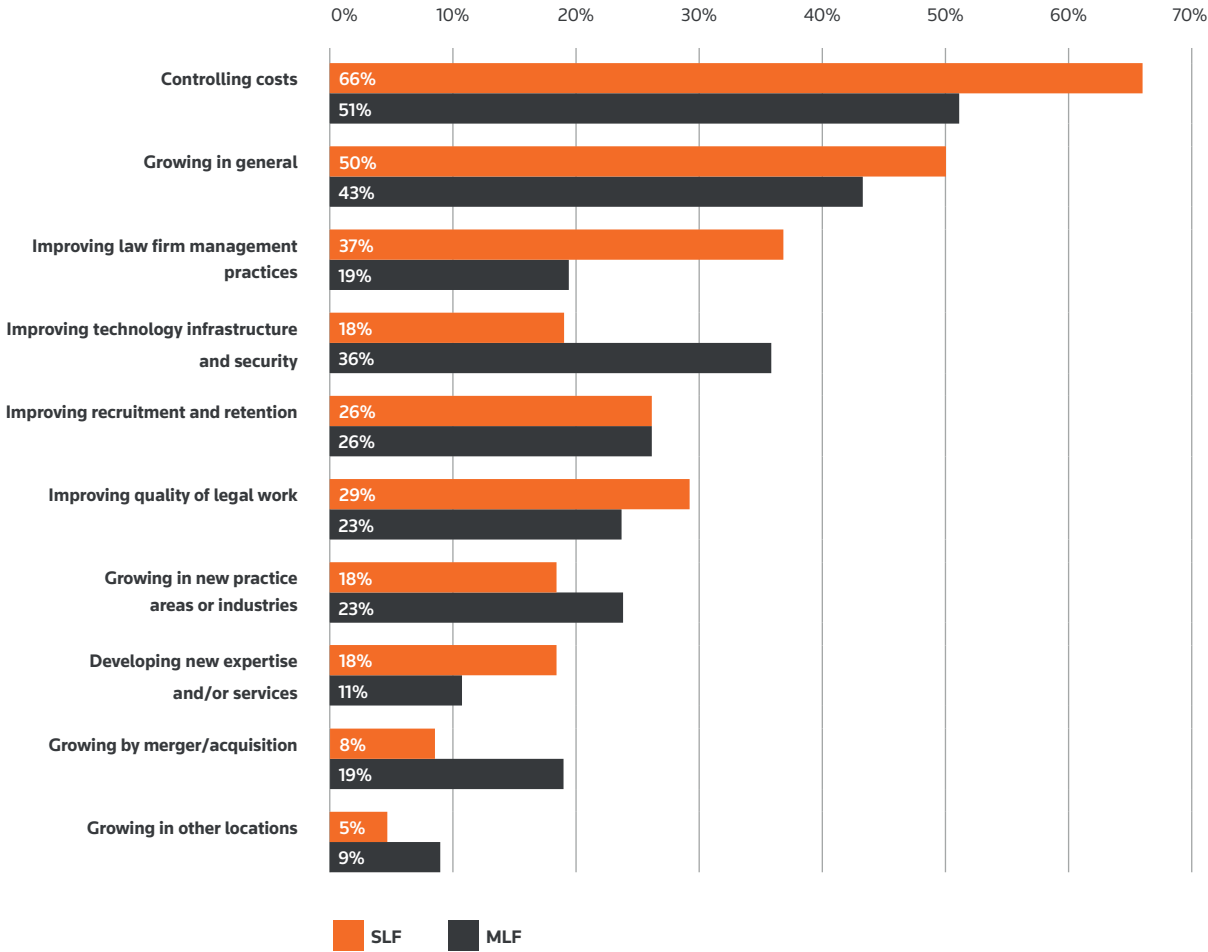
### Commercial threats and objectives for the next 12 months

**Figure 11: Biggest commercial threats to firms**



As in last year's survey, respondents see online entrants to the market as one of the biggest commercial threats, SLF still see this as the number one threat, while MLFs see it in their top three.

Figure 12: Objectives for next 12 months



Respondents were asked about their objectives for the next 12 months with cost control being the key objective followed by general growth, which is a similar response to last year’s survey. MLFs see improvement in their technology infrastructure and security as their third most important objective.

**Summary**

Despite the pandemic, respondents remain cautiously optimistic, with the majority expecting the market and revenue to remain at current levels. There are still plans for growth, but focus is also on cost and ensuring firms remain in shape to be responsive to the market and client needs. Brexit was not mentioned; firms are more focused on specific economic and regulatory change impacting their practice areas.

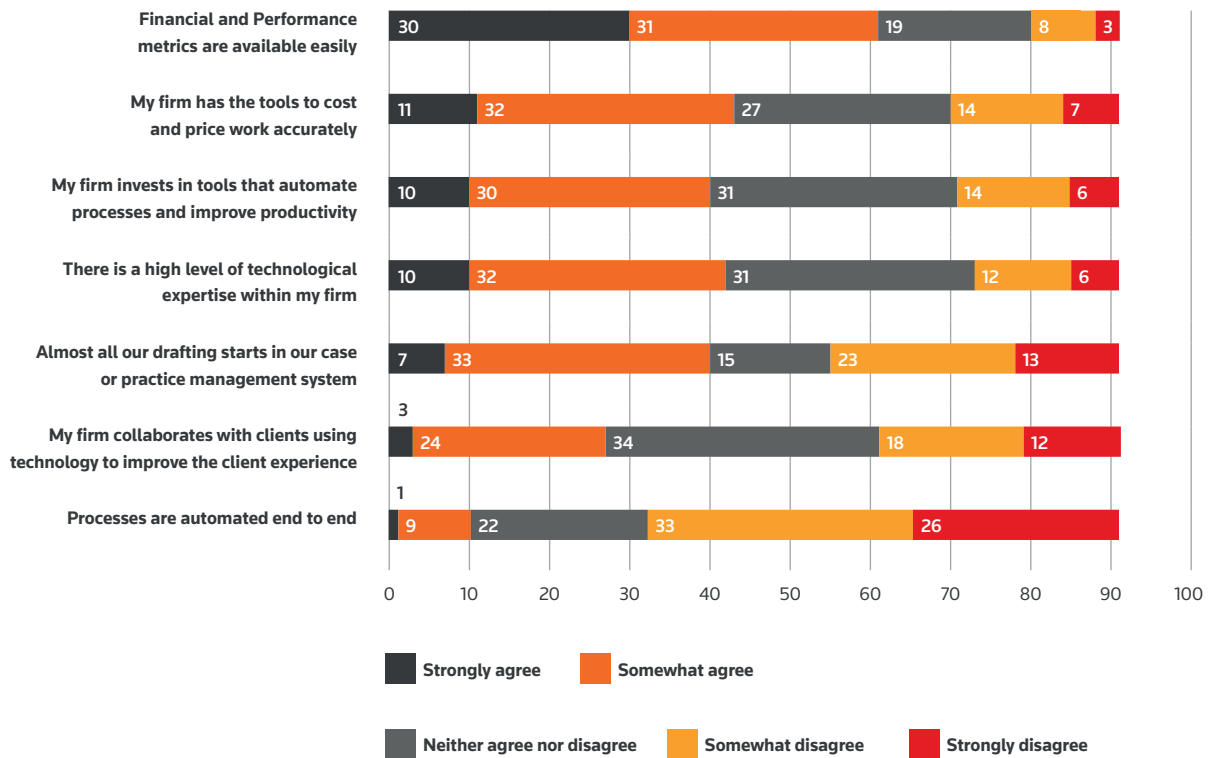
Clients continue to demand similar levels of responsiveness from their law firms, despite the pandemic, and with Online Legal Service Providers seen as the number one commercial threat, many law firms have been able to respond by leveraging their existing technology to provide services online and with a largely home-based workforce.

# Use of technology

## Technology maturity of respondents' firms

Respondents were asked to rate their current technology capability based on their agreement with the following statements – five ratings from Strongly agree to Strongly disagree

Figure 13: Technology assessment of respondents' firms



While respondents were largely confident in their back-office systems to provide insight into financial and performance metrics, less than half said they had the tools to cost and price work accurately. Only 44 percent of firms have invested in automation to improve processes and productivity and only 30 percent use client collaboration technology, an increase of seven percent since last year's survey, but still a low adoption rate. Of the respondents, 46 percent say they have a high level of technology expertise within their firm—a 6 percent increase since last year's survey.

While the use of technology to automate and collaborate has increased, the rate of adoption among small and medium-sized law firms is relatively slow. Only 41 percent of firms intend to invest in tech solutions in the next 12 months. Barriers to adoption included a lack of clarity of the benefits tech solutions can bring, a lack of confidence around how to implement the solution, and effective change management approaches.

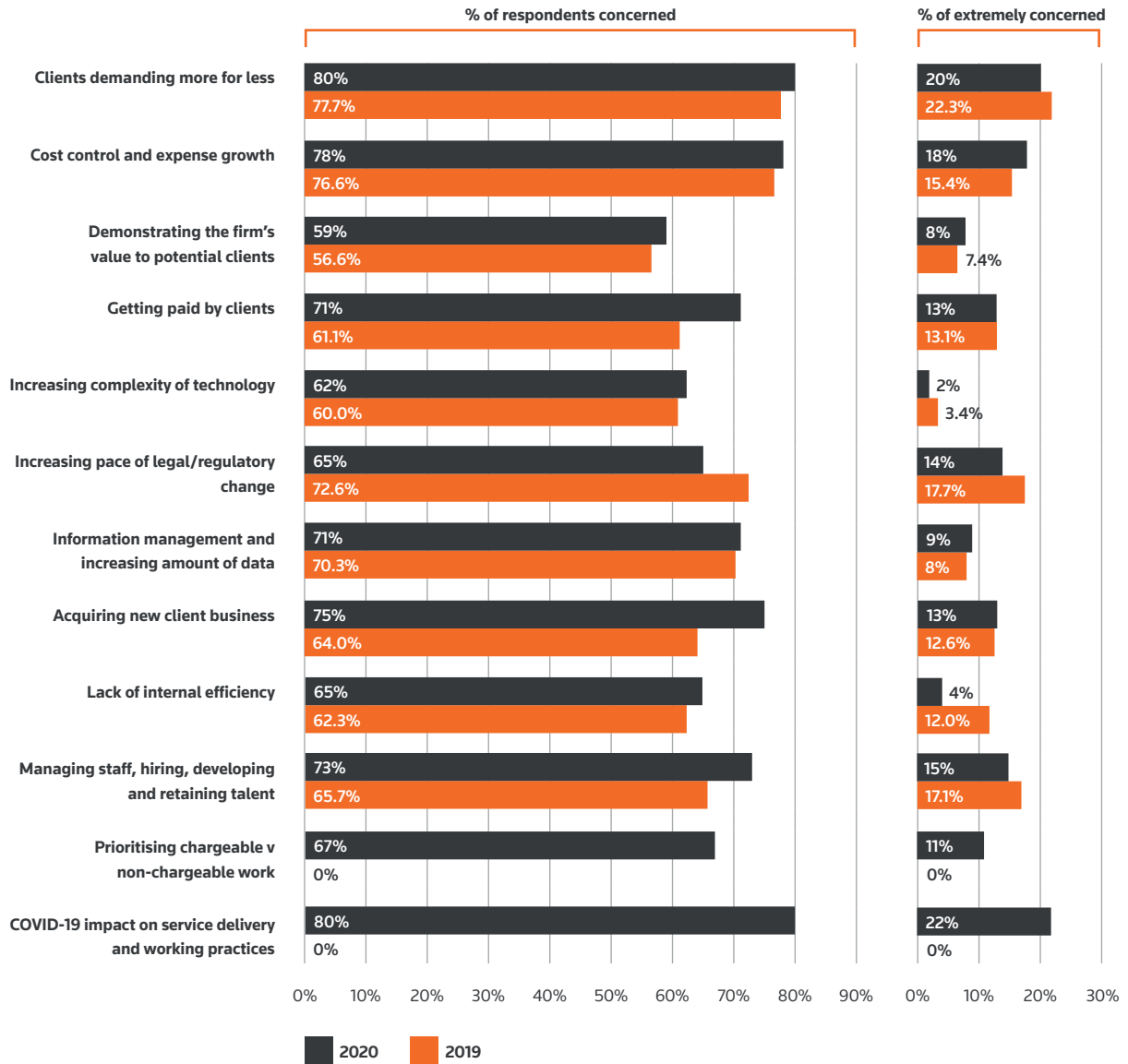
“ We need more collaboration between IT specialists and lawyers.”

Alternative Legal Service Provider

## The role of technology in meeting the challenges that firms face

Respondents were asked about their level of concern with the following challenges.

Figure 14: Challenges on firms



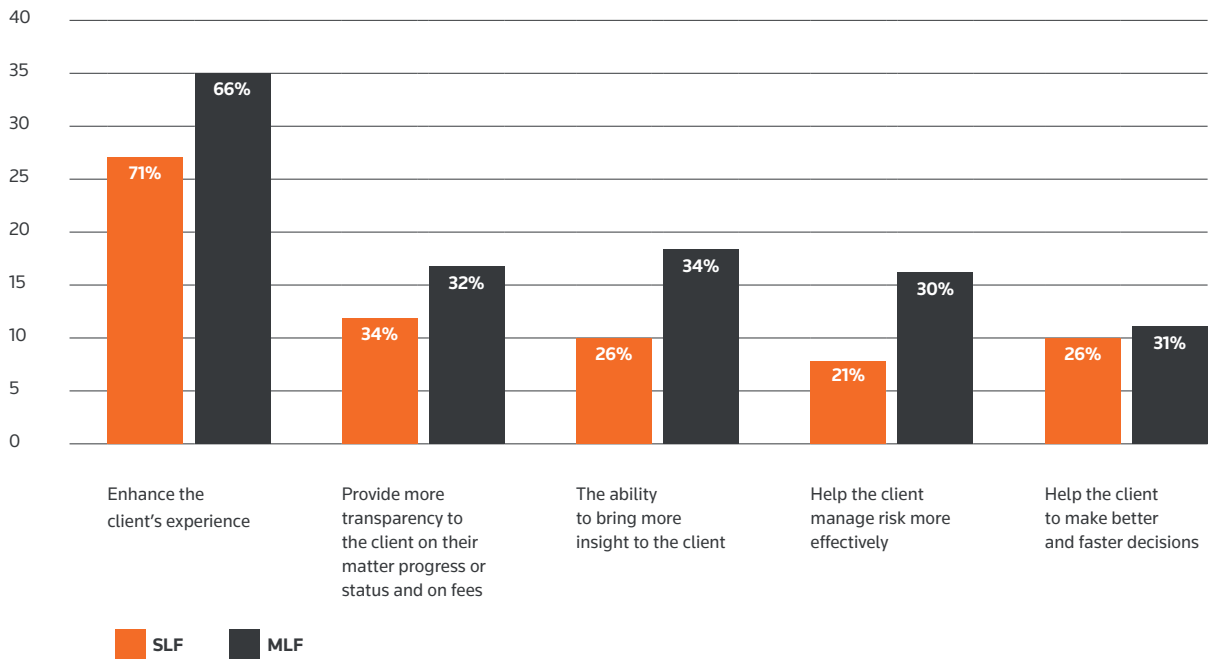
Unsurprisingly, the pandemic is causing the greatest amount of concern amongst respondents' firms. After that, results follow a similar pattern to last year's survey with "clients demanding more for less or rate pressure" seen consistently as an area for concern across all firm types, followed by "cost control and expense growth". There has been an increase in concern for challenges which may have arisen from the pandemic; getting paid by clients, acquiring new business and the management of staff.

Of the respondents, 75 percent believe technology is important in helping them address these challenges, with less technology mature firms planning to use technology to resolve challenges.

## How does technology improve client service?

Respondents were asked to rank the top three features they expect from a technology solution, with over two-thirds expecting technology to be enhance the client experience.

**Figure 15: Expectations about the value legal technology should deliver to clients**



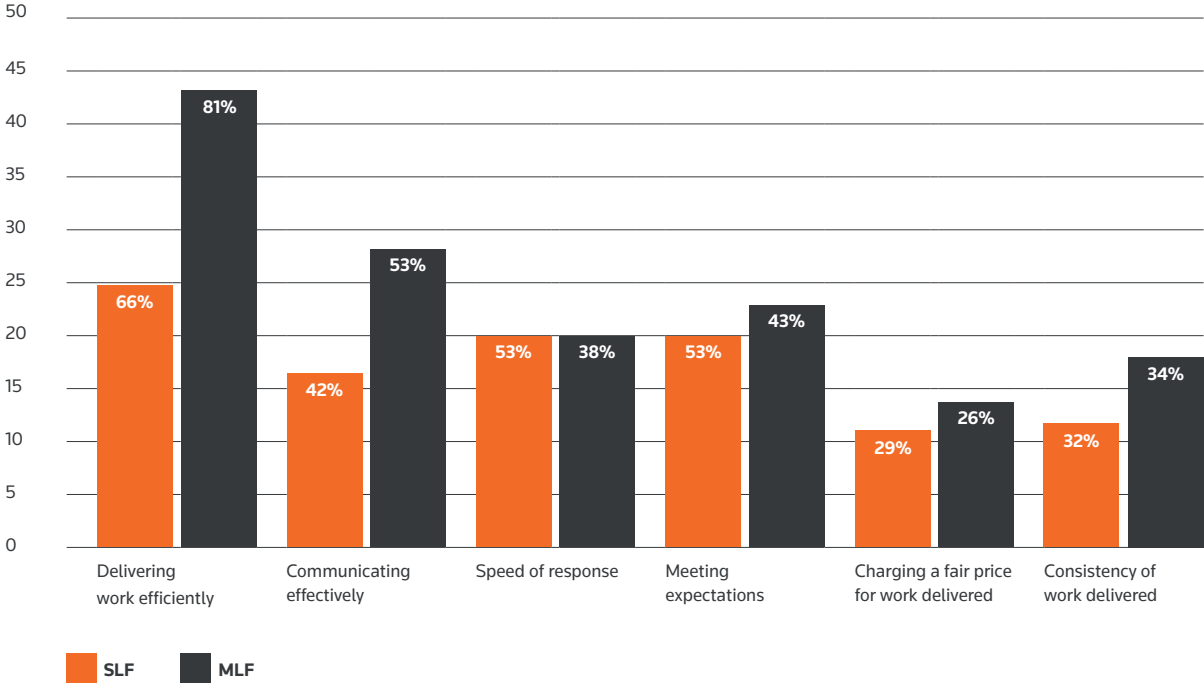
“Clients have had significant impact from the [pandemic] changes and require professional service firms to match their expectations arising from those changes.”

**Full service regional firm**

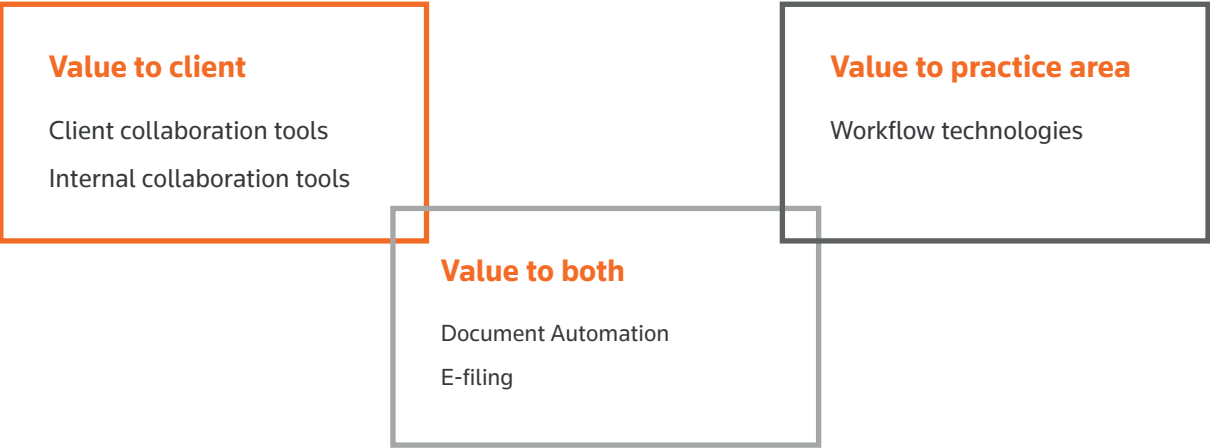
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Respondents expected client service to be positively impacted primarily through greater efficiency, and enhanced communication and responsiveness.

**Figure 16: Areas of client service that should be positively impacted by investing in legal technology**



**Figure 17: Who gets the value from technology?**

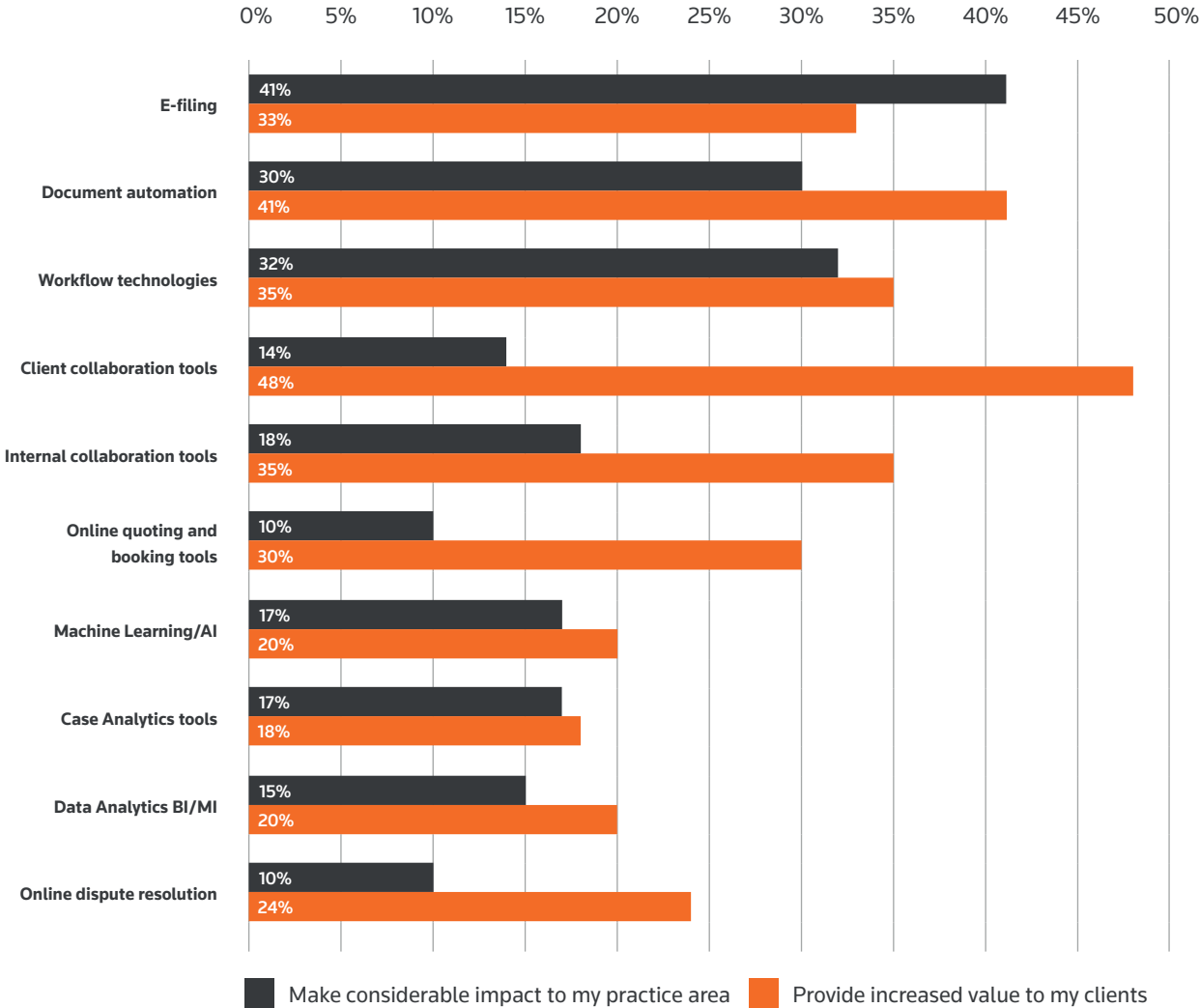


Respondents were asked to consider a list of technologies and indicate where they bring value. Some solutions were seen as providing more value to the lawyer, such as workflow, and others more to the client, such as collaboration technology. Some technologies, like automation were seen as being of value to both.

### What technologies will have the biggest impact in the future?

Respondents were asked which of their current tasks did they believe would be impacted by the following technology and market developments, and to identify whether the impact would be to their practice area, i.e. how they delivered their services, or whether the impact would result in increased value to clients. The top three areas expected to have an impact were E-filing, collaboration (both internal and with clients) and Workflow technologies.

Figure 18: Technology expected to impact in the future





## Conclusion

The role of technology has increased in importance in this survey compared with last year; likely as a result of respondents relying more on technology infrastructure as they adapt to new ways of working, and as an acceleration of an existing trend. Respondents expect efficiency to improve as a result of technology implementation, but also expect clients to benefit from greater transparency and responsiveness.

However, barriers to implementation remain most significantly around the perception of the value that technology can bring to services that rely on strong personal relationships between lawyer and client. New solutions must work seamlessly to support rather than supplant that relationship, as is sometimes feared. In addition, implementation must be effectively managed through robust, costed and time-bound change management programmes, with which many firms require vendor assistance.

Technologies that are likely to make the greatest impact to the firm's bottom line and client satisfaction remain automation, workflow and collaboration tools. For litigators, e-filing, and online dispute resolution will improve efficiency and value to clients while AI and data analysis tools have yet to make an impact in the small and medium law firm section of the legal services market.

The most successful firms will continue to rely on technology to enable them to respond to market fluctuations and meet client expectations. Entrepreneurial firms will go further than automating existing processes or shifting them online; they will identify opportunities that these solutions bring to access new markets and develop new offering.

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