



PEDAL HARDER, PEDAL SMARTER:

Small & Medium Law Firms
confront operational efficiency

By Chris Jeffery

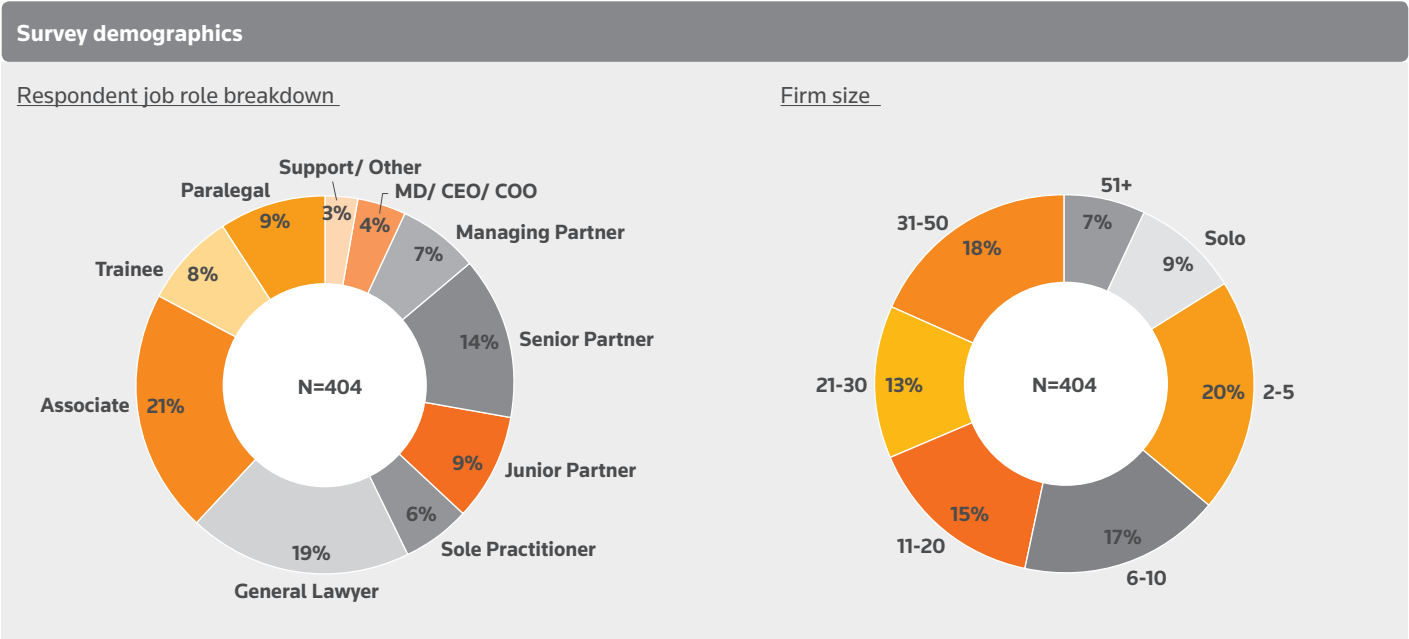
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Small & Medium Law Firms (SMLF) in the UK

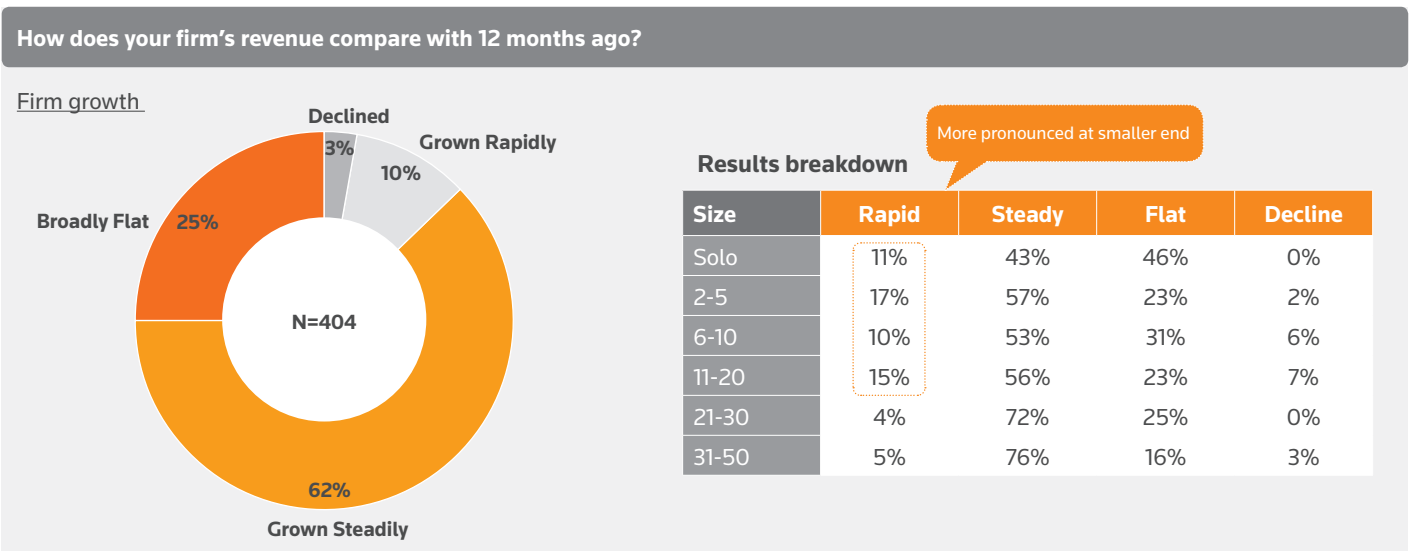
Away from the top-100 behemoths that gobble up the headline-grabbing instructions, as well as each other, the small and medium law firms (SMLF) are the engine that powers the industry. In the UK, 97 per cent of all law firms employ between 1 and 50 fee earners, according to the Law Society. They account for 52 per cent of all lawyers and for 25.5 per cent of total billing – that’s £6.4bn annually (\$9.4bn).

Thomson Reuters conducted in-depth research with more than 400 respondents at law firms with between 1 and 50 fee-earners. The results paint a picture of a segment facing challenges and opportunities in equal measure, with technology having a profound impact on who wins – and who loses.



Strong demand is driving top-line growth – headline figures are positive...

The good news is that growth exists in the SMLF world. The list of serious challenges to SMLF will be familiar to any practitioner, in particular winning new clients, maintaining profitability and managing cash flow. However, more than two thirds of firms surveyed have experienced either steady or rapid growth over the past 12 months.

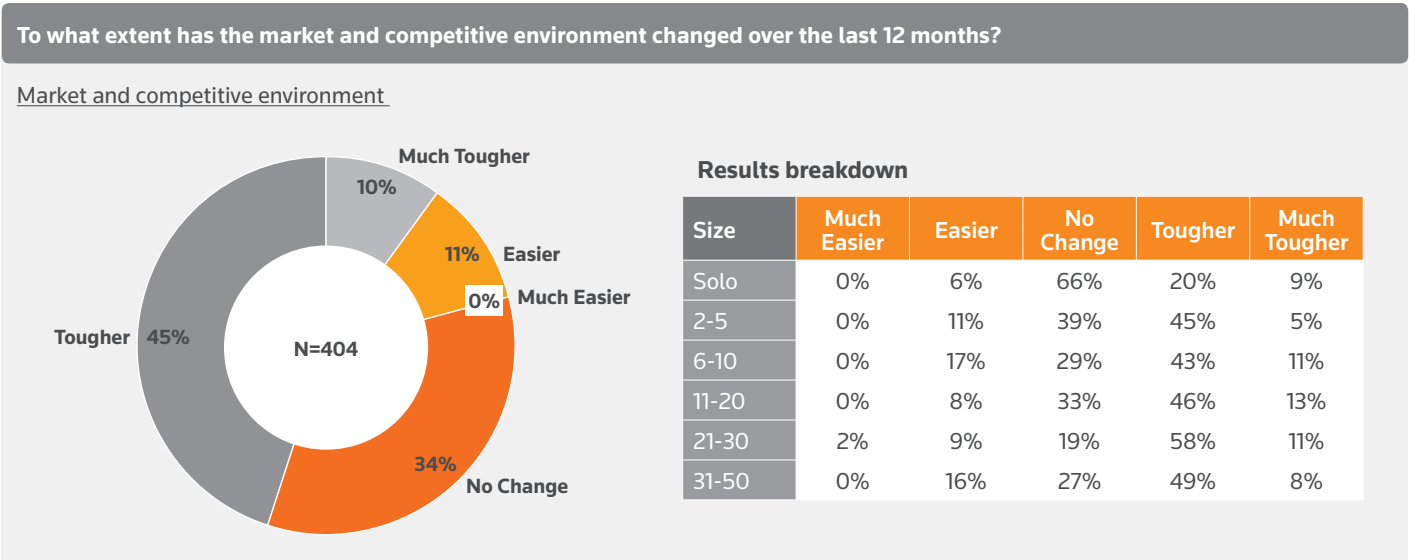


In its 2016 Law Firm Benchmarking Report, Natwest reported median profit per equity partner 4 per cent higher than 2015, as well as a 6 per cent rise in fees. Our survey’s respondents supported this, some reporting doubling salaries, tripling headcounts, and turnover almost doubling inside a decade. Many interviewees put that down to market-driven factors, such as the general recovery of the economy, and the increasing opportunities for specialist advisors.

Although these external factors can't be controlled, they do give a reason for the SMLF practitioner to be optimistic. 'We have a long untapped pipeline of work,' one respondent reported. 'It feels like we've been gearing ourselves up to act on large amounts of work that is just sitting there,' said another. One small specialist firm found that 'the market is opening up and we've got lots of people coming to us.'

...but lawyers are having to work harder to deliver

Despite this growth, there is a consensus that the market is tough, and getting tougher. 'While we've been growing topline, we've been pedalling much harder,' said one lawyer from a mid-sized firm, echoing the thoughts of many others. Meanwhile, the gap between those firms succeeding and those facing challenges is growing. One measure of profitability is revenue per fee earner – on average, firms performing well against this metric are generating 77 per cent more in fees per fee earner than those in the bottom quartile. This disparity has grown over the past 12 months, indicating that without a clear focus on fee earner profitability, firms could face an uncertain future.



SMLF face increasing client and competitive pressures...

Across the board, clients are more demanding on service levels and fees, forcing firms into hard choices. 'Our clients want more personal service and more output,' said one respondent. If firms need to work harder to sustain growth, are they focusing their efforts in the right places? Can they afford to pull fee-earners from non-fee-earning work? Could an investment in technology, or in the recruitment of professional managers, be the answer? Professionalising customer service and business development is a popular goal for SMLF, as well as recruitment, and the lingering temptation of a merger. One firm of 6-10 fee earners hoped 'to merge with another firm... we're currently in discussions... we hope to continue expanding.' Another expressed a common sentiment, noting that 'the sector is consolidating. We need to keep pace with others, deliver growth for our staff and enable investment in new platforms.'

The old, familiar solutions have survived for a reason, and many lawyers in this space expect to maintain growth into the medium- and long-term by doing more of the same. But in a market in which everyone is pedalling harder, is this a sustainable business model? Given the concern around serving matters and clients profitably, should law firms be looking at the processes that govern how work is handled, in addition to the volume? As one respondent made clear, 'we've got more than enough work. The key challenge is dealing with administration of work, and not spreading my time too thinly.'



...but how a firm grows is just as important as how much it grows

For our respondents, the focus is increasingly on how work gets done, and how quickly. This is indicative of a wider recognition that a more business-oriented outlook to legal service delivery is key to the sustainable growth that law firms crave. The widespread adoption of specialist practice management software is a clear sign of this, with the likelihood of adoption increasing alongside a firm's headcount. A focus on profitability and cash flow as two of the top priorities for firms in this space demonstrates a shift in attitude, where one-time innovations like fixed fees, flexible working and outsourced professional accounting are now just part of the toolkit. How a firm grows is just as important as the growth figure itself: behind the headline growth in fees of 6 per cent, recovered rates have grown 8 per cent, as firms strive to reduce the amount of time written off and provide another boost to profitability.



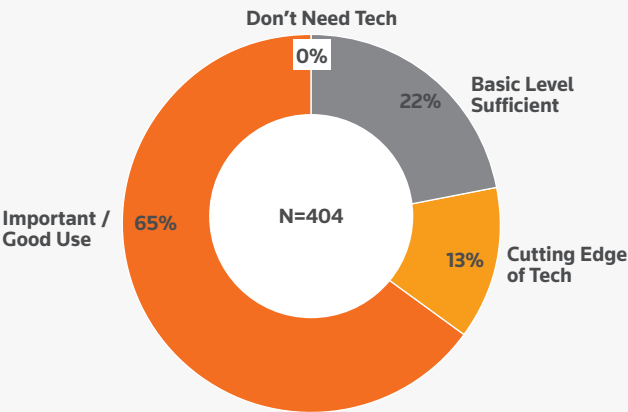
2016 NatWest Legal Benchmark Report

Technology is a key enabler, and a vital part of strategy...

From the solo practitioner up to the firm with a headcount of 50 fee-earners, a critical mass of more than 75 per cent now know that technology is a key enabler, and a vital part of their strategy. 'Manual methods are too time-consuming,' said one. 'We really want to free up time to focus on our clients.' The smart firms realise that those not constantly looking at how they can better utilise technology will be left behind. Some are even stitching together best-of-breed components to build customised solutions for their clients. Tellingly, the percentage of firms and solo practitioners surveyed who neither feel that they need new technology, nor see what it can do for them, hovers at roughly zero. This mid-sized firm expressed a common sentiment: 'we're out there speaking [to providers] and testing, as we know technology is key to long-term strategy.'

What best represents your firm's attitude to technology?

Importance of technology



Results breakdown

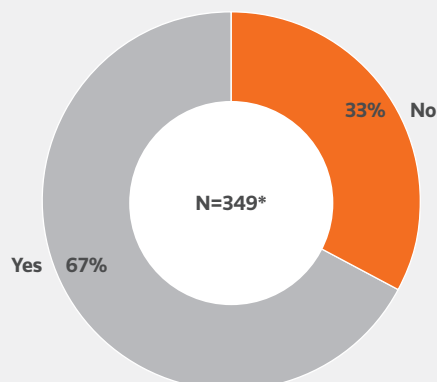
Size	Don't Need	Basic Level	Important / Good Use	Cutting Edge
Solo	0%	29%	54%	0%
2-5	0%	16%	67%	2%
6-10	0%	21%	71%	6%
11-20	2%	20%	66%	7%
21-30	0%	34%	55%	0%
31-50	0%	19%	68%	3%

...so SMLF are widely adopting specialist practice management software

Specialist practice management software (PM) has achieved a high degree of penetration in SMLF, with 67 per cent of firms surveyed using PM solutions. Improved internal efficiency is the top benefit of adoption for SMLF respondents, as it enables them to 'free up people from admin,' and focus on the client service that will help to drive growth. The likelihood of a firm adopting PM solutions tend to increase in line with its headcount, from 61 per cent at 2-5 fee earner firms to 80 per cent at 31-50 fee earner firms. Those who don't feel the need to invest in PM tools are falling back on low-tech workarounds – principally Microsoft Office, or loading the administrative work onto secretaries. Their reasons for failing to invest often stem from a feeling that their current processes are sufficient, and the benefits of adoption aren't compelling enough to take the plunge. However some report that there's 'not enough volume of cases.' In any case there's a clear picture that interest in PM solutions continues to grow, and SMLF lawyers are willing to trial the latest tools to stay up to date.

Does your firm use specialist software to manage its Practice/Matters?

Adoption of PM software



Value of PM software

N=404

Area	Rank
Improved Internal Efficiency	1
Better Contact Management	2
Improved Reporting and Project Management	3
Improved Profitability	4
Improved Client Communications	5

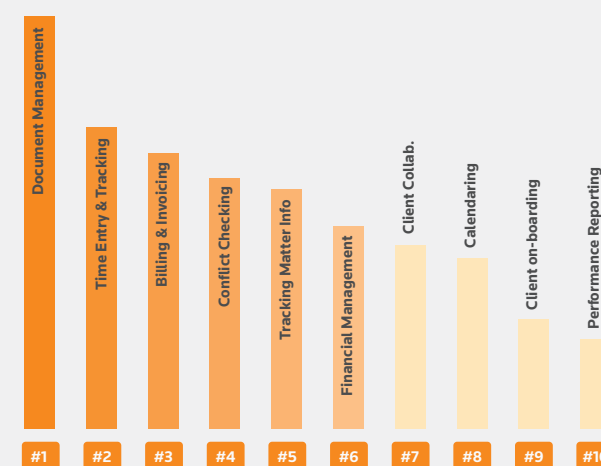
SMLF yet to employ full functionality of PM tools...

There's a clear consensus as to the functionality that SMLF find most useful in PM software: case and matter management, time entry and tracking, billing and invoicing, document storage and sharing, and accounting and reporting. All of these key functions are highlighted by a majority of SMLF users of PM tools. However, respondents admit that they're yet to realise all the benefits of their chosen platforms: 'we don't use all features yet – we feel like we're just scratching the surface of what it can do,' said one. The full functionality of PM solutions is often unused, with SMLF taking a modular approach and integrating their tools with third-party software.

What are the most important features you expect from a specialist PM system?

Most important feature score (weight by rank & frequency)

N=404



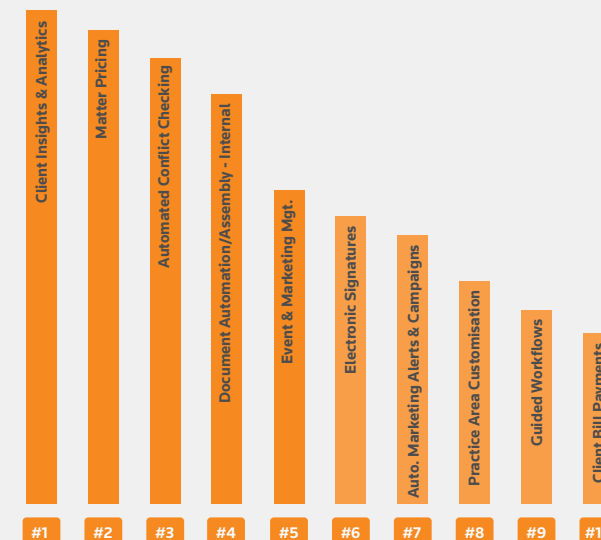
...and have a clear idea of the functions they'd like next

CRM and marketing abilities, along with client collaboration, appear to be top of the practice management software wishlist: 'better client insight would be great,' said one interviewee. 'We want insight into client relationships, how we can cross-sell and make introductions,' said another. Benchmarking tools that help with pricing were highlighted too, particularly those that can accommodate alternative fee arrangements. Conflict checking remains a bugbear: 'a more intuitive and integrated search for conflicts during on-boarding would be really valuable,' one respondent told us. Other value-added features that would appeal to SMLF include integrated internal document assembly, event and marketing management, electronic signatures and practice area customization.

Which of these features most appeal to your firm?

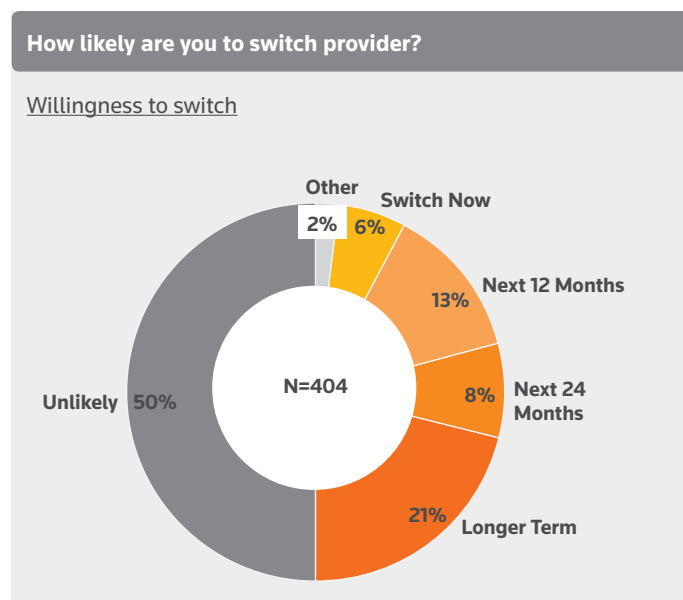
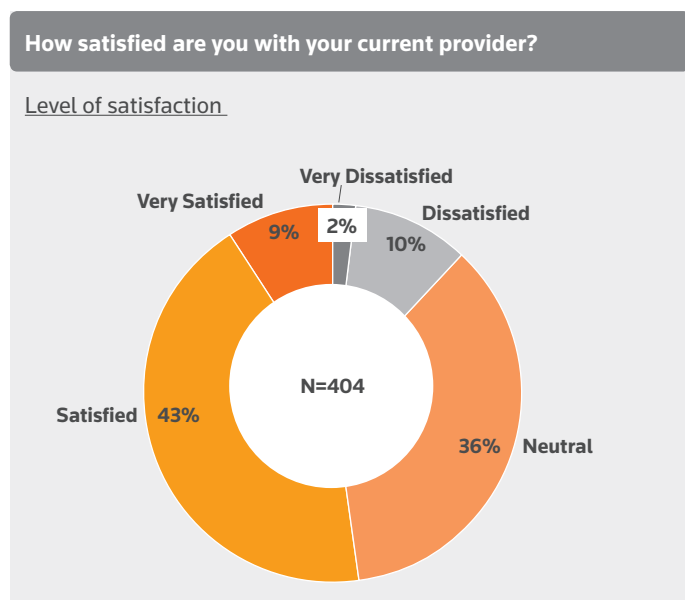
New feature development score (weight by rank & frequency)

N=404



Underserved users lack a provider that can do it all

However, survey respondents from across the segment agreed on one thing: the lack of an obvious PM option that can perform all key tasks adequately. 'We've tried different tools over the years,' lamented one, 'but nothing has addressed all our needs or had the right user interface.' This was reflected in the key finding that while around half of firms surveyed are at least satisfied with their practice management solution, the same number would be willing to switch, and the barriers to migration may be lower than expected – particularly if a solution emerges that can meet their expectations. 'We're going to wait until we find something worth switching for,' explained one firm. 'What's out there now isn't good enough to justify the effort and the time costs.'



Without a clear best-in-class product, the market remains severely fragmented, with no single provider capturing more than 10 per cent of the market. 'There are a lot of one-trick ponies who claim to do a lot,' one lawyer told us. 'There are complex, on-premise solutions for high-end firms, but they're just not affordable,' said another, highlighting concerns about data security as another worry. Unless and until a dynamic provider can provide a secure, versatile solution that performs all the key tasks adequately, the use of multiple providers, or the integration of in-house and third-party tools, will remain popular amongst SMLF.

PM providers can learn from other small business software

Beyond the specific concerns mentioned above, SMLF consider cost and ease of use to be crucial in driving the purchasing decision. The prices that respondents are willing to pay tend to vary in line with the size of the firm, and the functionality they expect from the solution. However, SMLF purchasers also worry about ease of migration, ease of installation and ease of integration – areas where legal software providers may be failing to keep pace with their equivalents in other industries. 'Migration was pretty difficult,' said one respondent, and many others highlighted the amount of training required to get users up to speed. Whether this can be avoided with a better user interface is up for debate, but SMLF interested in adopting a PM tool – or changing their provider – would be well advised to carry out market research, and select a provider that can offer them the after-market support they need to get up and running quickly and easily.

Challenges and opportunities

Reflecting on the results as a whole, it's clear that while things are going reasonably well for small and medium law firms, they probably won't go well forever. Firms need to take a long, hard look at how they operate, their use of technology and the way they complete work in order to remain successful in an ever more competitive environment.

Small and medium sized law firms are certainly aware that practice management tools can help them to drive efficiency and stay competitive. However, those tools aren't fully utilized, and often fail to provide the user experience that SMLF lawyers demand. For the moment, law firms are underserved by a fragmented market without a dominant product. If the providers can remedy this, it presents a great opportunity for SMLF to deliver greater efficiency – for themselves, and more importantly, for their clients.