

Profit motive

Increasing margins
in challenging times





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The topic of this roundtable was what my mum still refers to as the pounds, shillings and pence – what are SME law firms doing to grow their profit margins at a time of economic uncertainty and ever-greater competition?

What was so striking about the debate we had was that, despite the very different practices represented around the table, the approach was largely the same. From bespoke property law advice from a traditional partnership in London's West End to largely automated personal injury work from a limited company in Macclesfield, there was more that united our participants than divided them – although the continuing role of the partnership was one of them, in fact.

In essence, the core contention was that you have to understand your business and its place in the market, and then work out how best to attract the clients you want. This may seem simple enough (indeed, I would suggest that much management theory aimed at law firms is on the simplistic side, indicating how far many have to go), but of course there are several ways to skin this particular cat and the roundtable demonstrated this clearly.

I am grateful to Thomson Reuters for working with me on this roundtable – they bring much to the market more generally to help lawyers chart their course. I find that putting a few lawyers around a table invariably produces a stimulating and challenging discussion, and this was no different.

There will always be a place for SME law firms, and this roundtable – showcasing their ability to focus, experiment, and succeed – shows how valuable they are to the legal ecosystem.



Neil Rose
Editor, *Legal Futures*



Legal Futures – winner of the Legal Journalism Award at the 2014 Halsbury Legal Awards – is the leading news resource tracking the fast-evolving legal landscape. Written by professional journalists, it provides cutting-edge daily news coverage on alternative business structures, new market entrants, regulatory change and innovation in all its forms. Its unique blend of hard-hitting journalism, market intelligence and expert analysis makes it the first port of call for anyone interested in keeping pace with the transformation of the legal market.

Our sister site, *Litigation Futures* (www.litigationfutures.com) has meanwhile become the go-to source of information on the world of costs and funding in litigation, with daily news and opinions on the massive changes wrought by the Jackson report and government civil justice reforms.



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When being the best is not enough



Chris Jeffery

To stand out from the crowd and win new work, lawyers need to be good at more than the law, argues Chris Jeffery, Director, Small & Medium Law Firms, at Thomson Reuters

Growing the profit margins at a law firm advising SMEs boils down to two simple goals: win new clients, and serve existing clients profitably.

These were the top two picks for law firms [we surveyed last year](#) when it came to the key issues for 2017. But to win a new client, lawyers have to ask them to pick their firm above all others. It's a question so simple as to be trite, but why should they do that? What do you have that other firms don't?

Judged on service

Looking around your office you probably see a bunch of well-educated, personable lawyers, knowledgeable in the practice areas they service, delivering top-quality advice that clients can trust.

Unfortunately, that's what all your competitors see when they look around too. Partner-led legal advice that's up-to-date is a given (or at least it should be) – it's the very least that clients expect when they retain a law firm, a decision which is, by any measure, expensive.

A clear message that emerged from this roundtable was that, to put it crudely, you can't differentiate yourself from other lawyers by being the most lawyerly lawyer out there. As Paul Bennett put it beautifully, a client – a layperson – in most cases "cannot distinguish Gareth [Brahams'] employment advice from a high street firm's or from mine. They will judge on whether Gareth or Paul calls them back quickly... As lawyers, we are going to be judged on our service, not the quality of our legal advice."

Mindset shift

This is particularly true for winning new clients. After all, the accuracy of your legal advice is only apparent after winning the instruction, and in some cases a long time after the work has been completed – so how can this be a key differentiator in winning new clients?

The shift in mindset to recognise that you are, or should be, an entrepreneurial lawyer –

"businesspeople selling law," as Rachel Stow put it – may be hard to grasp for everyone in the firm. The equity partnership model is, after all, designed to fill a pool with profits for the partnership and drain them out periodically.

This can limit the appetite to do things faster and cheaper, and minimise contact with clients through technology, but clients are driving change at the very top of the market and this will inevitably filter down to law firms advising SMEs. This is being driven by a twin-pronged attack from competitive pressures, and the economic uncertainty in the aftermath of the Brexit vote. Against such a backdrop, clients feel comfortable making their demands plain.

For example, high-end clients are regularly requesting document automation in their tenders, as they know the time savings they can realise by taking advantage of drafting solutions. If a client asks you why you haven't automated key processes, do you have a convincing explanation besides an unwillingness to invest? Or should that client consider a different firm with a service level that's better for them?

Automation can serve current clients more profitably, and provide differentiation in price estimates that will win new clients – if lawyers are willing to accept that the service they provide is more compelling to clients than the quality of their advice.

Structure is irrelevant

Another issue raised by our discussion was that from the client's point of view, the law firm's structure is irrelevant. An alternative business structure licence is relevant only if it frees up time or resources to serve clients more quickly and efficiently; similarly an SME client might not be reassured by having two equity partners on their file, and would prefer a junior lawyer finished the job more cheaply, leaning on technology solutions.

What matters is the agility and speed of decision-making, and the perception (and reality) that those decisions are being made by the right people. Innovation can free your staff up and position them at the point of need. Clients will see the speed of response, the level of communication you offer them, and the price tag with which you confront them. How you arrive at those key indicators is up to you.

Some law firms are making technological investments to open up new markets and modernise their revenue streams. This doesn't just mean know-how, matter management and document automation – already must-haves for many firms – but innovations like running mediation or personal injury work through mobile apps, or offering end-to-end family law services online for a fixed price. Some firms are outsourcing their back-office functions entirely, letting their lawyers spend almost 100% of their time on fee-earning or business development.

Think like an entrepreneur

The next few years will see the continuation of the court modernisation process years in the making and costing many hundreds of millions of pounds; small and mid-sized law firms don't want to be playing catch-up when even courts and tribunals are offering innovative, digital-by-default services.

Of course, this isn't anything that most lawyers don't already know. In [our recent research](#), we found that 39% of lawyers at firms with up to 50 fee-earners think entrepreneurial thinking is important in achieving success. The problem is that fully 59% of those same lawyers think their firm is failing to achieve it.

How you tackle it – how you differentiate, to win new clients and serve existing clients profitably – is up to you, but our roundtable underlined the fact that it won't be based solely on the quality of your legal advice. Maximising profits and growth will be about your attitude as a businessperson selling law – not just a lawyer.

Automation can serve current clients more profitably, and provide differentiation in price estimates that will win new clients – if lawyers are willing to accept that the service they provide is more compelling to clients than the quality of their advice



Margin call

Solicitors from a diverse range of firms came together at Thomson Reuter's Canary Wharf headquarters in London to discover that more bound them together than drove them apart in the bid to improve profitability

Introductions

Gareth Brahams: I set up an employment law specialist firm in the City about four years ago.

Neil Rose: Was it a good decision?

Gareth Brahams: It was a good decision, and went extremely well for the first three or so years. The last quarter has been difficult because of Brexit and suchlike, and it would be tempting to think that, having always worked in larger firms, there should be other departments to carry you when you go through difficult times. However, I suspect those other departments would also have been going through difficult times, so I am not sure that life would have been any easier. And I get the feeling that things are picking up. I am chairman of the Employment Lawyers Association in my spare time.

Paul Bennett: I used to be a sole practitioner. I am now one of 21 partners in a firm called Aaron & Partners, with offices in Manchester, Chester and Shrewsbury. I advise other law firms on partnership, professional discipline and high-end employment, all involving the professional service sector. I am also ex-chairman of the Law Society Small Firms Division, so the majority of my clients tend to be in this space. However, I would actually say that any law firm under around £15m is probably in this space; others may disagree.

Jeremy Brooke: I have a firm in Sheffield called SSB Law. The firm is now nine-and-a-half years old. It was set up principally by me and two former partners from another firm in order to be different, which we were not for the first seven years. I then killed off two of my previous partners, had a year on my own, and now have three new partners who have worked for me for years, either in this firm or in other businesses.

Our drive is really into fixed fees and commoditisation of legal products, for want of a

better description. We are quite passionate about stripping law and processes down, putting prices around them, and then marketing those as legal products.

Rachel Stow: I am the MD of Thorneycroft in Macclesfield, Cheshire. We have historically been a volume PI business, predominantly in motorbikes. We have diversified somewhat; we bought our motorbike distribution supplier. We do other things; our growth plans are to make our private client offer a lot bigger financially in future.

Paul Marmor: I am on the management board and run the litigation department at Sherrards Solicitors. We are a mid-tier, mid-market firm competing against the top tier. We have come out of the SME market and are developing. We have several alter egos. One is that we were originally based in St Albans, and remain there, but moved into the London mainstream market 10 years ago. That has been very much part of our development. In my night-time I am helping to develop an international alliance of law firms, of which I was the chair. I am now responsible for recruitment.

Simon Ross: I am the managing partner of a firm called Seddons in Portman Square in the West End [of London]. We are a small to medium-sized practice; I've got 33 partners as of Monday. We are predominantly property-based, but are involved in a lot of the other areas that property clients want. We are growing the family/employment/private client side of things, because we see that as where our focus should be.

We have branded ourselves in the West End, while a lot of people are moving away to areas in which the rents are a little cheaper. We thought that we would stay there because a lot of people are moving out. That works well with property, international clients, and private clients, rather than the large corporates.

State of the market

Paul Bennett: There are two distinct trends. There are a lot of firms out there that have experienced what Gareth is talking about – the May to September wobble around Brexit, what is going to happen, and what the world is going to look like – and that appears to be just easing for some of my key clients.

Conversely, as a practice, we have actually found that we have had loads of enquiries, because we are in an international law network called AIG, from America. The Americans seem very keen on buying up SME businesses in the UK, and we have got three or four fairly large deals going on in relation to that. However, I know that contrasts starkly with the clients that we tend to act for in the professional practice team, which is dominated either by niche or PI practices.

What is interesting is that the slowdown in those firms applies equally to those down here in London, which we always think of as a different economy to the rest of the UK. The north-west has probably felt it slightly harder than London, but my clients in London have certainly been talking about it as well. People are nervous, and hoping that the economy is going to pick up more generally. It is a real mixed picture. Although it is not the work that I do, some of our manufacturing clients are talking about the export opportunities that they are seeing because of the pound being worth less.

Paul Marmor: Day plus one after Brexit, life stopped, and there was a two-to-three-week gap in terms of incoming new business and instructions. Particularly, the work we do on the conveyancing and private client side stopped. Life has started to pick up and return to some sense of normality in that regard.

I would echo what Paul said about the inbound instructions. We have found that there has been interest from foreign companies coming to the UK looking for bargains. Particularly in China, we have seen some real interest in UK businesses and the UK property market. We have been pragmatic and sent our Chinese lawyer out to China to talk up the benefits of Brexit. However, it has been a mixed picture.

Simon Ross: We have actually found that the stamp duty changes had a far greater immediate effect on people's reactions. Suddenly, the whole transaction became a lot more complicated, because they had to take into account a much larger amount of stamp duty payment. It led to a growth on the private client side, because it is now not a simple case of buying a property; everything has to be planned, and you have to put alternatives to the client. Also, fortunately, being based in the West End, a lot of our clients are international and they have taken advantage of Brexit.

We have the poor English, who are looking at where their pound is, and if they are going

Participants

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Sophie Winter,
Marketing Department, Thomson
Reuters



Paul Bennett

on holiday, where they are going to spend it; and on the other side, we have the Americans and anyone buying in dollars or euros, who are now looking to us. That has soaked up the stamp duty changes. We had one in particular right over Brexit, and he basically paid for his stamp duty on the overnight currency changes. For any market, there will be people who will suffer, and then the others who will gain out of it. It is a question of making sure that you try and seize the opportunity. However, the initial worry has certainly faded a little, because people get used to things terribly quickly. We are now in a different market.

Rachel Stow: For us, Brexit was a huge sigh of relief, because our biggest challenge was of course the [proposed] rise in the small claims limit to £5,000. That certainly appears to have been put on the backburner, if not kicked into touch. It is still driven by the insurers, but for us, as a volume PI practice, that might provide a little bit of breathing space.

You said that on day one the world stops, but it is inevitable with any change that everybody wonders what is going to happen next. However, we all get used to it, plan our businesses around it, and then move on.

Jeremy Brooke: The only area that would likely to be impacted is our employment department, where we act solely for employees and not businesses. We had a quick look around to see whether there was any increased activity because of people laying off staff, but there has not been anything noticeable there.

The problem is going to come down the line when we start unwrapping European law. This unique decision to make European law not European law by calling it English law is a great first step, because it can hide some of what is going to happen further on.

Preparing for uncertainty

Rachel Stow: Do not write a five-year business plan, because you have not got five years to follow it through. Five weeks, maybe, at the moment.

Jeremy Brooke: You have to plan the same and have your idea of what the future is going to be. However, you have to be far more flexible and adaptable in those plans. They cannot be concrete. That is not just a result of Brexit, but a result of everything coming out of SRA, the Law Society, the government, the Legal Services Board, and also consumer purchasing habits. Things change far more rapidly now than they did five years ago, or certainly 10 years ago. Business planning is more of a fluid art these days than the old question of, 'Where are you going to be in five years' time?' I do not think any of us can nail that one exactly any more.

Gareth Brahams: The traditional thing to do was an annual review asking where the firm would be in one, three and five years' time. There would now be a better case for doing it bi-annually.

Recruitment opportunities

Paul Marmor: Our immediate reaction was to halt recruitment. Plans that we might have taken to implement staff engagement improvements stopped. We are now re-evaluating and are looking at the opportunities to come out of it, such as finding some good, displaced people. However, certainly in the immediate quarter, that office management assistant, that extra body, was put to one side.

Gareth Brahams: When we had our strategy day, I said, "Let's go back to why we started the firm". One of the reasons was to be able to have an idea in the morning and put it into effect in the afternoon. That is something you cannot do when you are in a large firm.

There is also a strong case for pausing for thought. As employment lawyers, we have seen that the reaction has actually been the same; people have neither hired nor fired in the immediate aftermath of Brexit. That is because no one is quite sure what to do and whether it is an opportunity, a threat, or a combination of the two, and where they all lie. The sensible thing to do, therefore, is possibly not do anything in terms of staff recruitment and so on.

Neil Rose: Your firm, Simon, is getting bigger. [Two days before the roundtable, Seddons announced a merger.]

Simon Ross: We are, but cautiously. We are not looking for a large merger. It is all with the thought of being open to opportunities, and we are small enough that we can look at those opportunities. Most are not taken any further, but if the culture is right for somebody to join us, then it is worth doing even in this market. That is because of where we are in terms

of size. We have the infrastructure; we have all the different back-up departments and those there to support it, and it is now easier to slot in the lawyers. There are opportunities around, because people in some of these bigger firms do not like what is going on.

There will be fallouts from lots of the larger firms, from people who want a different lifestyle.

Paul Bennett: The firms I was talking to six to 12 months ago were thinking about mergers and were looking for the right partner. Now, when I am having those same conversations with them, it is about whether they can pick up one or two key individuals. I am not sure whether it is the wider economy or the regulatory environment; I have not worked out the cause, and there may not be a single cause, but people are looking to grow by hiring one or two individuals. I am not even seeing people with the same ambition for team moves that existed 12 or 18 months ago.

Simon Ross: There are so many different aspects to deal with. If you do not get further than perhaps the insurance angle, for example, where you are taking on a firm warts and all, that is a big consideration.

Expanding beyond law

Neil Rose: Rachel, you have gone a different way by expanding into non-legal services.

Rachel Stow: We have isolated the legal practice with its ABS licence and kept that as legal services. Obviously, we are a limited company and SRA-regulated, but we have formed a parent company. On the opposite side to the SRA, we have FCA-regulated businesses.

We are now a legal services business. We are very good lawyers, and we are proud of how we have trained them, but at the end of the day we are just businesspeople selling law. That is a very, very different way of approaching how we run the business, but it sits nicely with our other businesses within the group. I mentioned our motorcycle distribution arm, but we also have an insurance product selling business and a medical agency. It all fits with the PI work we have done historically, and it lends itself to being a better-looking group of businesses than just one law firm. It was a brave strategy, because we did not know how the market would pan out five years ago, but it has worked for us quite effectively.

Jeremy Brooke: We have just done something very similar with financial services. We have started our own financial services business, initially as a joint venture with a financial services company, to find out whether we fit into the market.

I have been through mergers with my last firm, which was the product of a merger some 20 years before that never really worked. There were two distinct camps, and they then took on another firm. That did not work either, so they had three camps. They then brought juniors into partnership, which created four camps. You could spend five hours at the partners' meetings talking about toilet rolls and 50 seconds about whether a secretary gets a £5,000 pay rise. There was no business plan or strategy, and party political voting. It was horrible.

We have gone into this joint venture to find a partner that works, and we have found one. You are right that they should be complementary businesses and we have agreed, too, that we are now a services business. We look at the services we can provide and commoditise, which is our approach if not our niche, and then work in collaboration with non-lawyer organisations to develop those. We are avoiding the problems or mergers and benefitting from relationships with other people by dancing round the edge of it. I finally understand the ABS structure and how it can benefit our firm.

Neil Rose: Are more multi-disciplinary offerings the future for a lot of firms?

Paul Bennett: I have seen people trying to make it work, but I have not yet seen it work on a large scale. On a smaller scale, as the two examples here have shown, it can maximise what can be generated from your client base; that is where it is starting to work. To do it on a large scale is very, very difficult. It requires a lot of money, and an approach that does not easily sit in a law firm not closely run and controlled. However, it is a way of protecting market share for a lot of smaller firms.

Giving clients what they want

Jeremy Brooke: There are other different offers out there. We are working now with a new start-up in the divorce market. It is an app-based mediation service: information goes in, face-to-face mediation is offered, documents are created. This is nothing that a law firm

People are looking to grow by hiring one or two individuals. I am not even seeing people with the same ambition for team moves that existed 12 or 18 months ago



Jeremy Brooke

could not do, but law firms have not done it. They are already taking part of the market, because people see that as a different approach to getting divorced.

Unfortunately we are sullied with the image of being a law firm: 'You are going to walk through our front door, charge us £300 per hour, leave us with a bill for £50,000, and we are not going to be happy with the service.' This is something online: 'I can do it in an evening, with a nice, friendly voice, some really pretty websites and stationary, and I get the same outcome'. That will not be at a lesser cost than we offer, but it will be competitive with lots of high street firms. It is done in a way that a certain sector of consumers now want to do their business.

Rachel Stow: It is how the majority of consumers now want to do business. We are all on our phones constantly. We run all our PI work through our app and are now doing it with conveyancing as well. It is slightly more difficult with conveyancing because of the amount of signatures, ID and verification required. We are very progressive with that. We very rarely speak to the client unless it is to progress the matter. They communicate with us on their phones. We are all constantly on our smartphones. We communicate with each other like that, so why would you not communicate with your lawyer like that?

Simon Ross: We have got to try and differentiate. There is absolutely a place, even in the property market, for Rachel's sort of firm, but a lot of those processes end up with people panicking and wanting to talk to somebody. If you find the right client base, you can cater for that, even at West End rates.

Rachel Stow: For obvious reasons, our app does not work for our high net-worth tax-planning clients. It is about knowing your client, work sources, and margins. PI is a market with very tiny margins, depending on how you use your IT to service your client and manage client expectations. If you know your margins on your other areas of work, particularly private client work, you can tailor their service and 'journey', for want of a better buzzword. It is not one size fits all.

Jeremy Brooke: The challenge is the customer base, not necessarily the competition. There is a huge market out there, and no one is going to corner the whole thing. It is about knowing what your service does for which section of the community. The Legal Services Board has done plenty of research, particularly in the purchasing habits of family law clients, and they are very, very different among different demographic groups. Amazingly, it is the higher As and Bs who want the cheaper online service and the lower demographics who want the toe-to-toe battle in court. Often they cannot afford it, and there lies another challenge.

Gareth Brahams: We always come back to the same conclusion: that we do not want to bring any other skills into the business. If you are in a full-service practice and a client requires both employment and divorce work, the employment lawyer has to send them to their divorce colleague whether they are good or bad. Obviously, people try to make sure that they are good, but we all know that it is a mixed bag in any law firm. We have got to act in the best interest of the client, and, as a niche practice, send the client to the best lawyer possible inside or outside of the firm.

If requested frequently enough, you would encounter significant cultural and regulatory challenges by bringing into the firm disciplines outside of law, let alone employment law. We are just nowhere near that. That is not to say that there is not a perfectly rational client who would want this multi-disciplinary service, but there are challenges in being an outlier. You can invest an awful lot into that kind of process, and the clients would not be ready for you.

It reminds me of when I was at Lewis Silkin; I was saying 15 years ago that we had all these clients asking us to draft settlement agreements. As a kid using my ZX Spectrum, I could have worked out a programme that asked clients to fill in questionnaires and wrote settlement agreements, whereas we were charging £300 an hour for people to complete templates. I said it did not make sense and should be addressed, but I was told that the clients were prepared to pay for the moment and that I was forcing the firm to invest a whole load of money in IT.

In the long term, that business would be cannibalised, but if I had been running Lewis Silkin at that time it would not have been the right strategic move; it would have deprived them of a load of business for precious little first-mover advantage. That has tailored my view that while you do of course have to look ahead, there are disadvantages in being too far ahead.

When you think how much the world changes in your five year time horizon and all the investment you put into that, you might find that you have gone down a very expensive blind alley. I am very cautious about that; maybe we just do not need it.

How do you increase your profitability when the 'easy' work is disappearing?

Simon Ross: You have to be there to deal with the whole service. What we have to do, certainly at West End rates, is make sure that it is done by the most sensible person to do it, at support rather than partner level. It is part of an overall package. They are not going to come to us for the cheap conveyancing or the cheap divorce, because we know that there are people out there who can do it for an awful lot cheaper. They have to come for some other reason, and we have to position ourselves in a place where they will want to come to us and accept that they are hopefully getting something different.

We have certainly aimed to be far more partner-led. A lot of firms say that they are partner-led, but we really are; there are 33 of them. We have tried to get into the client's businesses, so we now have people who are seconded and will do a day a week in their businesses.

We have got to go out there and do a little bit of what the accountants are doing. They do the audit and they have the clients; it is not a question of just being there to react. We do say, 'Can we come and see you in your offices?' Or if it is an individual, we offer to come and visit them where they want to be seen. Some clients are prepared to pay for that.

Gareth Brahams: Inevitably, however high-end you want to be in employment advising individuals, you will end up advising a lot of people about the terms and effect of their settlement agreements, even if it is the end of the process and it is very boring and mechanical. We announced that we are going to develop a podcast to do that, because we want to strip that bit out.

When I set up the firm I moved all my know-how with me, and I got a kicking from my colleagues for bringing over 70 lever-arch files of paper. Every bit of advice I had given in the last 15 years was there. I looked at it, and of course what was so interesting – before I binned it, sadly – was that a lot of the advice we gave then was in what I call the 'what is law?' market. Some would ask you for the rate of statutory maternity pay, for example. No one asks you that question anymore, because they just Google it.

I am fully aware that we cannot be in that space. We cannot think that we can just sit on there and carry on telling people what the law is. We are therefore running training sessions on the advice that you cannot read in books; the advice for which clients are actually coming to us. That goes beyond negotiating strategy, because that is also boring and you can read it in books.

In our very niche world, one of the most typical categories is clients not happy with their job. The legal answer is that it is a constructive dismissal claim. The reality, however, is that such claims are generally an extremely poor strategic move and are very difficult to fight. There are many people we can get out of their jobs with a chunk of money. How do we do that? That is the bit that you cannot find in a book, and I am not going to share it with you all now.

That is how we are running our know-how sessions. We are not running them on the law relating to restrictive covenants, because they effectively go on commoditised courses to do that, and the clients can regrettably look it up as quickly as they can. It is about constantly trying to take yourself to the next level. By the way, in two to three years' time, all of that knowledge will be commoditised and we will have to move up to the next level, and then the level after that.

This might not say a lot for our contribution to the future of the legal profession, but we are pretty cautious about hiring anyone who is less than four or five years qualified. Clients want them to bring their knowledge and experience to the table, and they are not going to pay for us to train them; they will just go and find the answers themselves in books. We are trying to strip out all of the stuff in which we can see there is no future, preserve what is left, and keep on finding new things. There is always new stuff.

Paul Bennett: What we are really talking about is knowing our businesses, and how we are going to position our businesses in order to attract the clients that we want. It is about knowing where our space in the market is.

Rather than worrying about the challenge from the big four accountants or new entrants working on a large scale, we are all validating the fact that if you know your market and client

There is a huge market out there, and no one is going to corner the whole thing. It is about knowing what your service does for which section of the community



Paul Marmor

base, you can differentiate. If innovation is the right way, then deliver innovation; if high-end added value advice, experience and expertise is the right way, then deliver it. You might only be doing that on a relatively small scale, but we are all making money by knowing our businesses and their spaces. The biggest challenge for an increasingly competitive market is getting that message across in order that we attract the right people.

Gareth Brahams: It sounds very glib, but you hire really good people, you look after them really well, and you keep on training them to ever-higher levels. That is our challenge.

Rachel Stow: That works at every level as well. Obviously, we are very automated in a lot of our areas of business, but we still look after our people and make sure that they are doing the job that is suitable for them. We have a policy of 'podium people'; not everybody can be on the podium, but if you are on Team Sky as race leader, you are on the podium, because you have reached the level of success you want.

All of our people, whether in reception or on the board, are encouraged onto their particular podium. Therefore, where they are working with automated systems, they do not feel that it is taking away from their technical or legal ability. They are simply using the IT to work their admin; the right phrase is 'working smarter'. That leaves them to do the technical or legal part whenever the client needs it. We have a principle, whereby if you look after your people, they will work harder and smarter for you.

How much of a hindrance is a partnership?

Paul Marmor: We are an old-style partnership, but we have evolved. We have adopted one of the ideas that Rachel mentioned by bringing in a non-lawyer. They are a high-flying accountant who has told us, rather like herding cats, how to get on with it. We have devolved to a management board, of which I am part, and that means we can do away with some of the pain of 15 people growing in different directions.

Simon Ross: We learned some time ago not to divvy up the jobs. You probably remember the old days where one person would ask, 'Who is going to be the IT partner?', and another would reply 'Alright, I will take that'. You cannot do that anymore, so we have an IT guy from outside who is our IT director. He has strategised where we have got to go on that because that is his speciality.

Neil Rose: Why have a partnership full stop rather than a corporate structure?

Paul Bennett: The advantage of the LLP is how easy it is for people to come and go. If you have 33 people and three or four leave in a year, that process will be a lot more streamlined. In a limited company, where people have got shares, it is a lot more complicated.

Gareth Brahams: In setting up my firm, I made those who had been my assistants my partners. That worked incredibly well, because they were incredibly invested in the firm. That was probably the best decision of all. The challenge lies in that we all feel that four is enough around the table, and there is resistance to the idea of creating a partner; we would certainly be very cautious about any person we would bring in.

That is not necessarily for the same reasons as in a large firm, essentially regarding revenue and contributions to equity. We are much more focused on whether, if we brought this person around the table, they would just make meetings last longer, or whether they would actually bring something different. There are people who might be great partners, but who you do not want on the executive committee; we are at a size where every partner is on the executive committee. It would not make sense to have a four-partner executive committee, but if there were 10, it would.

Neil Rose: What about employee ownership and share schemes?

Gareth Brahams: That does not need any corporate structure. We have a scheme. We have four partners, but the employee bonus plan is a fifth partner. That has a chunk of equity points, and each employee, including secretaries, owns some equity points. Every month they are told what the value of one point is, and we make projections as we go through the year.

Do I think that is a key retention tool? Yes. Do I think that it motivates people to perform and not be a terrorist inside the firm? Yes, hugely. The reason that law firms do not do it is



that they are very conservative and like to hoard the equity.

Jeremy Brooke: Call it what you like, but it is about control. It is about having a business that can make decisions and adapt quickly, and which has a clear system in place. It is not about simply whether it is a partnership, LLP or limited company. You could have some very badly run limited liability law firms, because all of the partners within that limited liability firm sit around and argue about the biscuits.

Chris Jeffery: I would echo that. It boils down to accountability, engagement across all staff within the business, and then an ability to make decisions and execute them. If you cannot do that then, whatever your corporate structure, you will have problems.

Jeremy Brooke: If you have a share in the business, you should accept that the share has value, and that the value is reflected in the performance of the business. It is the same as buying BT shares on the stock market. The fact that you work in the business should not automatically give you the right to interfere in every management decision. It is a culture issue.

From a competition perspective, that is where the new start-ups and the non-legal entities come in. They are not carrying that baggage with them; they do not have people who have been working for 25 or 30 years in old structures, and who cannot let go of them.

Neil Rose: Should we be moving towards separating ownership from management then?

Jeremy Brooke: Some want to own and manage a lifestyle business, about dropping the kids off at school and having enough to pay the golf club membership. That is a very different business structure to a profitable, growing business. If you are going for the latter, ownership and management have to be different, because there are sometimes conflicts of interest.

Gareth Brahams: If you are doing a commoditised business, the aim of which is to eventually sell up, then you clearly want a disparity between ownership and management. We are not in that space at all. It must be horses for courses.

Neil Rose: It also allows for external investment and things like that.

Paul Bennett: It is about cultural challenges as well. Accountants and solicitors have sometimes tried to come together, but have actually wanted to run things in completely different ways. That can lead to a business not working, jeopardising client protection. It comes back to whether you trust those on your management team, lawyers or non-lawyers, the board of a company or the partners in an LLP. Can you work and create the culture that is going to be successful? Where they have failed, it is because they have not got the culture right.

Differentiating yourself

Neil Rose: Paul talked about differentiation. Jeremy, you have been trying everything to differentiate yourselves.

Jeremy Brooke: Yes, we have failed more times than we have succeeded. That is not necessarily a bad thing. As long as you make more money as a consequence of the whole project, it is good. Some of the things we have tried have been technology-based. We implemented some really smart technology whereby we could interact with clients over the internet using live one or two-way text and video chats. It bombed absolutely; the only people who used the two-way video chat were the perverts who wanted to flash themselves at the young girls in the office.

The fixed fee area has been a real passion of ours, and this covers virtually everything



Simon Ross



Rachel Stow

we have talked about today. My former partner was an old-fashioned, 30-years-served, dyed-in-the-wool hourly rate lawyer who insisted on serving high net-worth individuals at £200 an hour for excellent client service. That did not happen. She represented people who ran up a £10,000 bill, and we had to sue to get the money out of them, because she did not ask for money up front.

I have great fee-earners producing £600 an hour from fixed-fee divorce work. Do we do a great job for them? Our reviews say that we do. Do we do a great job in the sense of what lawyers would regard as a great job for them? Maybe not. We sometimes say to people that we are not their social worker, but are here to complete a transaction, getting the divorce petition to court, stamped and sealed. That is what their £149 plus VAT and fees pays for.

A client might ring up to say, 'My husband has parked his van on my drive. I want him to move it. Will you write to him?' We ask them for another £50, because it is not in the scope of our work. We would give them advice, asking their sister to ring the husband and tell him to move the van. They are getting that value from us.

We have tried a freemium model for divorce petitions. It has worked great. People will fill in the divorce petition online for free. What we cannot crack yet is the upsell to the consent order or the financial services side of it. That is not stopping us from trying, because we know that if we get that model right, we can measure how much it costs to deliver and market, the price at which it will sell, and the margin in between.

We also have a good idea of volume, because there is loads of information out there at the moment. There are 113,000 divorces in the UK per year, meaning that 226,000 individuals need a divorce service. The biggest occupier of that space at present is quickie-divorce.com; they provide 13,000 divorces per year, 5% of the market. Why would we not keep trying and failing in an effort to get into the market and climb that ranking?

The key is watching what the customer wants. Back to my original challenges, there is a shift year by year in the purchasing habits of individuals. How many times each day do we get Google thrown at us to argue against the advice we have given on something? The information that is out there is getting better. The ability to get intelligent information out of the internet by question and answer is better. Artificial intelligence is starting to eat into what we do.

Traditional high street lawyers will often say that it will not happen to them, because they deal with high net-worth individuals. Bit by bit, technology and the progress of consumer purchasing habits are eating into the market. Whilst we know what market we want and are ever conscious of the bits that are going to drop off that end, we can survive.

Law has now become more about the individual than the lawyers. At one time, the legal system was designed, built and run by and for the benefit of lawyers. We have now hit that tipping point where that is no longer the case. It is now about the consumers of legal services.

Rachel Stow: The key is that clients are told how long it is going to take, the outcome, and the cost. Those are really legitimate questions and should be answered at the outset.

Paul Bennett: If you look at the research, it shows that consumers purchase on the basis of being able to achieve their services as quickly as they can rather than price. That is where the challenge lies, because consumer habits are seeping into the business-to-business market. As lawyers, we are going to be judged on our service, not the quality of our legal advice.

Most consumers cannot distinguish Gareth's employment advice from a high street firm's or from mine. They will judge on whether Gareth or Paul calls them back quickly. When we speak to them, do they understand what we are saying, are they comfortable with us, and do they buy into us as individuals? The model that you are talking about is delivering the service in a way that the client is comfortable with for an upfront price. It is answering that same service question but in a radically different way.

Does it change client behaviour when they know that they are on a fixed fee? My experience is that it does

The fixed-fee challenge

Neil Rose: In a few years will there be a fixed fee Gareth-bot operating at your firm?

Gareth Brahams: No, we are trying to keep away from that. The reality is that we are in an area where, theoretically, we do little fixed-fee work, but every client is entitled to an estimate. If you go outside that estimate, it is realistically hard to recover the fees. We therefore tend to work more in a fixed-fee environment than we think we do.

Jeremy Brooke: We challenged that by looking at divorces and the fee income taken from that work over a given period. We then divided that by the number of clients to come up with an average. We broke down the work into smaller sections, and applied those averages across each section of work. Some clients would pay a little bit more than they would have done on an hourly rate, some a little less. It works, and at the end of the year you actually make more income. Once you have your price, your mind is more focused on your margin.

Gareth Brahams: Does it change client behaviour when they know that they are on a fixed fee? My experience is that it does. They think that, having paid for the service, they can ask as many questions as they want. Did you have to build something in for that as well, or would you just train the staff?

Jeremy Brooke: No. What you have to do is scope the work out to them and tell them what they are and are not getting for their money. You cannot go through absolutely everything, but you have to be clear about what the service involves for that fixed fee, and be brave enough to say so when something falls outside the scope of the fee.

Because of Google and the availability of information, meaning that people can muddle through some issues, people want to come in for just a bit of advice; they do not want the whole thing doing. In probate, we just do chunks of work, sitting with people going through things for 45 minutes for £99.

Rachel Stow: If you know your margin on any work type and manage your cost accordingly, the business will then run itself.

Paul Bennett: We break down employment tribunals into seven sections. We are happy to do fixed fees for those seven sections so that the employer or employee knows what they are getting. In our engagement letter, we will say, for example, that we may need to see the client twice if the matter involves witness statements.

The client knows that if they come back asking for a third, fourth or fifth consultation, we are going to remind them of their agreement and ask if they are comfortable with the additional cost. Actually, just managing the clients gets around the concern that you have. To actually break each different work type down into those sections, however, would be a phenomenal amount of work. The only reason we did it with employment tribunal claims was that, when fees were introduced, there was such a downturn.

Final words

Chris Jeffery: There have been a couple of themes that have been consistent across all the firms, whatever shape, size or structure. One is making sure that the right work is being done by the right people using the right tools or software. That is the same in high-end property work for high net-worth individuals in the West End of London as it is in the personal injury motorcycle world.

Secondly, I will give an interesting aside to some research that we did. We surveyed around 110 senior leaders of law firms in this space about their priorities for next year. Improving profitability came out number one with about 42% of firms listing it as their biggest focus area. However, 27%, just over a quarter, felt that they were in a position to deliver on that aim. That boils down to a lot of what we have discussed, particularly understanding how that works get done and how you can make more of a profit on it.

Whether it is fixed fee, hourly billing, or any other fee structure, whatever the fee structure is, it is about understanding who does what and maximising profit. Everyone around this table clearly shares that business mind-set, but a lot of firms are still a little behind the curve on that.



Gareth Brahams



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