



The Future of the Legal Industry Survey 2009

July 2009

Summary Report

Despite the legal profession facing the most challenging times in its 300 year history, UK law firms are still failing to plan strategically, a new survey from The 360 Legal Group has revealed.

And, whilst six out of ten firms are planning to grow their businesses by acquisition and/or merger and a third are planning to reshape their businesses by focusing on more profitable business, one in five firms are still failing to plan any form of strategic initiative to carry them through the uncharted territory of The Legal Services Act.

The latest research into the business and future plans of legal practices are revealed in 'The Future of the Legal Industry Survey' published this week. The survey was undertaken by The 360 Legal Group between January and May of this year with 188 law firms, from sole practitioners to firms with 200 plus employees participating.

Six in ten law firms surveyed fear domination in the next 12 months by a few large legal firms as the result of consolidation or by other large commercial organisations such as supermarkets or banks.

One in five cite increasing pressure from financial providers as being their biggest management challenge, whilst around a third say the need to drive business growth through more focused and aggressive marketing efforts is causing them concern.

Just four per cent of respondents believe their firms are aggressively marketing their services at present and less than half (49 per cent) say that they are even actively marketing their services.

Whilst 45 per cent of firms say they plan to increase marketing activities in the next twelve months and 11 per cent of these plan a “significant” increase in activity, less than one in five firms are employing professional marketing advice and almost half still rely on traditional paper-based marketing techniques such as leaflets.

In human resources terms, law firms see the greatest challenge they face being managing poor performance, whilst succession planning was seen as an issue by nearly four in ten firms. Just under one third felt that motivating staff is a significant challenge.

Worryingly, whilst seven out of ten law firms feel that selling skills are becoming increasingly important, sales was also highlighted in the survey as the area of the business that is least well handled by senior staff.

Half of the law firms surveyed have raised or plan to raise finance and four in ten firms believe that lending criteria has become more stringent, although most have not been asked to provide additional security on a practice loan or overdraft. Encouraging news for banks was found, with 60 per cent of respondents considering their lenders to have been supportive.

Overall the survey finds, there is reasonable optimism for the future of the industry, with respondents scoring around 7/10 on a scale where 1 represents a pessimistic view of the future of their own firms and 10 is optimistic. Twenty-nine per cent of firms say they

are either quite or very likely to increase staffing in the next twelve months against 17 per cent who are quite likely to decrease staffing and 23 per cent predict no change.

Other findings include:

- Around a third of firms find the prospect of investing more in technological solutions to reduce back office costs and increase connectivity to clients a challenge;
- Around a quarter of firms are considering outsourcing either to back office providers or bulk handlers;
- IT based marketing is still underused with just one in ten firms using dedicated CRM (Customer Relationship Management) software such as Logical Office;
- Less than a quarter see the SRA (Solicitors' Regulatory Authority) as supportive.

Viv Williams, Managing Director of The 360 Legal Group comments: "The survey findings confirm that despite the converging impact of The Legal Services Act, the Woolf Reforms, the rise of the legal super-centre, referral fees, the death of the high street, legal aid reforms, franchise changes, graduated fees, the demise of the property market and the crunch on credit which have all conspired to put law firms under the greatest threat that has ever existed in an otherwise gentle 300 year history, a significant number are still failing to grasp the challenges and opportunities that face them. The implications of this are frightening.

"What this suggests is that a significant proportion of law firms, many with aging equity partners, are proving incapable of adapting their management techniques to run practices as businesses of the future.

"Evidence that lawyers can be their own worst enemies is illustrated through the 7 in 10 law firms who are not reviewing an annual strategic plan. Many law firms persist in believing that they can navigate their way through the turbulent times ahead with a three to five year plan - when the market is being de-regulated and so-called Tesco law is upon us!

"It is essential for law firms to get a strategic plan in place – and stick to it and if the task of strategic planning seems daunting, they need to be bringing in professional support to provide the planning and focus needed.

"Likewise less than 50 per cent are actively marketing their businesses - yet still expect their customers to return! This displays a complacent and arrogant attitude to the existing customer base as does the majority view that professional help in understanding the importance of marketing in the current climate isn't necessary.

"And whilst 7 out of 10 agree that selling skills are becoming more important than ever, how many are actively doing something about it? There is an urgent need in many cases to invest in client care and selling skills."

And Williams has tough words for the four in ten law firms seeking to acquire on the basis that bigger is better. "If a badly run practice acquires another badly run practice, this simply makes it a bigger badly run practice! And among the similar percentage looking to sell or merge it is likely that many will have placed unrealistic valuations on their practices.

"With the full implications of The Legal Services Act likely to be realised in 2011 bringing with it the opportunity for private equity funding, law firms should also now be considering planning and investing to correct their situation and give themselves a competitive advantage in attracting investment in the future."

He concludes: "On the plus side the level of optimism among law firms is good, given that we are in the deepest recession since the 1930's.

"However should there be concerns about access to justice? Absolutely! On the evidence of this survey the death knell could be sounding for many law firms, especially those on the High Street - and consumers can expect a much more restricted choice in the future."

'The Future of the Legal Industry Survey' is available from The 360 Legal Group, priced £49.99 plus VAT (£39.99 plus VAT for members of The 360 Legal Group). For details call 01275 465540 or email enquiries@360legalgroup.co.uk.