



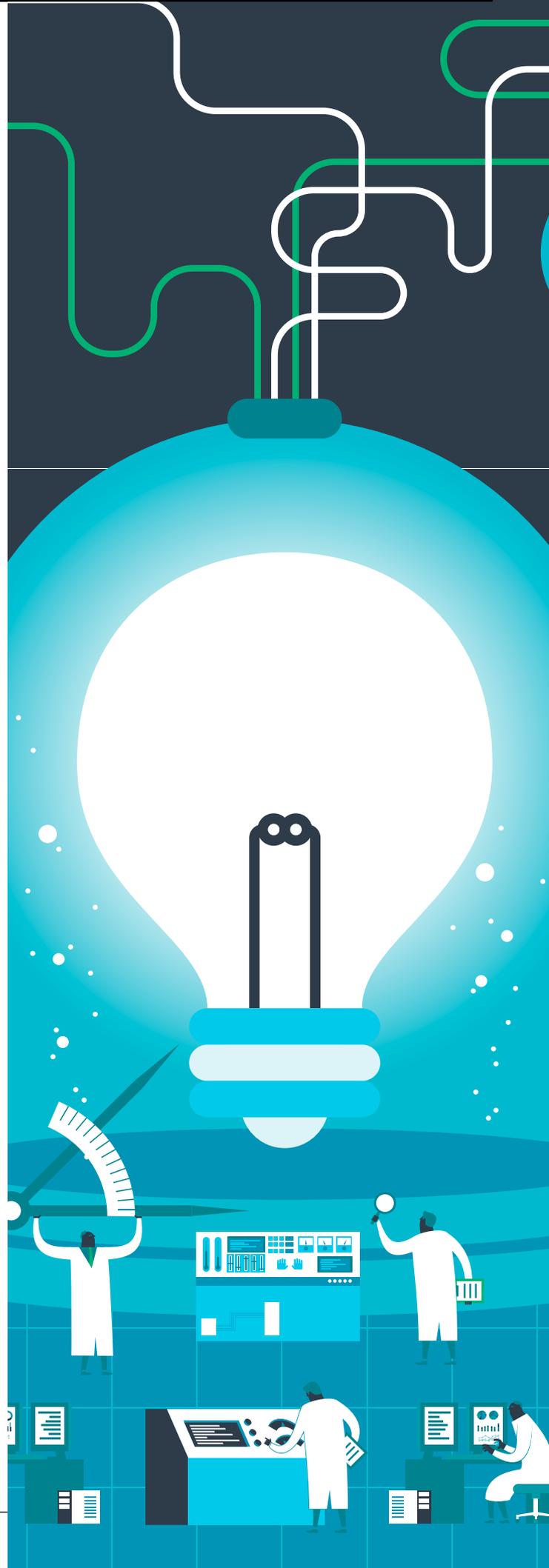
LPM 2014 CONFERENCE AT THE CUTTING EDGE

Declan Tan reports from the 2014 Legal Practice Management conference, which unpacked the big issues in SME legal business today – how firms can emerge intact, stronger and more positive from recent dark times, and why it’s up to law firm management leaders to make legal’s innovative future a reality

As SME law firm leaders filtered in under the Royal College of Surgeons’ 19th century frieze, the college building itself offered up a most salient analogue for today’s legal market. Hundreds of years on from the beginnings of modern surgery, only the college’s façade and library remain of the building’s original structure – its insides are reimagined for modern times. Much the same is happening to the legal industry – old structures and ways of working are being swept away, and tradition is struggling to keep up with the pace of change while remaining the ‘facia’ of the profession.

SME firms’ managers gathered on 19 May to hear stories of success (and of near-failure) from their peers at the 2014 Legal Practice Management conference, and the issues of the day were whether and how firms can adapt and grow as the the legal market shows increasing signs of recovery.

Many firms are now seeing rising profits, though not all firms are seeing the sunlight. The most annual benchmarking report by accountancy association group MHA (published June 2014) revealed that medium-sized law firms (those with 11-25 partners) are rising from the rubble, with fee incomes, net profits and PEP up across that market segment. The news from MHA’s research for smaller firms,





those with fewer than 10 partners, is however not as promising – net profits for those firms are down, falling off most at two-to-four-partner firms.

These realities bring an urgency for change in legal.

PRICE AND PROFITABILITY

There is, however, also real opportunity for lasting change in the legal market. In LPM magazine we've been uncovering how it's the small and medium-sized firms that can more readily build agility into their redesign. But this isn't all about tearing down old monuments (read: partnership) – it also has to be about rebuilding legal businesses better structured for modern client needs in their place.

Many of those solutions involve getting pricing, costing and sales under control for firms internally and for clients. Andrew Hedley, LPM conference's keynote speaker, sums it up neatly: "The current law firm model isn't generally set up to deliver value at a price. It's set up to deliver what we believe to be the right legal answer. Are firms confident they can deliver a service that clients want, at a price acceptable to them, and still turn a profit?"

The notion of the value proposition is one that the legal industry is now starting to analyse and comprehend, a realisation reflected in the audience's concerns around pricing and fixed and alternative fees. When polled at the conference (using delegate polling devices), just over four in 10 attendees said the market driver causing firms the most trouble right now is client demand for fixed fees and AFAs.

Perhaps the anxiety around fixed and alternative fees lies in the lack of internal insight many have on how much work costs to do – when delegates were polled on how many of their firms use any form of structured matter management or work costing/ budgeting tools to plan profitability/ resourcing for fixed fee/AFA work, almost three-quarters said no. Just 6% of attendees said their firms currently implement any structured approach to matter management, and a quarter of respondents said their firms are 'working on it'.

If those figures are indicative, that's a sizeable majority of SME firms not tackling what they consider to be the central issue of the day – putting in place the capability to deliver matters profitably in a world where price is becoming inflexible.

Perhaps that's why many SME firms still don't do as much of their work on fixed fees as perhaps clients want – a poll of the SME firm conference delegates showed that for almost half of the firms present, fixed-fee work represents less than 30% of work done at the firm. This rises to just over three quarters of firms when it's 50% or less of work being done on a fixed-fee basis.

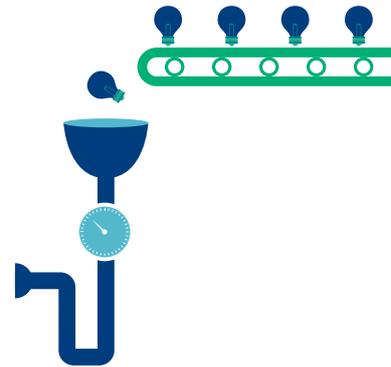
At least SME firms can see that a very different future exists, though. Almost half of the conference delegates said that they thought it 'possible', either now or in the future, for a full-service or general practice firm to adopt fixed fees for all its work.

But what are the steps toward tackling these challenges, and turning them into growth?

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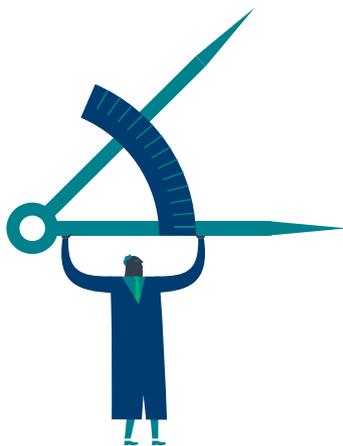
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IN SEARCH OF DIRECTION

Increasing value, from the client’s perspective, will be achieved by improved exposure of matter information and detail in presentation of data to the client (in other words, transparency), and better management information internally, which should help to drive innovative service delivery.

Getting to that point means becoming far more efficient but, for consultant Andrew Hedley, real change and success isn’t about process mechanics – it’s about differentiation. “We can be as efficient as we want but, fundamentally, unless there’s something about that efficiency that’s hard for others to imitate, it just becomes copied by competitors. Firms have to move toward new processes, structures, resourcing models, ownership structures and new ways of managing our clients. If they don’t, rest assured the competition will.”



That first means firms pinning down strategic direction – which sectors to compete in, which geographies and for what work. As Hedley reminded the conference audience, Lewis Carroll’s Cheshire Cat insightfully said: “If you don’t know where you’re going, any road can get you there.”

“We won’t get better or more successful within our firms by becoming academically better lawyers, but by becoming a better

legal services business,” Hedley says. “If we accept that getting the law right is what we do, and we do it nearly all the time (and so do our competitors), what makes the difference is the wrapper around that core legal advice.” That’s the task for everyone in practice management.

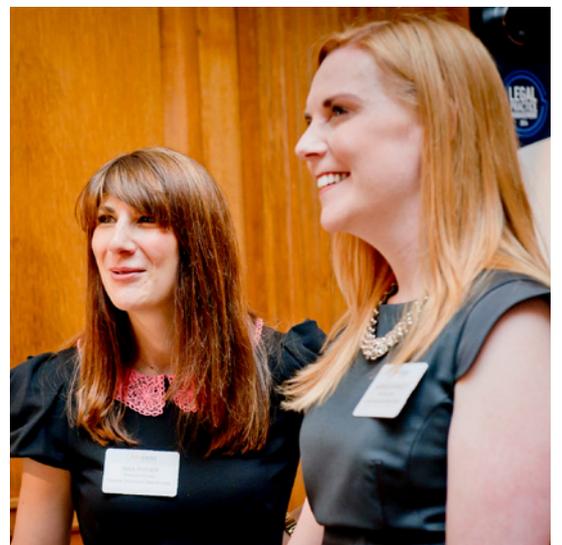
Part of that task is identifying market ‘gaps’ and working out ways to close them before your competition does. Leadership with direction can make that difference. “Coasting has gone out of style”, says Darbys’ managing partner Simon McCrum. “We’re values-driven. Everyone is subject to those values; I’m subject to them. But people need faith in the leadership.”

Without better intention and direction, firms are at risk of just climbing the same old “greasy pole”, says Hedley, leading often to a quick slide back into old habits and fresh trouble.

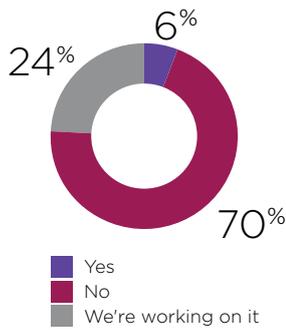
An awakening to a need for more capable managerial leadership in legal might prove rewarding, and it may be happening faster than many think. According to research at the LPM conference, most SME leaders (53% of delegates) can imagine a non-lawyer taking the CEO/managing partner role at their firms.

And frustrations abound with the partnership pillars propping up legal’s ancien regime. Over half (55%) of the LPM conference audience said their firm is considering or has already considered

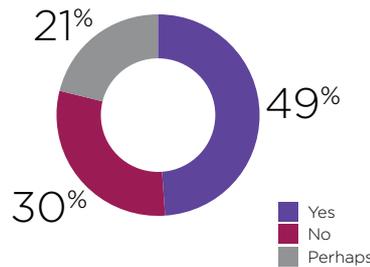




Does your firm use any form of structured matter management or work budgeting tools to plan profitability/resourcing for fixed-fee work?



Is it possible, now or in the future, for a full service or general practice to offer fixed fees for all its work?



Data from research carried out with attendees at the LPM 2014 conference

becoming a limited company, and almost nine in 10 said that firms should have more non-lawyer partners from business services (IT, finance and so on).

TECHNOLOGY AND CHANGE

Thinking more commercially about legal may be driving firms towards discussions of incorporation (an item covered by our practice director columnist Richard Hill in the May issue of LPM) but there are other platforms to change.

Commerciality and innovation in SME legal is also putting technology - and the working behaviours and processes needed to make that technology effective - at the root of real change in the SME legal market.

Technology played a big part in a programme of improvement and change at Higgs & Sons. Glyn Morris, finance director there, says that the programme of rethought IT and modified process contributed to a significant rise in profits after the two-year project was done. "We linked the process of operational change with the cultural impact of things you do to help lawyers become more effective. The legal industry can take from lots of examples outside the sector where tools and process management can make a difference to a business."

Morris says that internal engagement is vital to make a project this large work. "Take

the process right the way back to the start, engage with the lawyers themselves and identify what the problem is, and what they perceive it to be," says Morris. "We made them part of the design process. We took their challenges, used focus groups to extract their views on matters, and re-presented the processes back using innovative methodology from an academic team. That engaged and embedded them in the process."

Morris wants legal IT providers to take methodologies like those used in Higgs & Sons forward and provide more scalable systems. New processes mean fee earners meeting new challenges; changing the emphasis from the practice of law to the business of law.

MEASUREMENT, MAYBE

Solid staff engagement should lead to more productivity, but the kind of change carried out at

Higgs & Sons requires a fairly radical rethink of how people are measured and, as a result, rewarded.

William Robins, operations director at Keystone Law (a 'virtual' firm), says that shifting focus toward clients will mean fee earners getting analytical about their own performance and get them stepping up to the challenge.

"Measure the success of a fee earner by finding out what the client thinks of that fee earner. Take feedback from your clients from



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a range of different areas, including soft skills. We share that feedback with our lawyers on an anonymised basis. Fee earners have a very difficult job, but it's the job they've always had – different clients want different things and at different times. Good people are still able to deliver that.”

Clive Meredith, practice director at Wollen Michelmore, says better internal transparency can also mean fee earners seeing the value in their own work. “Financially, the figures never lie. Once you work out the profitability of your fee earners and show them, they can often be shocked at how much they're costing the firm to keep on. It's two things: good client care and billing.”

That means a healthier firm and happier fee earners – the effect is people understanding their value within the business and knowing where to increase it.

MANAGING MATTERS

Another dimension to the shift happening in legal is cost predictability, both externally to clients (fixed fees, or better pricing for corporate clients) and internally for firms to understand the cost of work, allowing the business to price matters with a better eye for profitability.

In his session at the LPM conference, Robert Mowbray of Taylor Mowbray quoted Lord Neuberger, president of the supreme court, thus: “There is a public interest in

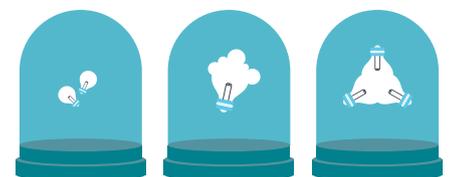
keeping the [cost of legal representation and advice] as low as possible. The centrality of the hourly rate appears to me to be malign [in its effect on that goal]. As a matter of principle, it confuses cost with value. It encourages inefficiency, or worse.”

Mowbray says that lawyers have in the past done work and raised bills with no real understanding of profitability. But once the right matter planning tools are set up, “you can work out multiple different fee arrangements, which is what the client is interested in”. But to wrangle a profitable and sustainable rate for clients, firms need to know the cost in carrying out each phase and task at different resource levels. Firms that embrace tools that enable this can get a handle on their profitability, and therefore their success.

Of course, firms also need to think creatively about generating work, and being able to repeat it.

Firms that are better connected and better marketed gain competitive advantage, says David Laud, CEO at Samuel Phillips. There's enough extra work – fewer than one in 10 consumers with legal problems see a lawyer, recent research from the Legal Services Board found. There's also an untapped legal market that marketing might deliver: how can firms reach a potential buying public that doesn't know the problem they have is a legal problem?

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Small businesses don't recognise their legal needs either, as discovered in a similar LSB study in 2013, which might be costing them £100bn a year.

CHANGING FACE

Unlike the Royal College of Surgeons, SME legal businesses have to renovate the façade as much as the interior. Getting in front of potential clients more often, thinking innovatively about what services they will need and how to deliver them, means making changes in how they work, why they work on which clients, and what work they do.

Some SME firms are getting over the 'positive illusion' that their competitors are in a worse position than they are (the psychological tick that means that everyone thinks they're an above-average driver). But the threat of new entrants wielding a blank blueprint means embracing constant change.

Knowing your market, how to reach it and how to keep it will be about knowing your position and being distinctive. If firms leave even a single stone of the ancient edifice standing, they have to know why, what purpose it has, and how it's differentiating the firm from the competition.

If they can help effect this kind of change, legal management leaders can be the architects of a prosperous and enduring future - as the architect of the RCS's building, Sir Charles Barry, once said, to "keep their places as models of excellence". [LPM](#)



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