

Ask the expert

Members of the Law Management Section executive committee give their advice and predictions on some of the key challenges facing law firm managers in the current environment



BARRY WILKINSON – committee member since May

Trained as an accountant, becoming finance director at a major

group before setting up consultancy Wilkinson Read, where he advises law firms on how to improve profitability through innovative performance management, and helps firms with excessive borrowing manage their cashflow.

As an expert in law firm finance, what are the biggest problems facing law firms, and how can they resolve these?

From a financial perspective, I think that in most firms of the Law Management Section (LMS) profile, profits have recovered well from the difficulties of 2009/10 – though I am still surprised and disappointed about the state of many balance sheets.

I am far more concerned about the issues just around the corner due to deregulation and the opening up to alternative business structures (ABSs), including low-cost competition. Newly deregulated markets follow a predictable sequence, and it is hard to see how the legal market can be an exception. Before long, the market will polarise, with strong segments at the top (premium providers) and bottom (low-cost providers) but a major contraction in the middle ground, which is where most LMS members are. Strong management will make the difference between winners and losers. Open markets are unforgiving, and ultimately, ABSs will affect all parts of the law firm business model, but in the short term, firms need to do a few key things to

ensure they are among the winners:

- First, ensure that all partners (not just the managing partner) are aware of the likely sequence and the need to be as fully prepared as possible. If they don't get it, they won't act.
- Decide what you are going to compete on – price, quality, service, relationships and so on. Resolve to be the best in your market at that. You cannot be all things to all clients in the brave new world.
- Get the balance sheet in order. This is no time to be over-borrowed. Convert lockup into cash – relentlessly. Set high operating standards internally and adhere to them. Let your weaker competitors have the bad-payers. It may just finish them off.
- Then address the cost structure. I will be doing an LMS webinar later this year on this subject. What matters is not what you spend, but what you get from what you spend. This applies as much to people costs as to overheads such as marketing or IT.
- Look after your existing clients and reinforce your reputation – especially for service – and make it very hard for competitors to prise them away. The better your service, the better your prices, and usually the better the atmosphere at work.

In summary, to quote Admiral Stockdale, confront the brutal truth – but never lose faith.

Do you expect law firms to increasingly bring non-lawyer financial experts into their businesses? How much of a difference will this make to the way firms run their finances?

Successful firms will distinguish between partners as investors, and management, which may be carried out by partners or other professionals.

In other sectors, the finance function's role has moved from being a scorekeeper and policeman (history and compliance), to encompassing a wider brief including

planning, control, investment, revenue management and financial projects (including cost reduction) – that is to say, much more oriented towards making things happen and managing the future. In the jargon, 'transformed' finance departments are now a 'business partner'.

ABSs will operate in this way, and traditional firms will follow eventually, even if reluctantly.

What will you bring to the LMS executive committee?

A different perspective. I am very analytical and have studied businesses and markets for many years, so I can have an element of detachment in seeing the changes unfolding. But I am not too detached, as my own business depends entirely on the health of medium-sized firms – real human partnerships – so I am as passionate as anyone about securing their future.

ABSs (plus globalisation and technology) will create both significant opportunities and major threats. There will be no risk-free options, and standing still may be the biggest risk of all. My fear is that the profession will try to hold on to what it understands and leave the opportunities to new entrants to the market. The biggest firms can look after themselves. The LMS has to show the way for other firms to ensure that does not happen.

I have a reputation as an innovator and lateral thinker – my seminars have been described as frightening but invigorating. If this different perspective can help the LMS in supporting those firms which are serious about their business future, I shall be very pleased.

Likes: Golf, fresh air, watching sport, radio, food, country music.

Dislikes: Airports, dieting, blockbuster novels.



FRANCES COULSON – committee member since May

Insolvency specialist and managing partner of Moon Beever,

where she qualified in 1986. President of insolvency trade body R3 until April this year, where she secured a two-year delay to the implementation of the Legal Aid, Sentencing and Punishment of Offenders bill for insolvency cases. A keen equestrian, she describes herself as "very happy jumping fences, whether work-related or purely on horseback".

What are the secrets to success in managing a law firm?

Picking the right combination and a good mix of people is the most important thing. Law is a people business and, in a small firm particularly, the atmosphere, the intellectual stimuli and the social interaction are all very important. Then I think the right level of discipline and freedom, and of course, focus on quality of advice, service, and client relationships. The latter tends to follow if you get the people right. Obviously, today we also have an awful lot of things to keep up with in terms of compliance and financial management, but those are also helped by picking the right teams.

What are the most difficult issues facing small to medium-sized firms and how can they be overcome?

Probably cash is the key for all businesses at the moment. Cash is still tight for

everyone in the economy, and it needs to be carefully managed to maintain stability. Compliance is, as I say, an increasing burden, and can seem an unnecessary cost in many areas. However, it is important for survival and has its reasons. High street practices have particularly suffered. With equity values squeezed and people unable to move, this affects matrimonial work, conveyancing and areas where legal services are optional rather than a necessity. Then there is the looming threat of ABSs. I still believe that specialist independent practices will survive, and that that is good for the community of clients, both commercial and private. We should be proud of what we do, and publicise just how good this profession is.

Drawing on Moon Beever's experience, which areas should firms prioritise for investment in the current economic environment?

A mistake many firms have made in these difficult times is to cut IT and marketing, which I believe are the two things you really should not cut. It is very easy to fall behind in IT with only a short gap in focus, so constant investment is needed. This is where Moon Beever has made the right choices. It is the same with marketing. Don't fall off people's radar, even more so at a time when people have trimmed their use of legal services, because maybe yours won't be the firm that springs to mind first when work floods back.

What changes do you predict in the way that law firms are run in the next five years, or the strategies they will adopt?

I suspect we will see numbers of ABSs, but

I believe we will (and I vehemently hope we will) retain independent firms and the independent bar. I think it means working smarter, flexible charging, maybe more joint projects and commoditising of services. I hope we don't throw the baby out with the bathwater, though. There are a lot of good things about the current services and providers.

What do you feel you will bring to the LMS executive committee, and what were your reasons for wanting to join?

I am a managing partner with almost 100 staff. We are a small firm with a range of specialist services and offices in central London and north Essex. I think I understand from a hands-on point of view what works, and what could be improved (even if not everything is possible), and I hope that we can achieve proportionality in legal management. Our profession is providing legal services, which are a basic human right for many as well as a commercial need for others, but we are also expected to run a decent business, be good employers and (we and our staff) achieve higher standards of behaviour, trust and service than many other businesses. That comes at a cost, but it is also a very satisfying area to work in. I hope I can bring some good input to the LMS and I am very flattered to be elected.

Likes: Working at Moon Beever, horses, my family, socialising with good friends (not necessarily in that order).

Dislikes: Negativity.



NIGEL HADDON Chief executive at north-west firm SAS Daniels, where he has just completed the firm's fourth merger in six years. Past chair of LMS and general editor of the Section's Mergers Toolkit.

Pressure on fee rates is one of the most pressing issues facing law firms, and it is unlikely to ease off in future. What steps should law firms take to address this?

That depends on the firm's market position. Maintaining competitive advantage is about keeping prices high or costs low, or both. Increased buyer power in any industry tends to reduce prices in that industry, leaving suppliers typically to cut costs to maintain profits. That is one obvious solution, but not necessarily an attractive one, especially over the long term. Or you could find

buyers willing to pay current fee rates or, better still, clients willing to pay more?

What new billing models are likely to emerge or develop in the next five years, and will these be driven by client demand?

There are already about a dozen basic approaches to charging structures, and it is not easy to say with certainty whether this has been driven by client demand. What clients want, survey after survey tells us, is certainty of spend – that is, the final cost to them. This can be achieved for clients in any number of ways, including by charging an hourly rate within a sensibly scoped, sensibly estimated retainer.

Likes: Positive people and good red wine (preferably together).

Dislikes: Negative people and bland wine (especially together).



DAVID BOTT
Principal of
Wilmslow personal
injury firm Bott &
Co, member of the
Association of
Personal Injury
Lawyers' (APIL)
executive

committee and recent APIL past president.

How will personal injury firms need to adapt to survive in the post-Jackson world? And what action should they be taking to prepare themselves?

In 2013, there will be the following:

- LASPO coming into force, bringing with it an end to referral fees, recoverability of

success fees from the defendant and recoverability of insurance premiums from the defendant; damages-based agreements, a new test of proportionality, qualified one-way costs shifting; and new protocols;

- Portal fees are likely to be downwardly revised.
- The road traffic accident portal will be extended and there may be a new employers' and public liability portal.
- Alternative business structures were here from January 2012, and a consultation on the proposed increase to the small claims track limit is in the wings.

So there will be huge changes to the personal injury space, and while it has never been the right time to be inefficient or to provide a mediocre service, all law

firms acting for clients in 2013 will have no choice but to provide a superb service for their client – otherwise the new entrants such as Co-Operative Legal Services will slowly but steadily take our clients away from us.

Innovation, efficiency, ABSs and client-centred products are the only way forward. So, start thinking about 2013 and, if ABS is an option, get your application in early, as by all accounts, the approval process is elaborate and lengthy.

Likes: Family, wine, sport, Everton FC.

Dislikes: The fact that it now takes me two days to recover from the wine, Everton's total lack of money, and knowing soon I will have two teenagers on my hands.



PAUL WIDDUP
Member of the LMS executive
committee since 2006, sits on the
Law Society's regulatory affairs
board, and is acting chair of the
rules and ethics committee. Also has
experience as an executive coach.

How can law firms ensure that their staff are motivated in the current economic environment?

The fundamental need is for effective management, supervision and support at departmental and team levels. Heads of department and team leaders must set challenging but realisable individual targets, and encourage their achievement through regular one-to-one meetings at which:

- a coaching style is used to underline positives while addressing negatives;
- achievement, however small, is recognised; and
- new but achievable challenges are set which encourage development, learning, and individual growth.

What is the best way to ensure that the individuals within a firm understand its strategy and work towards it?

Effective communication and the ability to turn strategy into action are keys. Buy-in and positive commitment to achievement can only be brought about when the strategy is communicated in such a way that each department and each individual can work out for themselves what the strategy means for them, and how they can contribute to its successful delivery. Action not only involves the setting of departmental and individual objectives and targets, but also ensuring that these are continuously assessed and evaluated against focused, relevant and agreed individual, departmental, and firm-wide measures of performance.

Likes: Variety, change, and creativity.

Dislikes: Clutter, negativity and confrontation.



ANDREW OTTERBURN
Law firm management consultant, author,
and MBA faculty member at Nottingham Law
School; member of the LMS executive
committee for four years, and Section
vice-chair from 2012.

As an expert in law firm profitability, can you suggest any 'quick fix' areas where firms could make bottom line improvements? What about longer term measures?

There are some relatively easy quick fixes. Prepare a simple analysis of the financial performance of each team every quarter, which should be fees less departmental salaries, including a notional salary for any equity partners, but before central overheads. Prepare this every quarter and aim, over time, to get departmental profitability to 60%. Firms should also monitor team utilisation, realisation and average hourly fee each quarter. If you improve each of these, you should hit the 60% margin.

Do law firms do enough to reinvest their profits for the benefit of the firm, and what are likely to be the best areas for investment?

Firms invariably under-invest. The key areas to invest in are:

- management time – you can't expect to manage a business with a substantial caseload, yet many firms expect this of managing partners;
- good people – lawyers, but in particular professional support; and
- IT.

Do firms maximise the opportunities they have to sell more services to existing clients? If not, how should they do this?

Few firms are good at cross-selling, yet it is one of the easiest and least expensive ways of generating additional work. The solution is likely to revolve around increasing awareness of what people actually do, and the types of new work they are looking for: training; improving communications between teams; and publishing statistics on referrals. Gradually (hopefully), cross-selling will improve.

Likes: Travelling and working with clients in different locations.

Dislikes: Hearing an announcement that my flight is delayed.

**HELEN BROUGHTON**

Started boutique family practice UKB in 1984; through mergers, became managing partner of four-branch Liverpool firm Morecrofts six years ago.

How should firms react to family legal aid changes?

Lawyers are very inventive and we are good at changing to meet different challenges. Firms will need to decide quickly if they want to do legal aid family work.

Only those with large public children teams and / or close links to domestic violence refuges or service teams will be able to attain a viable critical mass to do the work at such marginal rates. If you do not have such teams, you either merge with someone who does or give up legal aid. If you do get out of legal aid, clients will still be out there, and many will want legal advice at an affordable and transparent price. Mediation will come into its own, and that may be a viable option for many lawyers, who could run a co-practice.

How should firms compete with the big brands?

There will always be clients who buy bargain basement through the internet, have no problem telling their life history to strangers over the phone, and yet want an excellent result. I also suspect they are not the clients that I really want, and I suspect and hope that those are the clients the 'big-players' will get.

Family law is difficult to commoditise. It is about feelings, emotions, security and empathy, all of which are difficult to get over a telephone. The Co-Op may institute a branch network, but it is likely to be in a funeral parlour or a supermarket. Family disputes are not at first sight compatible with either, and if you have an office with well-qualified and proficient staff who are forward facing and keen, then I do not believe we should surrender our market place to the likes of the Co-Op or any other big organisation such as the AA or others.

Likes: People, gossip, scheming, dressmaking, singing, gardening, food, drink, clutter, parties, shopping, and of course, my husband and three gorgeous children.

Dislikes: Housework, other people's tidy houses, routine and TV.

**CHRIS HART**

Managing Partner of south Devon law firm Wollen Michelmore, and LMS chair since February.

How will the legal services market evolve in the next five years?

The market has been in a state of evolution, but the pace of change will pick up in the coming five years, and law firm managers must think about their practice's place in the market and how to best position themselves. There will be further consolidation both in terms of small firms being acquired and larger firms merging. The 'new' brands such as QualitySolicitors and Lawyers2you will continue their development and nationwide promotion, and the provision of legal services by large consumer organisations, retailers and membership groups, such as Co-op or the AA, will grow. Law firms will need to place greater emphasis on the provision of expertise and substantive advice within niche areas, and with high levels of specialism.

With a background in litigation, do you believe solicitors will begin working more closely with barristers in the new ABS world?

The need for high-quality advocacy will remain, and there is a place for solicitors and barristers in the provision of advocacy services. However, as opportunities for solicitors in traditional funding areas diminish, so they are likely to seek to develop more finely tuned advocacy skills, and retain work rather than referring it on to chambers. The pressures on legal aid funding will affect barristers and create greater competition among members of chambers. It is highly likely that solicitors' practices will seek to add high-value advocacy expertise to their range of services, and barristers will represent an easy option for litigation practices within the ABS environment. Barristers will see the opportunity to work more closely with solicitors in the new legal landscape as a chance to take an alternative route away from an oversupplied bar with diminishing public funding for criminal and family work.

Likes: Plymouth gin, West Ham and Torquay United, Somerset Country Cricket Club, the English Riviera.

Dislikes: Inflexibility, negativity.

**ROBERT BANNER**

Managing partner at Yorkshire and north Derbyshire firm Banner Jones Ltd, involved in the firm's management since the mid-1980s.

What changes have you seen in the way law firms are managed since you first became a managing partner, and what are your predictions for the future?

I have experienced many changes to the legal market, none so great as those which have occurred recently. Previously, the

success of law firms was within their own hands. Recently, however, outside factors beyond the firm's control, such as the economy, legal aid cuts, new entrants to the legal market and proposed cuts in personal injury fees, have all had a marked influence on law firm success. To succeed in the future, law firms will have to concentrate on innovative strategic plans to compensate for the effects of these factors outside their control, rather than on more traditional forms of management.

Are there any skills that the successful lawyer needs now, that have changed since you became managing partner?

Clients have become more aware and demanding, and so lawyers have had to become more aware of how to deal with those demands. The use of IT has been another significant development in the speed of advice, and also the makeup of law firm's fee-earners. In the future, law firms must have an increasing awareness of the importance of legal work being undertaken at the correct fee-earner level.

Likes: Saturday nights when Sheffield United have won.

Dislikes: Saturday nights when Sheffield United have lost.