

The Silver Lining: Recession and Law Firm Profitability

The economic downturn has affected almost all areas of British industry, and law firm profitability is no exception. The majority of larger firms, with sufficient financial capital and diversity of practice, will more than likely weather the storm. However, many small and medium-sized firms who enjoyed relatively healthy profit margins during the years of prosperity will struggle to survive, and those that do will find their capabilities severely restricted as a result of across-the-board cost cutting.

Recession: Law Firm Finance and Law Business Development

That said, for the forward-thinking firms who are prepared for extensive, honest self-assessment and are willing to take the necessary tough decisions, there is a silver lining to the recessionary cloud. These firms have the opportunity to come out with greatly enhanced competitive advantage, having used the recession as an excuse to drive through fundamental changes to the way they do business. Those firms that take law firm finance and law business development seriously will prosper in the post-Credit Crunch world.

We have been working with law firms since the early Nineties, and have therefore seen firms survive recession, and also those that haven't. The following report details the areas we have identified from our experience as being crucial to developing a profitable and sustainable practice.

Analysis & Costs

The first point to make is that we do not advocate wholesale, across the board cost cuts where it is avoidable. Many firms will identify areas such as support, training and marketing as the first to be cut back. This is often the wrong approach, and could lead to serious morale problems within a team. Before any cutbacks are made, an in-depth analysis is required of the firm's costs and revenues, in order to establish which areas are vital to the business's success, and which are less important. It may well be that expensive advertisements are not particularly effective in any case, and these resources could be better employed elsewhere. In many firms, partners offer mates rates to almost any longstanding client. This may not seem like a problem while revenues are strong, but in a recession firms cannot afford to regularly offer discounted rates. Some of these clients will turn out not to be particularly profitable anyway, and an analysis of client profitability is an important part of the self-assessment process.

Business Services & Development

The analysis must extend to all of the firm's business services, to establish which areas are currently profitable and which have the potential for development. It is worth considering both the health of the practice and the market. Conveyancing, for example, is almost universally the area hardest hit in the current downturn. Aside from the obvious relation to the property market, the short-term transactional nature of the service makes it quickly susceptible to volatile economic conditions. However, when the economy returns to prosperity, conveyancing will again provide a regular source of income, and it is worth seriously considering how this fits with a firm's service offerings. For many smaller firms, it will become apparent that such a vulnerable area is simply too risky. For the majority who decide to continue to offer the service, a fundamental reassessment is required. Some will need to reduce their volume, and therefore their exposure to the associated risk. For all, more flexibility is required. More flexible staffing options will be considered later.

Reassessing business service offerings does not simply mean deciding where to cut back. One of the benefits of the analysis and cost-reduction process is that savings will be identified, some of which can then be re-invested in more profitable or potentially more profitable areas. If this is not done, firms will find that they emerge from recession with reduced capacity and minimal potential for growth. Partners should also not be afraid to change the balance within a firm, if analysis highlights that this would be beneficial. Those firms that employ targeted investment strategies, deploying funds found from savings elsewhere, will be in a strong position to capitalise when markets recover. Firms also have an opportunity to reconsider how they deliver their services.

There is an excuse now for partners and managers to broach the issue of culture and client service, and to ensure that their firm excels in all areas, technical, managerial and service-related. This culture must be evident at all levels, from partners and fee earners through to secretarial and support staff. Law firms often say that they do not engage in price competition. In this case, the service provided must be genuinely valuable to the client and to the firm.

Marketing

This is clearly no time to be investing in costly advertising activities with opaque measures of success. However, if marketing does not receive sufficient attention then a firm's revenue stream will suffer, and the business's profile will diminish. Partners and other solicitors often state that they are too busy to engage in non-chargeable activities, but in the current market that is not always the case. It is thus a question of utilising spare capacity to engage in marketing activities that involve a more significant time investment than a financial one.

The place to start is the client database. It is one of the less exciting facts of marketing that it is far more expensive and time-consuming to get a new client's money than it is to get existing clients money. Therefore, any firm wanting to increase sales without increasing costs should concentrate on their existing clients. Above all, the database needs to be accurate. This is the only way to be sure that the right people are being targeted for the right services. This means that the database must be cleansed, and once it is up to date, information collection must be limited. Only essential marketing information does the client have a will, and could you create one for them? need enter the database, along with obvious contact details. This requires methodical input from everyone in the firm, as soon as they obtain a client, and everyone must take ownership and keep it up to date.

Once the database is up to scratch, the opportunities are there to boost sales. Keeping in regular contact means you will be easily remembered when a need arises, and law firms enjoy many opportunities to cross-sell. This can be done cheaply and easily, by email or by direct mail, with no need for expensive flyers and other tools.

Another opportunity that law firms often miss lies in alliances. Strategic alliances with other professionals can be a valuable source of work, especially in price-sensitive times, as long as they are taken seriously. Alliances ought to be as exclusive as possible, and they must be a two-way relationship. Referral fees are often a necessary part of this, and will be worthwhile if they provide a consistent source of work and both parties are open about their use.

Marketing must be a strategy, not a collection of initiatives. This must incorporate the firm's culture and service areas, and must consciously lead to a differentiation of the firm in its marketplace. Niche marketing is important to emphasise a firm's experience and expertise in specific areas, and together this will develop a specific brand image, to be associated with a firm. Branding is not often

associated with law firms, but it is the only long term way to ensure that a firm stands out in what is often perceived to be a fairly homogeneous market.

The final element in this is to drive out the competition. Aggressively targeting rivals clients, and looking to recruit their expertise where possible, is an effective way of ensuring that a firm will dominate a market once the economy picks up. It may not sound like a particularly pleasant tactic, but the post-recession market will only be more competitive, and some firms will inevitably lose out. It is up to partners and managers to make sure that this is not their firm.

Knowledge

Those firms that use IT effectively are no longer ahead of the game it is the firms who do not that are quickly left behind. There must be an effective use of IT throughout the firm, and partners must take responsibility for keeping abreast of trends and developments. The firm's website must be user-friendly

and oriented around the client's needs, rather than being the run-of-the-mill online brochure. A few short years ago, firms using digital dictation were considered to be ahead of the times. Now, it is those firms that have not invested in the technology that are bearing extra costs. Use of outsourcing and remote working can also help a firm maximise efficiency in the way it operates.

There also needs to be a knowledge management strategy in place, to ensure processes are efficient and there is access to the requisite knowledge at the appropriate level throughout the firm, whilst minimising loss of intellectual capital. This allows for delegation and effective use of leverage, and supports the training process. It is a difficult issue, and is bound up with the proper use of IT to provide central access to material for everyone who needs it, but is also an integral part of a people-management strategy that aims to minimise staff turnover. Firms that can find a way of passing on the knowledge of a retiring partner, for example, will be well ahead of their rivals in this regard.

Staff

All professional service firms maintain that their people are their most important asset, and many include outstanding working conditions in their mission statements. However, increasing levels of staff turnover and a trend of lateral hiring demonstrates that in many cases this does not ring true. The war for talent also highlights that there is a lack of sufficiently qualified young lawyers, and that firms wanting to succeed in the future must take the issue seriously and find ways of minimising turnover.

Smaller and medium-sized firms cannot offer the attractive remuneration packages that the larger city firms can, but they do hold significant advantages. Again, it is a case of differentiation. Firms must emphasise opportunities for flexible working patterns, a structured career path, a more specialised or more varied workload, and more face-to-face client interaction. They must be able to demonstrate that their firm has a distinctive culture of excellence and really cares for its people. This means involving all staff in defining the firm's direction, communicating at all levels and providing regular information about the firm's performance, and profit-sharing even in basic roles. Management must be allowed to be consistently challenged, and a dialogue maintained.

Training and support are areas in which many firms do not live up to their own highly professed standards. Smaller firms often concentrate resources on technical training, while giving insufficient attention to training for management roles and soft skills. Good lawyers do not automatically make

good managers, and personal development is an important element in retaining staff. Likewise, fee-earning staff often feel that they are insufficiently supported to carry out their roles to the standards they expect of themselves. In a recession, staff in support roles are often the first to go, but this is unlikely to keep the fee earners happy. Ensuring that fee-earners are supported by the staff and technology they need is key to maintaining excellence as a firm. If a firm must streamline, it must do so by cutting back in unprofitable areas and retaining a reputation for outstanding technical work and client service in its remaining services.

Conclusions

The traditional partnership structure has consistently held firms back from achieving the profitability and service standards they are capable of. However, the Legal Services Act (2007) has the potential to threaten inefficient firms as external capital enters the market and Multi-Disciplinary Partnerships encroach on the traditional market share of smaller and medium-sized firms. The traditional partnership law firm must be able to respond to these radical changes in the market for legal service provision, and this recession provides the urgent excuse to do so.

The most important ingredient here is vision. A firm must know where it wants to be in five years time (long after the Credit Crunch has passed), and must work back from that vision to develop a strategy for achieving it. This strategy must be integrated, and must involve a holistic approach to business development. Simply burying heads in the sand until recession passes is not a viable option for firms that want to continue to prosper in the 21st Century.



Please feel free to [contact me](#) for further advice.

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