Crowe

Law Firm Benchmarking 2021

Providing clarity in the legal sector

Audit / Tax / Advisory / Risk

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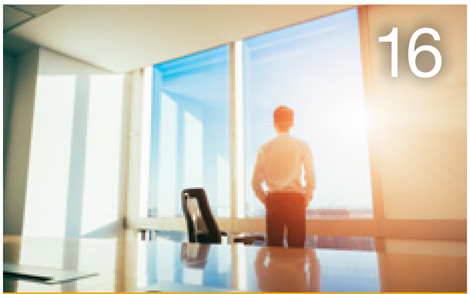
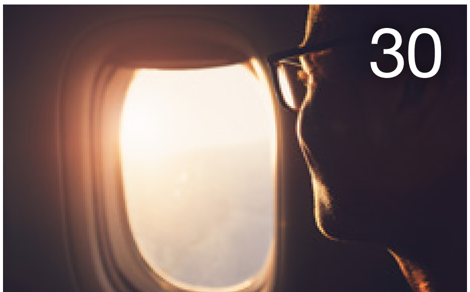
Contents

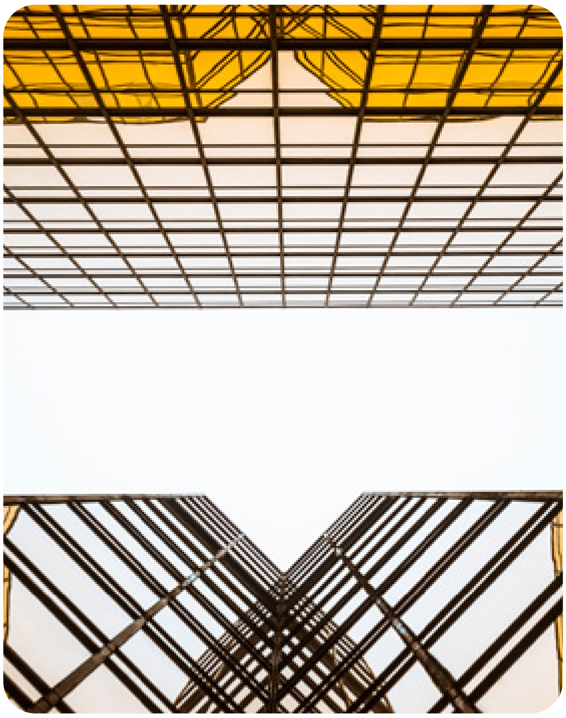

The big picture

Our benchmarking is based primarily on data submitted by UK law firms with financial years ending in early 2021 and provides insight into how firms performed throughout the first year of the COVID-19 pandemic. We explore whether final results contrasted with their early expectations, what happened in the ‘people space’ and where leadership teams are focusing their attention next. With so much uncertainty in recent times, this snapshot of a section of the legal sector makes for fascinating reading.

Request a bespoke report

Participant firms receive bespoke analysis of their performance against others, adding further detail to the comment within this full synopsis.

This report will help others gauge their own performance in the market place, what that market has been doing and the areas of focus within other firms.



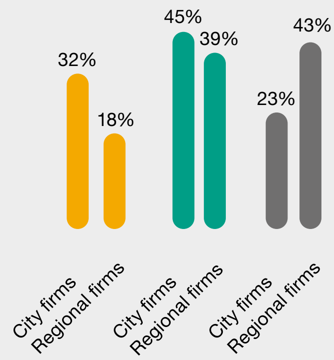
Revenue

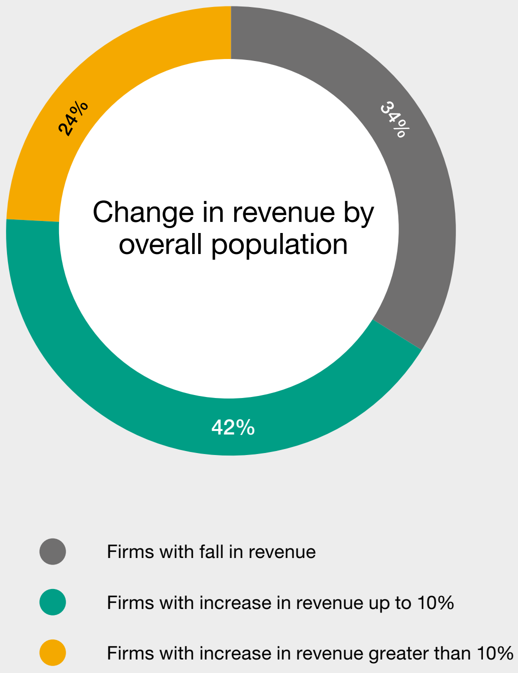
A resilient and competitive UK legal market

In a period of unprecedented global disruption, we might have expected revenues to be challenged. Back in March 2020, most law firms were braced for the worst, with finance teams quickly reforecasting their potential revenues downwards by as much as a 50% reduction against 2019/20 fee levels. So, did demand for legal services dry up or were these fears unfounded?

For the sector as a whole, the answer is a reassuringly positive one. Our 2021 results show aggregate revenue growth of 5.9% across the all-participant population. While this is lower than the 6.7% increase we observed for the 2019/20 year, it demonstrates just how resilient the UK legal market is.

Growth in revenue





Average revenue growth overall

5.9% growth

City firms

7.2% growth

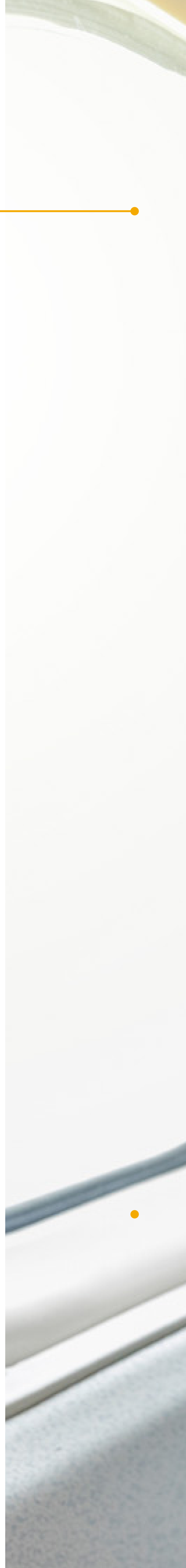
Regional firms

3.8% growth

It is the City firms who led the way this year. Aggregate growth across City firm participants was 7.2%, with regional firms managing just over half of that growth level, at 3.8%.

As we dissect the headline results further, we once again see a number of firms growing and taking market share from their competitors. Almost a quarter of firms returned solid growth in excess of 10%, but around a third saw their top line shrink compared to their 2020 fee levels.

Continuing a somewhat concerning theme, the proportion of regional firms with falling fee income climbed to 43% this year. In the regions, there appears to be far greater pressure on fee income, coupled with fewer firms taking an increasingly larger share of the work.



Profitability

Difficult decisions rewarded

A global pandemic must surely have a big impact on profits, right?

We certainly see a big impact on profit pools this year, but not in the way many firms would have anticipated back in early 2020. For the majority of firms, this year's results will be a relief and reward for their focus on controlling costs, improving processes and maintaining internal control.

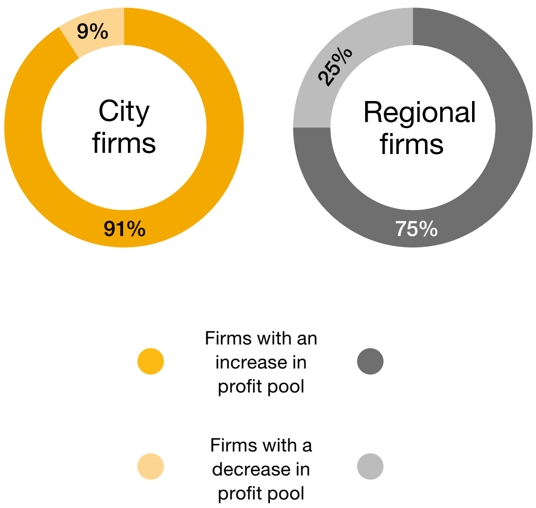
How did your results compare with your expectations?

	City firms	Regional firms	All
Greatly exceed our expectations	55%	65%	59%
Slightly exceed our expectations	30%	12%	22%
Were as expected	10%	12%	11%
Were slightly below expectations	5%	6%	5%
Were significantly below expectations	0%	5%	3%

Average profit per equity partner (PEP)

City firms	Regional firms
£485,861	£284,487
17% increase	28% increase

Changes in profit pool



Despite fee income challenges for some, four-fifths of this year's participating firms grew their profit pools (91% of City and 75% of regional firms). Of greater note is the level of growth in profits; almost 70% of firms who grew their profit pools did so by more than 10%.

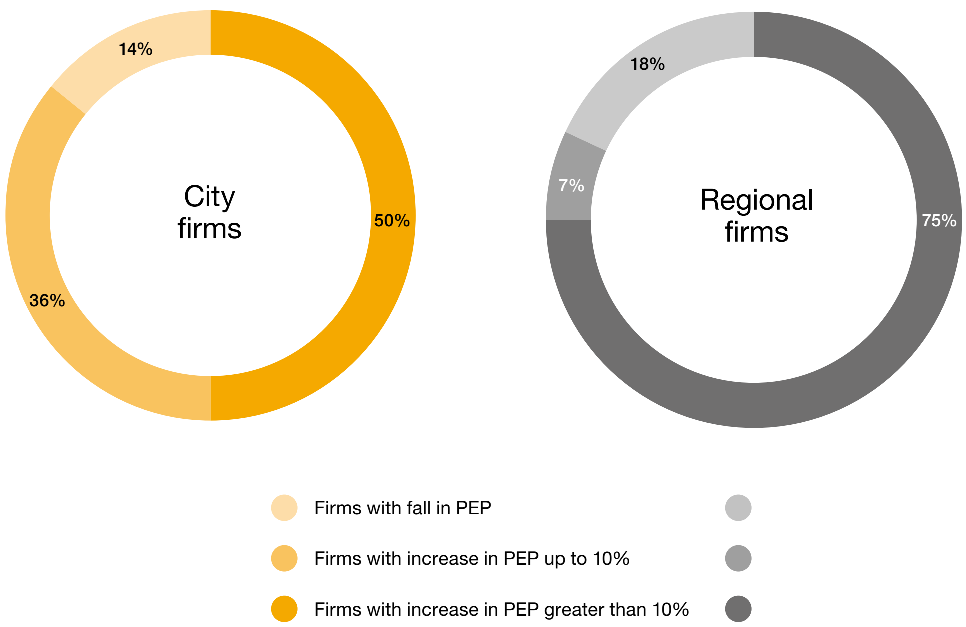
The average increase in the all-City firm profit pool was around 13% but, perhaps surprisingly given the number with falling revenue, the regional firm average profit pool grew by over 20% for this year's participants.

There is, of course, a link between those firms who grew their revenue and those who grew their profits but it is also clear that cost control has been a big part of the 2020/21 financial year and the greatest impact of this is seen in the regions.

The question is, how many of the savings are 'windfall' and unsustainable to carry forward in future years, and how many are due to the adoption of improved working practices which have now been permanently embedded?

The improved results flow into a 17% increase in average PEP for the City firms and 28% increase in the regions and, this year, a greater proportion of firms grew their PEP levels. Senior equity profit share continues to be under close control with no real change in the number of top-tier senior equity heads in City firms and a very slight reduction in the regions.

Changes in PEP



Headcount

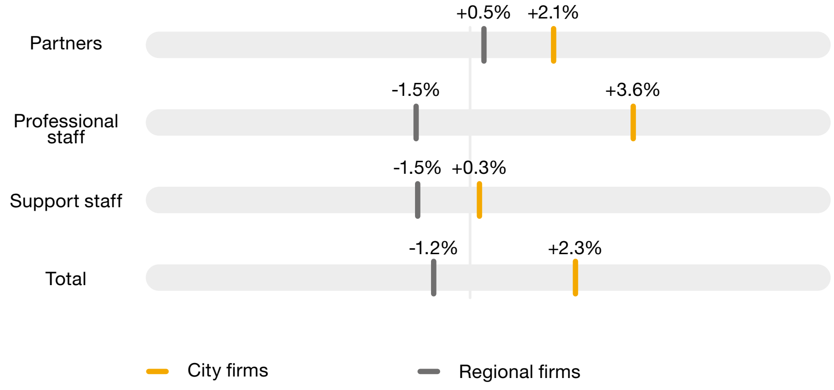
Two very different stories

When it comes to headcount, our 2021 results show a very different approach between the City and regions. The all-City firm headcount grew across all headline categories – partners, fee earners and support teams – in stark contrast to their regional counterparts where employee headcount has fallen. This approach was hinted at in last year's benchmarking and indicative that regional firms are either more cautious about future work levels and the impact on bottom line or, quite simply, have been carrying some excess capacity.

With City firms leading the way on revenue growth, it isn't surprising that maintaining and extending capacity was cited as important, but this ongoing investment in fee earners also demonstrates a confidence in future demand.

Over two-thirds of City firms identified 'availability of people with the skills we need' as being a 'business critical' risk, confirming that attraction and retention of talent remains high on the agenda of most management teams. Fewer regional firms feel the same way.

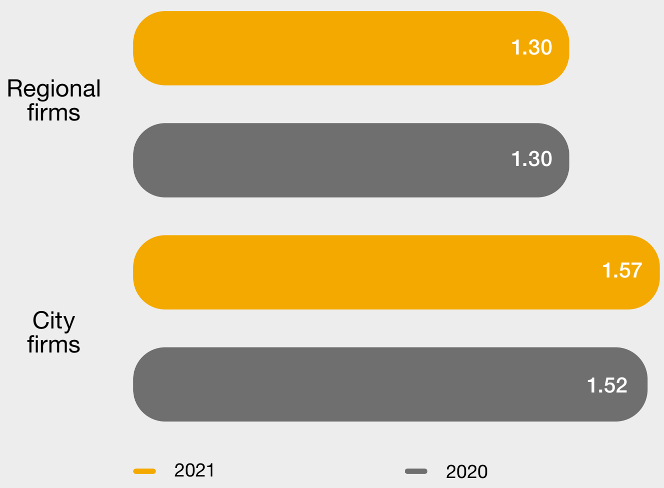
Change in headcount



In terms of the people mix, this year's City firm participants have focused on growing the fee earning teams at both partner and non-partner levels, with average headcount increases of 2.1% and 3.6% respectively. This contrasts with an almost static (0.3%) change in the number of support staff heads.

The downsizing of teams in regional firms this year splits equally across fee earning and support teams, with an average reduction in headcount of 1.5% across both – fee earner to support staff ratio remains at around 1 to 1.3. In aggregate, average partner numbers have increased very slightly but, looking deeper, this overall increase was driven by a small number of larger regional participants making reasonably large additions to the partnership. This may be indicative of strategic acquisitions of teams and/or a desire to keep hold of key talent during turbulent times.

Fee earner to support staff ratio



People costs and efficiency

Costs up but fees per head up also

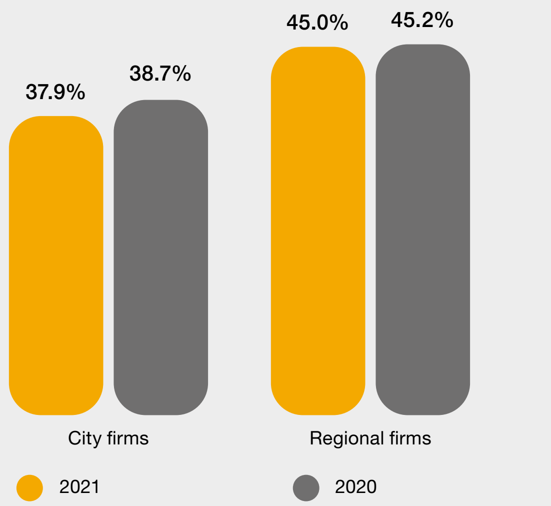
So, what did this mean for people costs?

At the time of writing, ‘the spectre of inflation’ is firmly in the mind of both business leaders and consumers and we can see the beginnings of wage pressure in this year’s results. At a time of huge economic uncertainty and a large cost cutting exercise for most firms, we still find an uplift in average cost per head of 3.6%. Why might this be?

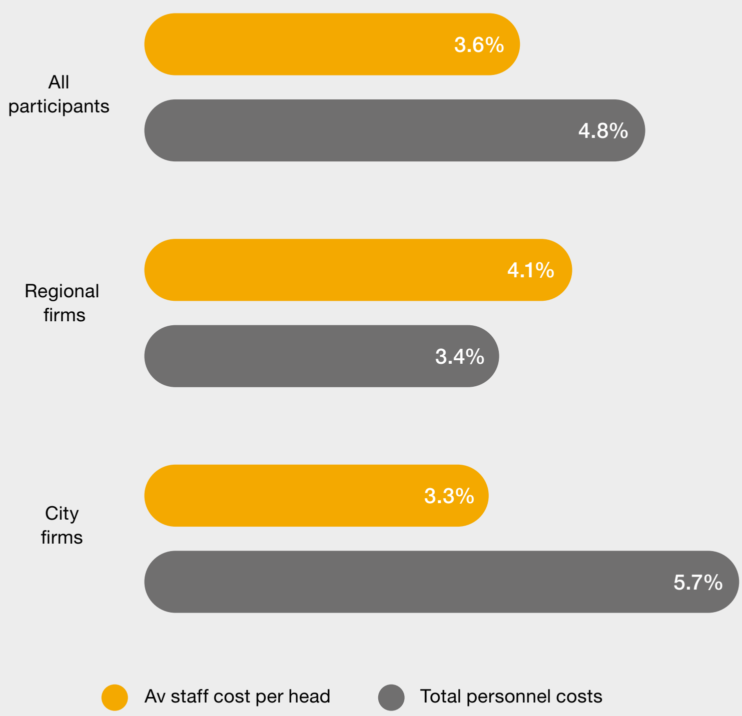
In the regions, the average increase per head was greater, at 4.1%, compared with 3.3% in City firms, and this may give us some clues as to what has happened.

Firstly, despite an uncertain start to the pandemic period, we have seen that demand (and profitability) held up better than expected. Although many firms froze (or reduced) salaries early in 2020, once management teams had satisfied themselves that the firm was stable and profitable, a lot of these reductions in pay were reversed.

Staff costs as a percentage of fee income



Change in personnel costs



At the end of the year, law firm leaders faced a new challenge; a workforce suffering from COVID-19 fatigue, brought on from long hours dealing with unexpected demand and a cycle of lockdowns and home working. In our experience, many firms were keen to reward how much their people had achieved in difficult circumstances with year end bonuses and benefits, some at levels over and above a ‘normal’ year.

Regional firms would have experienced two further factors; redundancy costs would have had an impact, but regional firms were also more likely to have used the Coronavirus Job Retention Scheme (the ‘CJRS’ or ‘furlough’ scheme). This reduced some pressure on the need for wage cuts.

Fee earners’ hard work can be seen in the average fees-per-fee earner uplift, with both City and regional participants reporting a 5% increase in revenue per head. The City premium continues to be unaffected by the pandemic, remaining at almost double the level of that in the regions for this year’s participating firms.

Fees per fee-earner (including partners)

£249,469
2021

£237,426
2020

City firms

£131,358
2021

£125,139
2020

Regional firms

Average employment cost per head

City firms
£71,470
3%
increase

Regional firms
£39,698
4%
increase

Working capital management

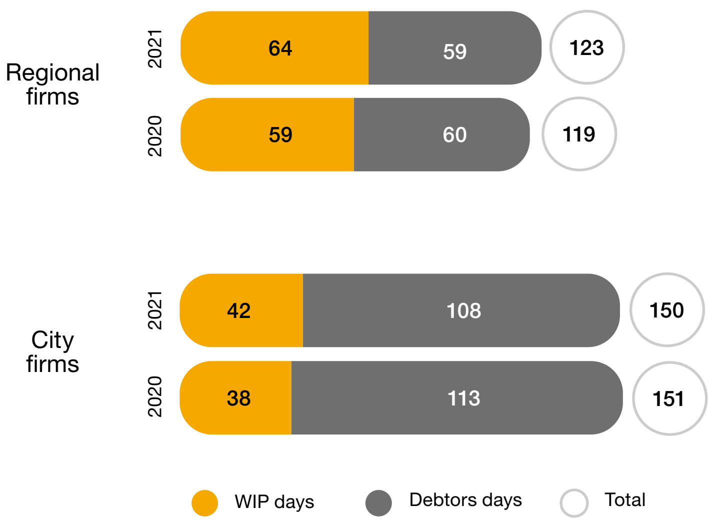
So far, so good

Last year, managing cashflow and credit risk was a primary concern for all finance teams throughout the pandemic period and we noted an average reduction of four days in total lockup. Many firms seemed surprisingly relaxed about credit risk, with only 41% stating it was a high priority risk for their 2020/21 year. Were they right?

On the face of it, it appears they were. Debtor days fell this year for both City and regional firms, indicating that cash collections are holding up, although we must remain mindful that this could be masked by more aggressive provisioning. That said, our discussions with finance teams indicate a continuing optimism when it comes to credit risk with only 35% of participants having this as a high priority risk for the coming 12 months.

This relaxation could well have flowed through into billing, where we see increases in work in progress (WIP) days in both City and regional firms this year. Conversely, taken through a more positive lens, this WIP uplift may also be indicative of greater activity in early 2021. In either case, firms should continue to be mindful of credit risk, particularly as clients' cash positions come under pressure from supply chain delays, inflationary pressure and the unwinding of many COVID-19 government support schemes and funding lines. Cashflow pressure is greatest during early periods of the growth phase and the post-pandemic period could well create some challenges.

Average lockup days at year end



City firm focus

On the face of it, the City continues to look resilient. With aggregate revenue growth of 7.2% across this year's participants and average PEP increasing by 17%, many firms were pleasantly surprised with how their financial year ended.

Exceeding expectations

A notable 85% of this year's City firm participants told us that their results exceeded expectations, with more than half reporting performance that greatly exceeded their initial forecasts.

Over three quarters of participating firms grew their top line and almost a third did so by more than 10%. Average growth across all participants of 7.2% is consistent with last year's 7.4%, and seems to demonstrate that demand for legal services in the City firm client base has continued to be strong throughout the pandemic. In our 2020 benchmarking, firms clearly indicated a positive outlook for their firm for the coming 2020/21 year, so perhaps they shouldn't have been too surprised that demand held up despite the pandemic.

Where expectations probably were exceeded is the final profit result. The combination of revenue growth and careful cost control resulted in a decent increase in profitability this year, with 91% of firms increasing their profit pools and over half doing so by more than 10%. With a greater proportion of that profit being enjoyed at senior equity level, average PEP rose by 17% in this year's City firm participants.

85%

of City firms said that their results exceeded expectations

91%

of firms reported an increase in profit pool

3.6%

Headcount increase

The average employment cost per head increased by

3%

37.9%

Staff costs as a percentage of fee income

In the coming 18 months

55%

of firms are planning to update their agile working policy

More people, more value, more competition for talent

Strong service demand manifested in the need to continue to grow headcount – something which was very much focused on fee-earning teams, where partner numbers grew by 2% and non-partner fee earner heads by 3.6%. Support team numbers remain relatively unchanged.

Within our sample population, total personnel costs grew by 5.7% this year but costs per head were managed at a less pressured increase of 3.3%. With revenue growth outstripping both of these, average staff costs as a percentage of revenue fell from 38.7% to 37.9%. This year, firms saw a greater return for their people spend, resulting in average fees per fee earner rising by 5%.

The demand for talent continues unabated. All participants identified ‘retention of our key people’ and ‘availability of people with the skills we need’ as high priority business risks. We anticipate further inflationary pressures on salaries in the coming year if service demand continues at the current levels. With 90% of participants planning to increase fee earner headcount in the coming year (dropping to 55% for those who are planning the same for support staff), all indicators point to another tough recruitment period ahead.

There is a further challenge here, which many management teams are grappling with – how to deal with an increasingly distributed workforce. 70% of City firm respondents believe the ability of people to work from any location will reduce geographical pay differentials, such as ‘the London Weighting’, and it will be interesting to see if this manifests in a changing cost base in the coming years.

Credit risk – stay focused and everything will be fine

Lockup remained consistent this year at 150 days, decreasing by just one day. However, the component mix changed slightly, with WIP days increasing from 38 to 42 but debtor days falling by days to 108. Either firms are more aggressively provisioning against debts or cash collections held up well.

Despite credit risk being seen as a lower priority risk by most City firms, management clearly considers that there is more work to be done to improve working capital management; 70% of respondents stated they will be focusing on improving lockup and reducing credit risk in the coming 12-18 months. This suggests finance teams are not desperately concerned about bad debt risk, so long as billing and credit control processes are effective.

Business confidence – good times ahead?

City firms appear to have regained confidence in the UK economy as only 30% of respondents have a negative outlook for the coming year, a significant drop from the 80% who felt the same way when we asked this question last year in the early stages of the pandemic. They are also more positive about the outlook for their own firm, with 90% viewing the coming year as positive and building on 2020/21.

That is not to say it will be plain sailing. Almost all participants believe price competition in the legal sector will increase significantly although it will be strength of brand which plays a significant part in winning new clients.

Regional firm focus

This year's regional firms appear to have been operating in a more suppressed market than their City counterparts. A modest growth in all-firm revenues masks contrasting performance in individual results, with a significant proportion experiencing a fall in their top line. But it wasn't all bad news – a number of firms bucked the trend with double-digit growth and, on the whole, profitability was improved through careful cost control.

Fee income and profitability – Revenue is vanity…or is it?

For this year's regional participants, aggregate growth of 3.8% was once again derived from a very polarised set of individual firm results; the proportion of firms posting a fall in revenue grew to 43% (from around 40% last year). It seems the regional legal services market 'cake' continues to grow overall, but at a reduced rate and with a smaller number of 'winning' firms taking a bigger slice – around one-fifth grew revenues by more than 10%.

Last year, we reported that 60% of regional firms saw a sobering drop in their distributable profits. With this year's results spanning a full 'pandemic year', would profit pools suffer the same fate?

77%

of Regional firms said that their results exceeded expectations

75%

of firms grew their profit pool

1.5%

Headcount decrease across fee earning and support teams

The average employment cost per head increased by

4.1%

45%

Staff costs as a percentage of fee income

82%

of regional firms saw a increase in PEP

Happily, the answer is no, quite the contrary. Only a quarter of this year's participants reported a decrease in their overall profit pool and the average decrease was around 10%. For the three-quarters of firms who grew their profit pools, the majority did so by more than 10%. The average increase was, in fact, 30% which will please many partners as, with top-tier equity being quite tightly controlled, Profit per Equity Partner (PEP) also grew by 28% on average.

Was this a surprise to the boardroom? It seems so with around two-thirds of participants telling us that their final results greatly exceeded expectations.

The COVID-19 situation forced many management teams to look more closely at their operations, structure, processes and financials. Cashflow management has been at the top of the agenda for most finance teams throughout this period and it seems that the actions taken to cut cost and 'do more with less' have really paid off.

People – fewer people, doing more

With cost control at the heart of many strategies this year, 57% of this year's regional participants reduced their headcount, resulting in an average scale-back of 1.2% across the 'all firms' headcount.

Partner numbers actually increased very slightly – most likely a mechanism to retain key individuals in the business – with fee earner and support team numbers falling by 1.5%.

So, with these adjustments to headcount, people costs must have fallen? Not so – average personnel costs grew by 3.4% overall and, with reduced numbers, the average cost per head increased by 4.1%. Why might this be?

The likely answer is a combination of factors; redundancy costs may have played some part but the bigger impact may have been year end results. In the early part of the pandemic, management teams were taking difficult decisions and planning for the worst – trimming headcount and negotiating reduced salaries and staff hours were common mechanisms employed. As time went on, firms gained more confidence in demand levels, cash collections and profitability, to the extent that many felt able to not just reinstate original salary levels, but also pay bonuses and make other rewards to their people.

It seems this was well warranted. Putting aside the hard work and resilience shown by many teams throughout this period, average fees per fee earner grew by 5% this year – was this a sign of spare capacity being utilised or an unsustainable one-off effort in a very unusual year?

With four-fifths of firms planning to increase fee earner numbers in the coming year, it appears to be the former and many firms are now focusing not just on numbers, but getting the right person in the right place.

Professional Indemnity Insurance (PII) – one-way traffic?

In a period where every cost has come under scrutiny, PII has proven to be the most challenging to keep a lid on. It is no secret that the market has been hardening for some time and this is clearly seen in this year's results.

The average all-firm increase reported by our regional firm participants was 25%, with PII climbing to an average of 3.6% of revenue, up from 2.8% last year.

How long will this trend continue? As premiums rise, they may reach a level where it becomes more attractive for additional underwriters to enter the market, increasing supply and cooling things back down.

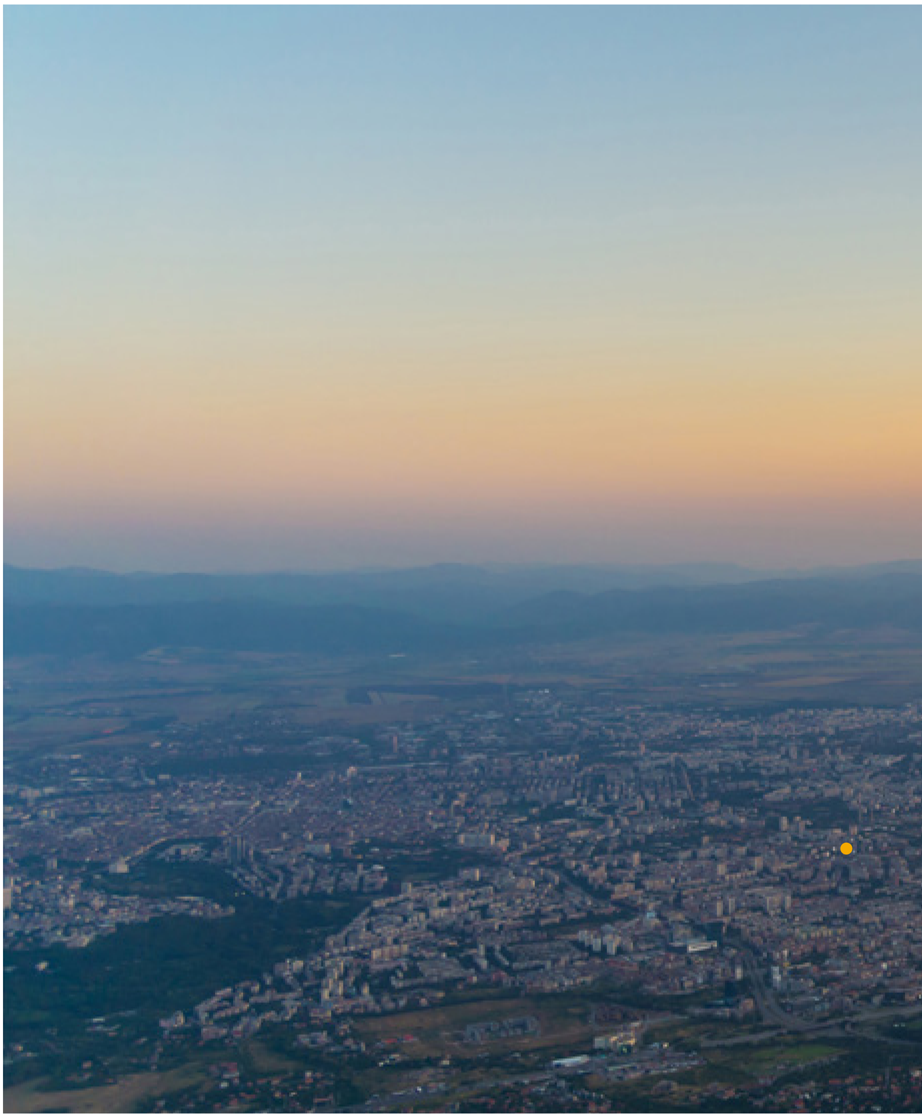
Time will tell, but with increasing cyber and fraud risk and the unknown potential claim environment arising from the pandemic period, we don't anticipate this cost will fall any time soon.

What next?

Some decent results this year are feeding into participants' optimism and confidence for the coming year – in terms of outlook for their firm at least; they are more cautious about the UK economy as a whole.

The pandemic brought about a huge change in working practices for most firms so it is no surprise that all participants plan to update their agile working policy in the coming year and focus on improving productivity and output. Around two-thirds of firms agree that "within five years, a much greater proportion of consumers' legal advice will be provided automatically using technology" but the same proportion consider that "the current benefits of Artificial Intelligence (AI) in law is overhyped". Adopting new technology will surely feature in most firms' plans for the mid-term.

In the near term, management teams recognise the ongoing importance of environmental sustainability, as almost two-thirds of regional firm participants plan to improve their impact here. We expect firms (and all businesses) to be challenged by their key stakeholders, such as staff and clients, on how they are making a difference – actions which will need genuine substance.



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The pandemic

Our benchmarking data was submitted by firms during Summer 2021; over 15 months since the beginning of the COVID-19 global pandemic. Every firm was impacted by this event to some extent, with many making big changes to their working practices, technology strategies and operational structures. So, what have we learned from the last 12 months?

Government support initiatives – a challenging dilemma

The Coronavirus Job Retention Scheme (also known as 'CJRS' or 'the furlough scheme') was created by the government as part of a suite of initiatives to support business and preserve jobs. Upon release, it proved to be a popular mechanism to assist with cashflow and was utilised by almost all of this year's regional participants and three-quarters of City firms.

As the year progressed and demand for legal services stabilised, there was much debate as to whether profitable firms should keep the 'furlough' monies they had claimed. A number of firms took the decision to make a voluntary repayment where they felt from a societal perspective that their level of profitability meant they should not be seen to have taken advantage of government support.

Of the City firms who used the scheme, around a third have since made a voluntary repayment. This compares with a fifth of regional firms who have either made a repayment, or plan to do so.

Whether to make a voluntary repayment is a matter for each individual firm and its leadership team to decide. However, one thing is clear – even when operating within the stated legal/regulatory requirements, leaders should still be prepared to explain their reasoning for key decisions, whether in relation to government support, diversity, sustainability or any other matter which has a social or environmental impact.

Remote and agile working

Almost all of this year's participants confirmed that the pandemic changed their remote working strategy and 70% considered it did so to a significant level. A key question is whether the impact of moving to greater remote working is viewed as positive or negative. The results are interesting.

With the exception of 'innovation', not one of our key operational areas was seen by the majority of participants as having been improved by greater remote working. Areas such as supervision, training and business development were all considered to be negatively affected by more than half of firms, with collaboration and teamwork following closely behind.

Of note, perhaps, is that 'output and productivity' was viewed as being positively impacted by 49% of firms with 'our people's motivation' also seen as being improved by remote working.

It seems that hybrid working will become the norm, balancing the need for face-to-face interaction where it matters most – client contact (two-thirds of firms still view this as essential), supervision, team building – with time for thinking and drafting carried out in a more agile manner. Almost all participating firms expect their people to be working remotely post-pandemic, with around 60% anticipating them to be spending up to half of their time away from the office.

Firms are concerned about the health and wellbeing of their people and most cite this as a high priority business risk, but there was an evenly split view on whether remote working has a positive or negative impact. Connecting with, and looking after, people in the office remains just as important as when they are working remotely.

Remote working has impacted our firm in the following way:

Key Performance Indicator	Negative	Neutral	Positive
Collaboration and teamwork	49%	32%	19%
Connection to our clients	35%	46%	19%
Output/Productivity	14%	37%	49%
Wellbeing of our people	38%	24%	38%
Our people's motivation	24%	33%	43%
Innovation	19%	27%	54%
Training and development	54%	41%	5%
Business development/winning new work	54%	38%	8%
Risk management and regulatory compliance	14%	64%	22%
Supervision	59%	36%	5%
Firm culture and alignment of values	41%	32%	27%

Recruitment and retention of talent

Attraction and retention of key individuals has remained a key feature of our benchmarking findings for the last few years and, despite cooling slightly in the regions this year, continues to be a high priority for many firms.

Has the pandemic shifted firms' recruitment strategies? Perhaps remote working has opened up new pools of available resource or a change in operational structure or brand has made the firm more attractive? Maybe not…70% of respondents tell us that they have not changed their recruitment strategy due to the COVID-19 situation. However, their existing strategies still make for interesting reading and are reasonably consistent between the City and regions.

Just under 40% of participants expect to recruit a large proportion of personnel who live near to, and work in, their offices. A similar proportion expect to recruit from a wider geographical area around their office who can work remotely. Being near to the base of operations is still seen as an important recruitment factor.

When it comes to the main drivers which attract and retain talented personnel, firms have found that baseline salary continues to be needed as a 'ticket to the game' with the firm's culture and values also considered important to potential recruits. Just over a third of firms report that work/life balance is a key driver with a similar proportion citing the firms' brand and reputation.

From your recent recruitment/hiring experience, what do you understand to be the main drivers which attract and retain talented personnel?

	City firms	Regional firms	All
Baseline salary	40%	65%	51%
Holiday entitlement	45%	47%	46%
Move premises	30%	41%	35%
Firm brand and reputation	35%	29%	32%
Clear progression pathway	15%	35%	24%
Flexible/Agile working policy	25%	29%	27%
Client and experience opportunity	25%	12%	19%
Bonus/Profit share scheme	15%	12%	14%
Expand our geographical footprint within the UK	10%	6%	8%
Clarity of firm vision and strategy	10%	0%	5%
Job security	5%	6%	5%
Change our capital/debt funding structure	0%	6%	3%

Looking forward

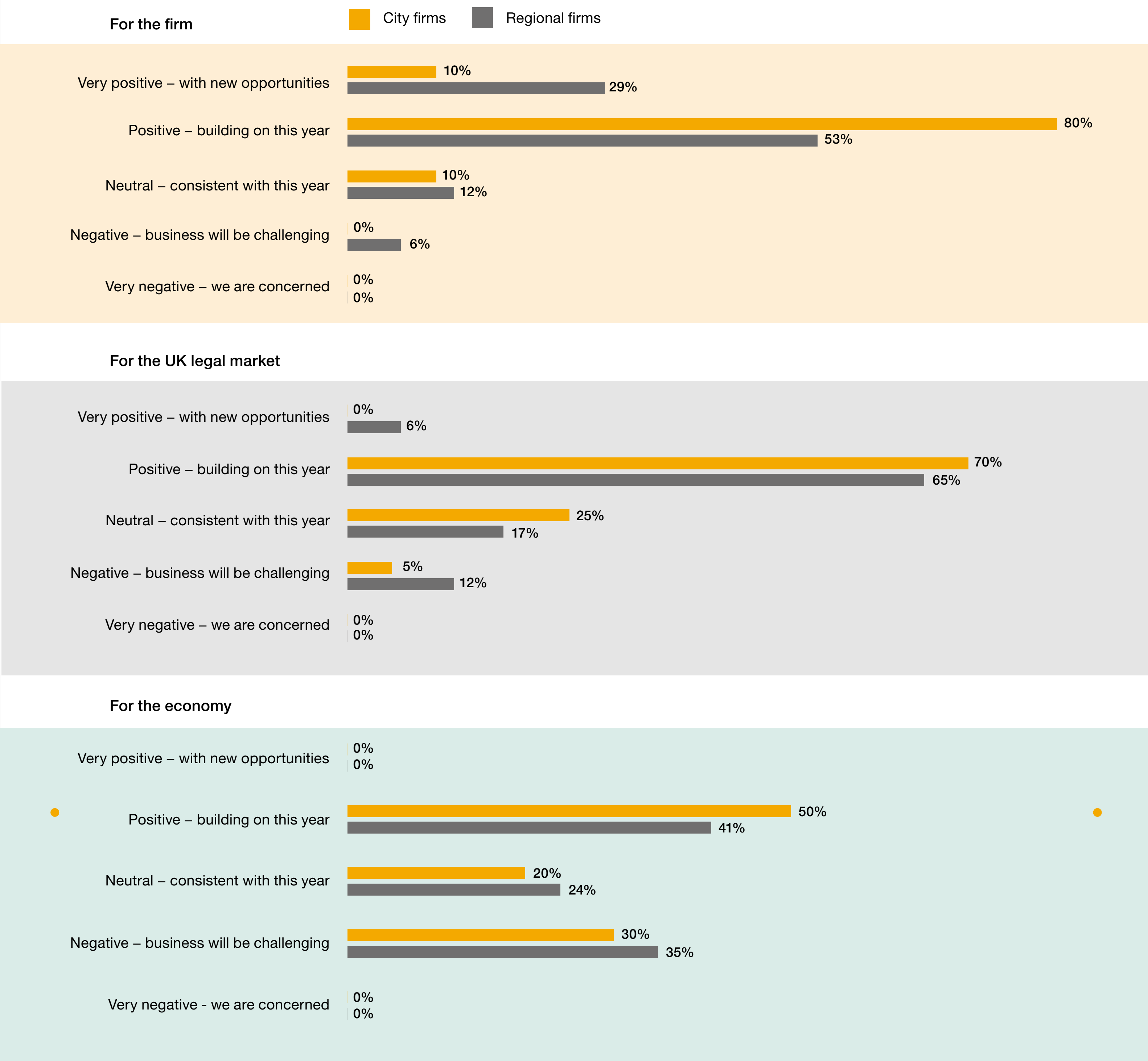
Many will have hoped the period of uncertainty caused by COVID-19 would now be behind us. However, UK businesses continue to battle with a tail of pandemic disruption in everything from supply chains and labour supply, to inflation and ongoing travel restrictions. Are firms concerned or optimistic for the future? Where do they see their key business risks and what are their views on some of the big influences facing the sector in the mid-term? The feedback makes for interesting reading…

Business confidence

In a now familiar pattern, firms generally have a more positive outlook for their firm and the UK legal sector than they do for the UK economy as a whole (although we also find that there is less pessimism regarding the economy than we saw this time last year). It appears that this year's results and current demand levels are giving greater confidence that 2021/22 will create opportunities for law firms.

This is a reasonable assumption. Many firms have benefitted from honing their operations and managing partners and finance teams regularly tell us that they are more confident they are running a leaner, more competitive practice which is ready to 'step change' in the coming years.

Our outlook for the coming year is…



Business risks

People matters remain a priority business risk for all firms, although this year we see a switch in emphasis, from retention of talent back to emerging concerns over the availability of people with the right skillset. This, together with increased business confidence, suggests firms are returning to a growth mindset having stabilised themselves through the pandemic.

Cybercrime and fraud resilience still feature highly and almost two-thirds of regional participants consider this risk to be business critical, a proportion which falls to just under half of this year's City firms. Management teams are rightly focusing on this area – fraud, and cybercrime in particular, continues unabated with attacks on law firms increasingly making the press.

Credit risk has fallen in priority for some firms, no doubt buoyed by a degree of relief that cash collections have held up well throughout the pandemic when many finance teams had legitimate concerns that delinquent debt would skyrocket. With ongoing supply chain issues, inflation and a funding market reacting to the impact of government supported loans, it remains important to be alert to credit risk and any changes in debt ageing profiles.

Business risk	Percentage of participants who considered this to be a high priority risk			
	Change from last year	All	City firms	Regional firms
Availability of people and the skills we need	+2	100%	100%	100%
Retention of our key people	-1	100%	100%	100%
Health and wellbeing of our people	-1	97%	95%	100%
Cybercrime and fraud resilience	0	94%	95%	94%
Data integrity and protection	+1	94%	100%	88%
Training and developing our people	+1	91%	95%	88%
Leadership and management capability	-2	89%	89%	88%
SRA regulatory compliance	0	88%	89%	88%
IT infrastructure	0	86%	95%	75%
Succession planning	0	85%	84%	87%
Capability to effectively implement projects	0	77%	79%	75%
Increased competition in the market	+2	51%	58%	44%
Emergence of new pricing models	0	44%	47%	40%
Credit risk in our client base	-2	35%	56%	13%
Availability of funding	0	29%	37%	19%
The impact of Brexit	0	14%	26%	0%

Plans for the immediate future

So, what is on the 'to do' list for the coming 12 to 18 months?

Topping the list is the update of agile working practices, with around three-quarters of participants placing this as an action for the coming year. With many 'emergency' policies implemented during the pandemic, firms will now be finding out more about what their people, their clients and their contacts need from this new working environment.

It is interesting to see that 'improving working capital management and reducing risk' features highly, particularly for City firms. With firms telling us they are a little more relaxed about credit risk this year, it seems that they still see an opportunity to make their working capital structure more efficient and reduce credit risk further; a strategy with no real drawbacks.

Also noteworthy is that all of the regional firm participants tell us they will focus on productivity and output in the coming year. Perhaps the pandemic has been a catalyst to review processes and output or the increased profitability levels from static revenue this year has triggered a rethink in strategy to maximise bottom line?

Firms' plans for the next 12 to 18 months	Percentage of participants		
	All	City firms	Regional firms
Update our existing agile working policy	76%	55%	100%
Focus on improving lockup and reducing credit risk	68%	70%	65%
Focus on improving productivity/output	68%	40%	100%
Improve our environmental sustainability impact	51%	40%	65%
Invest in our foundation IT infrastructure	49%	40%	59%
Invest in advanced technology solutions (AI, document automation, data analytics)	49%	40%	59%
Increase our merger/acquisition activity	43%	20%	71%
Change our partner/leadership remuneration model	41%	35%	47%
Focus on cost reduction	38%	30%	47%
Change our practice management and/or finance system	27%	20%	35%
Change our employee remuneration and benefit structure	27%	5%	53%
Change our ownership structure	24%	15%	35%
Introduce an agile working policy	22%	20%	24%
Expand our geographical footprint within the UK	19%	10%	29%
Expand the number of legal services we offer	19%	10%	29%
Bring in a new specialist service line or team	14%	10%	18%
Focus on hiring 'non-legal' personnel (e.g. IT specialists, business development, data scientists)	11%	5%	18%
Expand our service offering with (more) non-legal services	11%	0%	24%
Expand our operation overseas	5%	5%	6%
Outsource fee earning activities	5%	5%	6%
Reduce and refocus our number of service lines	5%	0%	12%

…and what about the legal services world generally?

This year, we thought it would be interesting to throw out some statements around big issues in the sector and see whether firms agreed or not.

Do you agree with the following statements?

	All
Price competition in the legal sector will increase significantly	80%
The partnership model will remain fit for purpose for the majority of firms	73%
Brand plays a significant part in winning new clients	73%
The ability of people to work from any location will reduce geographic pay differentials, such as London Weighting	65%
The current benefits of Artificial Intelligence (AI) in law is overhyped	63%
Within five years, a much greater proportion of consumers' legal advice will be provided by technology	63%
The majority of 'thinking' and 'drafting' time will be done outside the office	60%
The number of lawyers choosing to work (semi) independently within a virtual/ umbrella law firm will noticeably increase in the coming years	55%
There will be significant consolidation in the UK legal market within the next five years	50%
The appetite for equity partnership in younger team members has decreased over the last few years	45%
The Solicitor's Qualifying Exam (SQE) is an improvement on the traditional LPC route to qualification	45%
Face to face client meetings are no longer essential	35%
The regulatory environment promotes access to legal advice to those who need it	30%
Lawyers are good at scoping and pricing work	13%
Listed law firms will become a dominant force in the near future	10%
Attracting external investment (outside of partner capital) will be key to future law firm success	10%

When it comes to competition in the legal market, around three-quarters of participating firms believe that strength of brand will be a significant factor in winning new clients. Many firms have accelerated their thinking on the kind of firm they want to be in the mid-term and recent social movements, work/life expectations and operational changes will undoubtedly be a catalyst to redefine purpose, values and brand alignment.

Increasing price competition has been on firms' radar for a while now and, once again, 80% of participants think price competition will increase significantly. An interesting challenge presents itself here though, as only 13% of firms consider lawyers to be good at scoping and pricing work. It sounds like there is work to be done in developing clear pricing models and upskilling teams to deliver them.

Despite recent IPOs and emerging 'new law' models, the majority of participants believe the partnership model will remain fit for purpose for most firms. LLPs are here to stay – at least in the short term. While just one-in-ten respondents think listed firms will become a dominant force in the near future, there is a more contentious 50:50 split in opinion whether there will be significant consolidation in the UK legal market within the next five years. There are certainly more M&A conversations taking place than a few years ago.

We think one thing is certain. The UK legal service sector is a diverse place where a range of different business models will co-exist. The pace of change may well increase over the next 12-36 months, accelerated by what has been started and achieved since the pandemic took hold. Law firm leaders will need to be continuously horizon scanning for emerging themes and new developments, while also taking the temperature of their people and their clients to ensure the firm remains an attractive place to do business.

Our Professional Practices team

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