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# Law Firm Benchmarking 2022

## Your snapshot of performance

Sample

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Audit / Tax / Advisory / Risk

# Your snapshot of performance for 2022

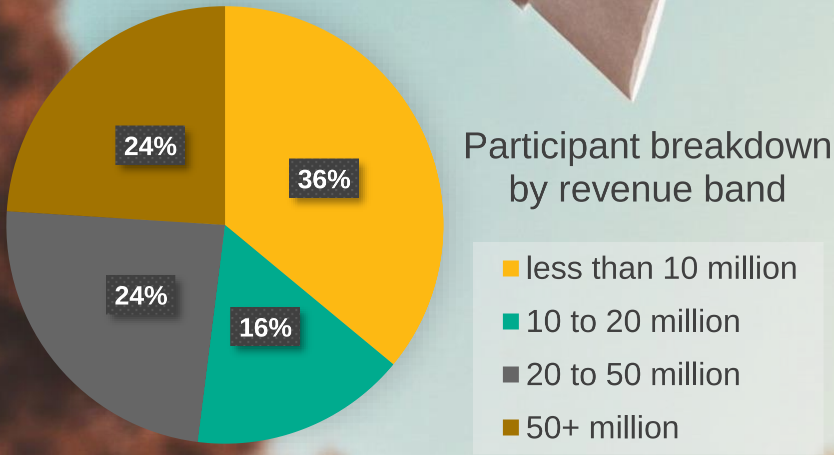
In partnership with ilfm The Institute of Legal Finance & Management

**Our Law Firm Benchmarking is based primarily on data submitted by participants with financial years ending in early 2022. The results provide a snapshot of UK legal sector performance as we moved into a 'post-pandemic' world.**

This short report provides a comparison of your submitted results against those 'Regional' and City-based firms who took part in our 2022 Benchmarking survey.

We hope you find that the results provide a useful catalyst for discussion and ideas, such as:

- Does this result surprise us?
- Is this trend expected and consistent with our overall strategy?
- Is this a short-term or a long-term trend for us?
- Do we need to change this?




If you would like to discuss any aspect of your benchmark report further, please get in touch.

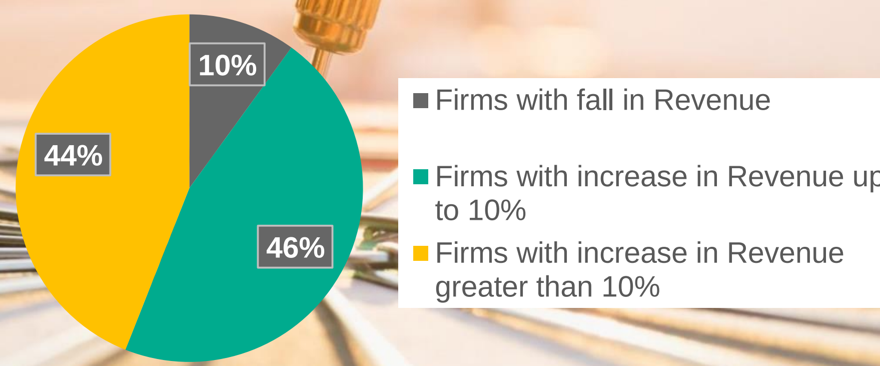
# Revenue

**Our 2022 results show aggregate revenue growth of 12.3% across the all-participant population, more than doubling the 5.9% increase we saw in last year's 2021 Benchmarking. Post-pandemic demand for legal services was high.**

It is the regional firms who led the way this year. Aggregate revenue growth across City firm participants was 11.4%, with regional firms coming in at an impressive 14.1%.

| Average revenue growth overall | City firms | Regional firms |
| --- | --- | --- |
| **12.3%** growth | **11.4%** growth | **14.1%** growth |

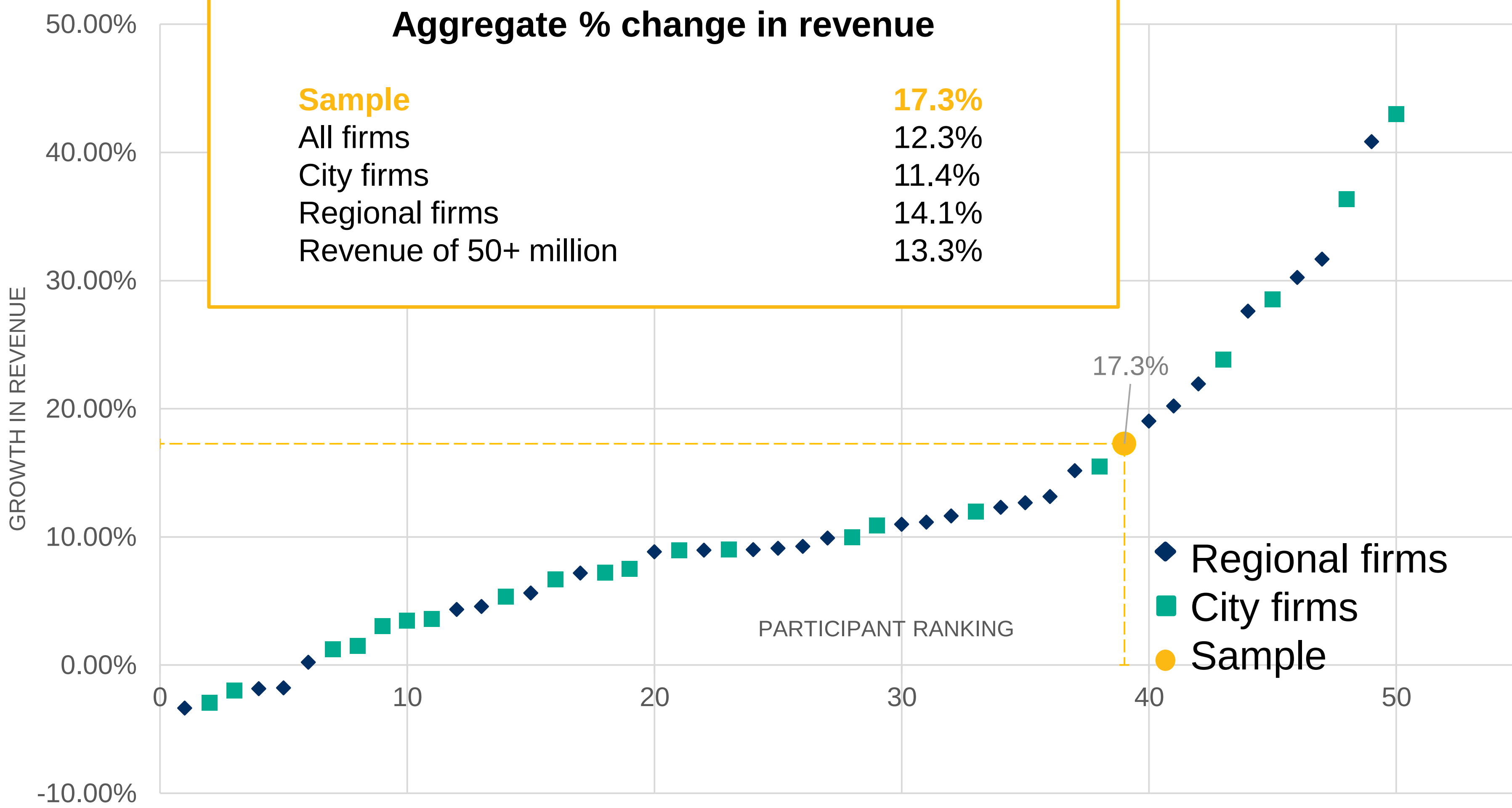
With over a third of City firms reporting growth in excess of 10% and a half of regional firms doing the same, it is also encouraging to see that the proportion of firms with shrinking revenues fell to just 1 in 10 – the lowest we have seen in recent years.



# Revenue growth

**Aggregate % change in revenue**

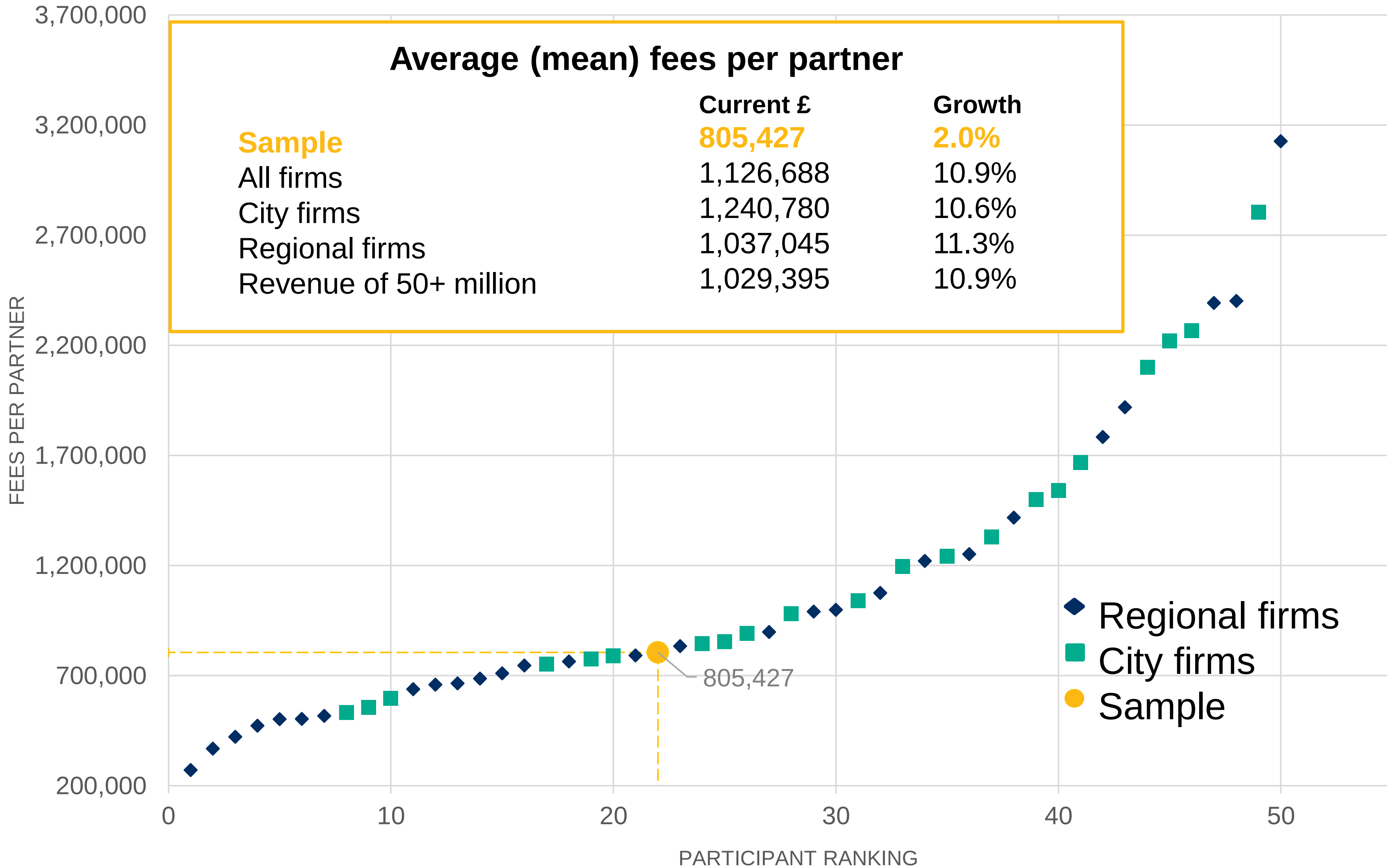
| | |
|---|---|
| **Sample** | **17.3%** |
| All firms | 12.3% |
| City firms | 11.4% |
| Regional firms | 14.1% |
| Revenue of 50+ million | 13.3% |



# Revenue – fees per partner

### Average (mean) fees per partner

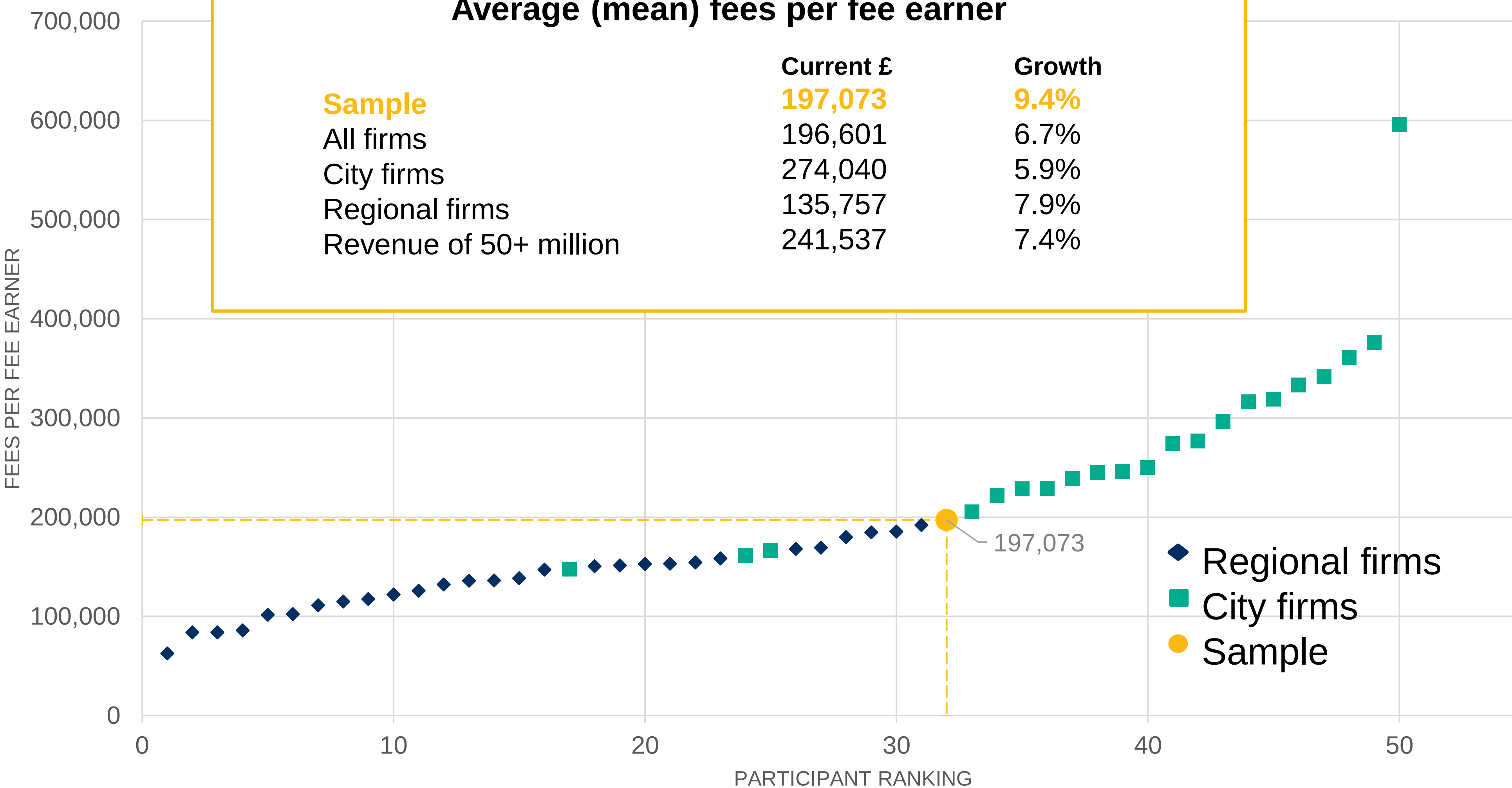
| | Current £ | Growth |
|---|---|---|
| Sample | 805,427 | 2.0% |
| All firms | 1,126,688 | 10.9% |
| City firms | 1,240,780 | 10.6% |
| Regional firms | 1,037,045 | 11.3% |
| Revenue of 50+ million | 1,029,395 | 10.9% |



# Revenue – fees per fee earner

### Average (mean) fees per fee earner

| | Current £ | Growth |
|---|---|---|
| **Sample** | **197,073** | **9.4%** |
| All firms | 196,601 | 6.7% |
| City firms | 274,040 | 5.9% |
| Regional firms | 135,757 | 7.9% |
| Revenue of 50+ million | 241,537 | 7.4% |



# Profitability

**Many firms were, again, pleasantly surprised with their results this year. Stronger demand, coupled with efficiency and cost cutting measures implemented throughout the pandemic period has boosted year end profit pools for many.**

This year, just over two-thirds of participating firms grew their profit pools (77% of City and 61% of regional firms). City firms led the way, with greater percentage increases in overall profit pools (15% on average vs 11.5% in the regions) and, more notably, in Profit per Equity Partner (PEP) metrics.

**How did your results compare with your expectations?**

| | Central London | Regional | All |
|---|---|---|---|
| Greatly exceeded our expectations | 19% | 18% | 19% |
| Slightly exceed our expectations | 38% | 36% | 37% |
| Were as expected | 33% | 32% | 33% |
| Were slightly below expectations | 10% | 14% | 12% |
| Were significantly below expectations | 0% | 0% | 0% |

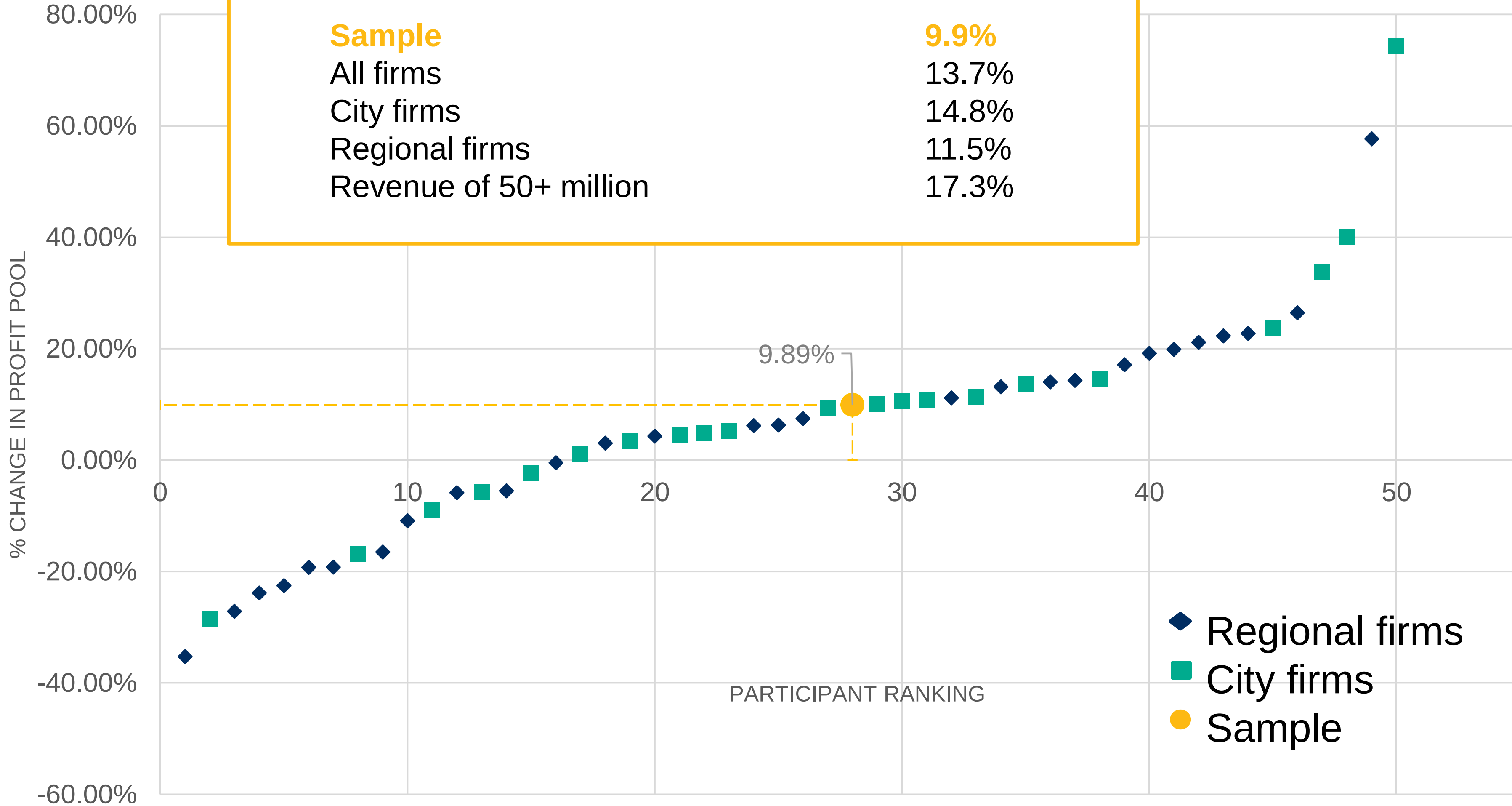
Some regional firms faced more pressure on profitability – perhaps the effect of 'furlough' grants in the prior year helped to bolster the 2021 bottom line for some.

Overall, it appears to have been a decent year for many firms with over half of participants stating their results exceeded their expectations.

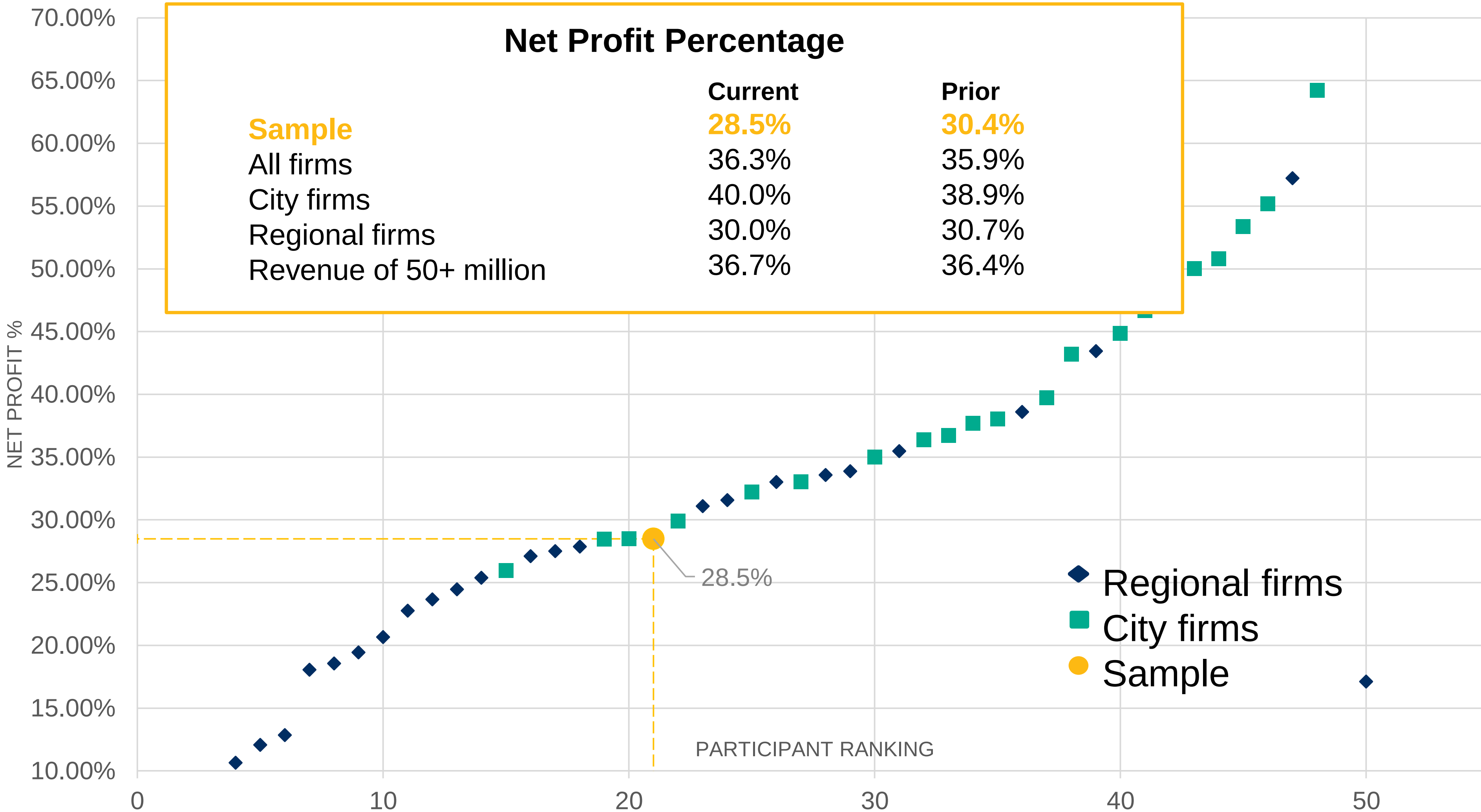
# Change in the overall profit pool

**Change in average (mean) total profit pool**

| | |
|---|---|
| **Sample** | **9.9%** |
| All firms | 13.7% |
| City firms | 14.8% |
| Regional firms | 11.5% |
| Revenue of 50+ million | 17.3% |



# Profitability – net profit percentage

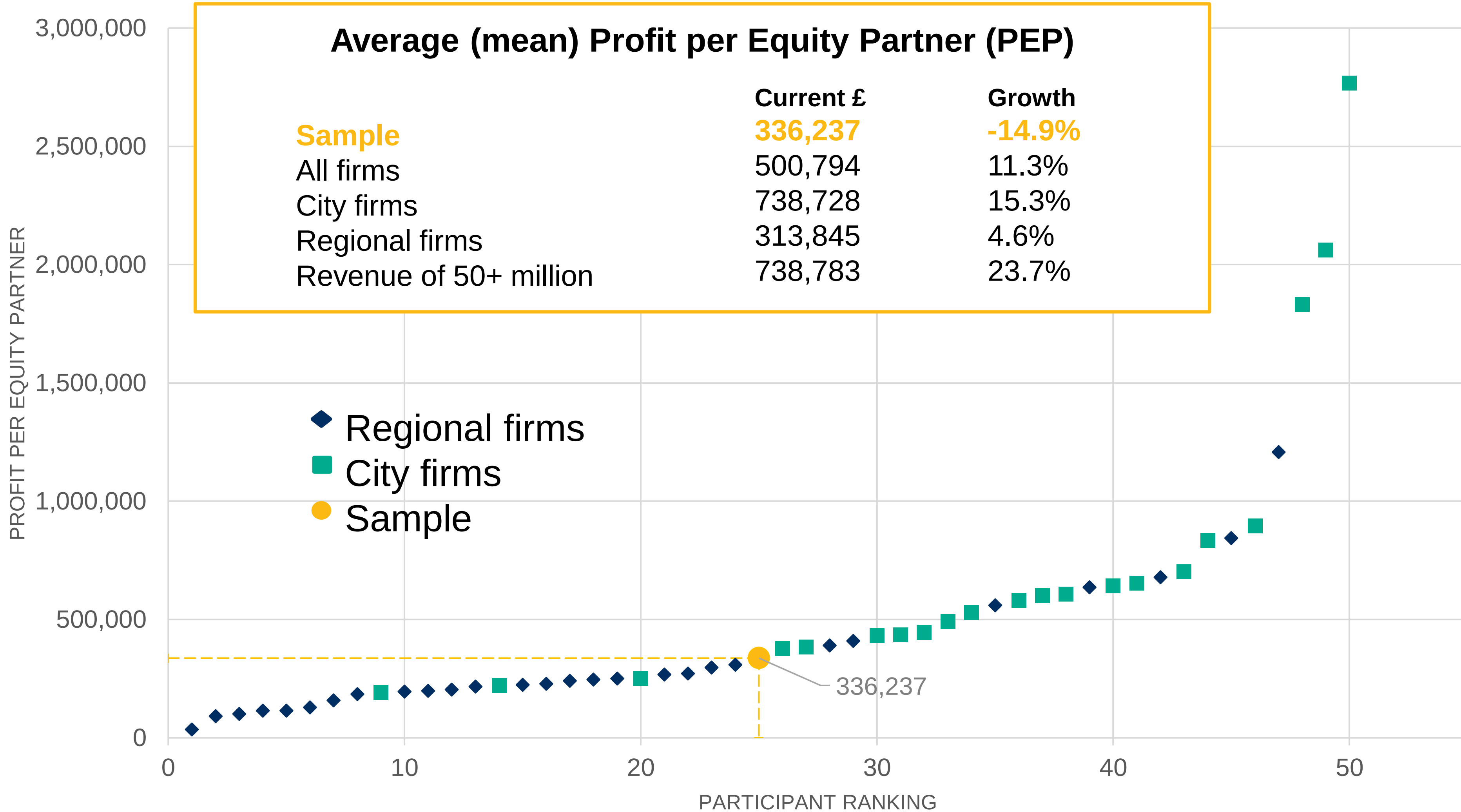



| | Current | Prior |
|---|---|---|
| Sample | 28.5% | 30.4% |
| All firms | 36.3% | 35.9% |
| City firms | 40.0% | 38.9% |
| Regional firms | 30.0% | 30.7% |
| Revenue of 50+ million | 36.7% | 36.4% |

# Profitability – Profit per Equity Partner

**Average (mean) Profit per Equity Partner (PEP)**

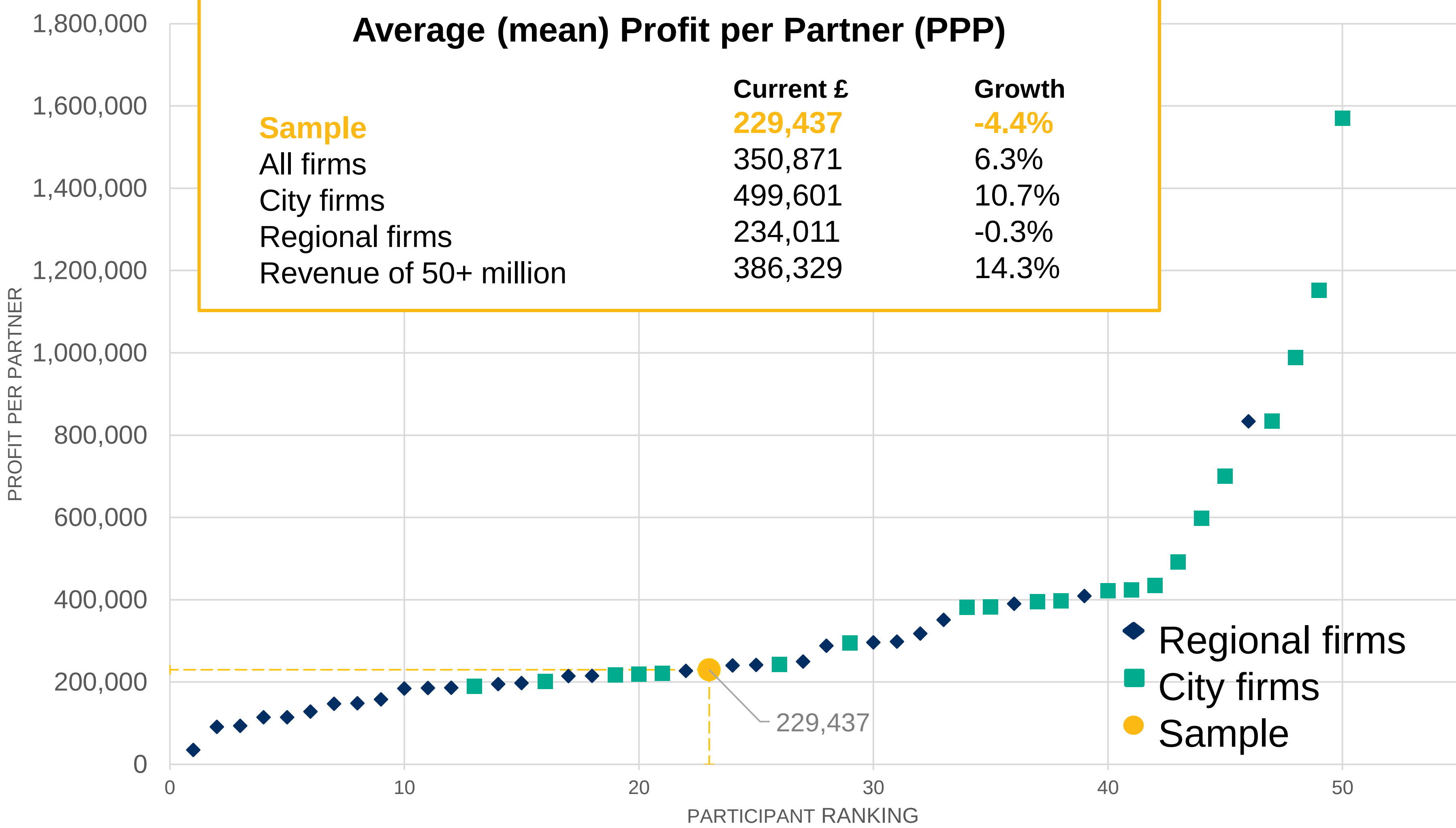
| | Current £ | Growth |
|---|---|---|
| **Sample** | **336,237** | **-14.9%** |
| All firms | 500,794 | 11.3% |
| City firms | 738,728 | 15.3% |
| Regional firms | 313,845 | 4.6% |
| Revenue of 50+ million | 738,783 | 23.7% |



# Profitability – Profit per Partner

**Average (mean) Profit per Partner (PPP)**

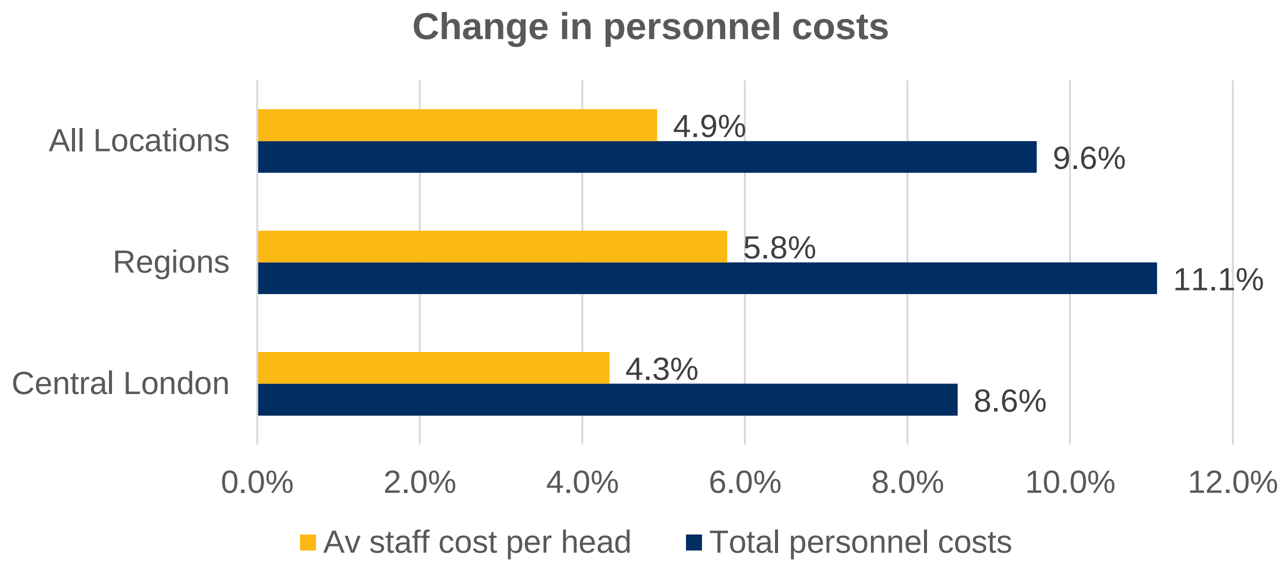
| | Current £ | Growth |
|---|---|---|
| **Sample** | **229,437** | **-4.4%** |
| All firms | 350,871 | 6.3% |
| City firms | 499,601 | 10.7% |
| Regional firms | 234,011 | -0.3% |
| Revenue of 50+ million | 386,329 | 14.3% |



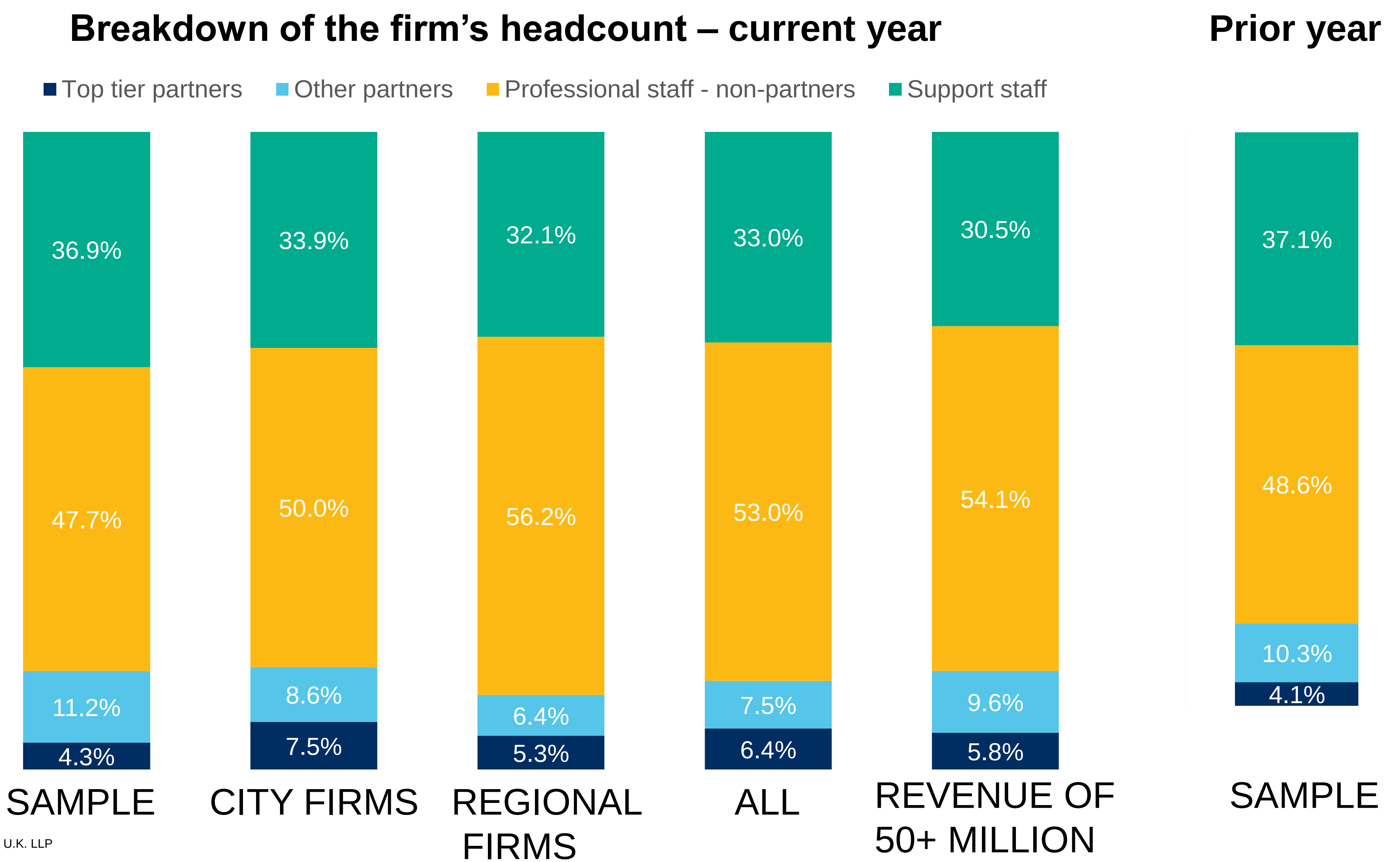
# People and efficiency

**A 4.2% increase in headcount across all participating firms, coupled with average salary increases of around 5%, resulted in a near 10% increase in people costs. City firm participants experienced less salary pressure than their regional counterparts.**

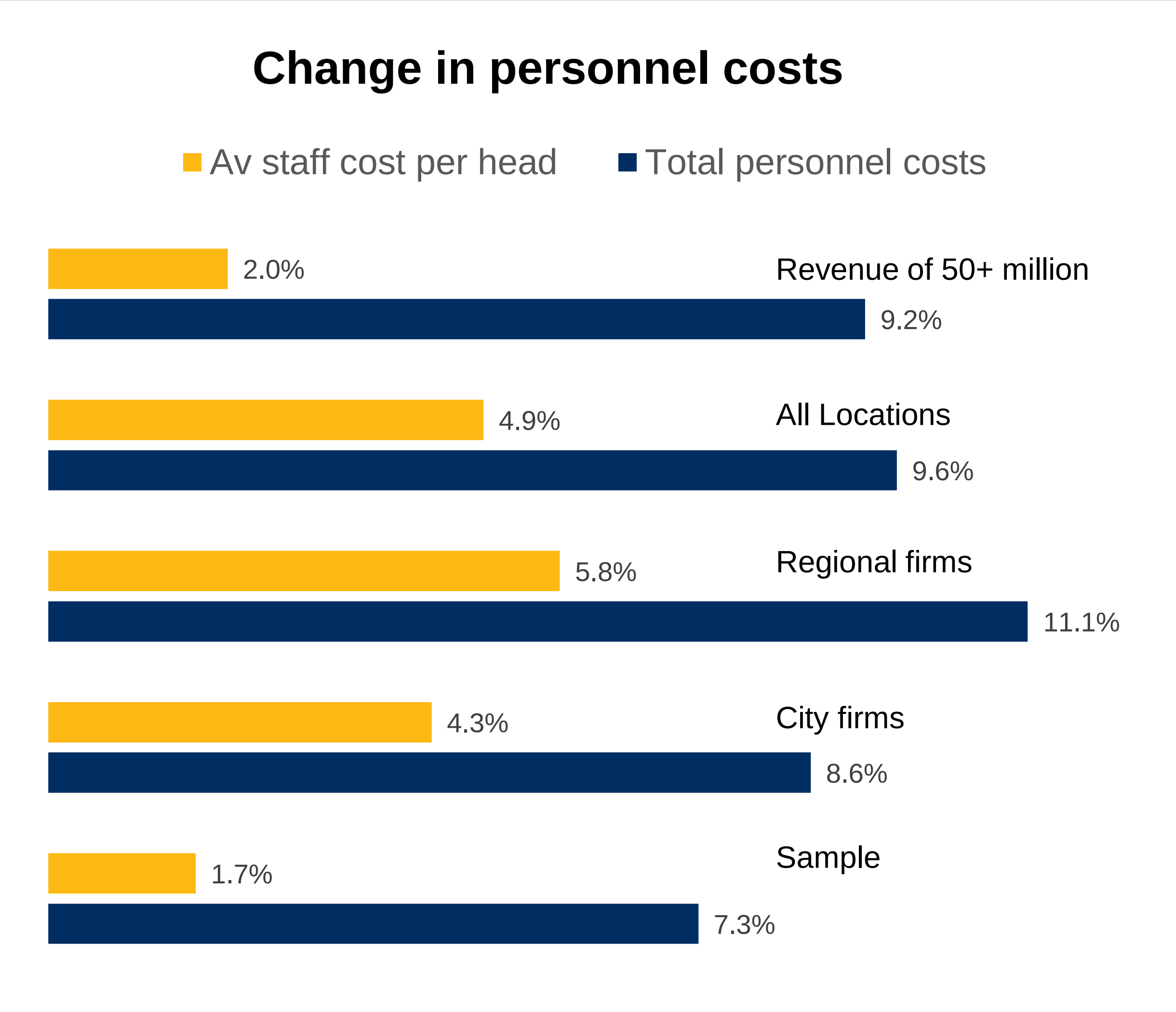
In terms of the 'people mix', regional firms added just over 3 fee earner heads for every new support staff member, where the proportion was much closer in City firms at around 1.5 fee earner hires per support staff hire. Notably, there appears to be little activity in terms of growing partner numbers in the regions this year.

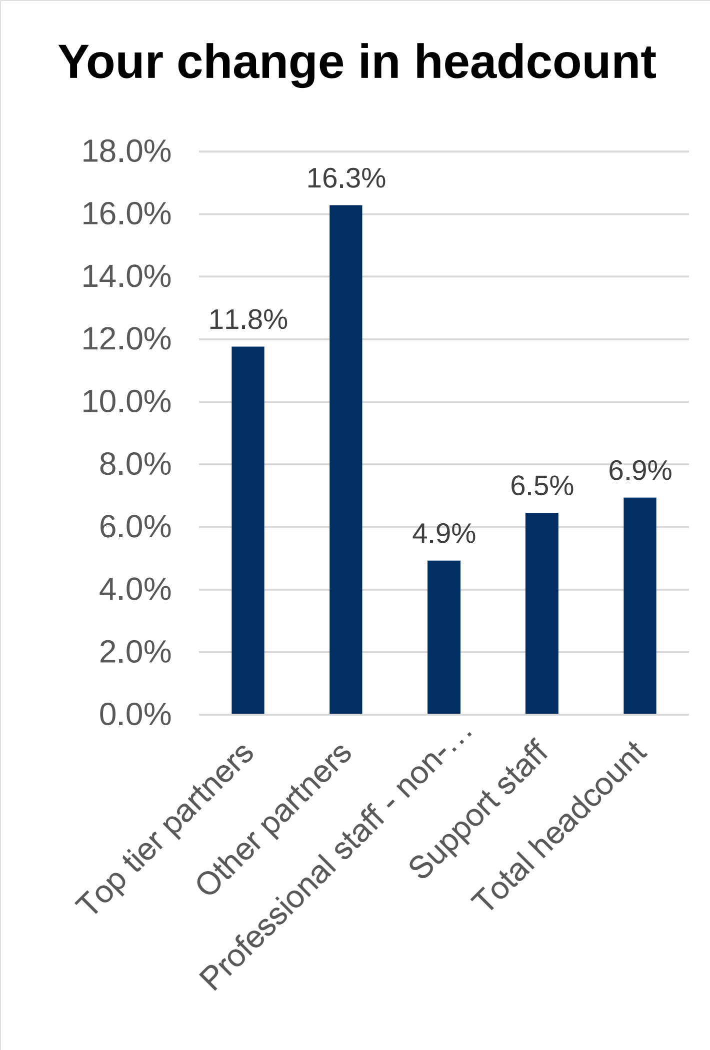



# People and efficiency – team breakdown



# People and efficiency – change in cost base

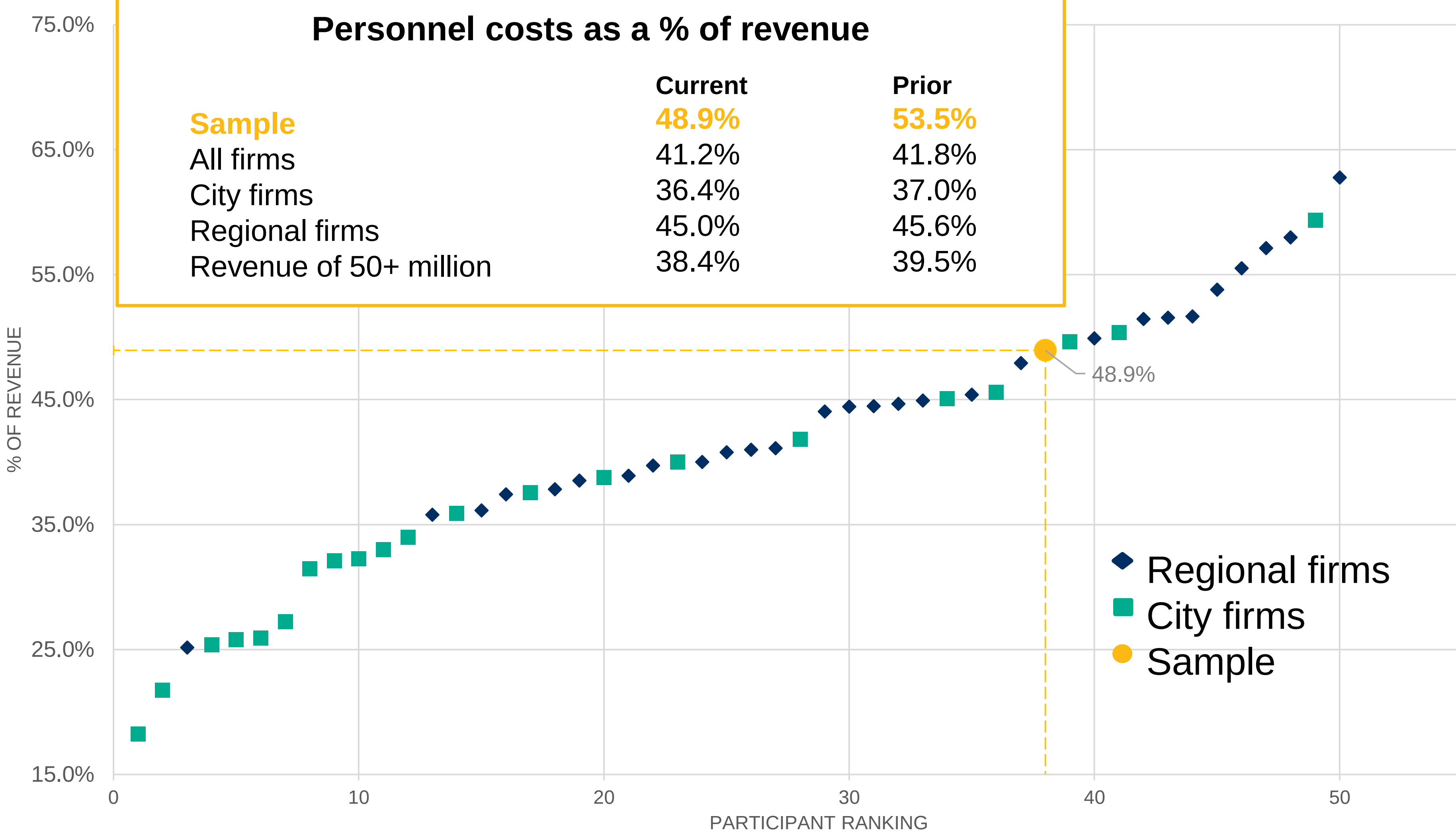


# People and efficiency - costs as a % of revenue

### Personnel costs as a % of revenue

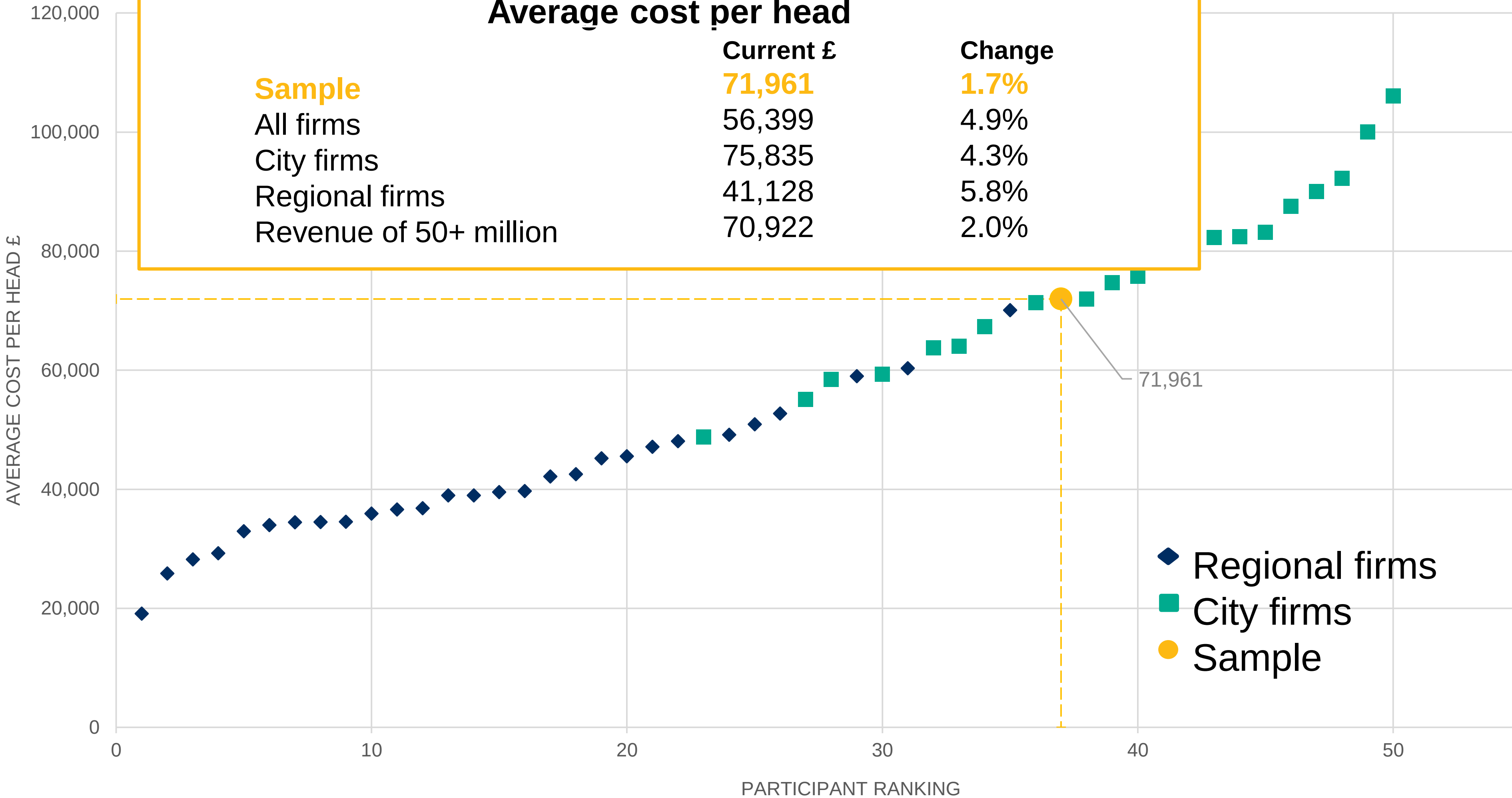
| | Current | Prior |
|---|---|---|
| Sample | 48.9% | 53.5% |
| All firms | 41.2% | 41.8% |
| City firms | 36.4% | 37.0% |
| Regional firms | 45.0% | 45.6% |
| Revenue of 50+ million | 38.4% | 39.5% |



# People and efficiency – average cost per head

**Average cost per head**

| | Current £ | Change |
|---|---|---|
| **Sample** | **71,961** | **1.7%** |
| All firms | 56,399 | 4.9% |
| City firms | 75,835 | 4.3% |
| Regional firms | 41,128 | 5.8% |
| Revenue of 50+ million | 70,922 | 2.0% |



# People – change in fees per fee earner

### Average (mean) fees per fee earner

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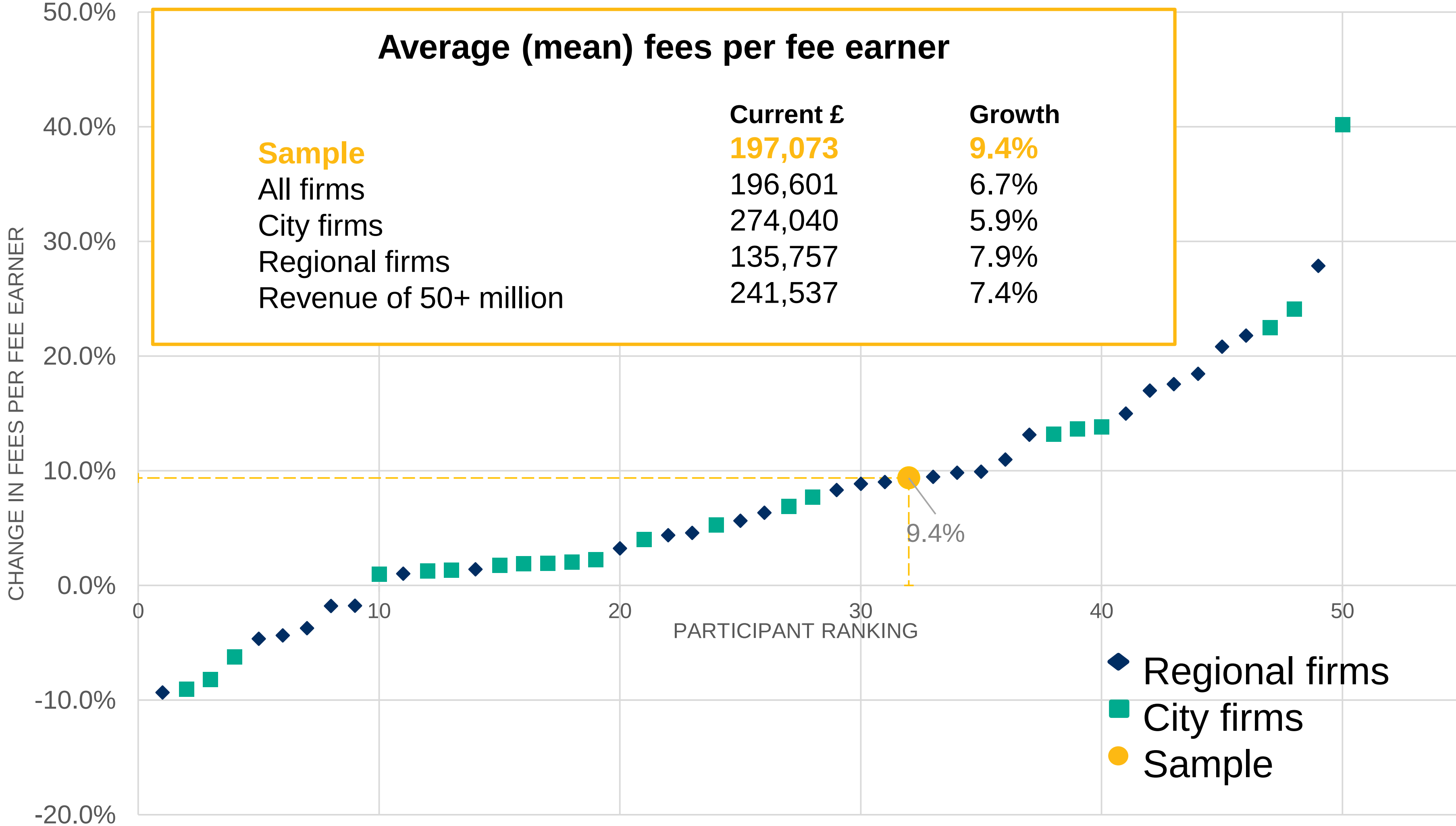


# Working capital management

**Last year we reported that just over two-thirds of firms planned to focus on improving lock-up and reducing their credit risk – and they succeeded, with regional firms reducing overall lockup by seven days and City firms by one day.**

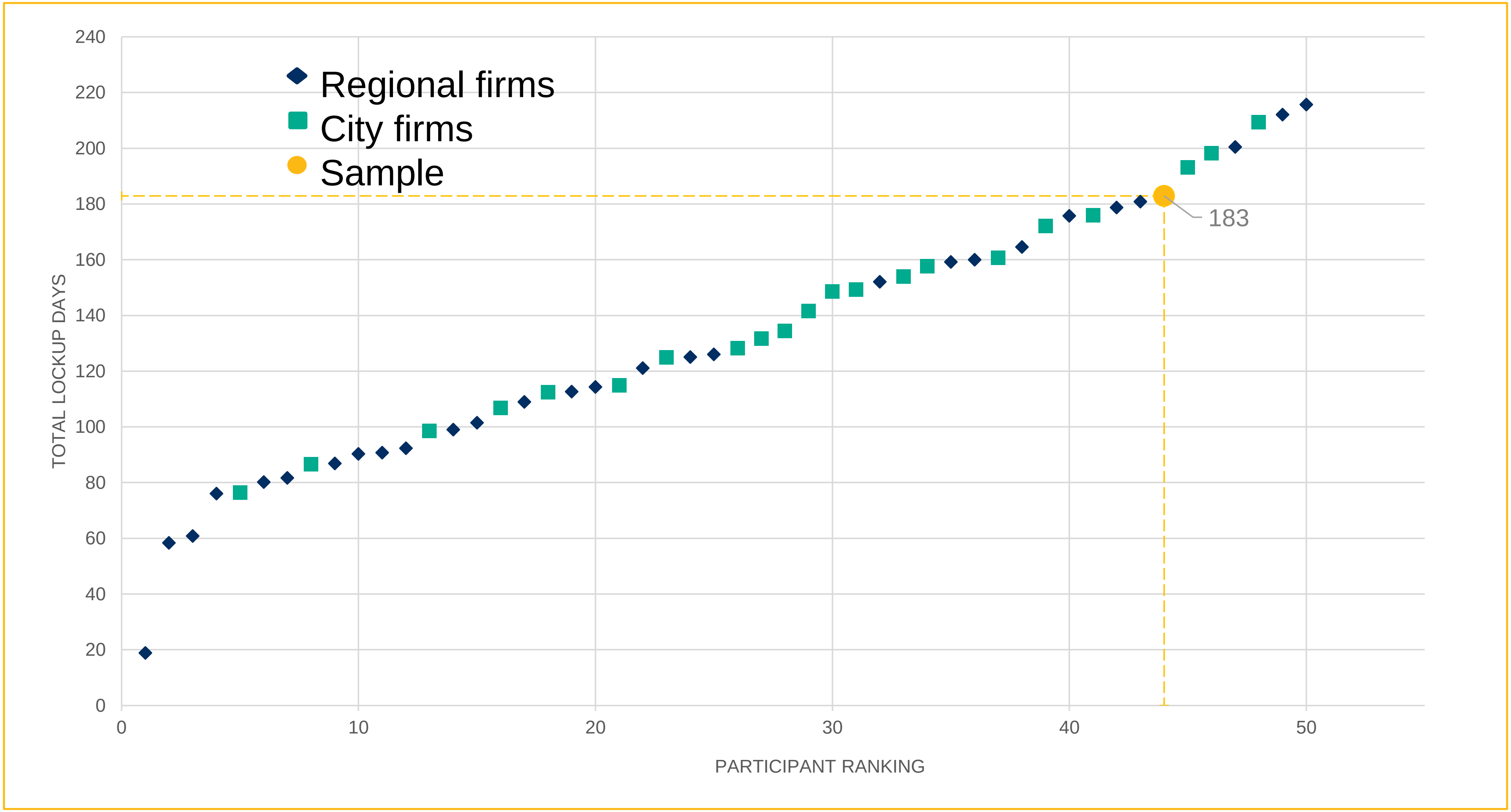
Looking forward, many participating firms have a negative outlook for the UK economy and are even more concerned about credit risk this year. The proportion of firms planning to focus on improving lockup in the coming 12-18 months has now risen to almost 80% of respondents.

Given an ever-rising cost base which ultimately feeds into charge rates and billing, firms will experience a pressure on working capital if lock-up isn't monitored and managed effectively.

**We are considering potential pay increases in the coming year of…**

| | Central London | Regional | All |
|---|---|---|---|
| 10%+ | 10% | 0% | 5% |
| 7.5% - 10% | 33% | 25% | 29% |
| 5% -7.5% | 24% | 20% | 22% |
| 2.5% -5% | 24% | 25% | 24% |
| 0 - 2.5% | 10% | 30% | 20% |

# Working capital management – lock-up days

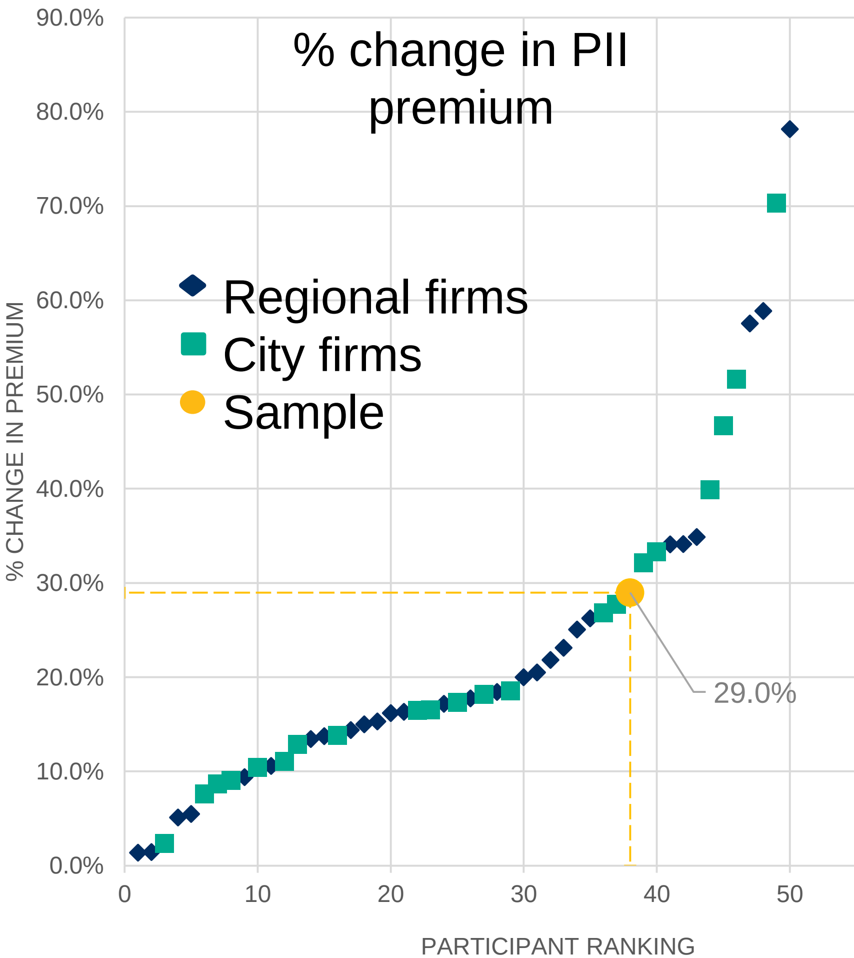


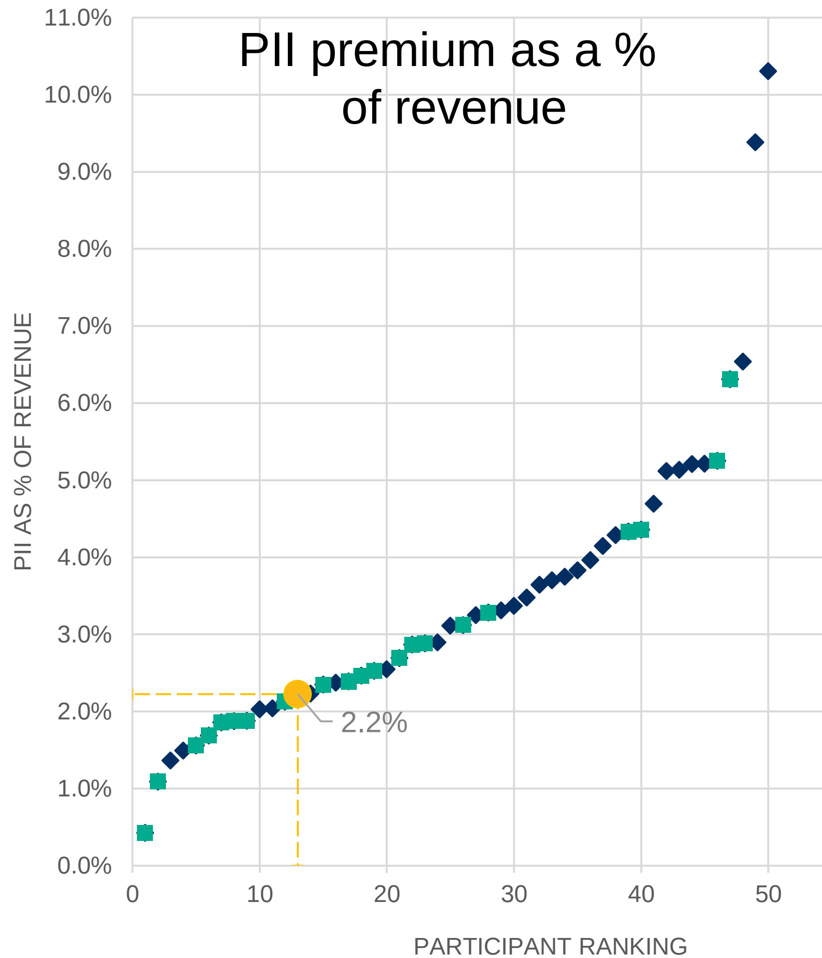
# Risk management

People matters continue to top the list of high priority risks for most firms, with training and development coming into greater focus this year. Firms remain relatively unconcerned about the availability of funding, although a greater proportion deem it a higher priority than this time last year.

| Business Risk | Change from last year | % of participants who considered this to be a high priority risk: All | *City* | *Regions* |
|---|---|---|---|---|
| Availability of people and the skills we need | 0 | 100% | *100%* | *100%* |
| Retention of our key people | 0 | 100% | *100%* | *100%* |
| Health and wellbeing of our people | 0 | 100% | *100%* | *100%* |
| Training and developing our people | 2 | 100% | *100%* | *100%* |
| Cybercrime and fraud resilience | -1 | 97% | *100%* | *95%* |
| Data integrity and protection | -1 | 95% | *94%* | *95%* |
| IT infrastructure | 2 | 89% | *89%* | *90%* |
| Leadership and management capability | -1 | 89% | *88%* | *90%* |
| SRA regulatory compliance | -1 | 89% | *100%* | *80%* |
| Capability to effectively implement projects | 1 | 89% | *88%* | *90%* |
| Succession planning | -1 | 84% | *88%* | *80%* |
| Increased competition in the market | 0 | 51% | *53%* | *50%* |
| Credit risk in our client base | 1 | 46% | *47%* | *45%* |
| Emergence of new pricing models | -1 | 43% | *35%* | *50%* |
| Availability of funding | 0 | 37% | *33%* | *40%* |
| Other | 0 | 0% | *0%* | *0%* |

# Risk – Professional indemnity insurance



# Where next?

**Managing credit risk continues to take a lead focus, but this year there is a notable increase in the number of firms working on improving their environmental sustainability impact**

### Plans for the next 12 to 18 months

| | All | Central London | Regions |
|---|---|---|---|
| Focus on improving lockup and reducing credit risk | 79% | 74% | 85% |
| Improve our environmental sustainability impact | 69% | 63% | 75% |
| Focus on improving productivity/output | 67% | 58% | 75% |
| Invest in our foundation IT infrastructure | 62% | 68% | 55% |
| Update our people development strategy | 56% | 53% | 60% |
| Update our existing agile working policy | 56% | 53% | 60% |
| Invest in advanced technology solutions (AI, document automation, data analytics) | 49% | 42% | 55% |
| Focus on cost reduction | 33% | 11% | 55% |
| Change our employee remuneration and benefit structure | 28% | 11% | 45% |
| Expand the number of legal services we offer | 23% | 21% | 25% |
| Increase our merger/acquisition activity | 21% | 11% | 30% |
| Move premises | 18% | 5% | 30% |
| Change our practice management and/or finance system | 18% | 16% | 20% |
| Focus on hiring 'non-legal' personnel (e.g. IT specialists, business development, data scientists) | 18% | 11% | 25% |
| Change our pricing model | 18% | 0% | 35% |
| Bring in a new specialist service line or team | 18% | 21% | 15% |
| Expand our service offering with (more) non-legal services | 15% | 11% | 20% |
| Change our capital/debt funding structure | 15% | 16% | 15% |
| Expand our geographical footprint within the U.K. | 15% | 0% | 30% |
| Change our partner/leadership remuneration model | 13% | 5% | 20% |
| Change our ownership structure | 10% | 5% | 15% |
| Outsource back office activities | 10% | 0% | 20% |
| Expand our operations overseas | 8% | 11% | 5% |
| Outsource fee earning activities | 5% | 0% | 10% |
| Improve our efficiencies | 3% | 0% | 5% |
| Reduce and refocus our number of service lines | 3% | 0% | 5% |
| Introduce an agile working policy | 0% | 0% | 0% |

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In partnership with

The Institute of Legal Finance & Management

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Our Professional Practices team advises law firms of all sizes on their growth plans, always tailoring our advice to best suit their needs.

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## How we help law firms

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Outsourcing

Law firm partners' personal tax

Personal financial planning

Ongoing training and support

For more information on how we can help your firm please contact us at:
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