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LPM

LEGAL PRACTICE MANAGEMENT



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SME law firms around the nation have spoken. What challenges will shift the legal landscape in the next few years?

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The SME sector is in a state of upheaval – we all recognise that the face of business has changed over the last 18 months and will continue to do so going forward. We've got the likes of GDPR, Brexit and deregulation to thank for it. While these external factors play a role, there are also

significant internal factors that are driving change. And yes, I mean digital transformation. This is especially evident in the legal sector, where digitisation efforts go far beyond migrating to the cloud.

The fact is, legal firms are already transforming to a degree and have some aspect of their infrastructure in the cloud, even if it's just using Microsoft Office 365, email scanning/archiving, or using a SaaS solution to capture time. But more than this, there is the appetite among firms to optimise their technology investment (and infrastructure) and capitalise on the benefits that digital transformation can deliver.

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For the most part technology-driven change offers firms greater convenience, efficiency and in a lot of cases productivity. Consider the use of collaboration software and how that has revolutionised the way we work – regardless of industry. In the LPM Legal IT landscapes survey 2018, law firms

specifically highlighted interest in transformation to deliver automation, smart working and mobility, and looking further ahead to the use of AI and machine learning to get greater value from their data.

Those are the benefits and they are most sought after, especially in an increasing competitive market, where partners are fighting declining margins. In a recent PwC report, improving the technology used in practices was identified as a top priority. But looking at the industry in general, and certainly based on the work we do, it's not always as easy as that. There are significant barriers to transformation, and they're not all based around cost.

Of course budgets play a role – justifying expenditure on new technology has never been easy for professional services firms. There is also a



significant staff challenge – not just retaining key staff and having skilled IT staff in-house to assist, but also in terms of culture and attitude. As with any type of change, there is often resistance to it, and buy-in for technology adoption needs to happen at the partner level in order for that positivity to filter down to the rest of the practice. Then there's implementing the change and seeing it through – all the while considering the big picture of compliance, security and client experience.

In spite of the challenges, change is always required to keep pace with the market and changing client demands. To prosper, to grow, to adapt, is all about making sure your organisation is best placed to deal with that change, embracing the right technologies to help you get there. **LPM**

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Ask the audience

How will SME law firms face up to challenges from regulators and clients in the next five years? What are the key areas of interest? The LPM 2018 conference poll is out. Kayli Olson reports

The roadshow for this year's LPM conferences polled SME legal leaders in London, Birmingham and Manchester. What do firms think of the challenges that will face their firms in the years to come?

More turbulence is most likely to hit the market. Across the regions, 46% of attendees said the challenges their firms face will be either more or much more (35% and 11% respectively) serious than in past years. For 42%, the response was that it would be similar.

Change is definitely afoot. Yvonne Carratt, director at Lincolnshire-based JMP Solicitors, says that historically, the firm was a niche personal injury (PI) law firm with almost no walk-in business. Unfortunately, because of changes to the PI landscape and reduced fixed costs, it's no longer possible to build a business model purely on PI cases.

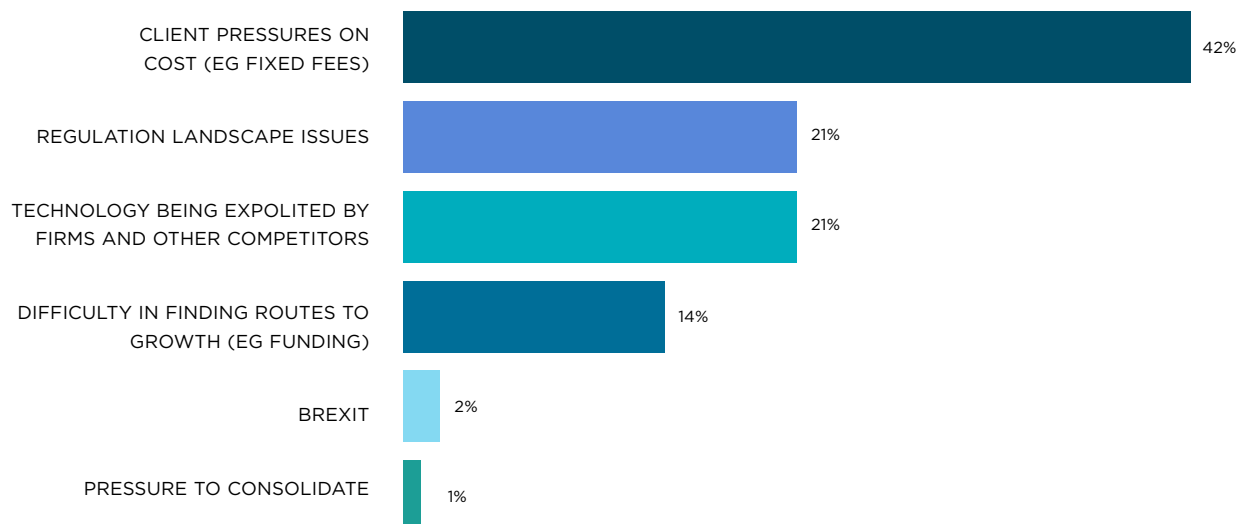
"It's forced us to move into other areas of law and

focus on how we market the firm and improve our accessibility to the general public, which in the long-term was probably the best thing we ever did," she says.

Where one firm may need to add on services to stay in the game, others, however, will need to specialise. Steve Bradley, practice manager at Birkenhead-based Haworth & Gallagher, says: "As more and more legal services become process-driven and fixed-fee, it seems more people are being forced to specialise. And the traditional high-street, versatile lawyer or secretary is becoming a dying breed."

We did indeed ask LPM conference attendees their views on this subject. With more risk and lower margins in some work areas, and the prospect of non-legal businesses grabbing non-reserved work in the future, 19% of respondents said the idea of the full-service SME firm is destined for the dustbin. The majority is still with the full-service firm, with 56% of

OUT OF THESE, WHICH FACTOR IS HAVING THE BIGGEST IMPACT ON THE SME LEGAL MARKET?



respondents' votes, however a quarter (25%) think the jury's still out.

WHAT'S SHAKIN'?

It seems no matter what type of firm – niche, full-service or otherwise – the greatest hurdle to firms' growth or further success is 'finding high-quality staff', said 38% of respondents.

Bradley at Haworth & Gallagher says finding good quality candidates with a broad range of legal skills and experience is becoming more of a challenge – especially for small firms, which don't have the prestige or staff benefits that large corporate firms can offer.

"We have to overcome that by offering a career path and varied workload that give opportunities to learn a diverse range of areas of law."

And, he adds, many young professionals prefer to work in a large city with a thriving legal community, rather than small towns or suburbs – so it's about trying to attract them to the regions.

Carratt at JMP Solicitors points out that it's not only about finding high-quality staff but finding those who the firm feels will fit in with the culture.

"Generally, we find that most people who qualify with us stay on post-qualification. We do have to compete with larger firms in the surrounding cities, so we try to promote a healthy work-life balance and flexible and good working environment."

Paul Bennett, partner at Aaron & Partners, and speaker at this year's conferences, says the firm has different problems in different offices. But his firm absolutely follows the trends found in the LPM conference polling, he says.

First and foremost, the problem is recruiting and retention, we want the best people and it's a competitive market for them which we do well in but always look to pick up other quality solicitors with a following, Bennett says, followed by use of change of pace and use of technology.

"Everyone talks about artificial intelligence and robotics but it's probably not where our clients are just now. But they are expecting ever-increasing use of technology to

push prices as low as possible.

"And we're definitely concerned about the pace of change. There has been an awful lot of legislative work in the background fuelling this. Regulatory change puts a lot of strain across business, especially in funding arrangements over Laspo."

HIGH IMPACT

In terms of the biggest factors to impact the SME legal sector, it's of course client pressures on cost (42%), followed closely by regulation and technology (each with 21% of respondents).

The market will certainly see more fixed-fees for private client work and more awareness and choice for consumers, says Bradley at Haworth & Gallagher.

For example, he says, price comparison websites will enable clients to shop around for legal services, comparing prices from various local firms.

"I believe this will develop in the coming years and lead to even more competitive pricing – with clients leaving online reviews on price comparison websites and social media, further aiding the consumer's choice."

Carratt at JMP Solicitors says client pressure is definitely top of the list. "Managing client expectation is hard because they do have higher expectations now. They expect you to be available 24 hours a day and to respond immediately – but this is really a reflection on today's society and consumer expectations.

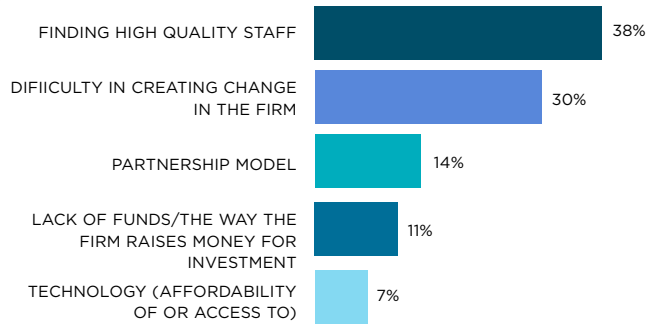
"We therefore try to keep the client updated and in the picture as much as possible using a variety of communication methods suited to that particular client. All clients are different and some tend to require more attention depending on the case type, circumstance and individual."

Bennett at Aaron & Partners agrees that more clients are wanting to communicate on channels such as Facetime or Skype.

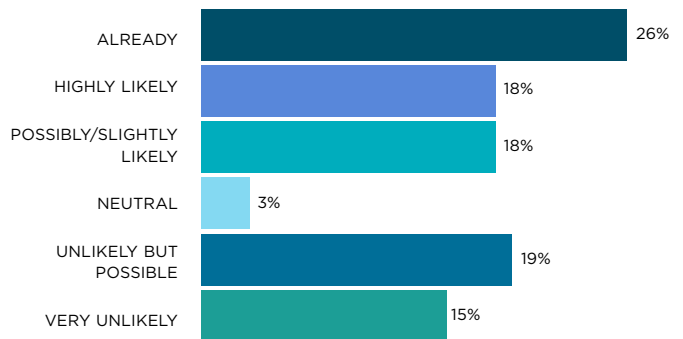
Technology can be a blessing and a curse, says Carratt. If it works well it can be your greatest tool but if it fails, and it inevitably does at times, it can be a source of frustration and you suddenly realise how much you all really depend on it.



WHAT IS THE GREATEST HURDLE TO YOUR FIRM'S GROWTH OR FURTHER SUCCESS?



HOW LIKELY IS IT YOUR FIRM WILL INCORPORATE AS A LIMITED COMPANY IN THE NEXT FIVE YEARS?



"It's constantly evolving and we have to keep up with that if we want to succeed - we're currently transforming into a paperless office but obviously need to make sure that all of our systems and processes are robust enough to withstand technological challenges and disruption."

STARRY EYED

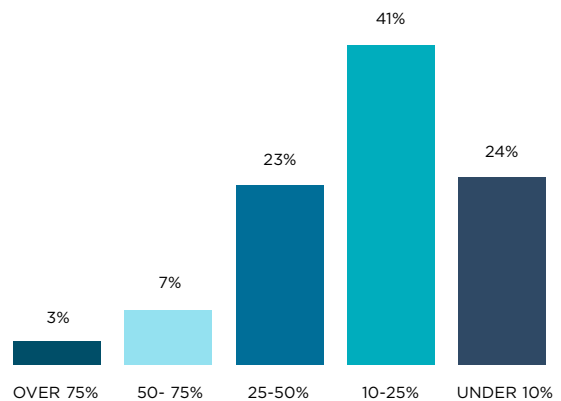
Needless to say, there are opportunities to hand but also some tough decisions to make for SME firms going forward.

Since adding matrimonial, commercial, conveyancing and private client departments to its PI offering, JMP Solicitors has also moved premises to a more visible office and welcome walk-in enquiries.

The firm made the difficult decision to close down one of its branch offices and consolidate its efforts while expanding the head office premises and headcount.

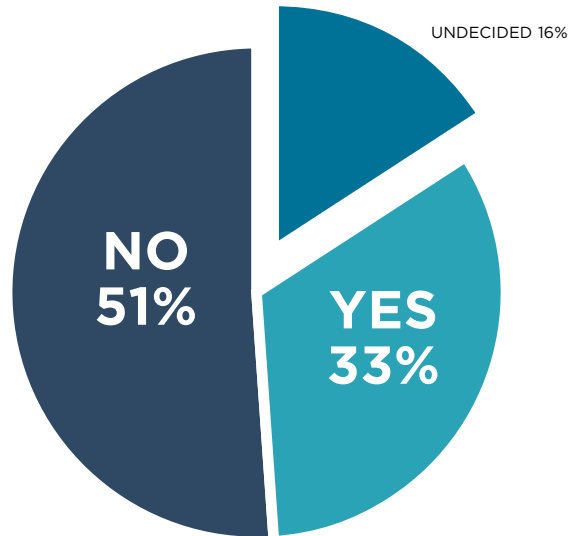
Carratt says many small firms will disappear because the profits have fallen in many areas - it takes vision and constant monitoring to see where the weak areas lie and how to build them up.

"Change is essential and we have had to offer the



IN 10 YEARS, WHAT AMOUNT OF CLIENT-FIRM INTERACTION AT YOUR FIRM WILL BE HANDLED BY AN AI SYSTEM SUCH AS A CHATBOT? (INCLUDES FIRST-TIME INTERACTION, UPDATES, AD HOC INTERACTIONS)

ARE YOU CONSIDERING EXTERNAL FUNDING AS AN ALTERNATIVE TO TRADITIONAL PARTNER CAPITAL?



public what it requires. Commercial in particular seems to be an area that is growing rapidly,” she says.

Bradley at Haworth & Gallagher agrees, and says a lot of firms have already closed down. “There used to be a lot of law firms like ours in this part of the world but they’ve been disappearing in the last five years.

“It makes us aware that we’ve got to do the things we do well and do them right, particularly client care.”

He says partners will need to put the needs of the client first, so any change must support the firm’s long-established reputation for high levels of client care.

It may take a change in business model to do that. Bennett at Aaron & Partners says firms should be looking at their business model.

“Advising other law firms on partnership matters I’ve heard a lot of law firms talking to their banks about the possibility of moving from an LLP to a limited company – they’re also seeing this from an attraction and retention of staff perspective.

“If you look at the profile of the majority of SME law firms, the partners are over 55 and there’s a clear gap in

the market for more junior partners and legal practice managers. A possible way to bridge that gap is by changing your business structure and bringing in people gently over time.”

Firms polled at LPM 2018 conferences certainly have a range of opinion here too: 26% of respondents said their firm operates as a limited company already, with a further 36% saying it is highly, and possibly, likely (both saw 18% responses) in the next five years. A further 19% of respondents said it was unlikely but possible and only 15% said it was very unlikely.

And, of course, Bennett points out that it’s important for firms to investigate what big changes to the business might mean for the firm. “Does their current structure make sense and if it doesn’t, they should be reviewing it carefully and making strategic decisions for a five-to-seven-year period.”

The status quo is a big challenge with an aging partner profile, he adds. And there are more challenges to come – so bring it on 2019. [LPM](#)

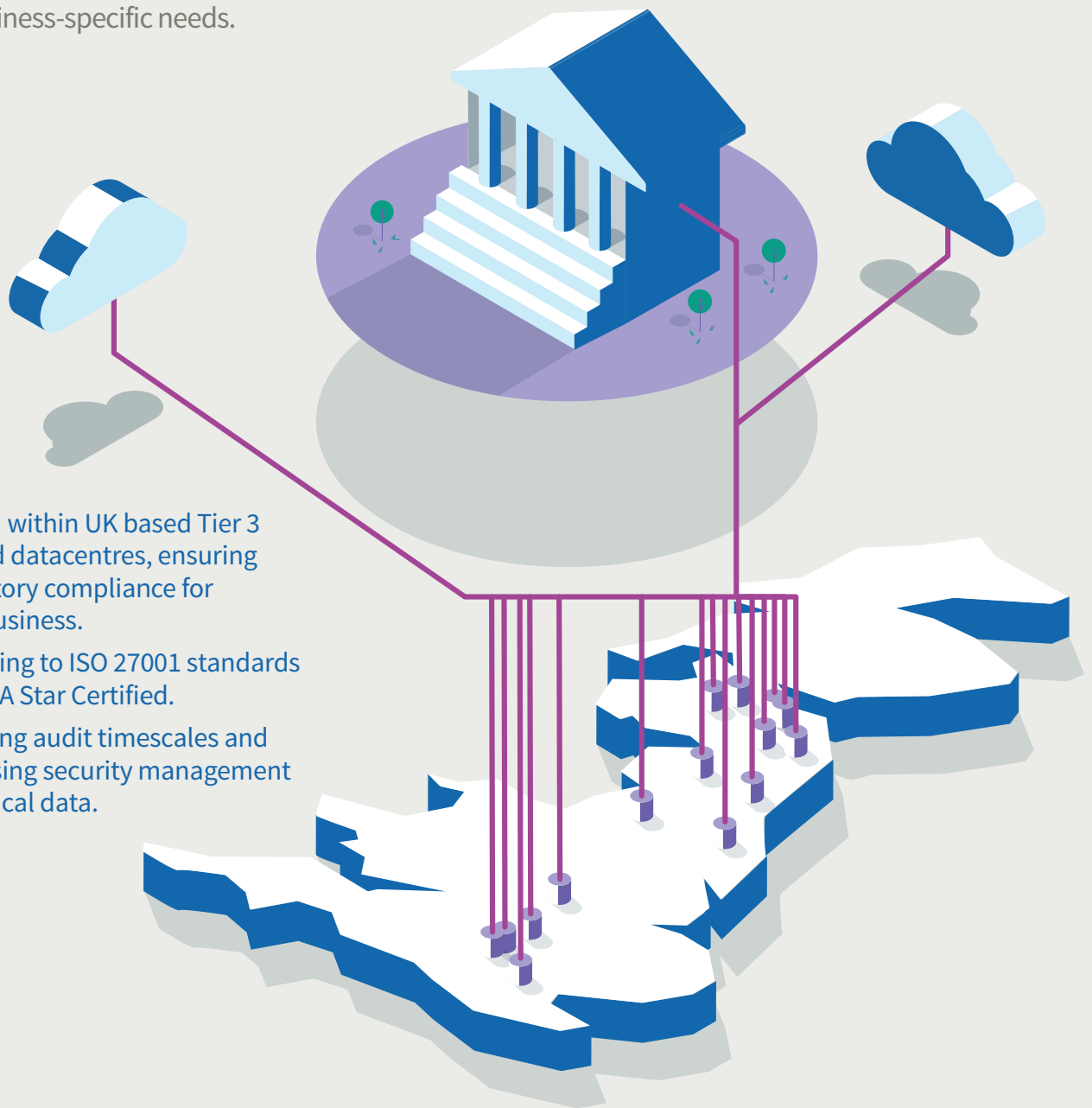
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