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WELCOME TO LPM FRONTIERS 2023

LPM Frontiers is back with its comprehensive analysis of business strategy in the world of SME legal. Every year brings its own challenges - with the pandemic having dominated the narrative in recent years, the focus has now shifted to the economic pressure currently being felt by businesses across the UK, and globally.

We surveyed more than 50 senior business leaders at UK SME law firms for this year's report, and conducted interviews with a smaller representative sample to dig deeper into the numbers. The report explores familiar themes of competition and strategy (p6), technology (p13), people (p18), and cultural change (p24), all within the wider economic context of this year. Plus, we have some new questions on pricing strategies, costs and problem areas when it comes to integrating systems.

Adding a layer of insights to LPM Frontiers are experts from our report partners - **Access Legal** (p20), **NetDocuments** (p10), **Osprey Approach** (p14) and **Tessaract** (p26) - who provided their take on the data, complete with valuable recommendations for business advancement.

Enjoy, and do get in touch with any thoughts!

Aftab Bose, editor

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About us



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AT A GLANCE

94%

of SME law firm leaders expect their revenues to increase in 2023

68%

say their marketing and BD systems need improvement or replacing

Firms deliver a nearly equal share of work on fixed prices compared to billable-hours

Improving the client experience is the top strategic business objective for firms this year

Employees and senior leadership are the top sources of pressure for firms to become more ESG-focused

Average IT spend as a share of revenues

Average

6.5%

Median

5%

Hiring plans for fee earners remain unchanged for

62%

of firms this year



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BOARDROOM MATTERS

We begin this year's LPM Frontiers analysis with some of the top talking points on the boardroom agenda at SME law firms – competitive threats, business objectives, pricing strategies and the range of working models taking shape in the hybrid world.

Despite sea changes in the economy since last year's LPM Frontiers report, the competitive landscape for SME law firms remains largely similar. Most (62%) feel that the biggest threat to their future, though still fairly moderate based on conversations with SME legal business leaders, comes from direct peers – firms like theirs already in the same geography (p7).

But this can vary from one firm to the next, based on factors such as specialisms, business size and structure. Firms with a headcount of fewer than 50 people, for instance, ranked bigger businesses as their primary competitive threat, while those with more than 50 people are more concerned about similarly sized businesses.

According to Peter Carr, head of IT at Fisher Jones Greenwood, bigger firms could become a more significant threat to SME law firms in the near future. "There's a lot of consolidation happening in the market, particularly with the ongoing economic squeeze on small firms. Larger businesses, including US firms that are increasingly active in the UK, are swooping in where they see opportunities," he says.

As for more disruptive models – such as online-only businesses, which 28% of

leaders regard as a threat, consultancy models (19%) or tech-based solutions (15%) – they are less likely to be cited as threats. In the case of digital solutions, Carr says: "We've always viewed those as boutique offerings that tackle specific practice areas – mainly outside our purview."

For some, the consultancy or online-only models are similarly limited in scope for disruption. Antonia Shield, managing partner of BPE Solicitors, says: "It takes a specific kind of person to work as a consultant – someone who has a wealth of experience, a good portfolio of clients and, most importantly, can keep themselves motivated to work."

"For those individuals, there is no better option than being a consultant – it's more lucrative and flexible. But the majority would still prefer the stability, benefits and interpersonal connections that come with a more conventional setup, which puts a limit on how much the consultancy model can assert itself in the market."

Some have embraced the consultancy model, however – Florence Brocklesby, founder at Bellevue Law, says working with consultants has opened up more market opportunities: "We have very experienced lawyers working with us, comparable to senior fee earners at City law firms, and clients can access their expertise at a price comparable to a regional law firm – whereas they might be handed over to a junior lawyer at a City firm."

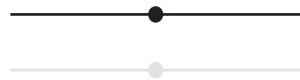
"This enables us to compete at both ends of the spectrum to an extent. Of course, some would always opt for large established firms because of the implicit brand value, but we're in a strong position nonetheless."

Looking inwards, the top strategic objective for leaders at SME firms in 2023 (57%), is to improve the client experience

“There's a lot of consolidation happening in the market, particularly with the ongoing economic squeeze on small firms. Larger firms are swooping in wherever they see opportunities.”

**Peter Carr, head of IT,
Fisher Jones Greenwood**

Firm size over 50 headcount
Firm size under 50 headcount



NOISY NEIGHBOURS

Despite the gradual rise of disruptive models of legal service delivery, SME law firms remain most concerned about their direct competitors that operate in the same geographies - though firms with a headcount of more than 50 people see bigger firms as the primary threat to their market share.

Which kinds of competitors are most threatening to your firm's future?

62%
 Firms just like mine already in our geographies

53%
 Bigger firms than mine

45%
 Firms like mine coming into our geographies

28%
 Online-only businesses that sell legal solutions like wills but aren't 'law firms'

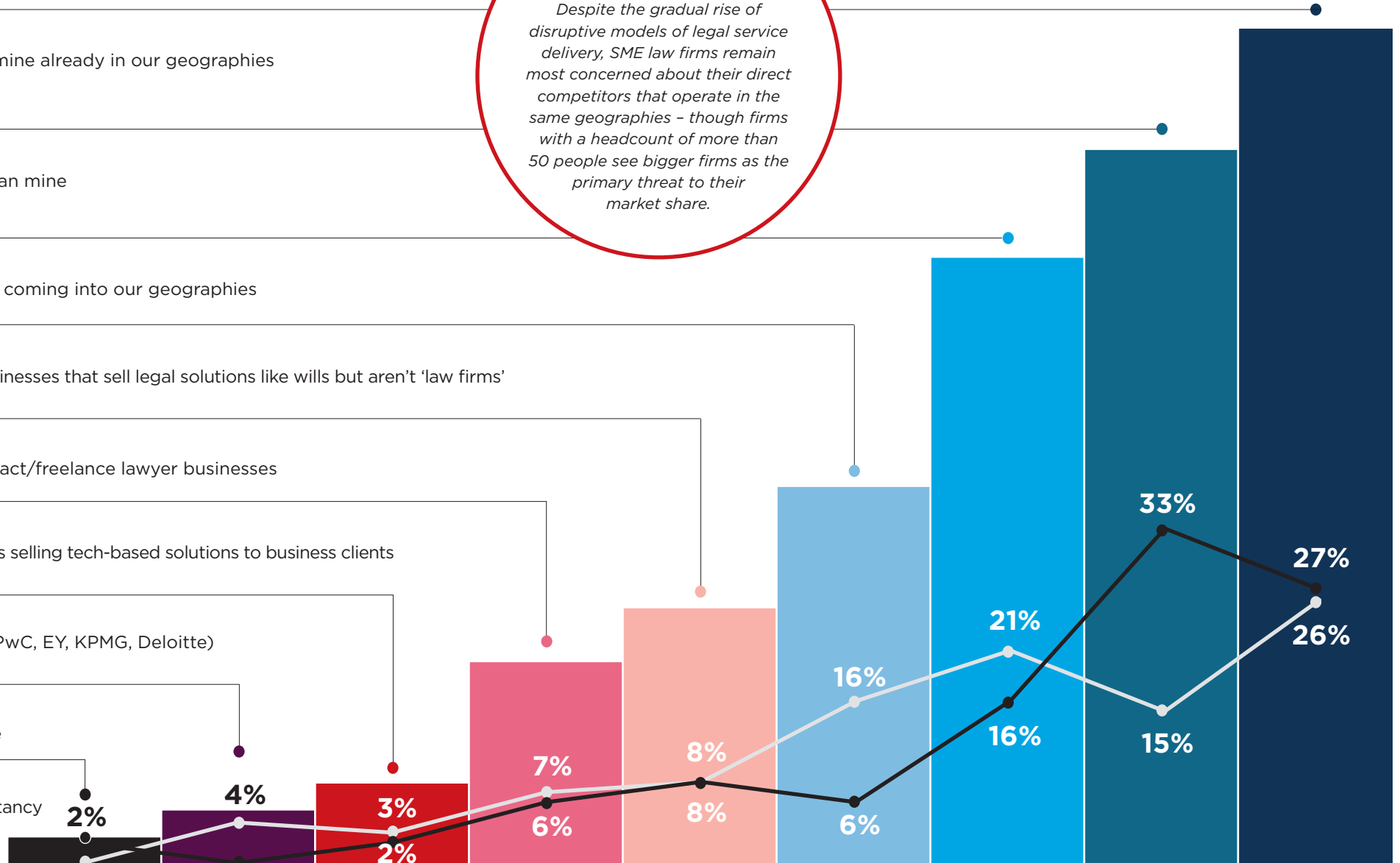
19%
 Virtual or contract/freelance lawyer businesses

15%
 Legal businesses selling tech-based solutions to business clients

6%
 The Big Four (PwC, EY, KPMG, Deloitte)

4%
 Something else

2%
 Smaller accountancy firms (not the top 10)



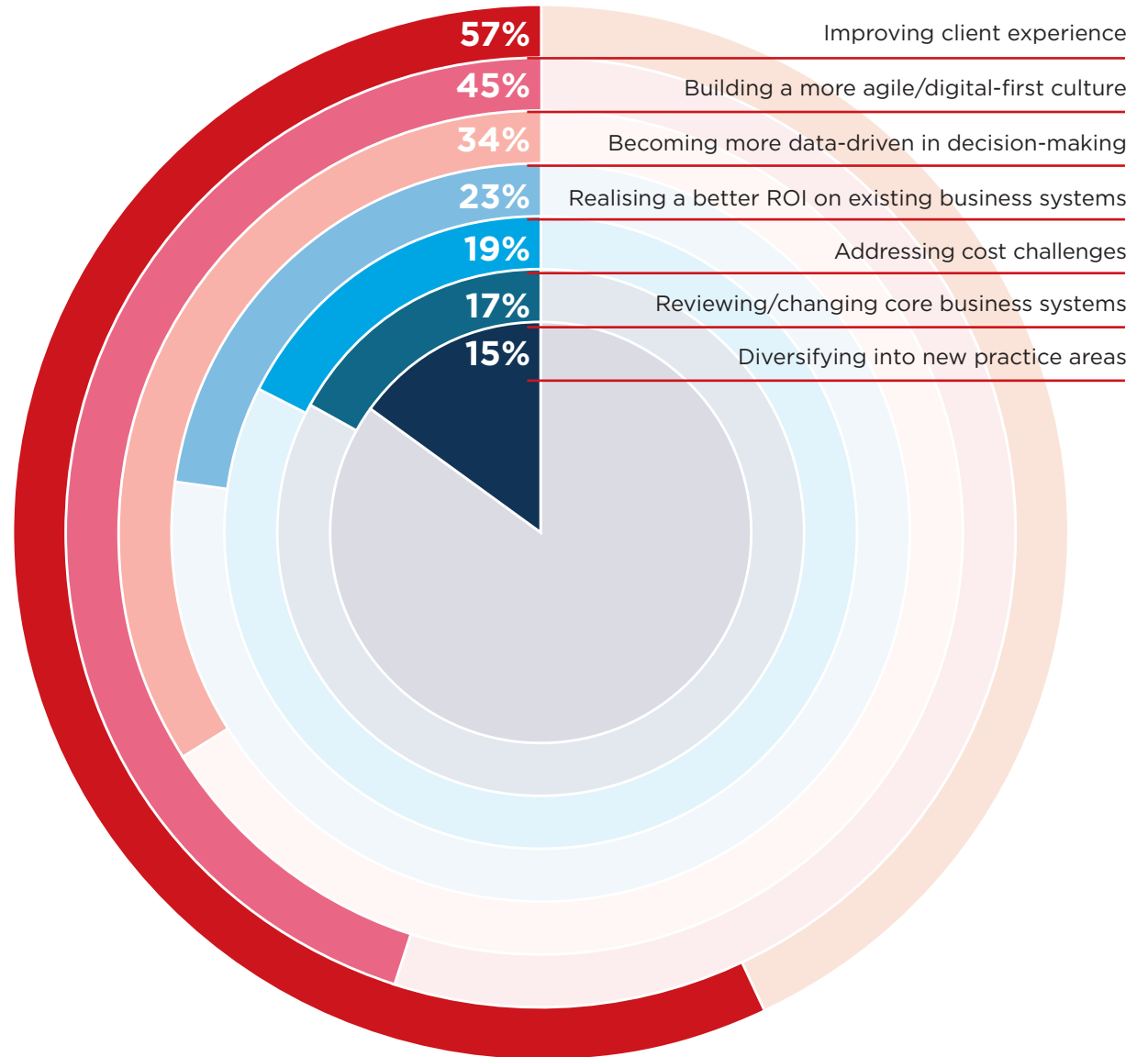
(p8). Sean Sanders, managing partner at Thackray Williams, says: “We’ve had a dedicated client relationship management role at our business for two years now – they regularly visit our top 30 clients to get feedback on the overall experience, and areas for potential improvement. We get a detailed report with suggestions and recommendations from each client, which feeds our ongoing improvement journey.”

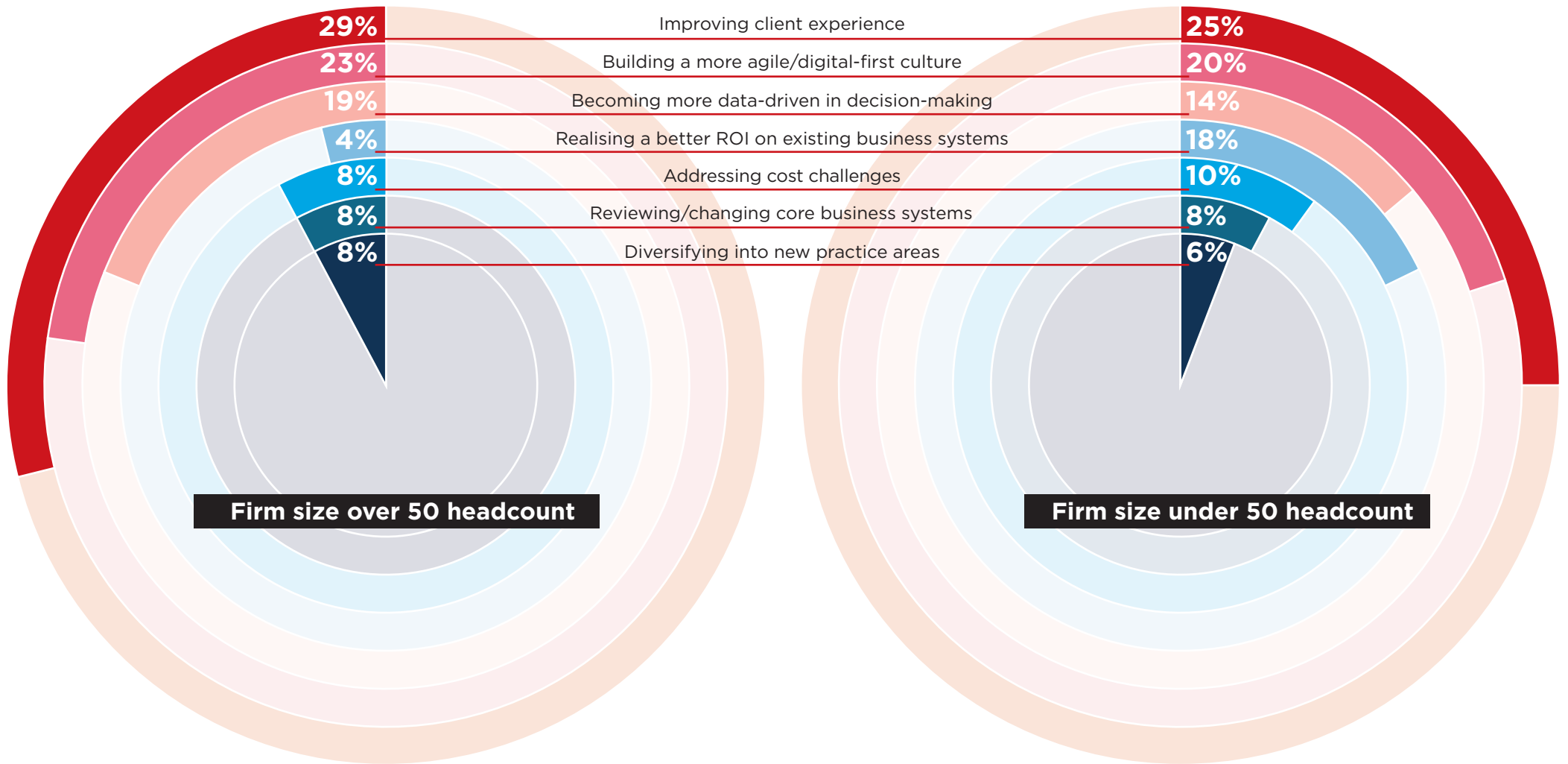
The second biggest priority for these leaders is to build a more “agile, digital-first culture” (45%). In LPM Frontiers 2022, optimising ‘back office’ technology emerged as the top organisational challenge, and conversations with senior business leaders at LPM events – including the Conference and LPM Tiger Team 2023 – have revealed that having a tech-focused mindset running from the board to the end user is crucial to making the most of a firm’s tech assets. Realising a better return on existing technology is fourth on the list of strategic priorities (23%).

In third place, cited by a third of respondents overall, is to become more data-driven in decision-making – though firms of different sizes see things differently. Smaller firms (less than 50 headcount) have positioned realising better ROI on existing tech as more important than being more data-driven, while larger firms (over 50 headcount) align with the overall findings (p9).

But even among larger firms, being more data-driven is a challenge. Sanders says: “Our systems are not yet in a position to facilitate this. For instance, our customer relationship management (CRM) system isn’t fully up and running – I’d like to run reports about client hotspots that could inform our marketing and presence, but we’re still populating the necessary systems to arrive at that point.”

Rank which issues are important for your strategic business objectives?





STRATEGIC STREAMLINING

Kaden Smith, director, NetDocuments

Whether owing to growth imperatives, the need to retain key team members or current economic realities, legal teams are increasingly focused on streamlining work. Hence the reality that there can be many point solutions implemented across different legal businesses, as firms identify specific problems and seek solutions on a one-to-one scale. The outcome can be the sprawling of point solutions. Reflected in the data from the Legal Practice Management Frontiers Survey is this desire for more integration between primary service delivery systems and other technologies (p16).

Open APIs critical to market growth

Working with a dozen different tools means that your data is at risk of being trapped in individual applications — segmented and siloed — which impacts your ability to gain valuable insights from your data. To combat data silos, thriving firms are connecting their business software tools so that data can be shared without the need to manually

transfer it from one place to another. Unfortunately, not all systems play nicely with each other, and incompatibility between tools can bring productivity to a grinding halt.

Clean, solid integrations between your chosen software platforms are essential for getting day-to-day work done. Open APIs are critical — and why the API market is poised to nearly double over the next four years, growing to \$8.2 billion USD by 2027, according to Maximize Market Research.

Connections for a consistent user experience

Studies have shown it can take up to 25 minutes to resume a task after being interrupted — even by something as simple as switching to a new task or application. The more users are forced to use tools outside of their core applications, the more “toggle tax” is incurred. How costly is the toggle tax? According to Harvard Business Review, the average user switches between various apps and websites nearly 1,200 times each day — though for some users, that number can be far higher. Even if the time to mentally

transition to that new context only takes two seconds, it adds up to just under four hours per week, or about five working weeks over the course of a year. This is why integrations are so powerful and should be considered a critical component of any successful legal tech stack. Integrations between core solutions like M365, Microsoft Teams, your document management system and case management system with your firm’s other technologies brings everything together for a consistent user experience within familiar environments and patterns of work so that users can take advantage of more technologies without suffering the effects of the toggle tax.

A focus on workflow-oriented solutions

With an eye toward the future, firms will need to change their approach to diagnosing problems by looking at process and workflow. Successful businesses are making a concerted effort to understand their users’ workflows and then identify the connective tissue of how the software tools being offered can work together to provide productive

solutions and help legal professionals do their best work. Examples of workflow-oriented solutions include:

- Surfacing information across data stores
- Streamlining or automating repetitive tasks
- Reducing redundancies
- Eliminating productivity-killing task-switching.

With the continuing rise in cloud adoption, advancements in cloud-based platforms and tools, and more robust APIs connecting technologies, now is the time to evaluate whether your current technologies provide the most value toward supporting your business goals. With uninterrupted workflows that provide everything legal professionals need — when and where they need it — productivity goes up, and stress goes down.

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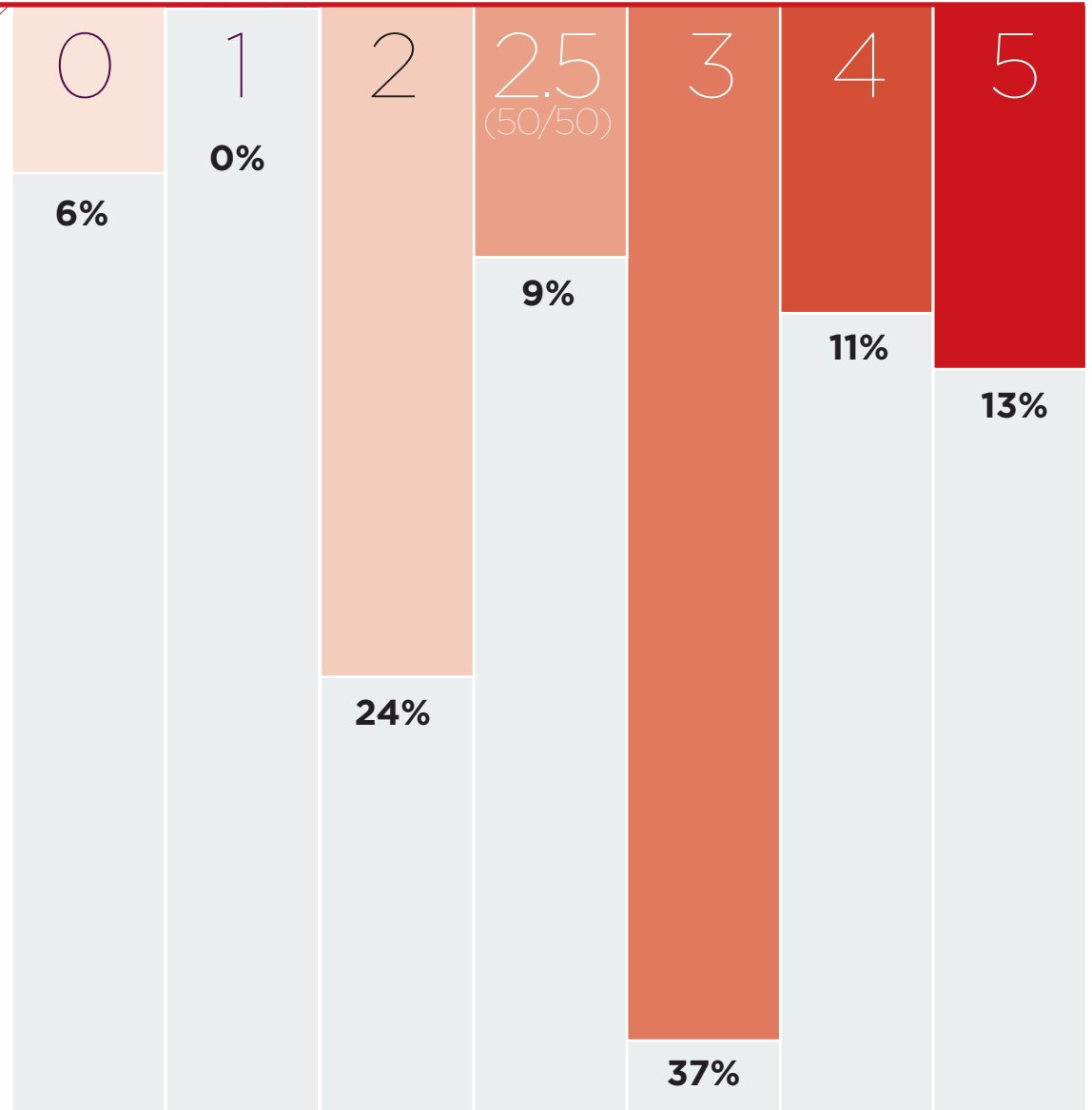




REMOTE CONTROL

Though hybrid working has emerged as quite a stable fixture, a significant share of firms (24%) are expecting people to be back in the office 4-5 days a week. Team cohesion, learning and retention appear to be the predominant reasons for a bigger in-person push.

In 2023 how many days a week are most people in your firm expected to work in an office that the firm pays for?

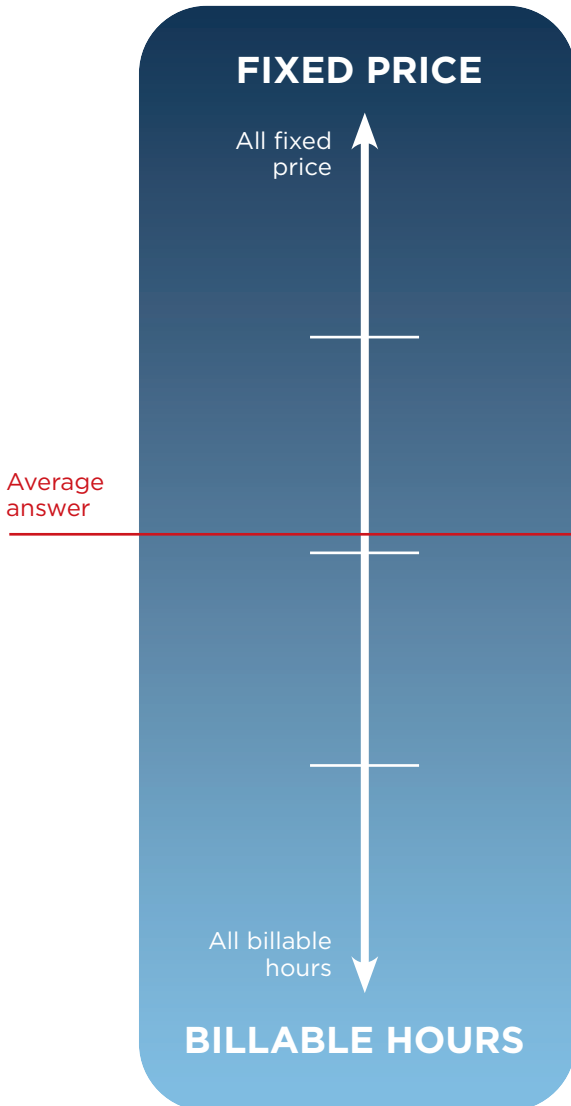


And while diversifying into new practice areas is only cited by 15% of SME firms as a priority, Sanders believes that rebalancing the portfolio of services is important for stability in an uncertain economy – particularly if property services form a significant share of the offering. Another upshot of the economic circumstances is that almost a fifth of firms are addressing cost challenges as a strategic objective. Surprisingly, however, 17% of firms are also looking to review or change their core business systems in 2023 – there is typically cost and complexity involved in migrating to a new core business system.

Much was made of a ‘new normal’ emerging after the pandemic – and current working models are probably now a reflection of longer-term expectations. As it happens, hybrid is here to stay in SME legal (for now) – the majority of business leaders (70%) now expect people to be working in the office between two and three days each week (see right).

Team cohesion and training remain the top reasons for

Approximately, what proportion of your firm's work is priced using the billable hour as opposed to fixed pricing?



firms to bring people back into the office. Even at Bellevue Law, established as a flexible model for consultants well before the pandemic, Brocklesby reports that trainees and certain support staff are expected to be in the office on a full-time basis. “There are many ways for trainees to learn effectively, but we still feel the ‘learning by osmosis’ that comes with being around people in the office is a crucial part of professional development for junior team members. Beyond that, we try to build regular meetings into our working model to maintain a sense of collegiality across the business.”

According to Sanders, team cohesion is also a decisive factor in retention: “We’ve found the lion’s share of our leavers are people who worked remotely for most of their week – we’re encouraging people to come in for three days a week to make sure there is a sense of connection.”

A new addition to this year’s LPM Frontiers research is an investigation of pricing models – to gauge any progress away from the billable hour towards more fixed pricing. As it happens, most leaders report their firms use an almost equal

“ The billable hour stifles innovation – firms aren’t pushed to learn. Many say that certain pricing models are dependent on the nature of work, but we’ve closed large deals on fixed-pricing models – it’s certainly possible. ”

Alex Hamilton, CEO, Radiant Law

split of the two (p12). Wendy Edwards, finance director at Attwaters Jameson Hill, says: “We have different models for different service areas. Private client, family, trusts and civil litigation teams, for instance, would offer a billable rate, while other departments, such as residential or company commercial, would be fixed.”

This is the pattern followed at many firms – guided largely by profitability – though some are taking a more disruptive approach to pricing. Alex Hamilton, CEO at Radiant Law – a tech-driven alternative business structure – says: “We’ve offered fixed pricing right from when we were established 12 years ago, mainly because it incentivises us to improve and become more efficient in order to be profitable. The result is that we’re very fast with our service – 90% of our matters are turned around in half a day.

“The billable hour stifles innovation – firms aren’t pushed to learn. Many say that certain pricing models are dependent on practice areas and the nature of work, but we’ve closed large deals on fixed-pricing models – it’s certainly possible. And it’s not complicated to price services either. At the end of the day it’s just a number, and we have enough data and visibility to keep an eye on profitability.”

At Bellevue Law, which specialises in employment law, a number of services have recently been successfully repackaged into a fixed price approach – not for profitability but to give clients more transparency. Brocklesby says: “We were expecting a bump in enquiries in this economy – both from employers and employees – and people who are already in a distressed situation appreciate the clarity of fixed pricing. It’s just another option for clients, and our data suggests that we’ve maintained the same level of profitability.”

TECH TEMPERATURE

As is customary, LPM Frontiers also takes a deep dive into SME legal feeling around tech investments for the year ahead – how much are firms spending on technology, and what are they most focused on? Average total IT spend as a percentage of firm revenue is 6.5% this year (see right), compared to 6.2% last year. And 61% of firms expect this level of spending to increase in 2023-2024 – highlighting the growing importance of tech in enabling efficient service delivery (p15).

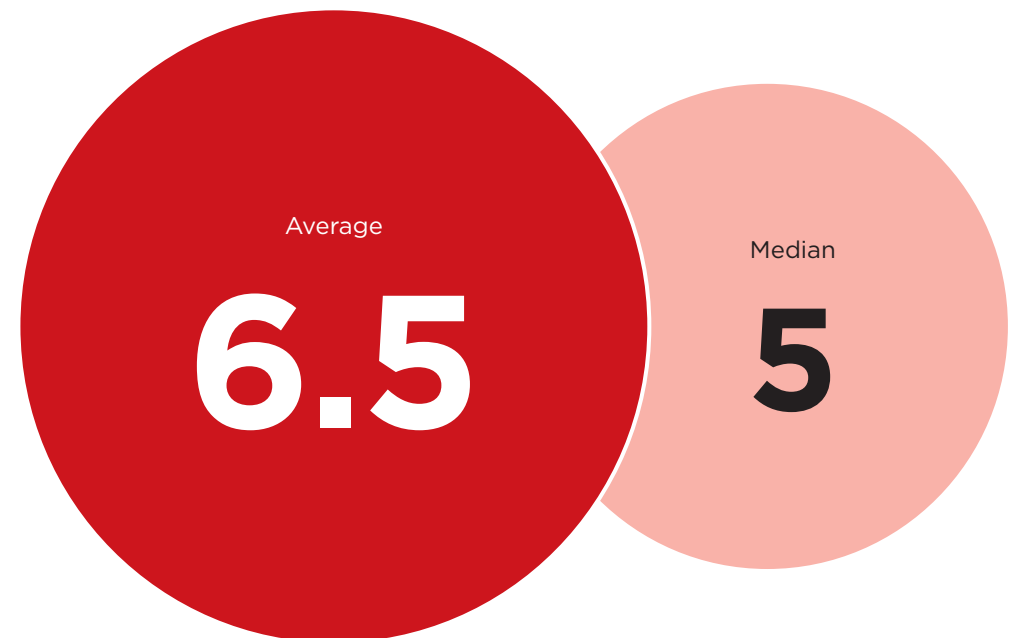
Peter Carr at Fisher Jones Greenwood says: “The IT function in law has transformed from a back-room operation to a driver of the business – more of the business is data-driven and most work is underpinned by some sort of technology system.”

Sean Sanders of Thackray Williams adds: “Our IT spend jumped significantly during the pandemic, as we equipped people for remote working and bought cloud space. And while it has dropped off again since, we certainly won’t allow IT spend to be squeezed because of the current economic situation – it’s too important for us.”

“We certainly won’t allow IT spend to be squeezed because of the current economic situation – it’s too important for us.”

**Sean Sanders, managing partner,
Thackray Williams**

What percentage of your firm’s revenue is invested in IT in total (including legal tech and IT staff)?



HIDDEN COSTS

Chris Pucci, CEO, Osprey Approach

The biggest competitive advantage for UK SME law firms is how they deliver their service – the client experience. Intensifying client expectations around better transparency, clarity on pricing, prompt personal service and improved collaboration mean that firms must reevaluate how client-focused their services really are.

57% of firms believe that improving their client experience is a fundamental part of their strategic business objectives and vital for long-term success (p8), but what do firms need to adopt to ensure they achieve their goals?

Implementing the right client-facing tools seems like the obvious solution, especially when 51% of firms aren't satisfied with their current client-facing systems (p17).

But client-facing tech, as well as primary service delivery systems (case and document management software), and financial systems were rated the top three systems that aren't

talking to each other. These systems could lend themselves more to integration – a likely reason for rating them as needing improvement or replacing.

Accessing a single source of truth is the key benefit of integrating business solutions. A connected and centralised platform to run your law firm – that stores accurate and reliable client, business, and financial data – is the foundation for better compliance, improved efficiency and better client service. When 34% of firms want to become more data-driven (p8), to improve decision-making, having access to reliable and real-time data is a must.

There are hidden costs if your firm's core practice, case and client management tools aren't connected, which could harm your ability to deliver an improved client service. These include the inevitable errors and inaccuracies from rekeying data and the internal inefficiencies that affect profitability and impair visibility. Errors, lack of

transparency and inefficiencies all have a knock-on effect on the quality of client service.

So, simply implementing digital tools and having the integrations available isn't enough. The habits of your team determine the quality of the data your business holds and how effectively digital tools are utilised to improve performance.

It's encouraging to see that building a digital-first culture is a priority for almost half of the firms surveyed. To remain competitive, law firms will need to take a deep dive into their existing habits in 2023 to review existing processes and consider how to build a digital-first culture that'll help them better meet their goals to become more data-driven businesses and improve their client experience.

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Ongoing tech projects marry up with our understanding of strategic objectives in SME legal. Carr says: "One of our priorities is to improve our client-facing systems. We're implementing a portal-like product that will complete anti-money laundering checks, build requests and incorporate payment links, among other functionalities. The goal is to streamline client onboarding and make life easier for support staff, while also improving accuracy and minimising the risk of error.

"Everyone expects to interact digitally nowadays – and exchanging sensitive documents by email is not ideal. Portals allow clients to upload and download documents securely and also provide a good overview of a matter. The challenge is that email is free while portals cost money. Convincing the board when there is no direct monetary benefit can be an uphill task."

Despite the strong signal of intent to increase IT spend, securing buy-in for tech investments is one widely

“ Our CRM is old and clunky, which is the biggest barrier to use. Some of our more tech-savvy people believe that it actually has a wide range of functionality on offer, but its interface deters adoption across the firm. ”

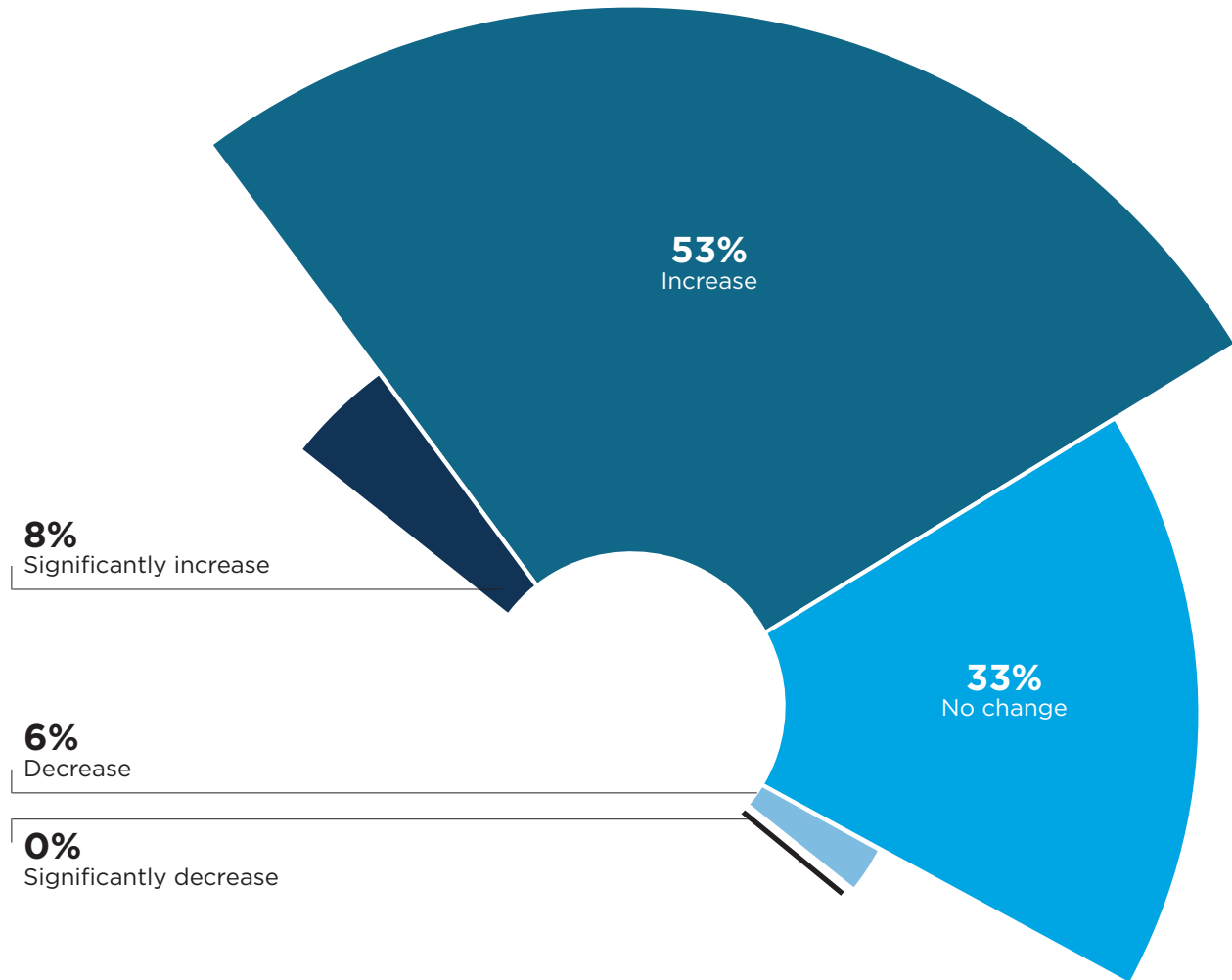
**Antonia Shield, managing partner,
BPE Solicitors**



ON THE UP

Average spend on tech as a share of revenues was 6.2% last year, has risen to 6.5% this year and will continue to increase over the next 12 months for 61% of SME firm leaders. Many believe that tech is a key enabler for growth, while others see it as a route to efficiency and resilience at a time

How do you think your level of spend on all things IT will change in 2023-2024?

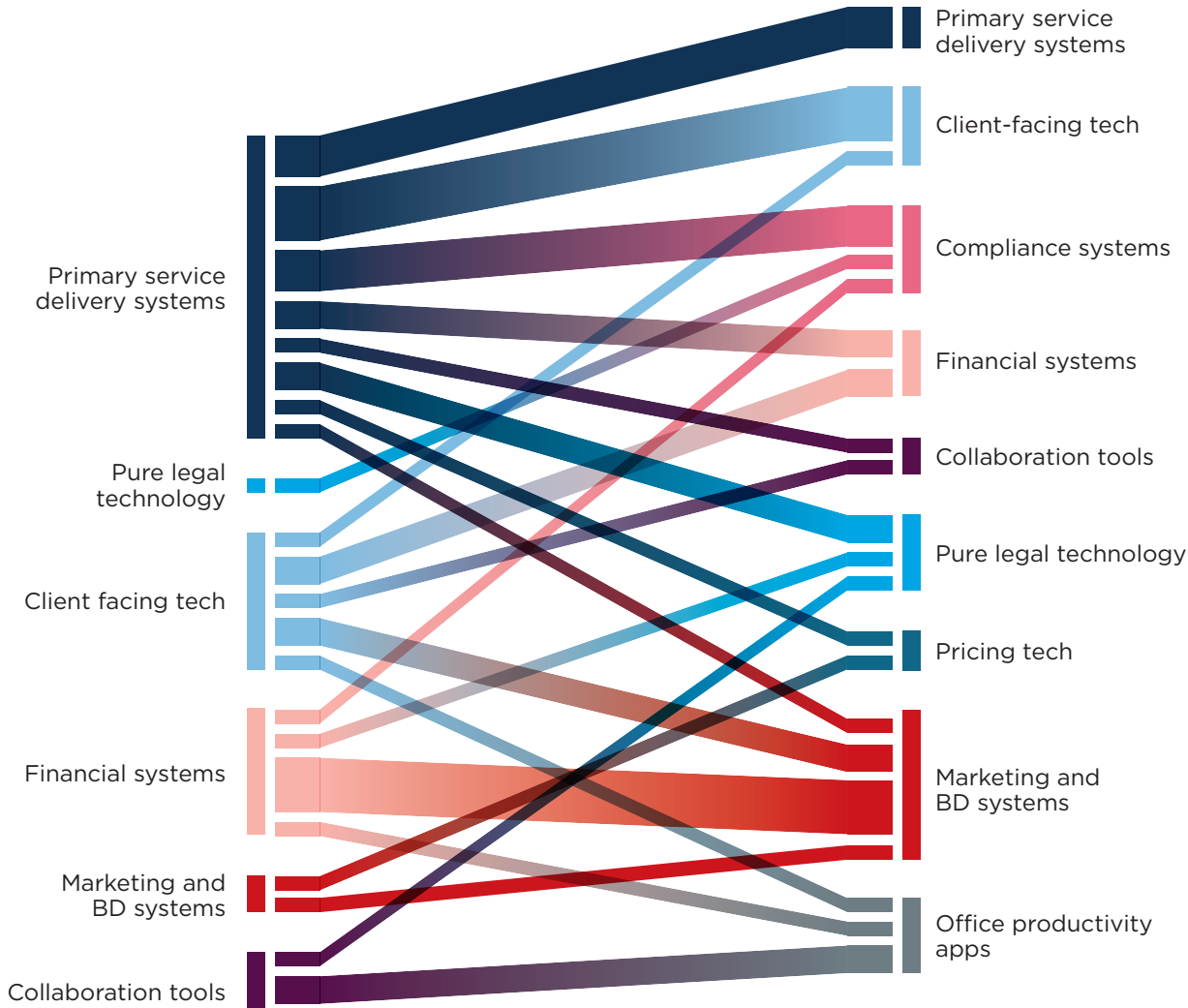


acknowledged barrier in SME legal. As highlighted by Carr, conveying the benefit can be a challenge in the first instance, while realising ROI during and after the implementation of a new tool is another. User adoption is a potential issue, but one of the most widely cited blockers to maximising value from new systems – based on conversations with many business leaders – is the level of integration with a firm’s existing technology stack.

The majority of firms find that practice and case management, document management, matter management and knowledge management tools don’t lend themselves well to integration with other, similar systems – or even with client-facing, compliance and collaboration technology (p16).

Having a fully joined-up technology stack is the ultimate objective for many, given the visibility and efficiency benefits that come with it. Alex Hamilton of Radiant Law reports that his firm has made a significant time and resource investment into being fully integrated, helping to drive the efficiency and profitability of a fixed price model. He says: “All our systems

Which of these pairs of systems/tech types would you prioritise for better integration?



CROSSED WIRES

Each wire in this figure represents a problematic connection between systems. The thicker the wire, the more firms believe that particular integration to be an issue. The length of the bars on the left also offer a window into which specific types of tech have the most trouble integrating with others.

are in the cloud and we've worked with multiple developers on a number of products such as Tableau and Google Query, among others, to create a single source of truth.

"We have a holistic view of the matter management system showing all the stages of a deal, enabling us to drill down into daily statistics on productivity and identify backlogs and blockages." Hamilton says Radiant will continue to focus on integrations, and has paused all new tech roll-outs for a few months to allow people to learn about and familiarise themselves with the integrated tech stack.

But many SME law firms, particularly those with a long history, work with legacy systems that aren't necessarily conducive to advanced integrations. Carr says: "Our PMS creates challenges for integration; to overcome these we work closely with vendors to successfully implement their services. We're heavily invested in that system so it wouldn't be practical to change unless there is a pivotal advantage, or the product reaches end of life."

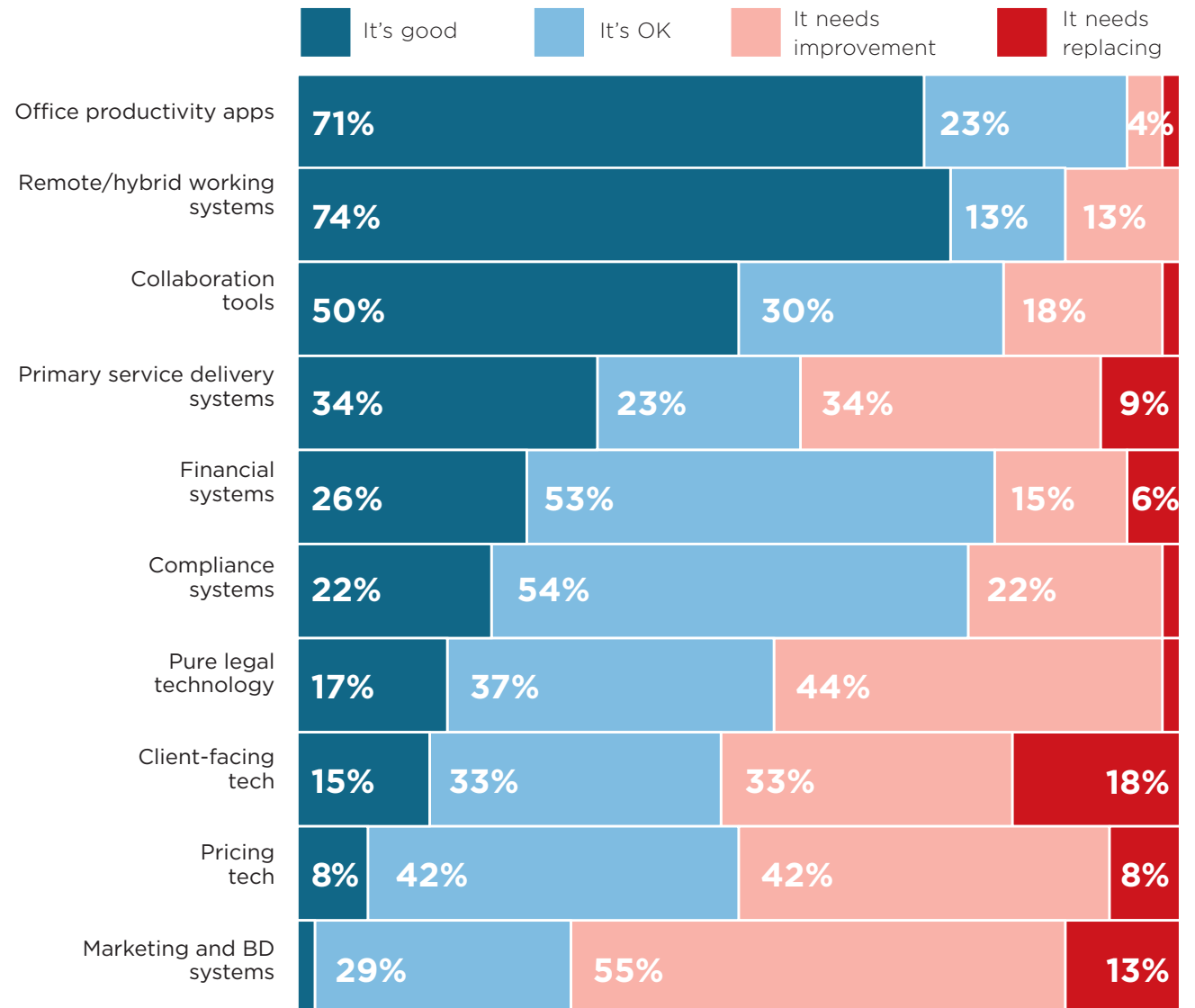
How satisfied are you with the following technology areas in your firm?

This state of limbo is common for many firms – consolidation in the PMS space has left many dissatisfied with existing systems, and the lack of alternatives in the market is a source of widespread frustration. Our 2023 data confirms this – with 53% of law firm leaders classifying their financial systems, including the PMS, as only ‘ok’, 15% saying they need improvement, and 6% suggesting they should be replaced (p17). Only just over a quarter classify them as ‘good’.

Still, PMS is not the least admired type of technology. A majority of leaders (55%) believe their marketing and business development systems – including the CRM – need improving, while 13% say they need replacing. For some, it’s just a matter of user experience. Antonia Shield says: “Our CRM is old and clunky, which is the biggest barrier to use. Some of our more tech-savvy people believe that it actually has a wide range of functionality on offer, but its interface deters adoption across the firm.”

Others aren’t quite as satisfied with the functionality on offer. Carr says: “We’ve had CRM on our radar for some years now, and still can’t find a good product for the legal sphere. Ideally, it would integrate with our case management system so our marketing team has full visibility when speaking to a client about how much revenue the latter generates for our firm – rather than just information about personal interests. Some PMSs come with a good CRM built in, but it’s hard to find a tool that will integrate with our PMS out of the box.”

At the other end of the spectrum, remote/hybrid working systems and office productivity apps seem to be performing well for law firms – 74% and 71% respectively reporting that these groups of systems are “good,” while 50% feel the same about collaboration tools.



According to the most recent LPM survey, half of SME law firms say “building an agile, digital-first culture” is a strategic priority.



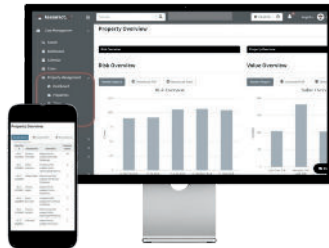
The new, cloud-native Practice & Case Management System developed for growing SME firms

“

Tessaract has contributed to a 20% year-on-year revenue growth.

Managing Partner, Taylor Vinters Via

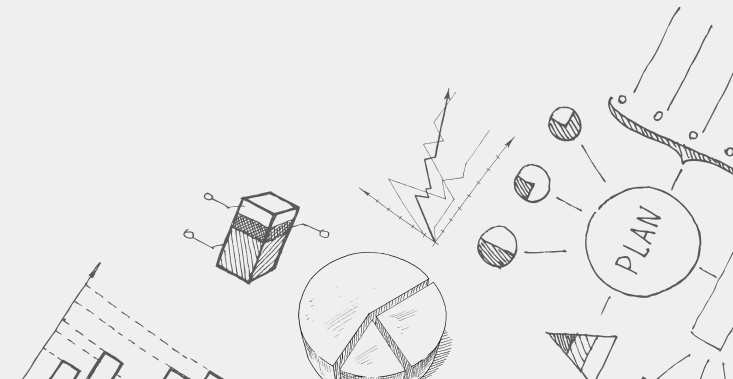
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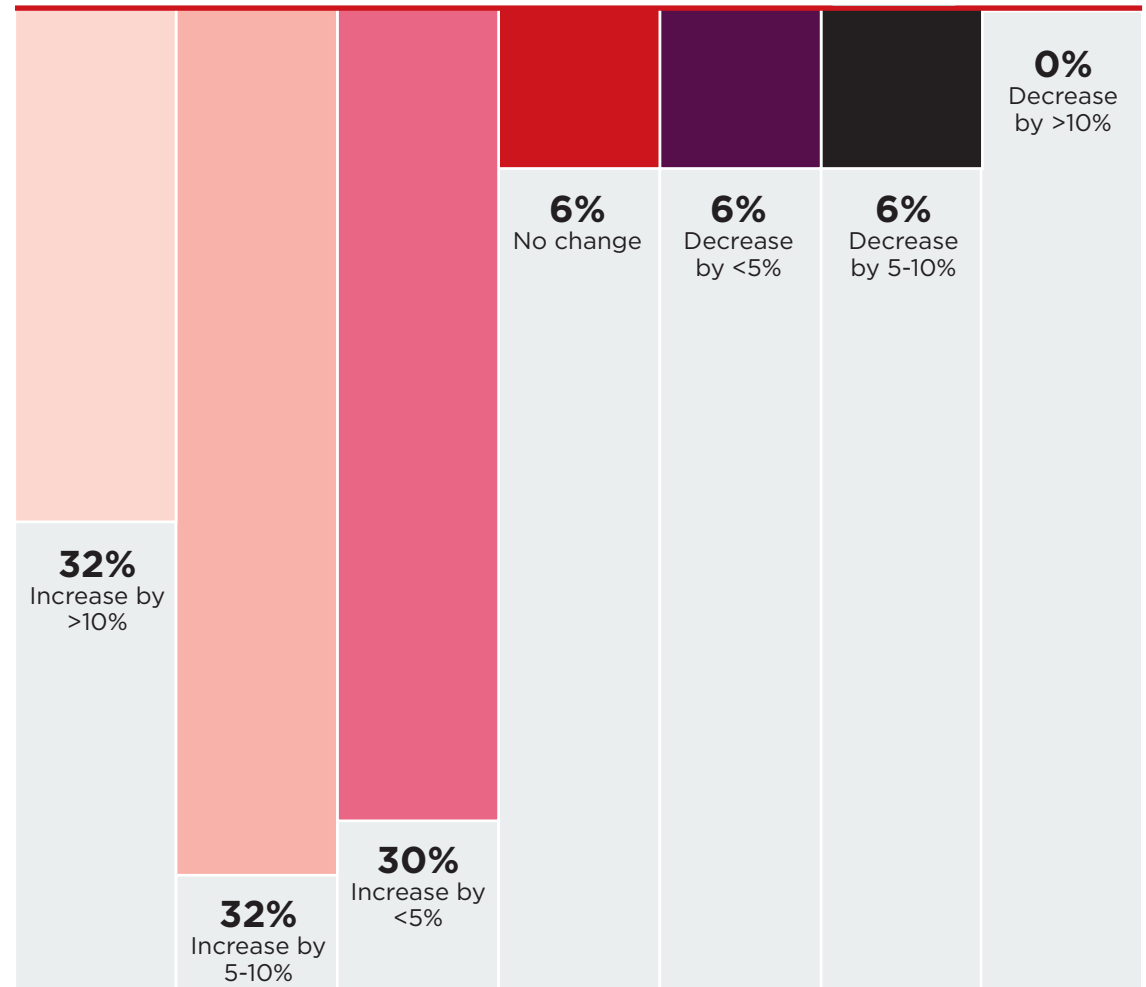
New for the LPM Frontiers 2023 research is analysis of how SME law firms are responding to current economic challenges such as inflation and a looming recession, specifically in relation to hiring strategy, revenue projections and costs – both fixed and variable. Many of the business leaders interviewed for this report acknowledged the oft-cited countercyclical position of legal services as a factor in what they expected to be a strong financial performance – 94% predicting an increase in revenue this year (p19). Diversified practices, in particular, are well protected from economic fluctuations.

Sean Sanders says: “It feels as though we’re operating in a false economy – we hear doom and gloom stories coming from the outside, but we’ve seen no drop off in business. If anything, we’re working on building capacity to manage our workloads.

“It varies from one practice area to another. Given the state of the property market, our residential conveyancing team is quiet at the moment, as is the corporate team owing to low deal activity. The rest of the business is very active, and we’re budgeting for a revenue increase of 5-10%.”

For some, growth this year is more a product of the pandemic than the current economic circumstances. Wendy Edwards at Attwaters Jameson Hill also reports that business is going strong with help from some resilient practice areas, but she puts the firm’s growth into context. “Our revenue this year is far better than last, mainly because we had a difficult 2021-2022 financial year. We were running quite a few properties despite the shift to hybrid working, which put a strain on resources, and our restructuring efforts were very much in progress.

How do you think your law firm’s revenue will change in 2023-24?



ACCELERATE PRODUCTIVITY

Marcus Dacombe, head of product marketing, Access Legal

This year's LPM Frontiers report comes against a backdrop of economic and talent challenges in the legal sector – while client expectations continue to evolve across all areas of law.

Yet, law firms remain resilient and optimistic. An unwavering commitment to their people and a real desire to build on exceptional client service to future-proof their firms is emphasised in the poll results. Few SME law firms appear to be worried about a financial fallout from the current economic challenges – 94% expect revenues to increase over the next 12 months (p19), and 62% anticipate their teams will grow over the next five years, proving their impressive resilience. To achieve these revenue and people goals, SME firms will need to accelerate efficiencies, productivity and profitability to ensure they can increase caseloads as well as attract and retain the best legal talent – all while boosting cybersecurity, supporting agile and hybrid working and maintaining compliance. Digital transformation is going to be key, and it's already at the core of most SME firms' strategies. For 45% of firms, building an agile, digital-first culture is

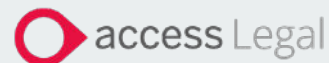
at the top of the priority list, while 34% are aiming to become more data-driven in their decision-making (p8). With today's rapidly changing digital trends and technologies, law firms must stay on top of digital transformation to remain competitive.

It's good to see that many firms are now recognising where their legal tech isn't meeting their needs. When asked which two systems should talk to each other better, 38% said primary service delivery systems like case management and document management technology don't currently and should integrate – while 32% said their client-facing tech and 26% said their financial systems don't integrate well with their other legal applications (p16). Some SME firms have gone from barely using a case management system five years ago to relying on legal tech for almost every aspect of their firm. From partnering with our SME customers, we know that many want their case and practice management, financials, payroll, HR, compliance and more to all talk to each other and share data from a single source of truth – especially with the majority of firms adopting hybrid working (75% say practitioners spend three days or less in the office) (p11). This is just one of the reasons

why our customers value Access Workspace, which gives them instant and easy access to all their applications and data in one place, in turn giving them more freedom to focus on client experiences.

It's clear that legal tech is a priority for firms. As a percentage of a firm's revenue, tech spending has increased from an average of 6.2% to 6.5% this year (p13). And there are no signs of this momentum slowing – 61% of firms expect their tech spending to increase over the next year to meet their digital transformation goals (p15). Finally, it goes without saying that with the right technology provider on hand to guide and support them with every aspect of their operations – by providing the right tech solutions to support their digital transformation – firms will be able to deliver exceptional customer experience, gain a competitive advantage, gain returns on increased tech investments and achieve greater overall efficiency and profitability.

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“We've now streamlined everything from an operational perspective – our support staff unit is smaller and our premises cheaper, with long-term leases that will help to control substantial price increases. We also work with an energy consultancy, which got in touch quite early during the ongoing crisis to help us secure some good contracts. This has protected us from the sharp spikes in costs that many businesses have experienced, or are expecting imminently.”

Indeed, 82% of firms expect energy and property costs to increase this year – and one fifth expect this jump to be higher than 10%. Two-fifths think the increase will likely be between 5% and 10%, while 23% expect a sub-5% rise (p21).

Firms are taking some steps to mitigate – Peter Carr says his firm has moved to a smaller office in one of its locations as a mitigation strategy, but adds there hasn't been any day-to-day disruption in terms of how much energy is needed to run existing offices and IT infrastructure.

Increased revenues will help firms match their growing spend on energy and premises, though one fixed cost remains particularly heavy and destined only to grow more expensive – people. In Frontiers 2022, recruitment challenges emerged as the most widely acknowledged strategic change consideration for SME law firms – cited by 78% of respondents.

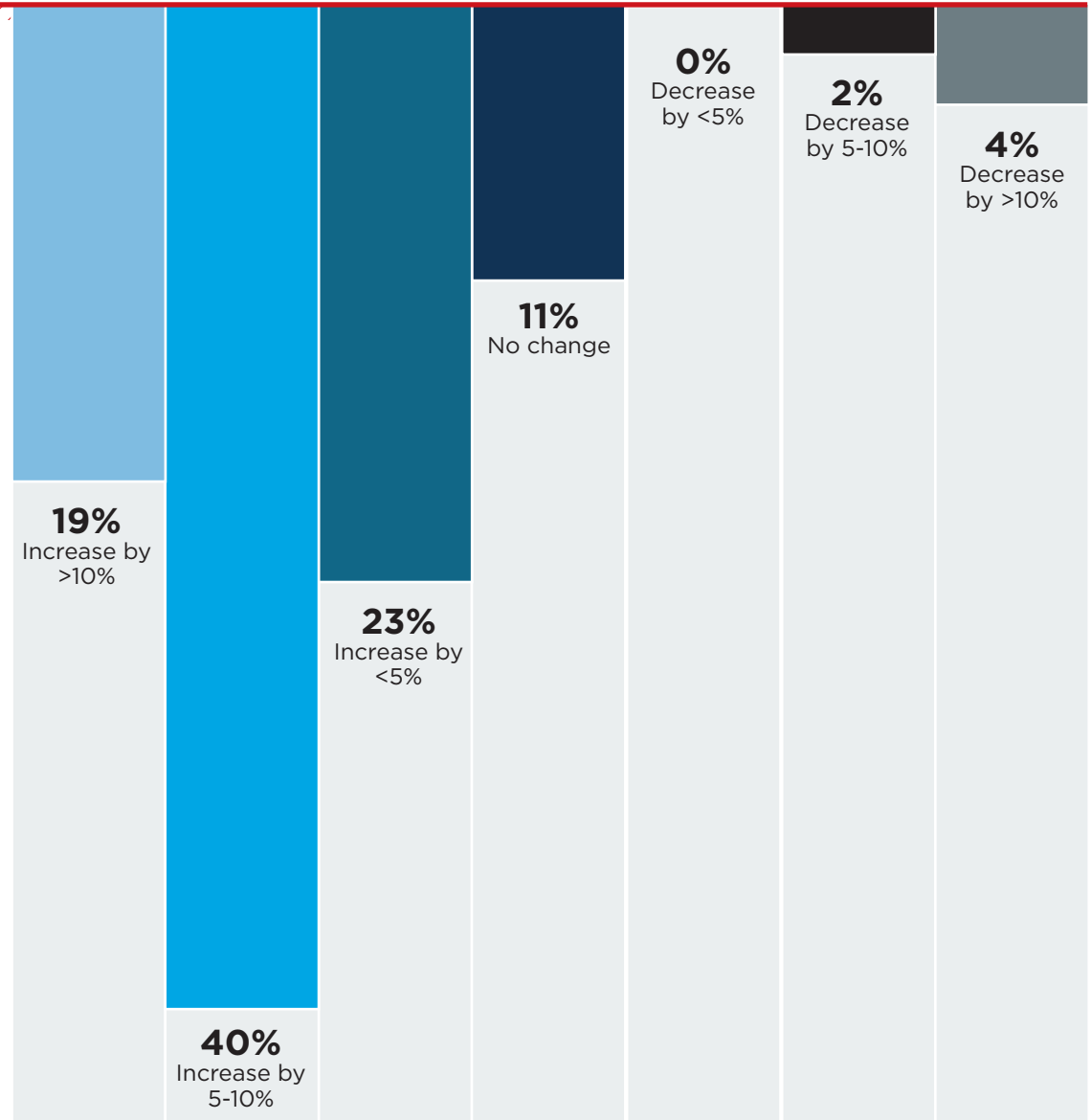
Central to the challenge is the rapid wage inflation that took hold in the legal space following the pandemic – with larger firms offering sky-high salaries to lure people away from SME and regional firms. Business leaders interviewed for this report stated firmly that they cannot compete in such a wage war, but have focused on building attractive cultures and career paths to secure the right candidate and retain



BILLS TO PAY

SME law firms are seeing the same spike in energy and property costs being felt across the wider economy. For 19% of firms, this jump is higher than 10% – some are feeling the pressure and taking steps to mitigate, though a widely expected rise in revenue will likely offset some of these increases.

How much do you think your firm’s fixed costs (such as energy, property) will change in the next 12 months?



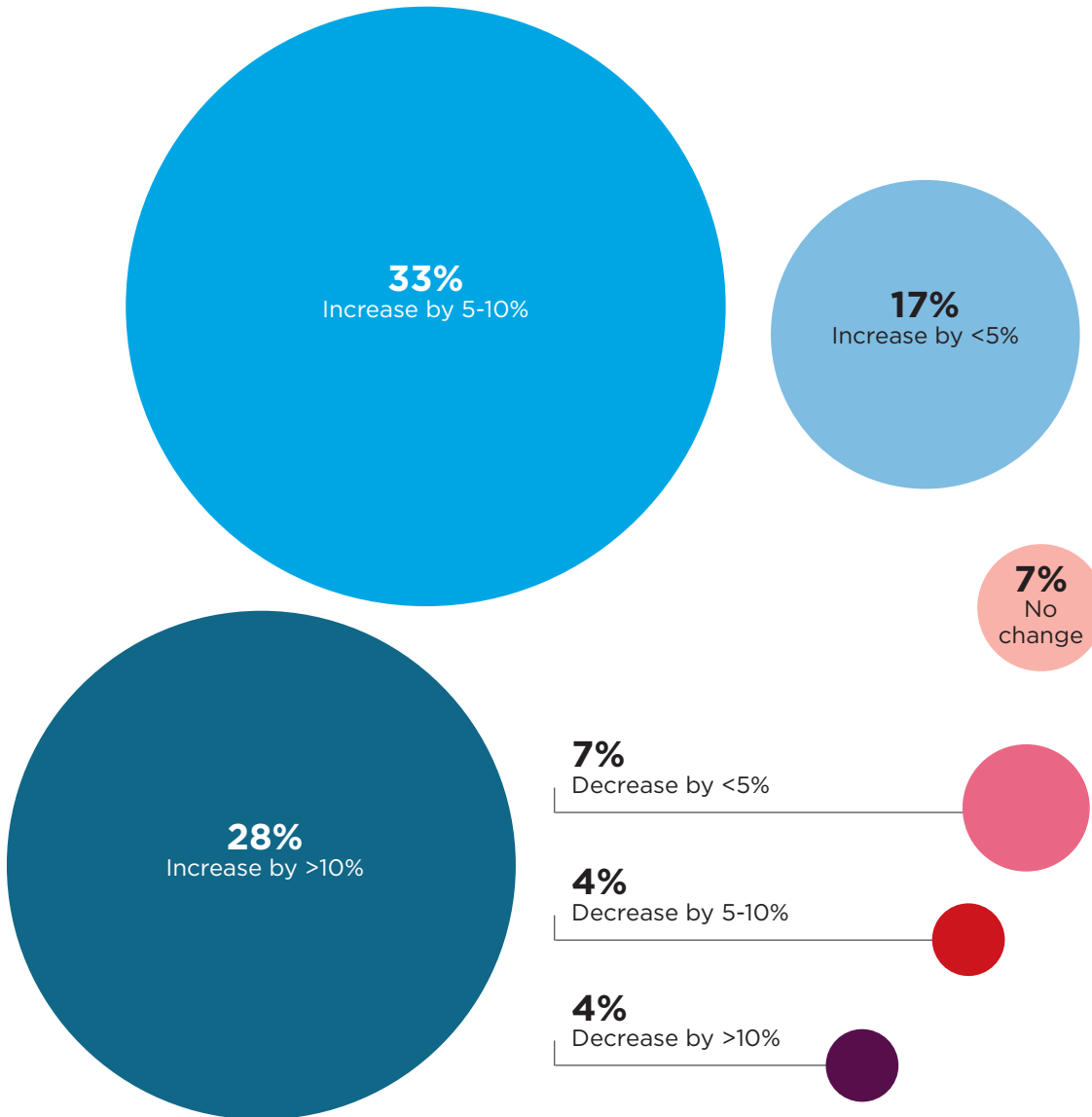
good people.

Nevertheless, shunning the wage war doesn't necessarily mean a cheaper salary bill for SME law firms. On the contrary, 78% of firms reported an increase in their wage bill over the last 12 months – 28% of these revealed that this increase was higher than 10% (p22). A third saw their wage bill rise between 5% and 10%, while 17% saw a relatively modest jump of less than 5%.

Florence Brocklesby of Bellevue Law says: “We’ve given pay rises to everyone in the business because they all have cost of living challenges of their own – not increasing salaries at a time like this is essentially the same as giving people a pay cut. We’re also firm believers that if you have a good team, it’s cheaper in the longer term to keep them happy than it is to find a replacement if they leave.”

Sanders reports a similarly generous outlay to protect retention: “Our firm has introduced private healthcare, fee-earner bonuses (based on exceeding department targets),

How has your monthly wage bill changed in the last 12 months?



appraisal bonuses for all staff based on the firm's profitability as well as the usual Christmas bonus. Beyond this, we have a lovely office and set up plenty of social events to make it an attractive place to work.

"But at the end of the day, I have never seen a greater imbalance between employees and employers in my long career. Irrespective of how happy people are within the business, recruiters are always contacting them and offering 30% increases and more, which can understandably be life-changing for young lawyers looking to start a family and climb the property ladder. We can't match those offers because we have to be responsible with our own commitments."

Sanders is among many business leaders who report that leavers often return to a firm within a few years if the culture is good. Still, one consequence of regular, unexpected departures, combined with stable revenues, is that firms remain on the lookout for talent – 62% report that the economic outlook for this year won't affect their hiring strategy when it comes to fee earners (p24). An additional 26% expect an increase in recruitment activity.

Splitting the data again by firms with fewer or more than 50 people in total reveals an interesting distinction – 32% of leaders at in the former bracket plan to increase hiring this year, which only applies to 18% at larger firms (p24). At the same time, 16% of sub-50 headcount firms are planning to cut hiring this year, as opposed to only 9% in the larger segment.

But hiring plans remain relatively undeterred on the whole – firms are at capacity with strong business activity, many are expecting revenue growth and widespread departures

To what extent might the economic outlook for 2023-24 influence your firm's hiring strategy for business services staff/operations employees?

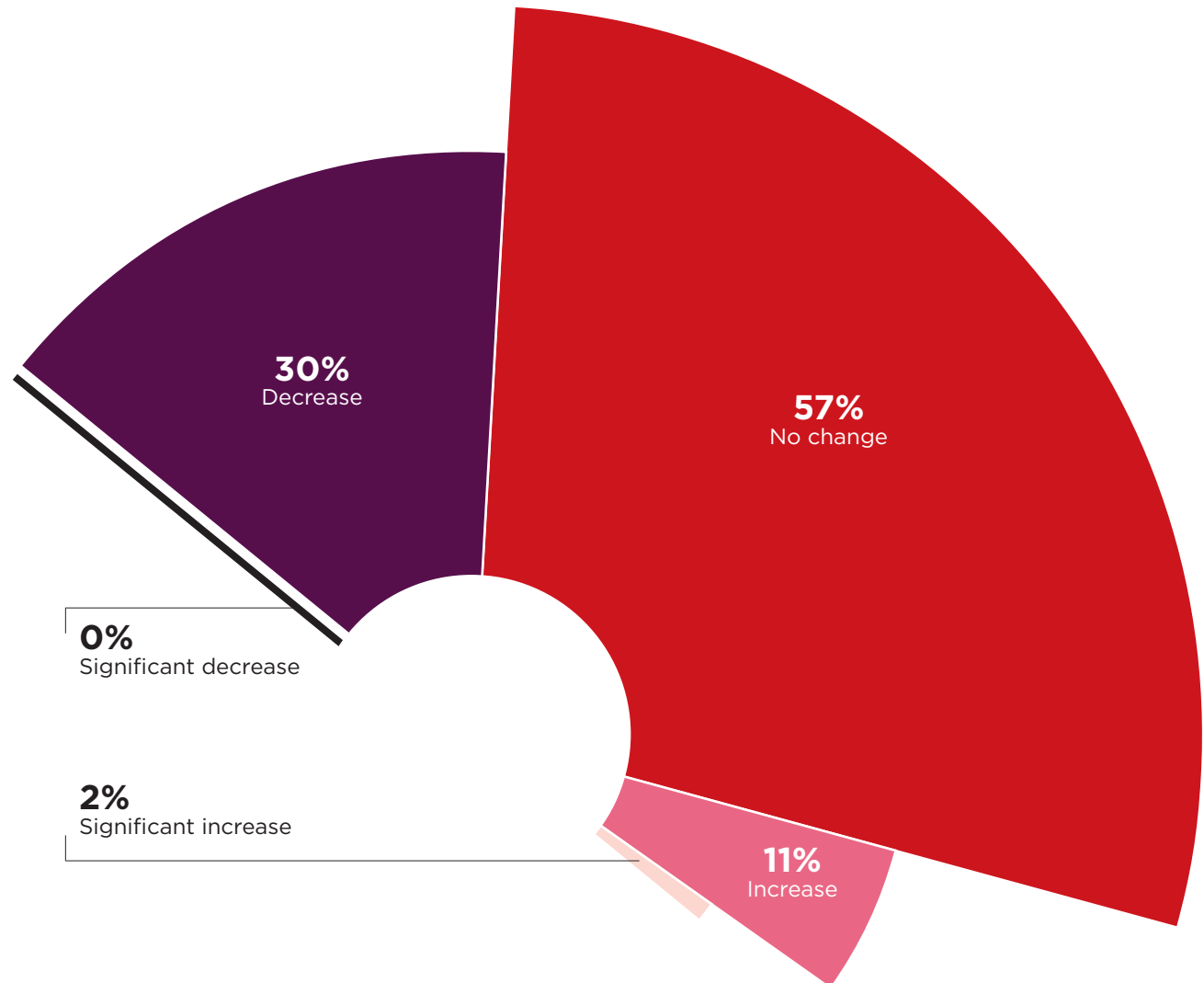
continue, which makes recruitment of fee earners crucial.

Growth also means that firms will need to bolster business support departments, which includes investment in people – 57% of leaders report that hiring on the business services and operations side of the business will remain unaffected this year, while 11% expect an increase (see right). Wendy Edwards says: “We’ve recognised that, if we want to gain a competitive edge as a firm, we need to deliver a better and slicker service. It’s important to have the right business support team to assist with that.”

Brocklesby adds: “Our model is such that we expect to draw a growing share of business away from City law firms in coming years, while our focus on employment law also means we’re going to have a lot of work in the current economy. Growing from a small operation of six or seven people to between 20 and 30 people will require a robust support structure. We’ve grown our finance team and are planning to hire a COO, in addition to ongoing recruitment for overall business support.”

Notably, 30% of SME law firms plan to decrease hiring for business support roles this year – more than twice the share that are cutting recruitment on the fee earner side. This potentially signals that firms tend to prioritise bringing in more revenue over bolstering their existing operations at a time of uncertainty.

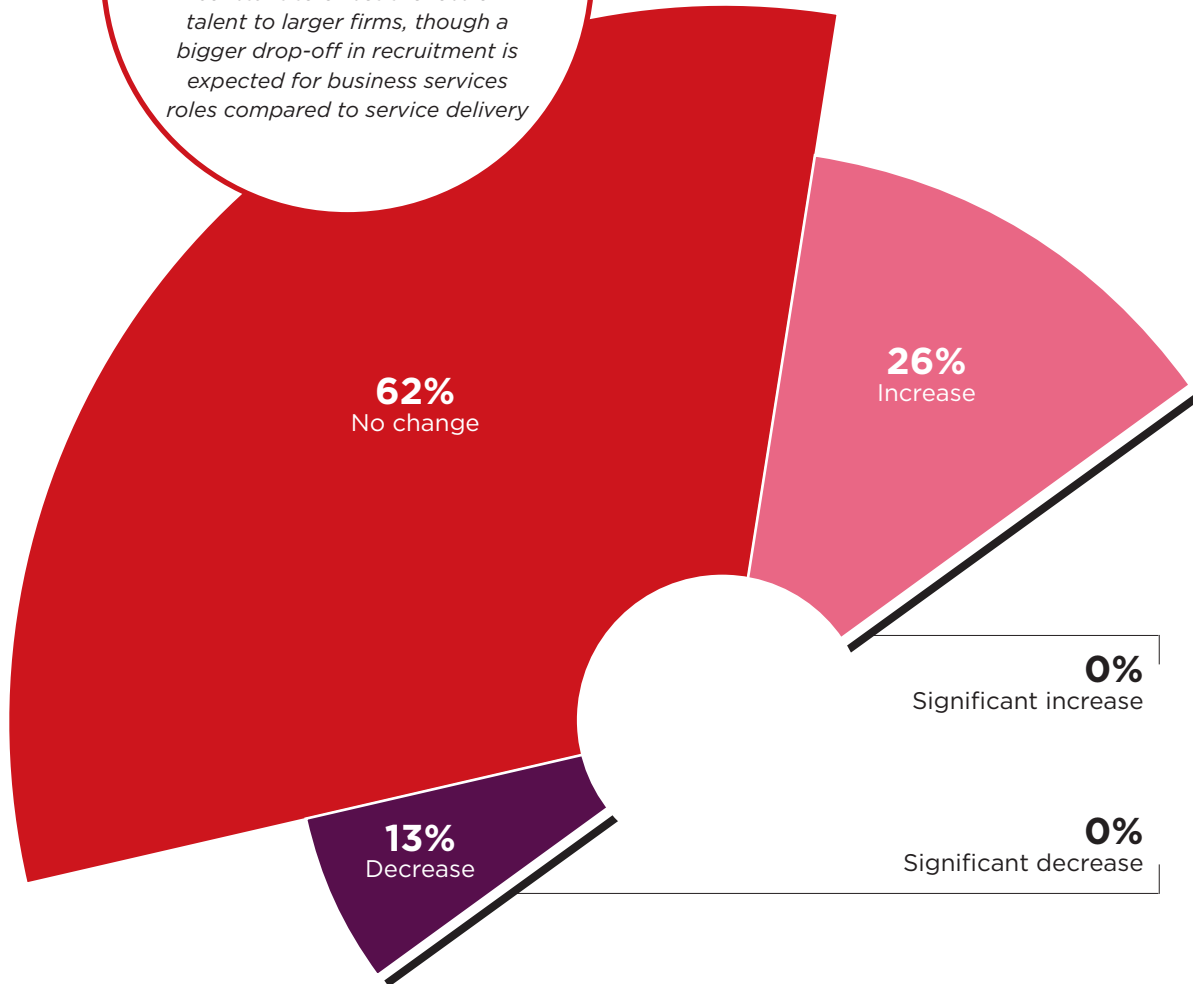
This isn’t always the case. Sanders says: “Our business support infrastructure is quite extensive and comes at a high cost, which at the moment is disproportionate to our income levels. But the goal is to have the structure in place to flex up when we start to realise our expansion goals and turnover starts to climb.





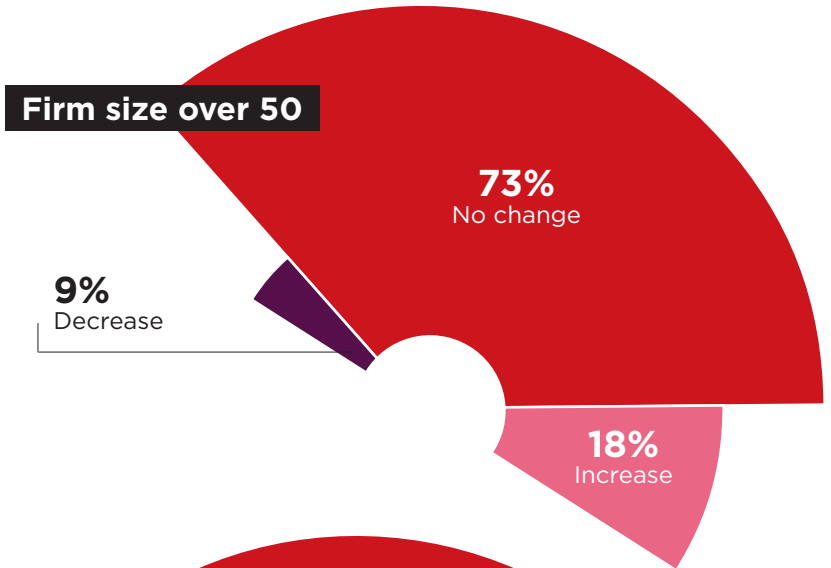
HIRE AND HIRE

The economic climate isn't dampening firms' search for talent - many expect activity in certain practice areas to rise in the near future, which will need all hands on deck. Hiring also needs to remain constant to offset the loss of talent to larger firms, though a bigger drop-off in recruitment is expected for business services roles compared to service delivery

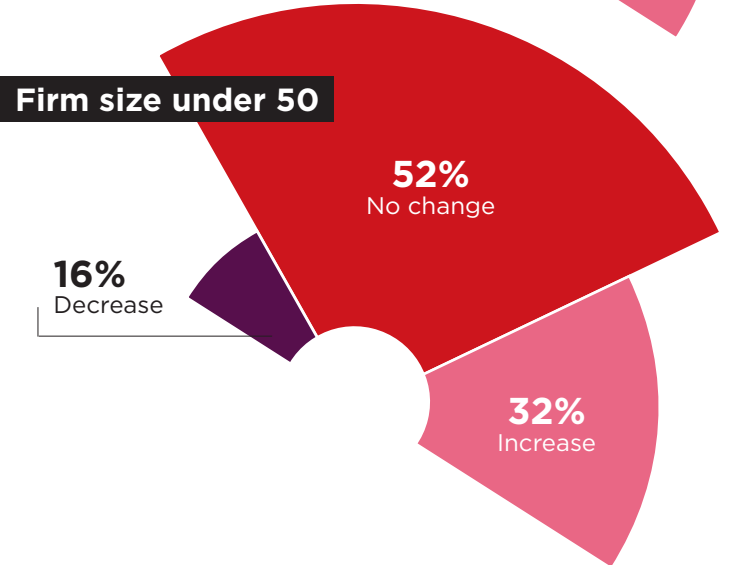


To what extent might the economic outlook for 2023-24 influence your firm's hiring strategy for lawyers/service delivery?

Firm size over 50



Firm size under 50



SPARE CHANGE

Finally, in Frontiers 2022, we also asked SME legal leaders about the extent to which clients were assessing their firms' environmental policies and targets when deciding whether to work with them - 71% said that this rarely or never occurred.

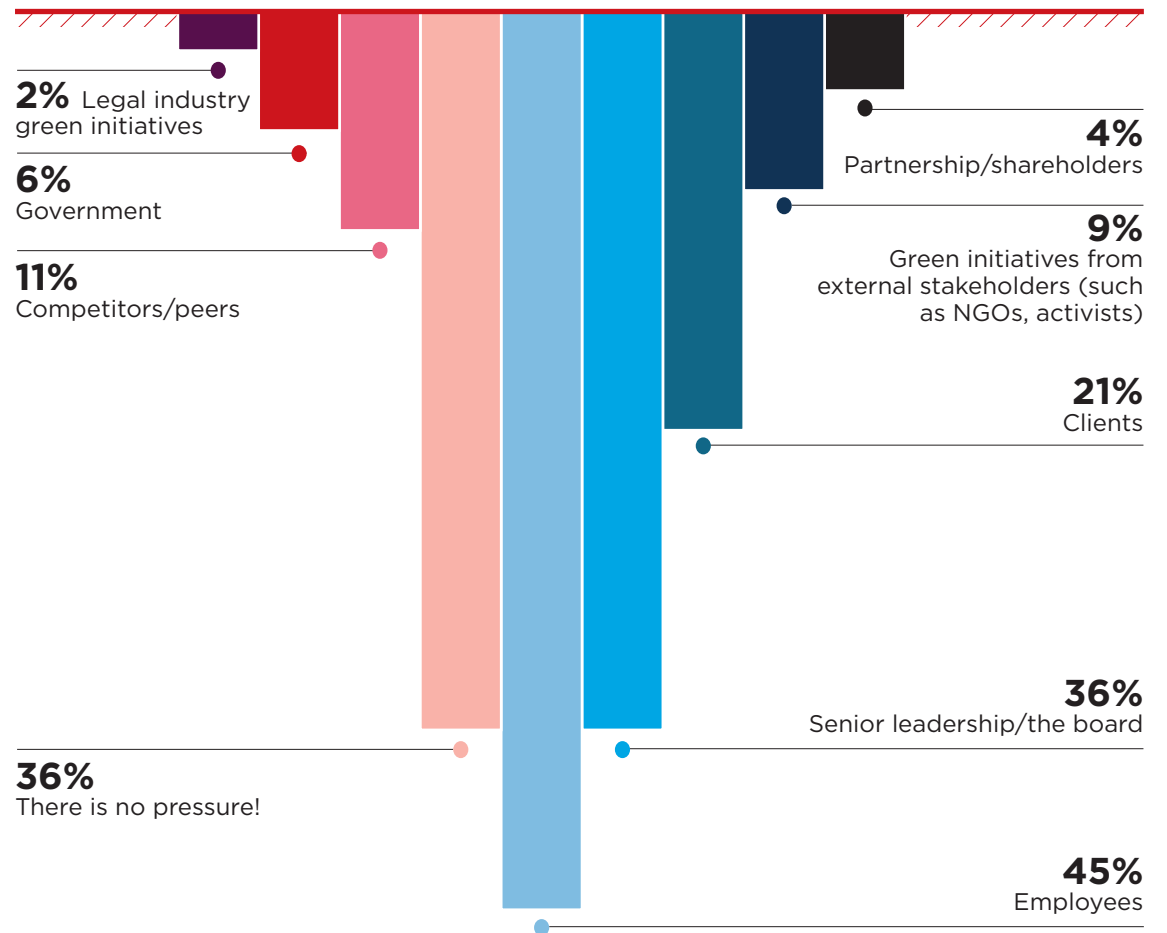
This year we took a different tack: asking leaders where impetus for change - if any - was actually coming from. While 45% say most pressure to be more environmentally conscious or sustainable comes from employees, 36% suggest that there is no pressure at all (p25). Senior leadership drives change at 36% of firms, clients demands are a motivation for 21%, while competitors, NGOs and the government are other marginal sources of pressure.

Antonia Shield of BPE Solicitors says: "I was expecting the younger ranks in our firm to take up the cause of conservation more vigorously. We have an environmental, social and governance (ESG) committee at our firm and we have taken initiatives in the recycling and sustainability space because it's the right thing to do, but the committee could be more vocal."

Firms were also asked about pressure to be more diverse organisations and inclusive when it comes to gender, ethnicity and socioeconomic backgrounds of people at all levels of the business - 45% say there is no pressure, indicating the need for a greater push in the sector (p27). Again, senior leadership is the second biggest driver of change here (36%), followed by employees (32%) and clients (15%).

Wendy Edwards of Attwaters Jameson Hill says: "Our senior leadership has undergone inclusivity training to better understand how to progress in that space, and the

What is the source of highest pressure for becoming more environmentally conscious or sustainable?



DIGITAL-FIRST CULTURE

Mike Hinchliffe, general manager, Tesseract

Digital transformation has become the buzzphrase in recent years. Like all service industries, legal is being influenced by advances in technology, changing client expectations and new competitors – many of whom are non-traditional technology-led disruptors. To stay relevant and competitive, law firms must embrace digital transformation. It's quite simple – clients and employees expect no less. But is it all just for show? Well, not according to this report – half of SME law firms say that “building an agile, digital first culture” is a strategic priority. So, what is driving this digital charge?

Firstly, digital transformation helps law firms improve their efficiency and productivity. By automating routine tasks and using an array of tools from document automation through to fullyfledged practice management software, law firms can reduce the amount of time and effort required to complete work. Good technology also reduces the risk of errors and improves the quality of output.

What's more, digital tools can help law firms analyse data more effectively, providing insights to inform decision-making and improve outcomes.

Secondly, digital transformation is beneficial for the client experience. Increasingly, decision-makers on the client side are younger professionals who have always been surrounded by technology. Today's clients expect a seamless, personalised and technology-enabled experience from their service providers, including law firms. Digital tools can help law firms meet these expectations, resulting in increased client loyalty and retention, and perhaps even a referral or two.

Thirdly, the changing demographics within law firms themselves are contributing to the pace of change. Most lawyers today have a forward-thinking attitude towards technology, simply because they have grown up with it. Recruitment and retention are tough – a digital-first approach is one way to attract and retain talent in a highly competitive market. A talented candidate, given

the choice of Law Firm A, a digital-first firm, and Law Firm B, a firm that isn't prioritising digital investment will, all else being equal, pick Firm A every time.

For many years, commonly received wisdom was that law firms were resistant to digital transformation because the billable hour was the prevailing route to revenue. The billable hour, by definition, provided a built-in disincentive to become more efficient – why bother when efficiency simply means fewer hours to bill? However, the 2023 LPM report shows a marked trend towards fixed fee billing. Increased fixed fee billing gives firms the structural motivation to pursue increased productivity through innovation. Layer on client and employee expectations, and the ingredients for digital transformation are well and truly in place.

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conversation around gender identification has also come up – it's mostly employees that have driven this, and we've been open to change. When it comes to sustainability, I don't see that being on the boardroom agenda any time soon – real change would come about only if there was more regulatory pressure to report our efforts in a substantial way.”

At Radiant Law, Alex Hamilton believes that firms need to find the impetus for change from within. His firm has obtained B Corp status – a certification that identifies that a business has committed to balancing the goals of profitability and impact on society. “I don't see pressure for change coming from anywhere,” he says. “Some clients and employees ask questions about our ESG practices, but to the best of my knowledge they haven't based any decisions on our performance in that area.

“We sprang for B Corp certification because it was the right thing to do – there's no direct monetary benefit. Our business has a clear sense of purpose beyond the

“ I don't see sustainability being on the boardroom agenda any time soon – change would come about only if there was more regulatory pressure to report our efforts in a substantial way. ”

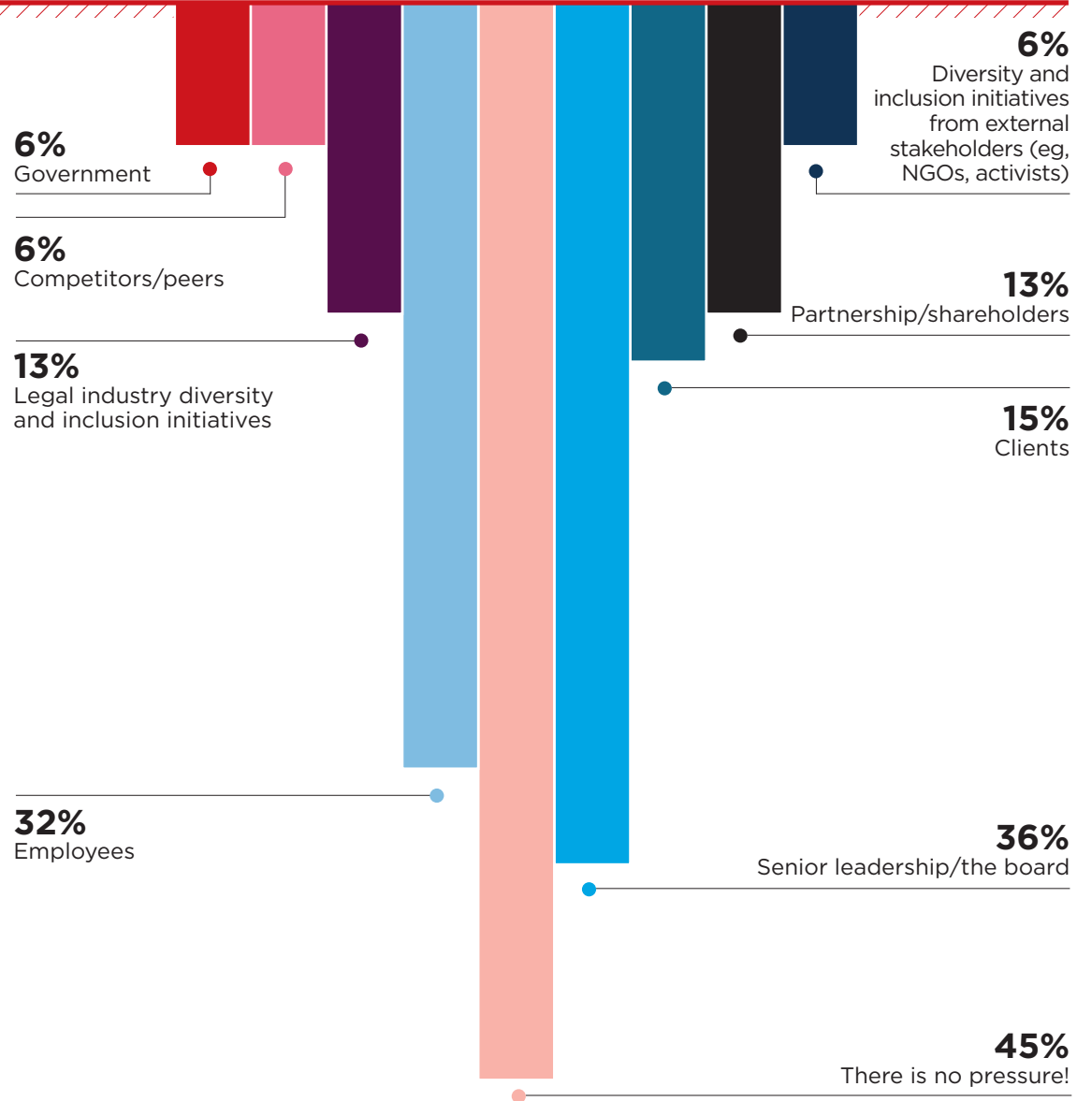
**Wendy Edwards, finance director,
Attewaters Jameson Hill**



NO PRESSURE

As environmental, social and governance (ESG) performance grows in importance in the wider economy, many SME legal firms aren't feeling the pressure to change. Senior leadership and employees are the main spark for advancement in the space, though some say regulatory pressure will likely be the most decisive factor.

What is the source of highest pressure for becoming more inclusive (such as ethnic, socio-economic, gender diversity)?



transactional work that we do, which is to make a positive impact and improve contracting practices. We also sponsored professional training for a thousand people in South Africa last year, and will continue to do so this year. And 10% of our operating profit goes to charity. None of this brings any business or profit directly – but it’s our way of helping.”

One additional benefit, as noted by Hamilton, is that the B Corp certification checklist provides a comprehensive framework to measure overall business hygiene and compliance. He says the application process shouldn’t be too challenging, particularly if senior business leadership is aligned around the importance of cultivating a ‘purpose’ and performing well along ESG metrics. On the other hand, he notes that becoming a B Corp is currently high on many firms’ wish lists, which is causing a backlog of applications to work through. It remains to be seen how many SME law firms are contributing to that congestion.

23 LEGAL TECHNOLOGY INSIGHTS FOR LAW FIRMS IN 2023 AND BEYOND



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