



Small and Medium Law Firm Report 2020: Competitive landscape



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Introduction

This report presents findings from survey work undertaken with our small and medium law firm customers from September to November 2019—and focuses on the competitive landscape.

Thomson Reuters categorises small law firms (SLFs) as those with 30 fee earners or fewer, and medium-sized law firms (MLFs) as those with between 31 and 100 fee earners. We also received responses from some alternative legal service providers (ALSPs). The survey is based on 200 responses, including 41 partial responses.

The survey aimed to find out more about this customer base; challenges from the market and competitive landscape, and their attitudes towards technology.

Where applicable, comparison has been made to the SLF survey undertaken by Thomson Reuters in 2018.

Figure 1: Responses by practice areas

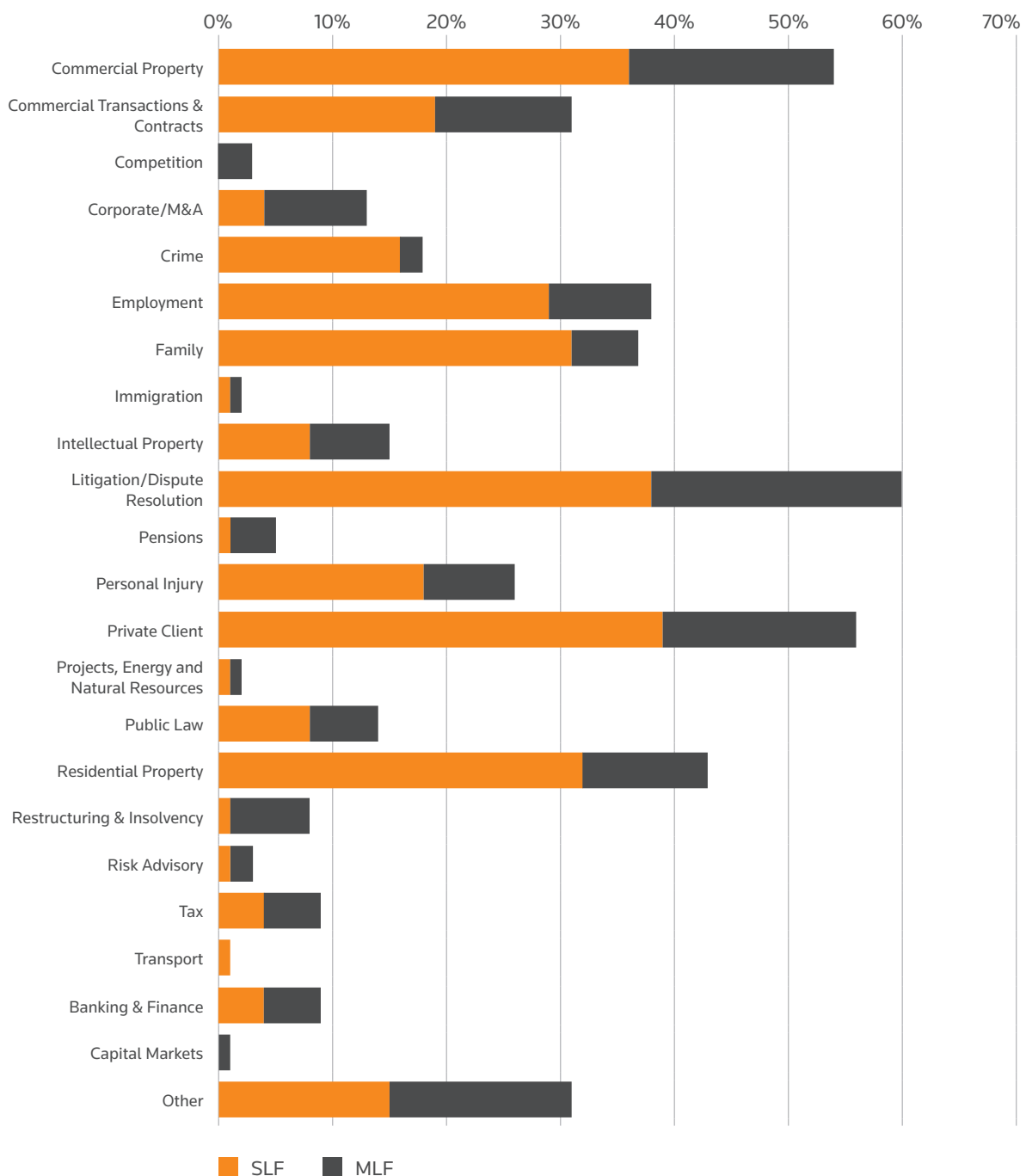
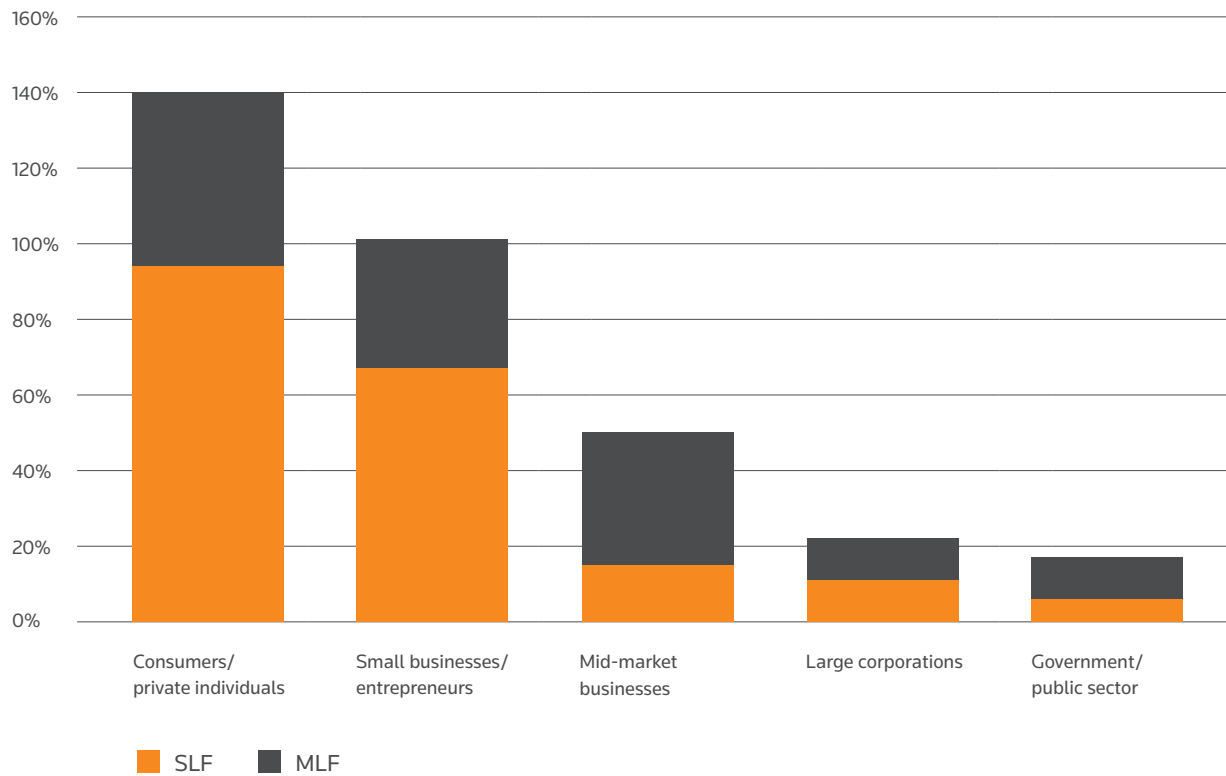


Figure 2: Type of clientele served



Our respondents were relatively evenly spread across SLF and MLF. They primarily advise across the largest key practice areas of property, private client, general litigation, and commercial work. They mainly serve private individuals and small businesses.

Competitive Landscape

Respondents' views on market and revenue expectations

Survey respondents were asked for their views about the market and competitive environment had changed over the last 12 months. The majority (58 percent) feel they are broadly the same; for SLF there has been a lowering of expectations from 26 percent (2018) to 15 percent who feel it is much better in 2019.

While the responses suggest stability, this market is subject to some strong trends that are putting pressure on law firms. Respondents identified the following key themes:

- Change in client buying patterns leading to more demands on law firms, coupled with a more informed clientele and a willingness to shop around. This trend is supported by the introduction of price transparency, enabling consumers to research prices online more easily.
- Rise of online legal service providers and the willingness of the public to try them.
- Impact of Brexit, having both a chilling effect on readiness to invest, but creating opportunities for overseas investors due to the weaker pound.
- Regulatory and policy changes, for example court closures and changes in sentencing practices reducing the number of criminal trials.

“ More competition and clients more likely to shop around and compare with peers. They seek top quality, pragmatic advice which is reasonably priced and cost-effective.”
(High Street firm)

Figure 3: Views on how the market and competitive environment have changed over the last 12 months

	Much better	Somewhat better	About the same	Somewhat worse	Much better
Total	5%	16%	58%	20%	2%
SLF	7%	15%	58%	18%	3%
MLF	1%	18%	58%	23%	1%
2018 Figures					
SLF	3%	26%	50%	18%	3%

Figure 4: Views on revenue versus 12 months ago

	Rapid Decline	Steady Decline	About the same	Grown steady	Grown quickly	Don't know/ Prefer not to say
Total	1%	6%	40%	30%	2%	22%
SLF	1%	8%	46%	29%	3%	14%
MLF	0%	3%	31%	32%	1%	32%

2018 Figures

SLF	1%	6%	37%	41%	5%	10%
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Revenue comparisons closely reflect views on the market/competitive environment. There is a mixture of positive and negative views with respondents commenting favourably on the removal of ET fees and improved price transparency, which has led to competitive pricing. Some respondents report an increase in volume of work. Challenges are coming from fixed fees and price sensitivity as a result of online competition.

Respondents noted the following factors as supporting their predictions of strong growth:

- Focussing on key, more profitable areas of the business
- Improving client experience and new ways of engaging with clients
- Revamping business processes to increase efficiency


“ We are being more selective about the work we are taking on, and more astute about fee estimates.”

(Small law firm)

Figure 5: Revenue expectations for next 12 months

	Rapid Decline	Steady Decline	About the same	Grown steady	Grown quickly	Don't know/ Prefer not to say
Total	1%	6%	33%	36%	1%	24%
SLF	1%	8%	38%	37%	0%	15%
MLF	0%	3%	25%	34%	1%	38%
2018 Figures						
SLF	0%	5%	30%	51%	1%	12%

Expectations are linked closely to respondents' experience of the prior 12 months. SLF respondents are more pessimistic than in 2018 with 37 percent now expecting steady growth compared to 51 percent in 2018. The same factors influencing a good year last year will help firms grow in 2020. Many respondents commented on their increased focus on business development as a key factor underpinning their growth strategies.

 **More focus on business development.”**
(Regional law firm)

Clients' expectations

Of the respondents, 63 percent believe that clients' expectations are higher than they were five years ago with clients being more demanding about what they want and more knowledgeable.

In addition to demanding great service for the same price, clients want price certainty and some "clients want alternatives to the hourly rate". In the case of corporate clients—additional services, such as training and services which have been enabled by more widespread adoption of technology.

Figure 6: Changes in clients' expectations in last five years

	Lower	Unchanged	Higher
Total	1%	36%	63%
SLF	1%	37%	62%
MLF	0%	35%	65%
<hr/>			
2018 Figures			
SLF	3%	27%	70%

Comments on changing client expectations

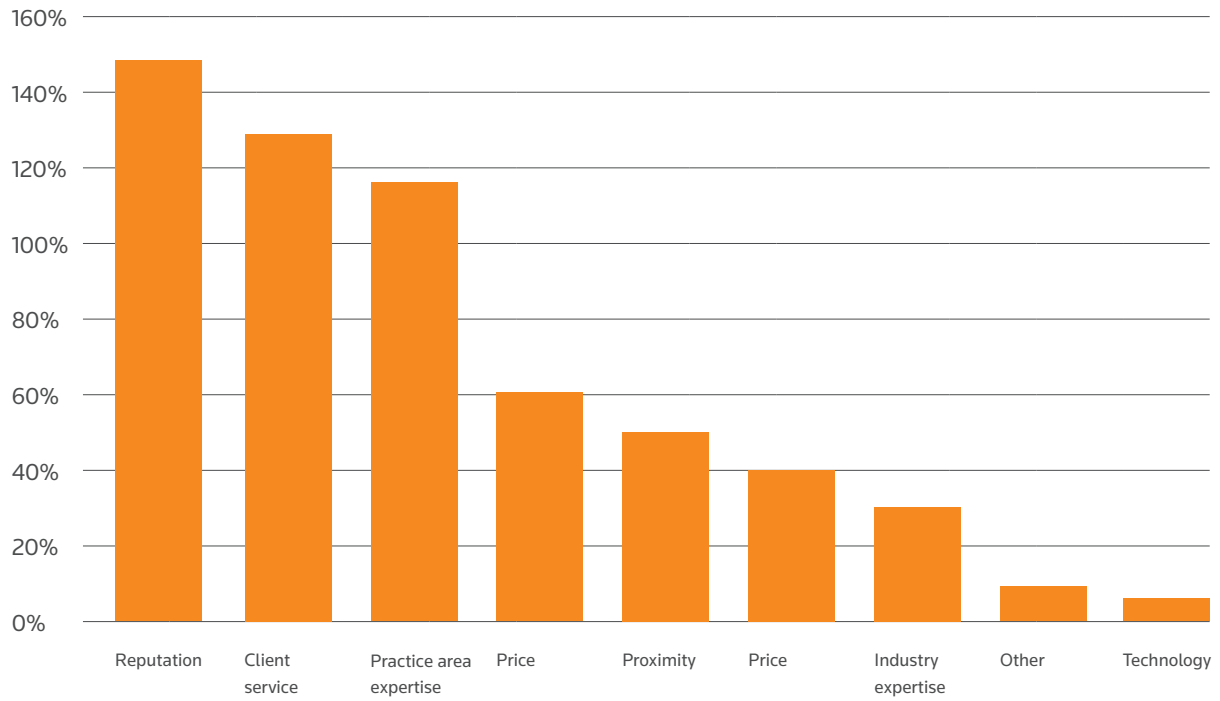
“ Our clients are under considerable budget pressures and look to us to deliver solutions to them at competitive rates and providing innovative advice and solutions.”
(ALSP)

“ Clients generally expect more, as they are used to exceptional service in all areas of life. The legal sector is no different.”
(High Street firm)

“ Client expectation is now based on 24/7 availability.”
(Small law firm)

Winning work

Figure 7: Reasons clients choose a firm



There is little variation between SLFs and MLFs, with the top three reasons given for why firms believe a client chooses them: reputation, client service and practice area expertise. This means a reliance on some form of existing relationship or referral system in order to attract customers—and poses challenges for firms looking to attract new business if they do not have established networks to bring in new clients.

The lower ranking of price is at odds with some of the comments seen from respondents about clients’ expectations of price and margin pressures. The arrival of online entrants into the market would also indicate that clients may factor price more highly into their decision to select a firm than some law firms believe.

“Clients have more choice of service providers; they have greater awareness of what to expect from those providers and how much it should cost them.”

(High Street firm)

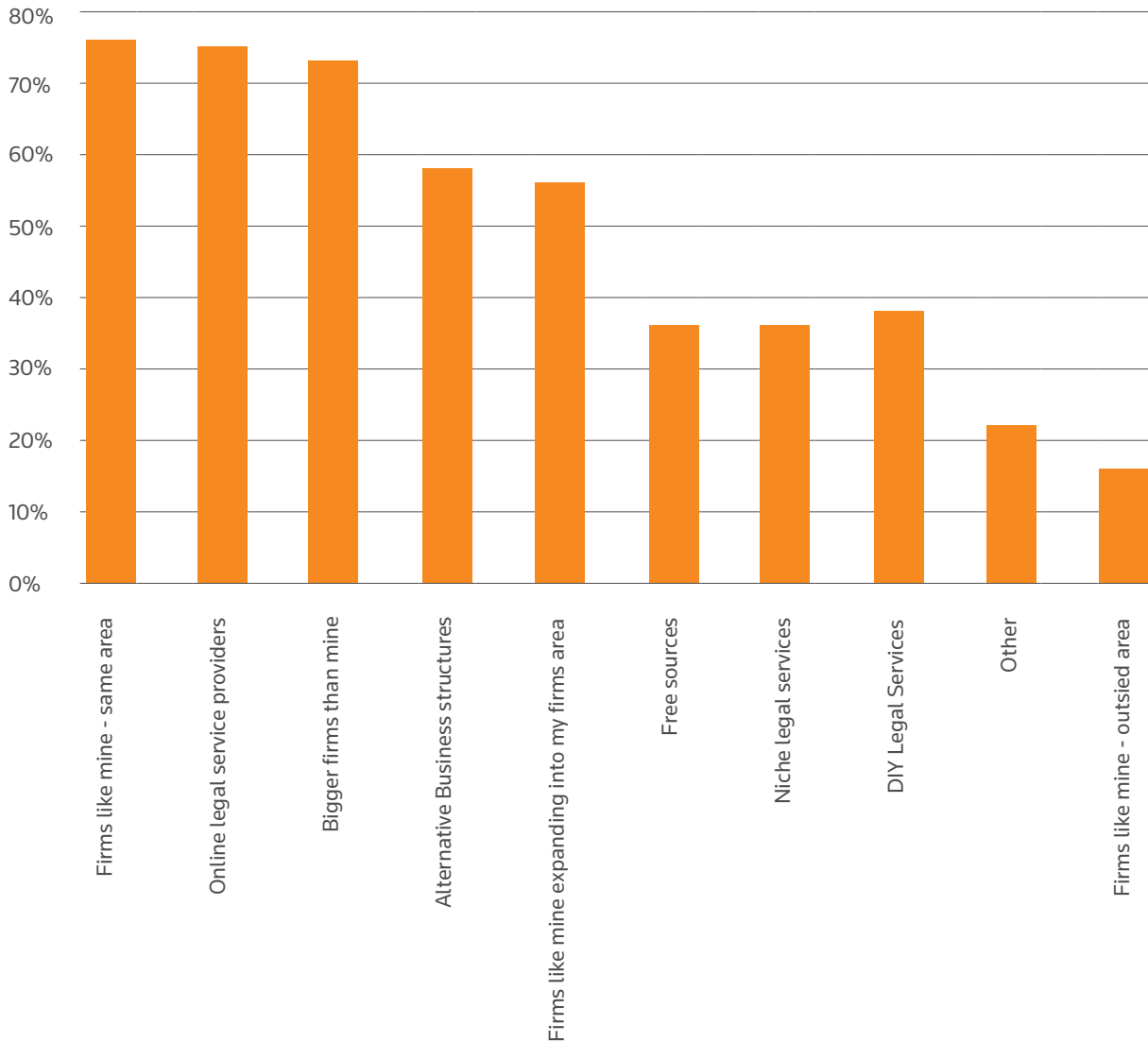
Figure 9: How firms win work

	Total	SLF	MLF
Mostly repeat business	89%	92%	86%
Cross referred within firm	49%	39%	64%
Referred through business networks	58%	56%	63%
Direct enquiries	60%	64%	55%
Winning tenders	19%	5%	41%
Other	7%	9%	3%

Repeat business (which for consumer clients could include personal recommendation from family members) is the most common way across all firm types to win new business, followed by referrals. Larger firms are more likely than smaller firms to win work through tenders, reflecting their different client base.

Commercial threats and objectives for the next 12 months

Figure 9: Biggest commercial threats to firms



Respondents see online entrants to the market as one of the biggest commercial threats—with SLFs seeing this as the number one threat—while MLFs see it in their top three. However, the reality is likely to be less binary. Established firms using technology to expand their offering and improve the client experience are more likely to thrive.

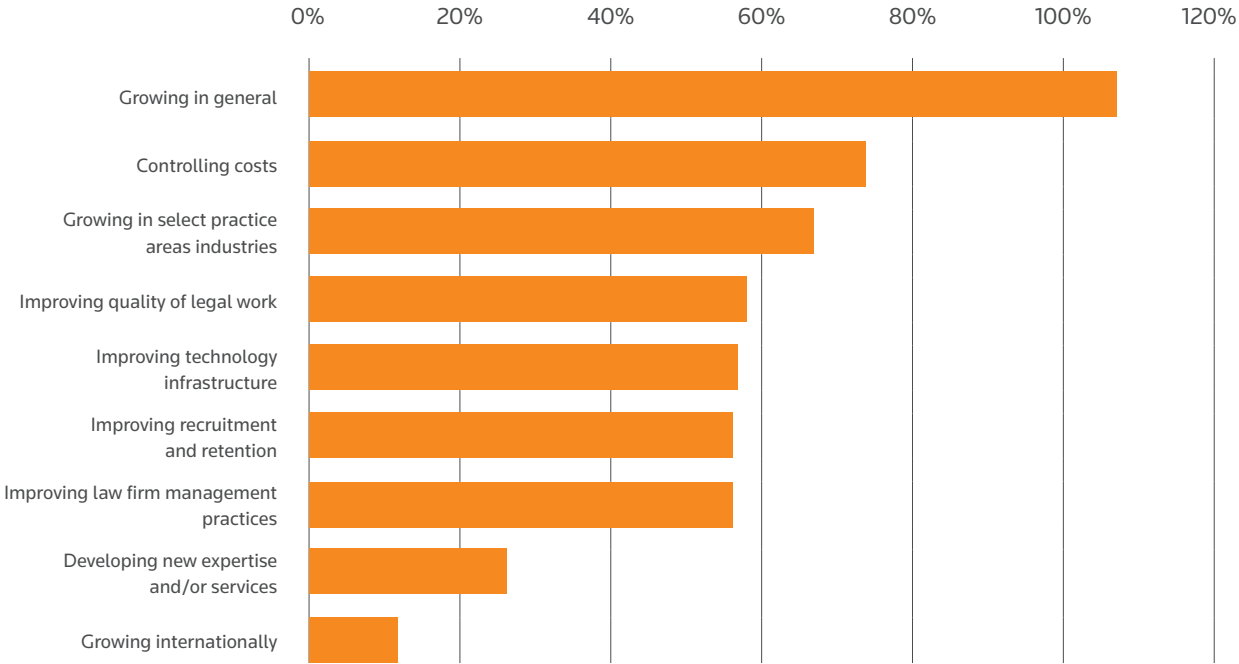
“ Clients may have been sceptical about online solicitors’ practices. However, demonstrable achievements for clients have eliminated any early reticence about using this type of firm.”

(Regional law firm)

Figure 10: Biggest commercial threats to firms—sub-segment view

	Total	SLF	MLF
Bigger firms than mine	73 3	43 2	30 2
Firms like mine - same area	76 1	37 3	39 1
Firms like mine expanding into our area	56 5	33 4	23 5
Firms like mine - outside area	16 10	9 10	7 10
Online legal service providers	75 2	48 1	27 3
Alternative Business Structures	58 4	32 5	26 4
Niche legal services	32 8	21 8	11 6
DIY Legal Services	38 6	29 6	9 8
Free sources	36 7	25 7	11 6
Other	22 9	14 9	8 9

Figure 11: Objectives for next 12 months



Respondents were asked about their objectives for the next 12 months with general growth being the key objective, followed by cost control. MLFs see improvement in their technology infrastructure as their third most important objective.

Conclusion

The financial outlook is stable, despite client pressure on fees, and respondents feel cautiously optimistic about the next 12 months. The majority report that they expect to grow steadily by focusing on business development activities, investment in staffing and improving productivity in support of their growth objectives. Technology and better use of data have key roles to play in supporting these firms' growth strategies. A companion report covers the responses to questions about the use of technology.

Respondents report high expectations from clients. If clients are choosing firms through reputation and recommendation, firms must ensure they have robust networks in place to continue to attract new clients.

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