

The Armstrong Watson Legal Sector Survey

Alternative Business Structures

July 2013

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Context of this report

The report has been compiled using the responses from 36 law firms.

This report has been compiled by Armstrong Watson using the data supplied from law firms participating in the survey. The name of your business and the name of the other participating law firms are held in the strictest confidence.

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Commentary

We are delighted with the response rate to our survey on Alternative Business Structures. We're not surprised by the response rate given the significant changes in the legal market resulting from Alternative Business Structures and the Legal Services Act.

Participants in the survey have received the full survey results together with a set of tailored survey results relevant to the size of their firm.

The survey shows that a significant proportion of law firms are now considering changing the way they operate, or restructuring as a result of the Legal Services Act. Two thirds of firms think that the Legal Services Act will have a negative effect on the traditional law firm. However, many responses stated that although they expect a negative impact on the market as a whole, it would not impact their particular firm. This begs the question whether law firms are doing enough now to embrace the changes that are already upon them.

These negative thoughts for the market, but positive thoughts for their own firm are mirrored when it comes to the potential for external investment. Most respondents felt that traditional firms would not be able to attract external investment, but a significant number felt that their firm would be attractive. We hope the optimism shown in their own fortunes isn't misplaced.

The highlights from the survey are as follows:-

- The majority of law firms that responded to this survey are based in the North of England.
- The law firms that responded to the survey are diverse in size with a bias towards 2-5 partner firms.
- Over half of all the law firms that responded have up to 25 employees.
- There is an overall bias towards an LLP structure with 42% of firms opting for this. Only 11% of firms take advantage of a hybrid structure.
- Only 3% of firms are authorised as an Alternative Business Structure.
- The greatest proportion of fees for law firms is represented by Other Litigation (19%), Corporate and Commercial (16%) and Family and Children (13%).
- 66% of firms think that the Legal Services Act will have a negative effect on traditional law firms. Only 16% believe it will have a positive effect.

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- 40% of firms think that the Legal Services Act will have a positive impact on clients with 40% believing it will have a negative impact. The remaining 20% believe there will be no significant impact.
- Only 20% of law firms think that new entrants to the market will provide a better level of client service than traditional law firms.
- 64% of law firms think that the ethical standards of Alternative Business Structures will not be as good as traditional law firms.
- 80% of law firms think that there will be limited external investment in law firms.
- 20% of law firms think that their law firm is attractive to external investors.
- 56% of law firms will not be looking to other external investment. The remainder have not considered it or may be looking for external investment.
- 13% of firms are looking to transfer part ownership of their firms to spouses or other family members.
- 37% of law firms are considering appointing a non-lawyer owner.
- 30% of law firms are considering appointing a non-lawyer specialist manager or chief executive.
- 73% of law firms are considering changing the way they provide services in response to the Legal Services Act.
- 60% of law firms are considering changing the way they generate new business in response to the Legal Services Act.
- 47% of law firms are considering changing their trading structure in response to the Legal Services Act.

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Commentary

In general, firms believe that following the Legal Services Act and the introduction of Alternative Business Structures to the market:

- There will be a negative impact on traditional law firms.
- There will be a positive impact on clients even though in their opinion the new entrants won't provide the same quality or ethical standards as traditional law firms.
- Traditional firms won't be able to attract external investment.

Which is why most firms are looking to change some or all of the following things:

- the way they provide services
- the way they generate new business
- their trading structure
- who will run their businesses

We will be issuing surveys in the future and we hope that firms will spare the time to complete these too. The next survey will cover the basis of costs including fixed fees, value fees, time based billing and associated issues.



Andy Poole
Legal Sector Director

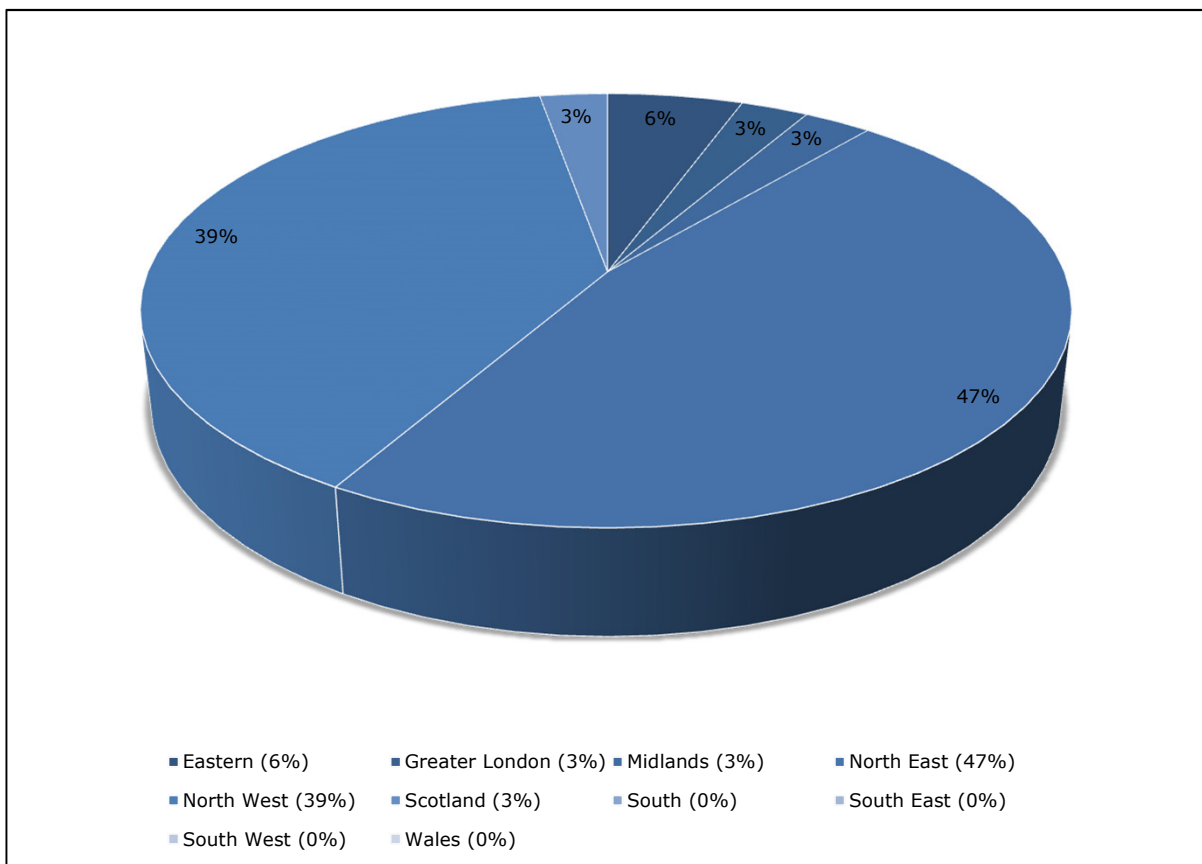
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1. What is the primary location of your firm? (i.e. the location of your head office)



The majority of law firms responding to the survey are based in the North of England.

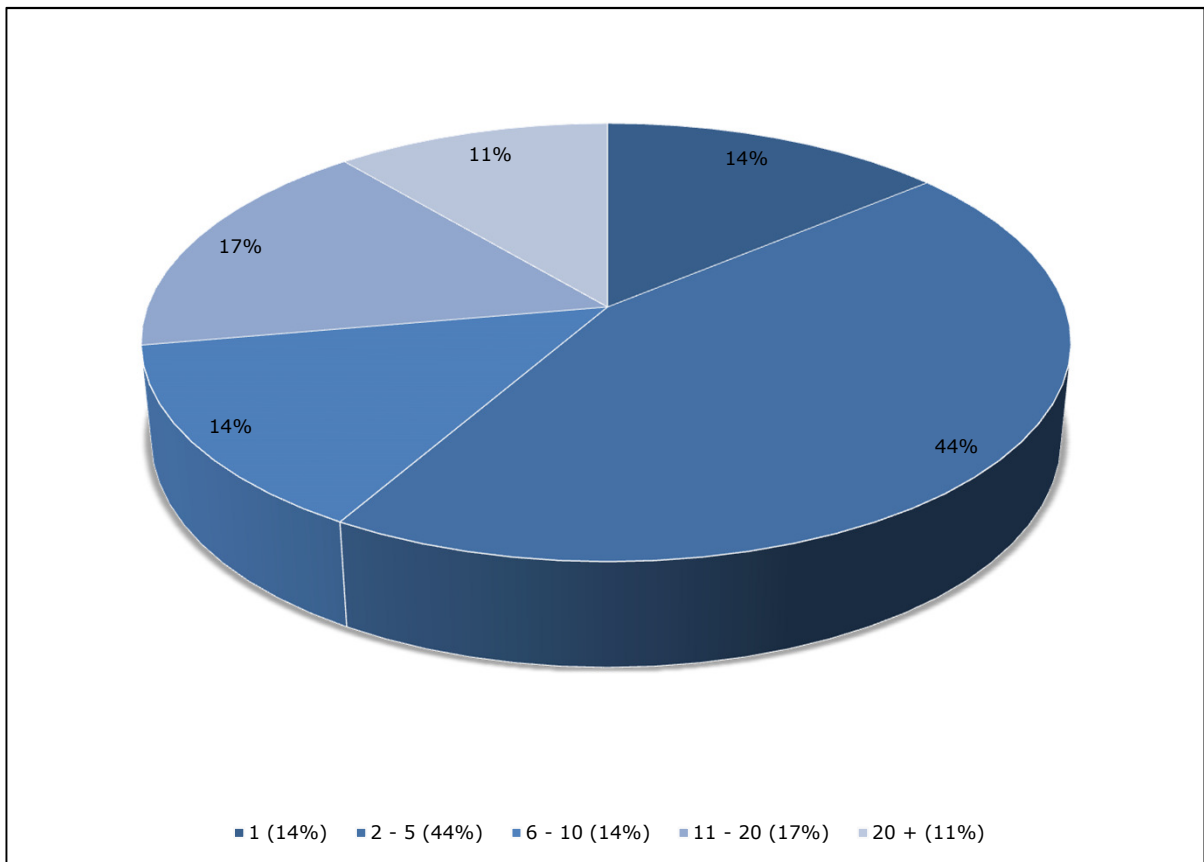
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2. How many partners does your firm have?



The survey results show a diverse range of partners per firm with the greatest proportion being 2 - 5 partner firms.

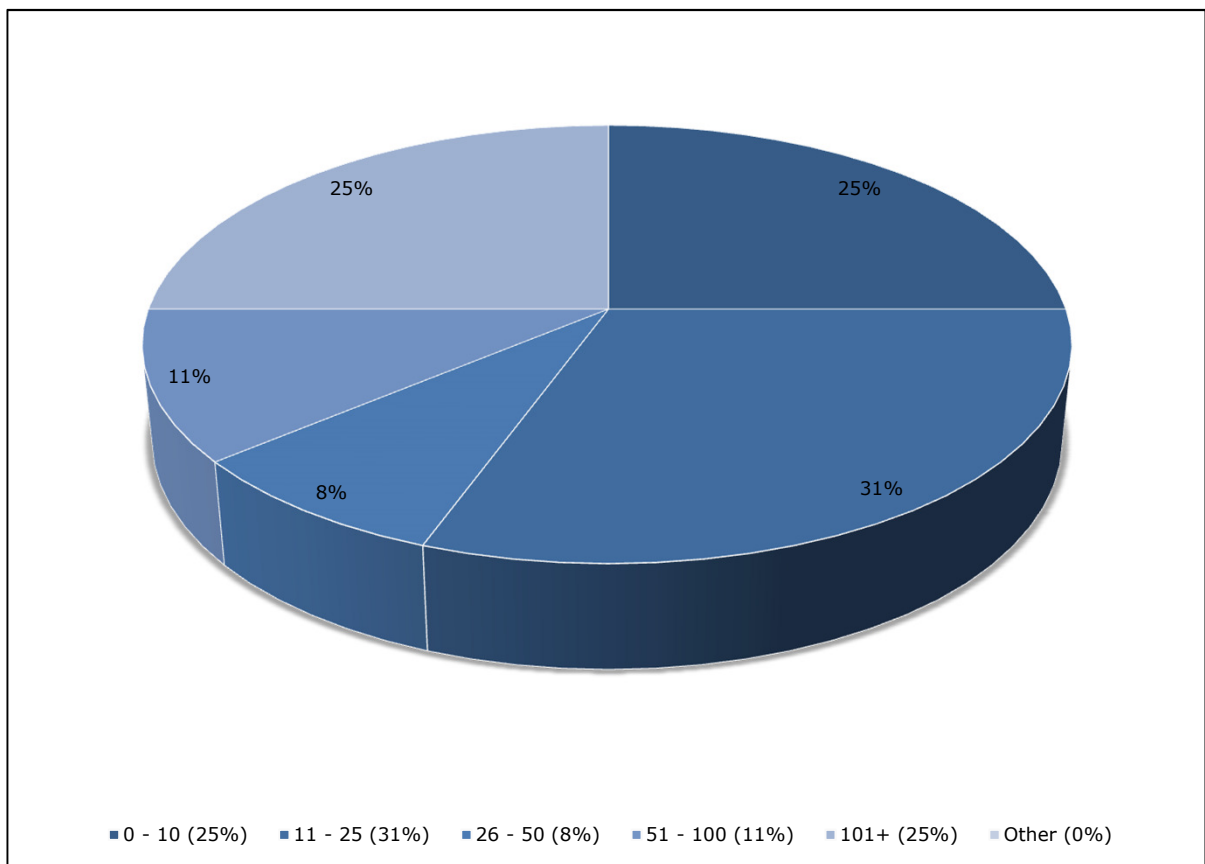
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3. How many people work in your firm?



The majority of law firms responding to the survey have up to 25 employees.

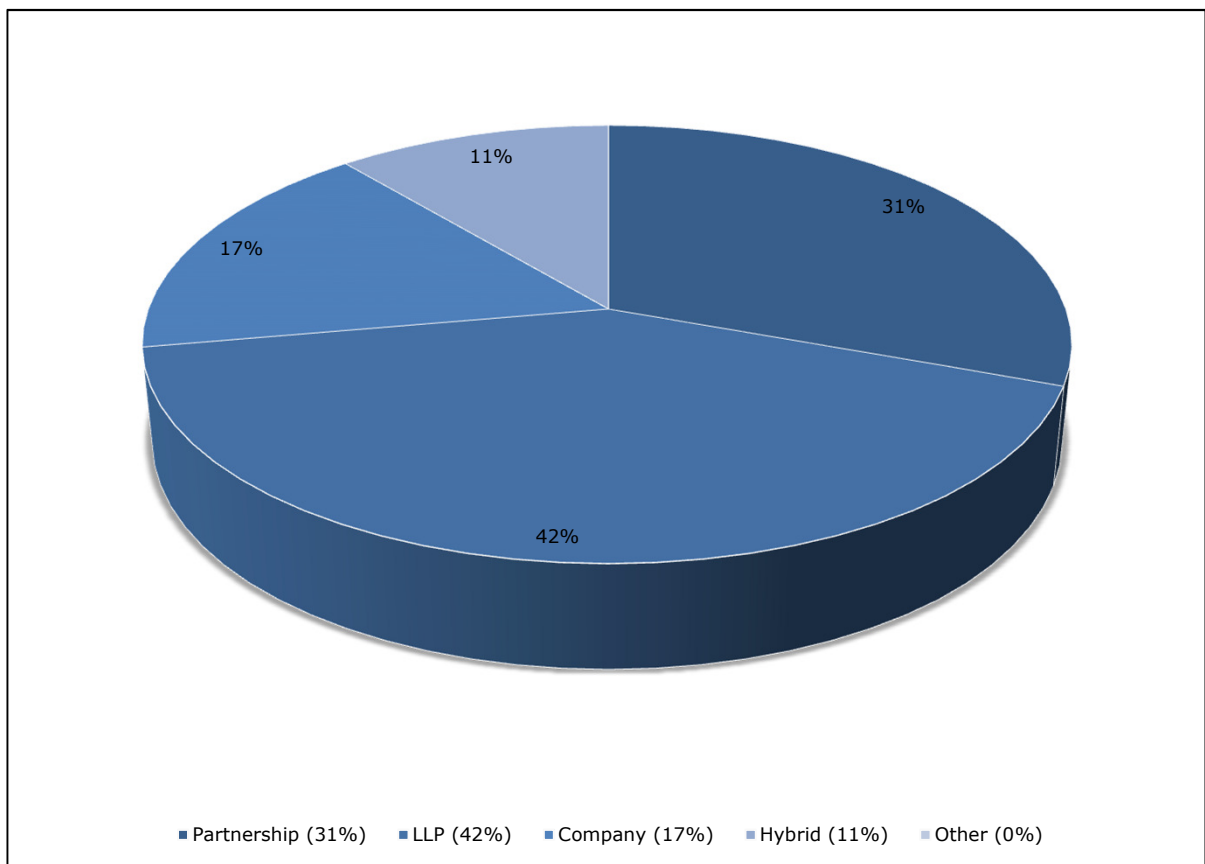
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4. What trading structure is used by your firm?



The survey results show there is a bias towards an LLP structure across law firms as a whole.

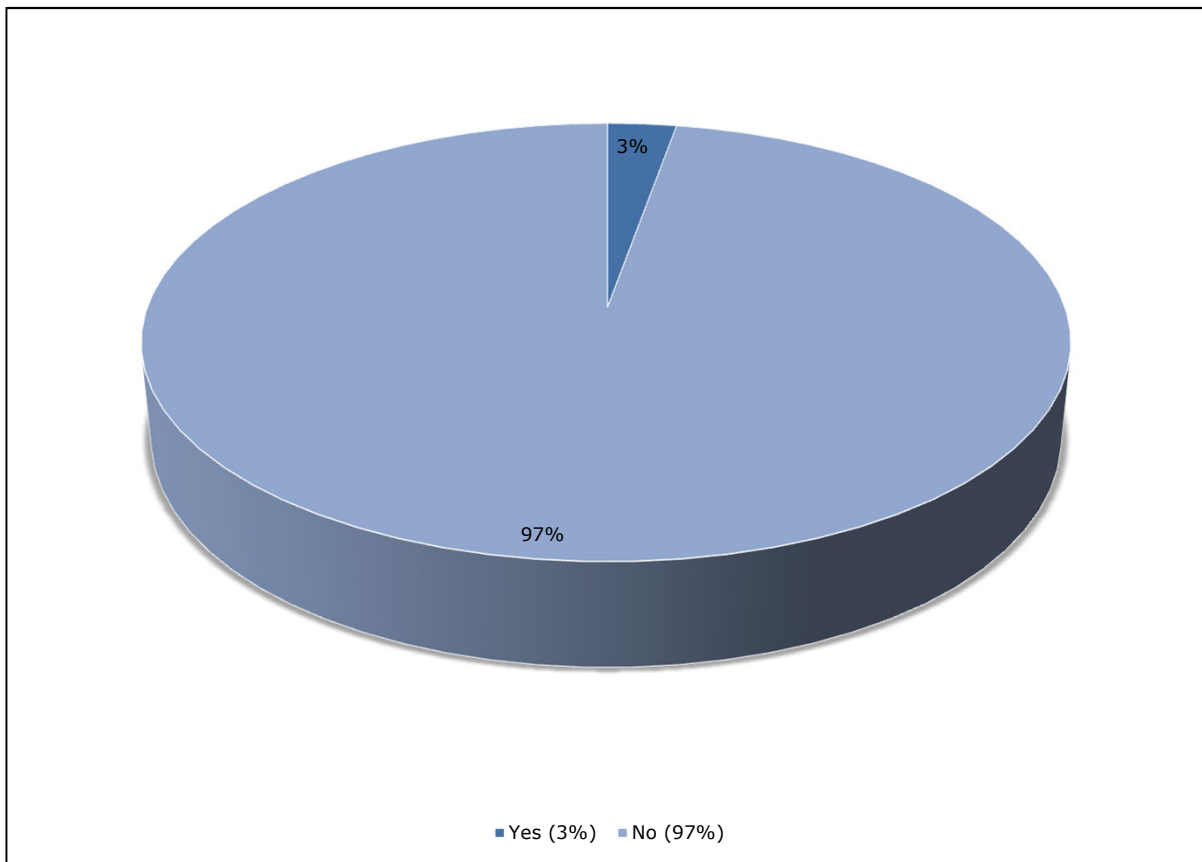
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5. Is your firm authorised as an ABS?



As you would expect, the survey results show that there are very few firms authorised as an Alternative Business Structure.

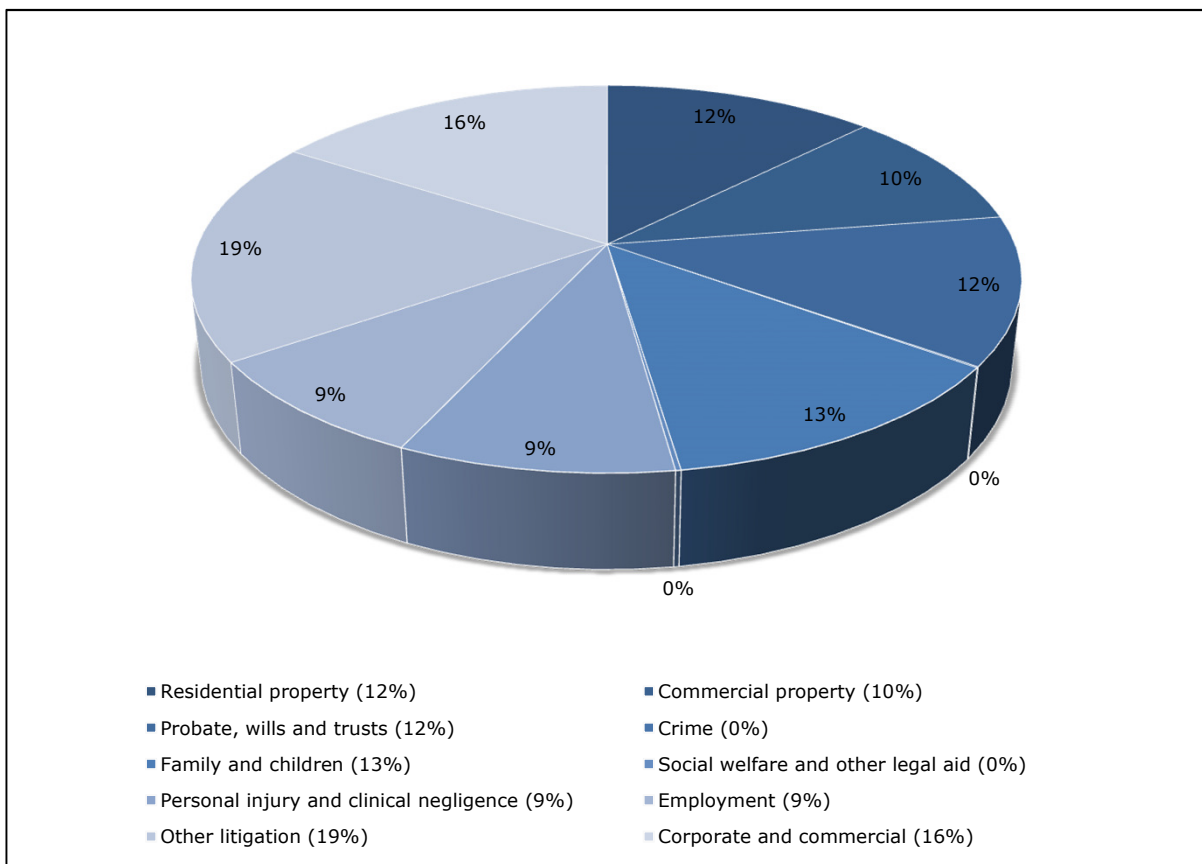
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6. Type of work performed measured by fees



The survey results show that Other litigation and Corporate and commercial represent the greatest proportion of fees.

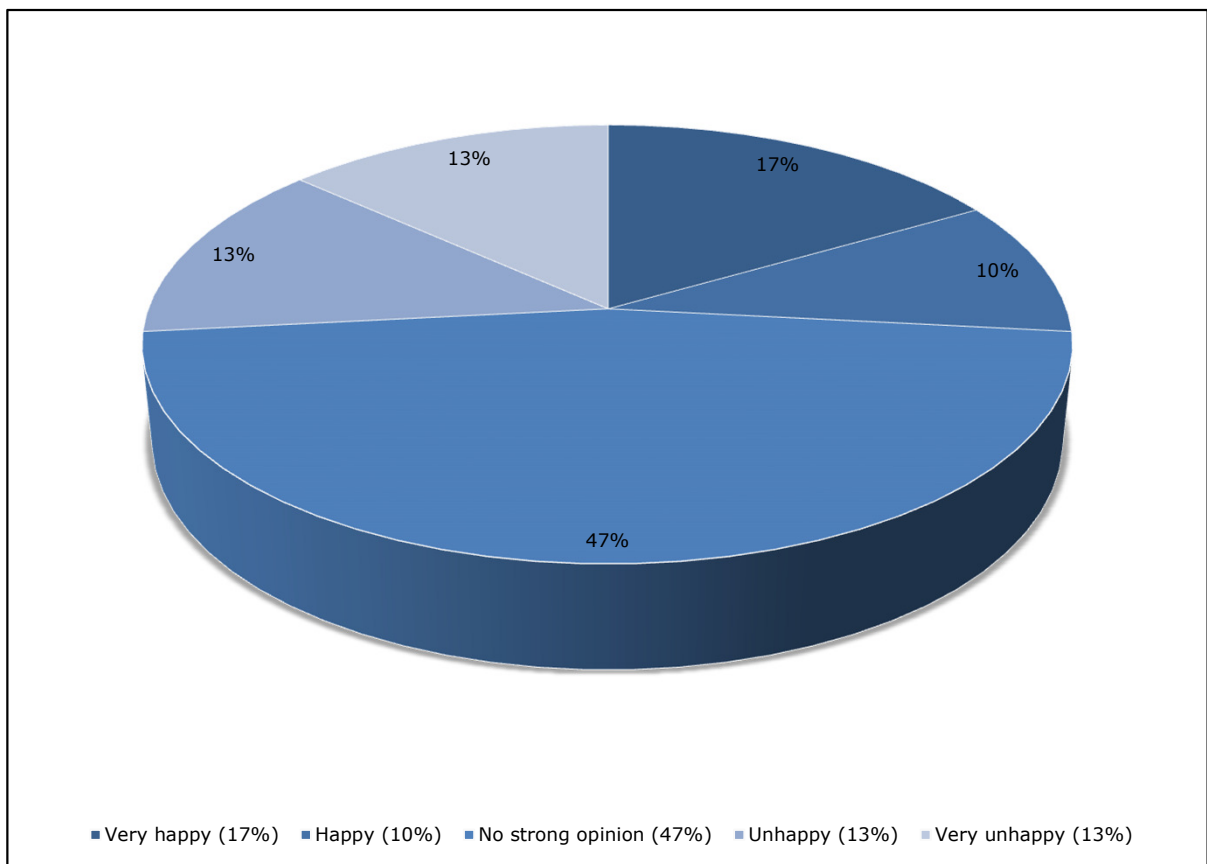
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7. How do you feel about Alternative Business Structures being able to provide legal services?



The survey results show that approximately half of all law firms have no strong opinion on this matter. The remainder show an even split between those firms that are Happy or Very happy and those that are Unhappy or Very unhappy.

The comments from law firms in respect of this question expressed concerns over non-lawyers operating in practice and a sense of resignation that big businesses would enter the legal sector market place.

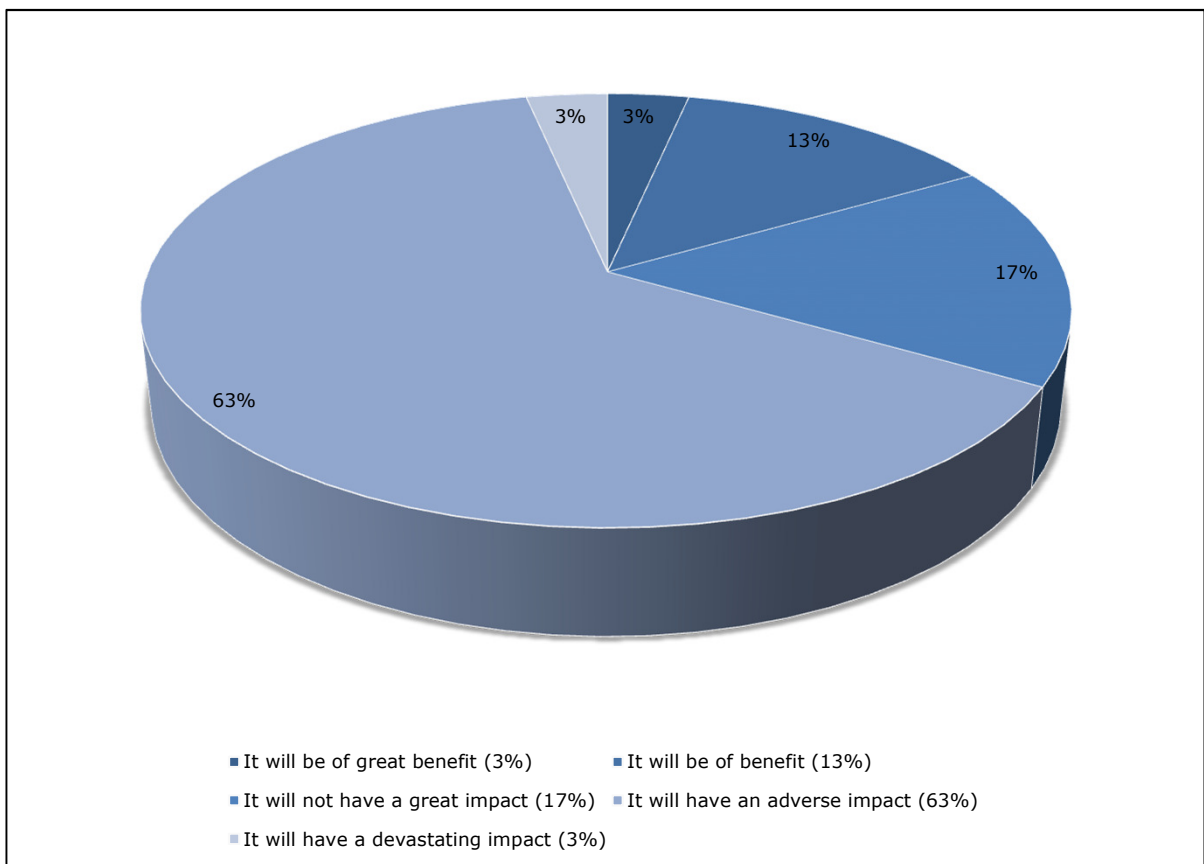
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8. How do you feel that the Legal Services Act will impact traditional law firms?



The survey results show that 66% of law firms think that the Legal Services Act will have a negative effect.

The comments in respect of this question showed that firms think the Legal Services Act will encourage competitive pricing which will lead to an increase in consolidations and mergers.

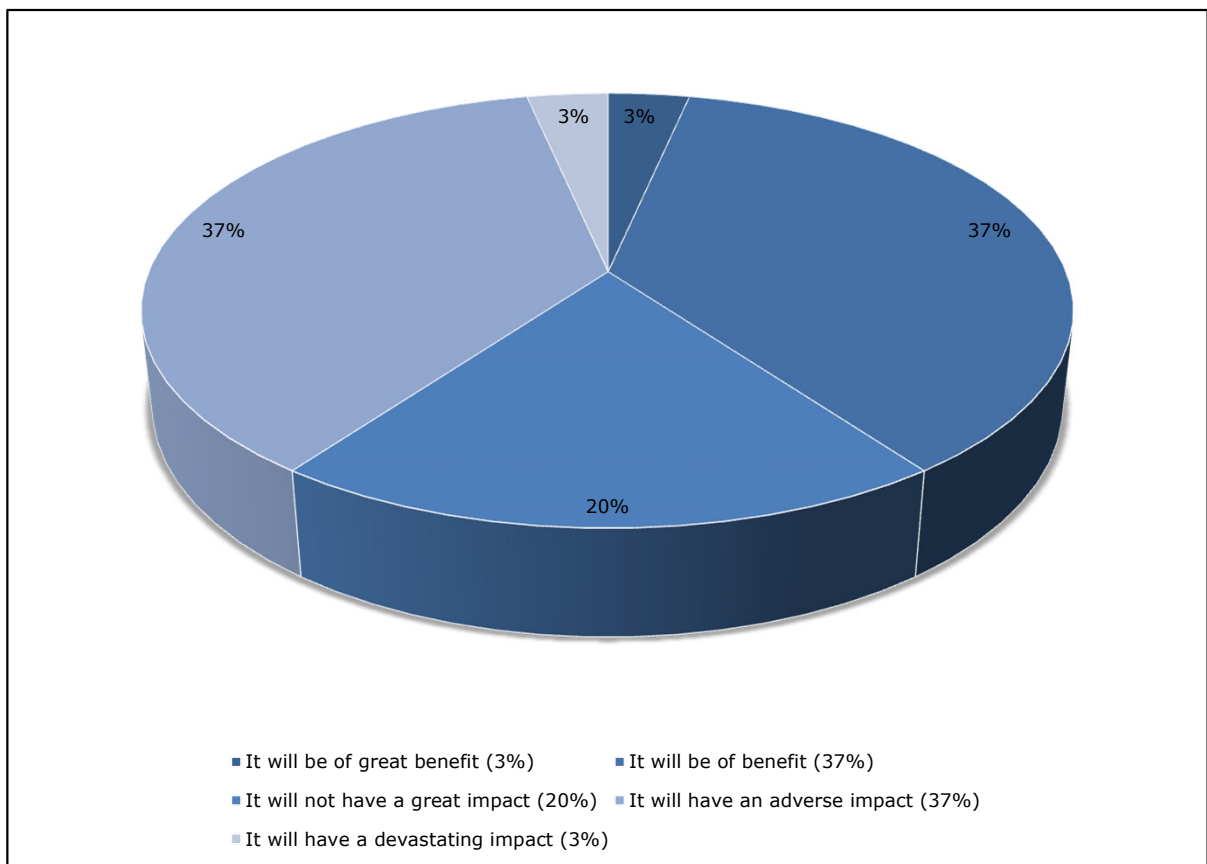
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9. How do you feel that the Legal Services Act will impact clients?



The survey results show that 40% of law firms think that the Legal Services Act will positively impact clients.

The comments in respect of this question showed that firms think that the Legal Services Act will help to drive down prices and streamline services for clients.

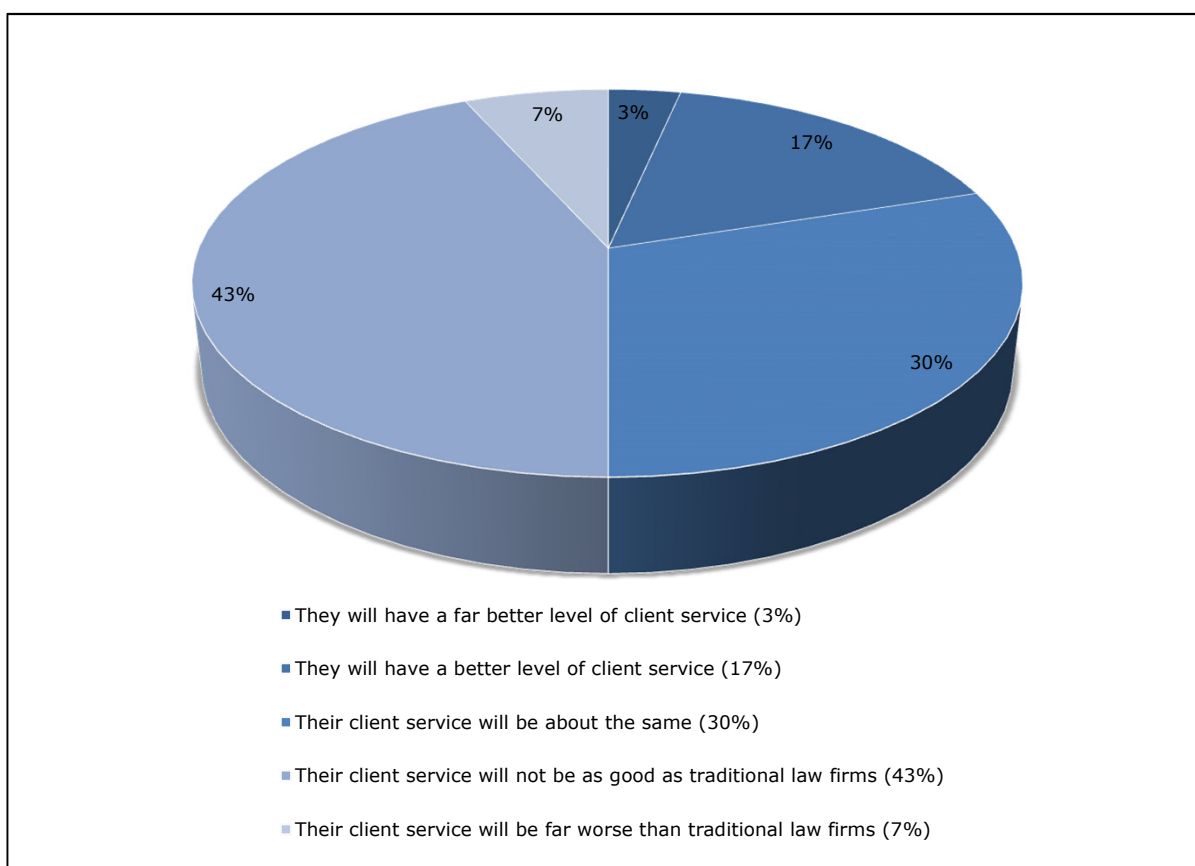
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10. Do you think that the new entrants to the market will have the same level of client service as traditional law firms?



The survey results show that 20% of law firms think that the service from new entrants to the market will be better than that delivered by traditional law firms.

The comments in respect of this question show that firms expressed concerns over the lack of face-to-face contact with the client and that the level of service will be tailored according to the fee.

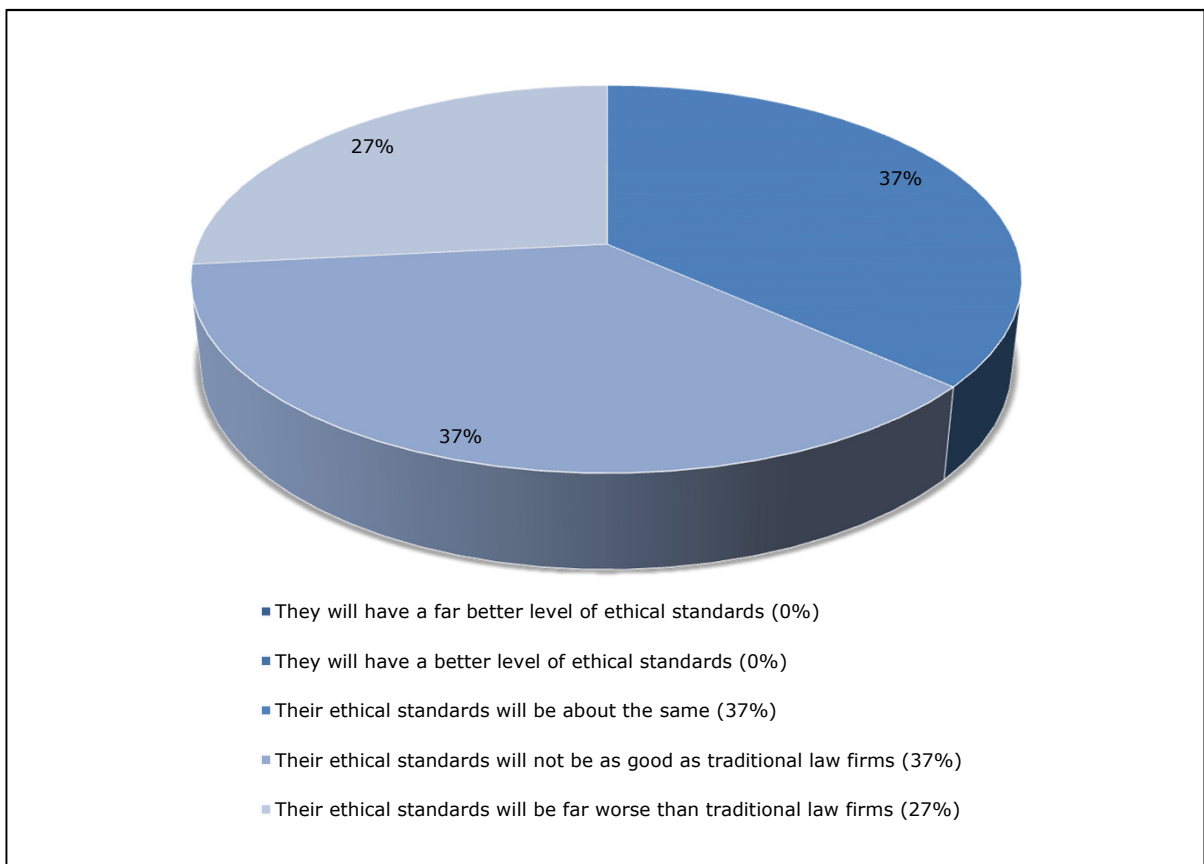
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11. Do you think that Alternative Business Structures will have the same ethical standards as traditional law firms?



The survey results show that 64% of law firms think that the ethical standards of Alternative Business Structures will be worse than traditional law firms and that there are no firms that think the level of ethical standards will be better than traditional law firms.

The comments in respect of this question show that firms think that ethical standards will be largely dependent upon the culture and people within the business. In addition, it is unlikely that non-lawyers will appreciate the extent of the regulatory framework within which they have to operate.

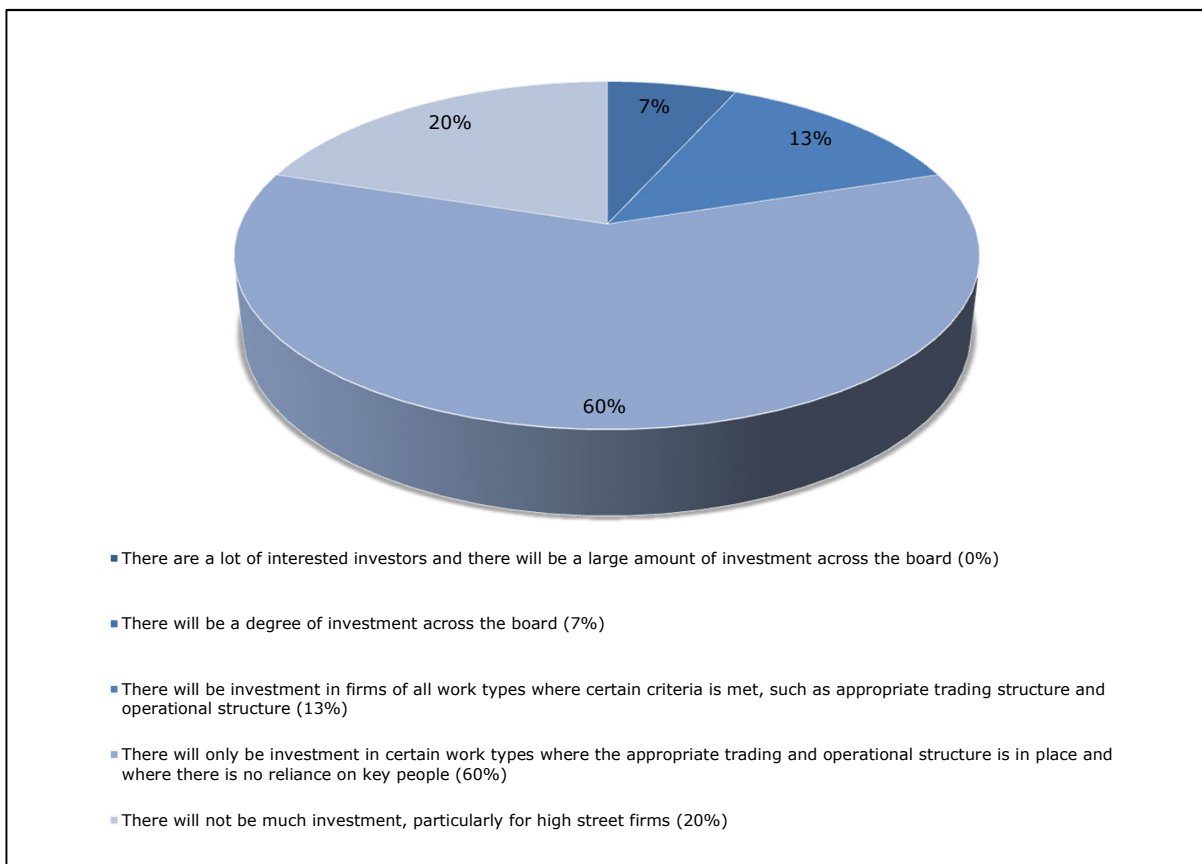
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12. Do you think that traditional law firms will be able to attract external investment?



The survey results show that 80% of practices think there will be limited external investment in law firms.

The comments in respect of this question show that law firms think there will only be investment where economies of scale can be achieved through bulk processing. Other comments acknowledged that traditional law firm partnerships provide very little in the way of return on investment once the high level fee earners have extracted their drawings.

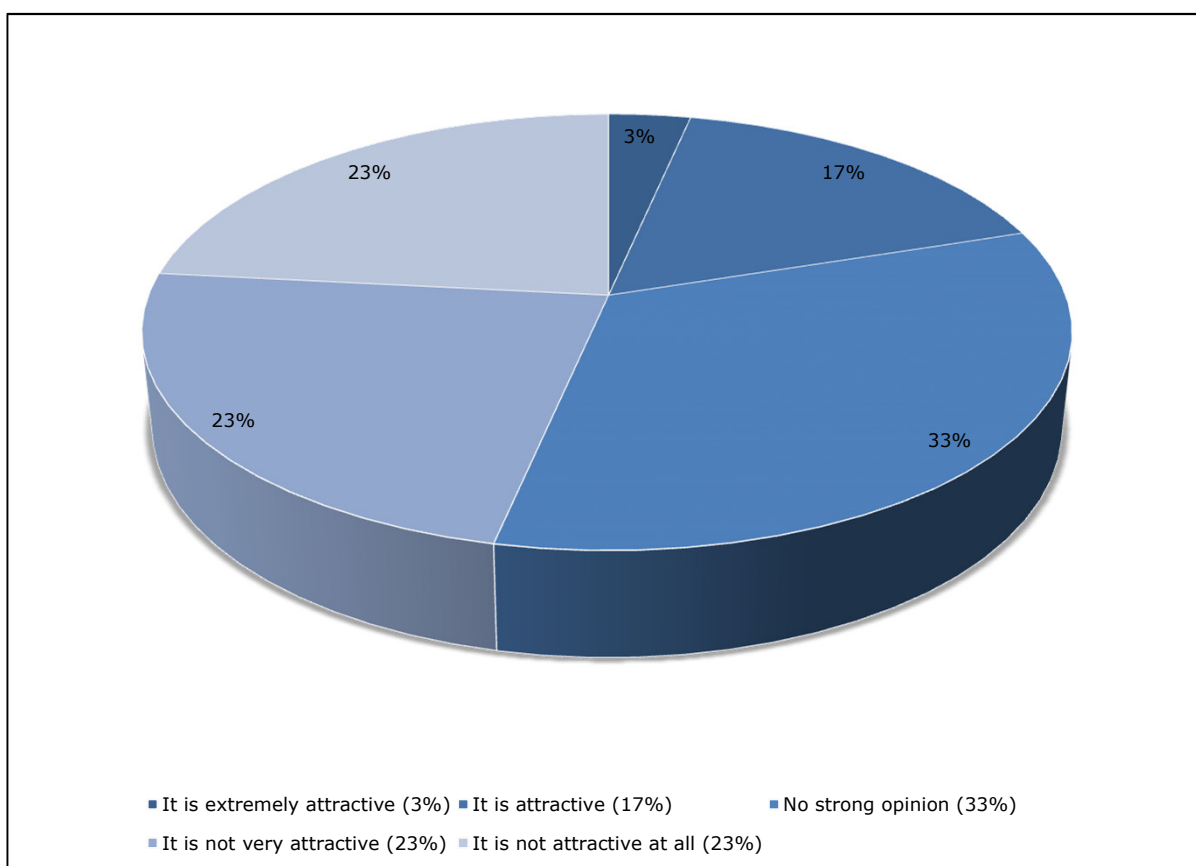
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13. Do you think your firm is attractive to external investors?



The survey results show that 20% of law firms think their firm is attractive to external investors.

The comments in respect of this question show an acknowledgement that law firms provide very little in the way of return on investment once the high level fee earners have extracted their drawings. As such, external investment is unlikely in the main.

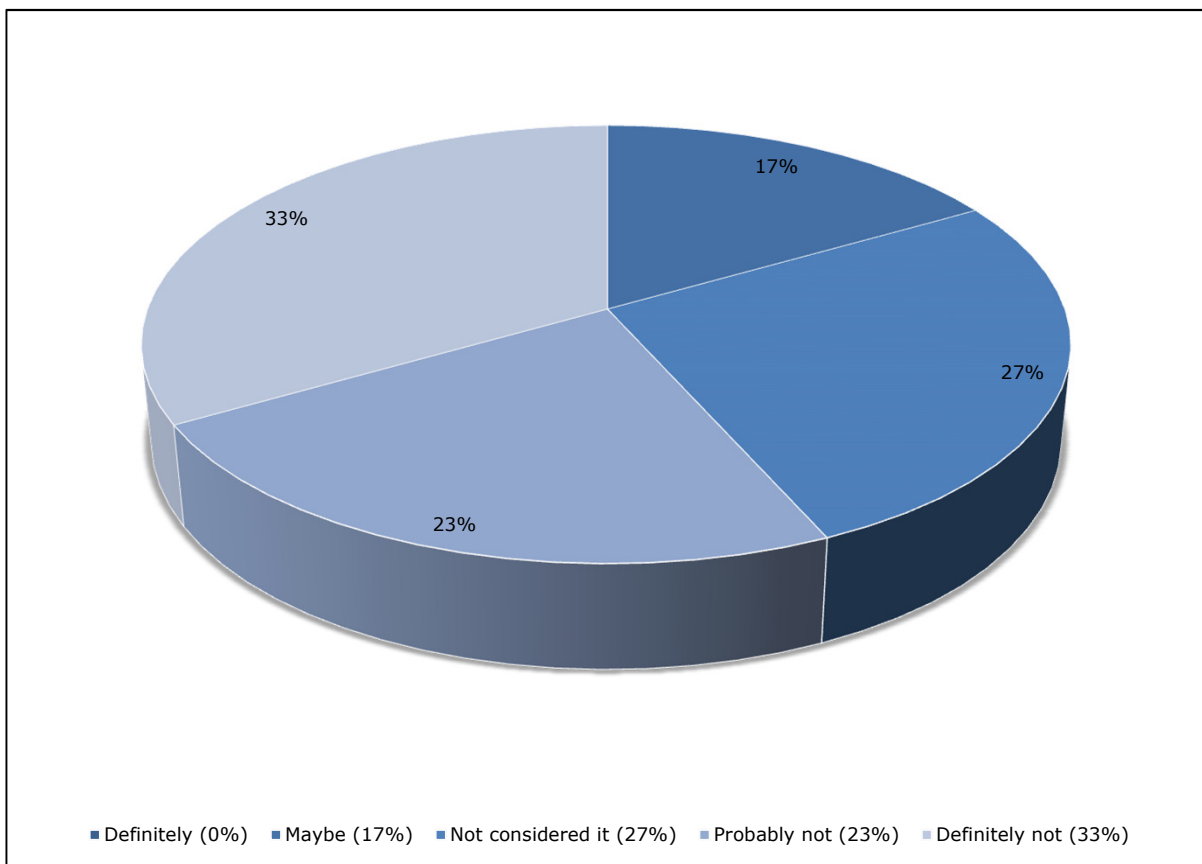
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14. Are you looking to attract external investment?



The survey results show that 56% of law firms will not be looking for external investment.

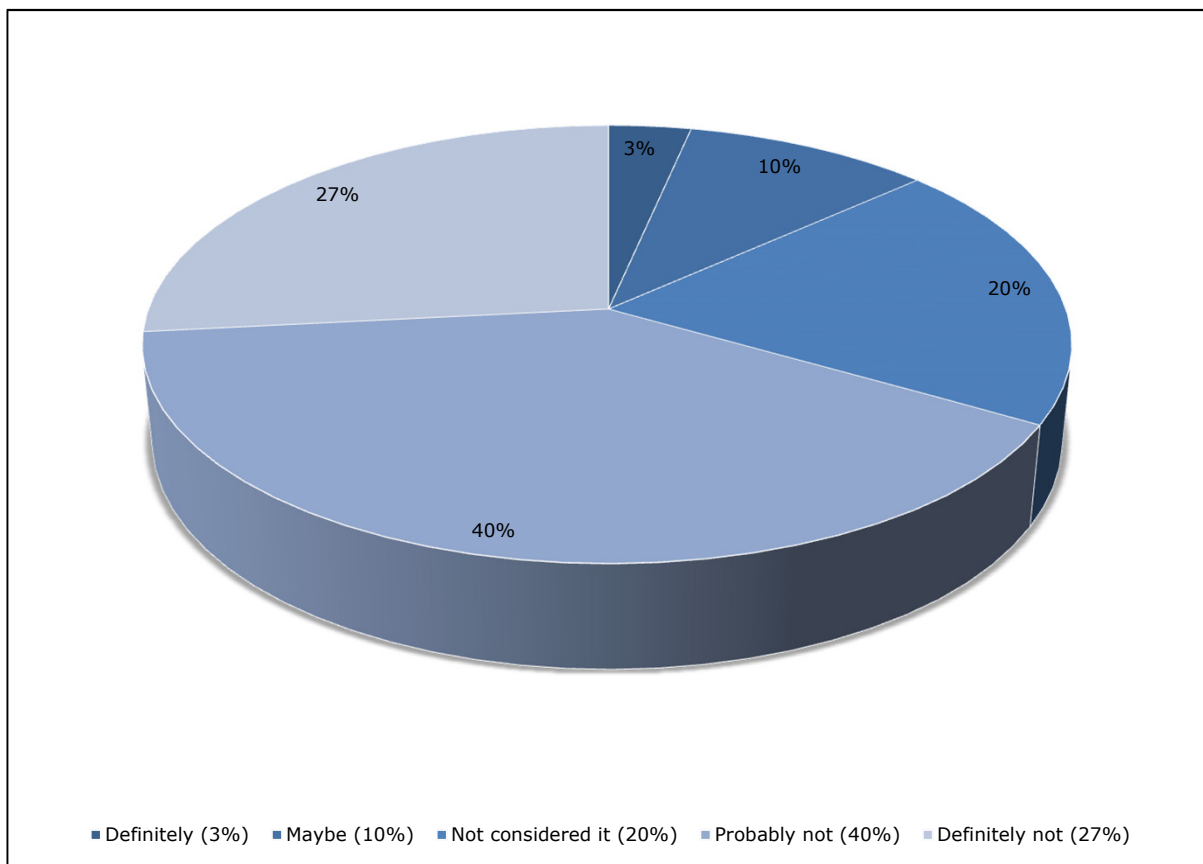
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15. Are you looking to transfer part ownership of your firm to spouses or other family members?



The survey results show that 13% of law firms are considering transferring part ownership to family members for tax saving and management purposes.

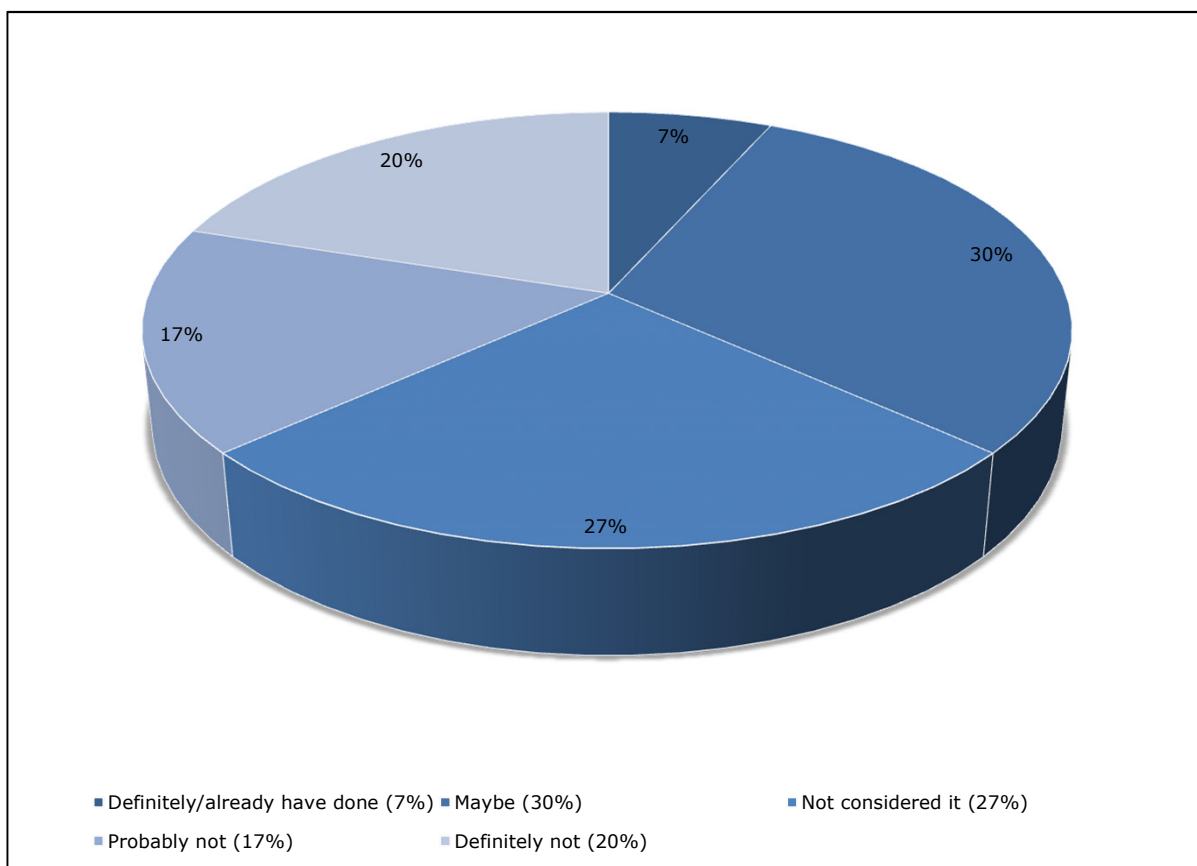
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16. Have you/are you looking to appoint a non-lawyer owner?



The survey results show that 37% of law firms are considering appointing a non-lawyer owner.

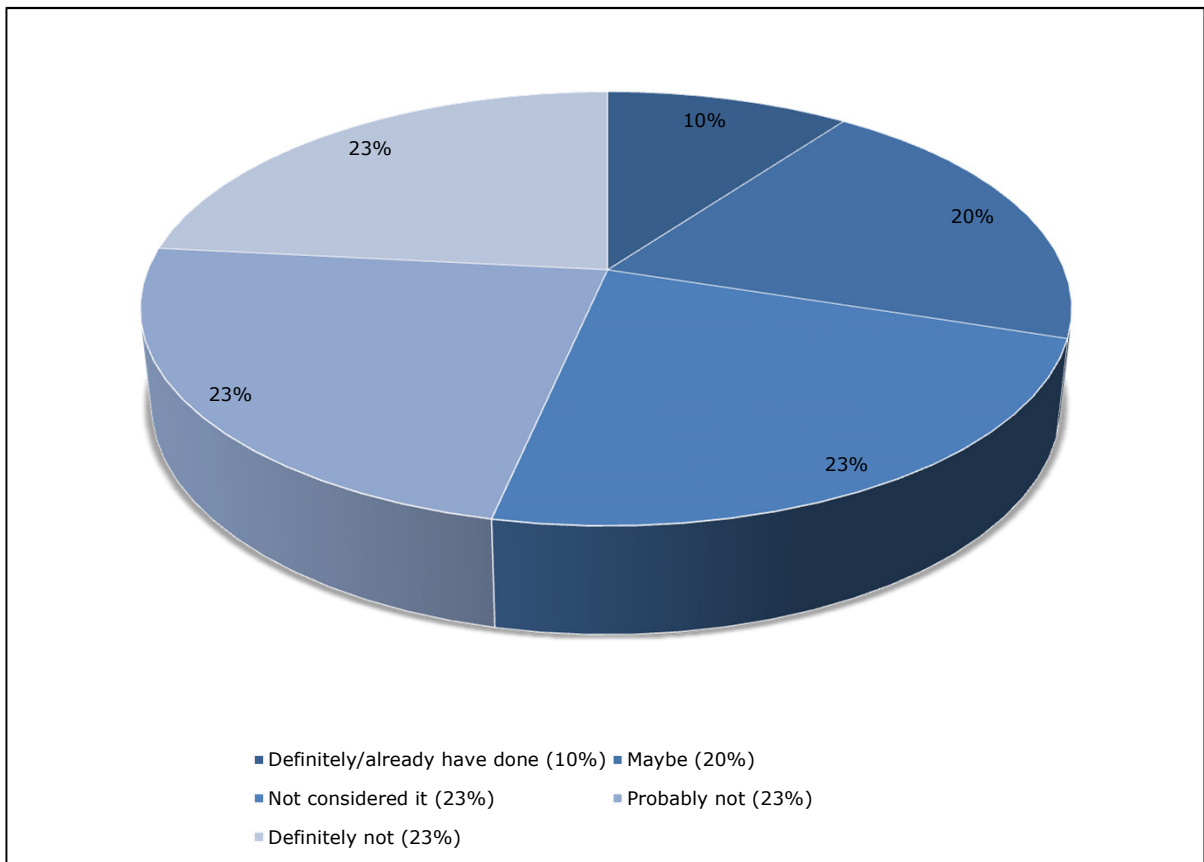
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17. Have you/are you looking to appoint a non-lawyer specialist manager/ chief executive to run your firm?



The results show that 30% of all law firms are considering appointing a non-lawyer specialist manager to run their firms.

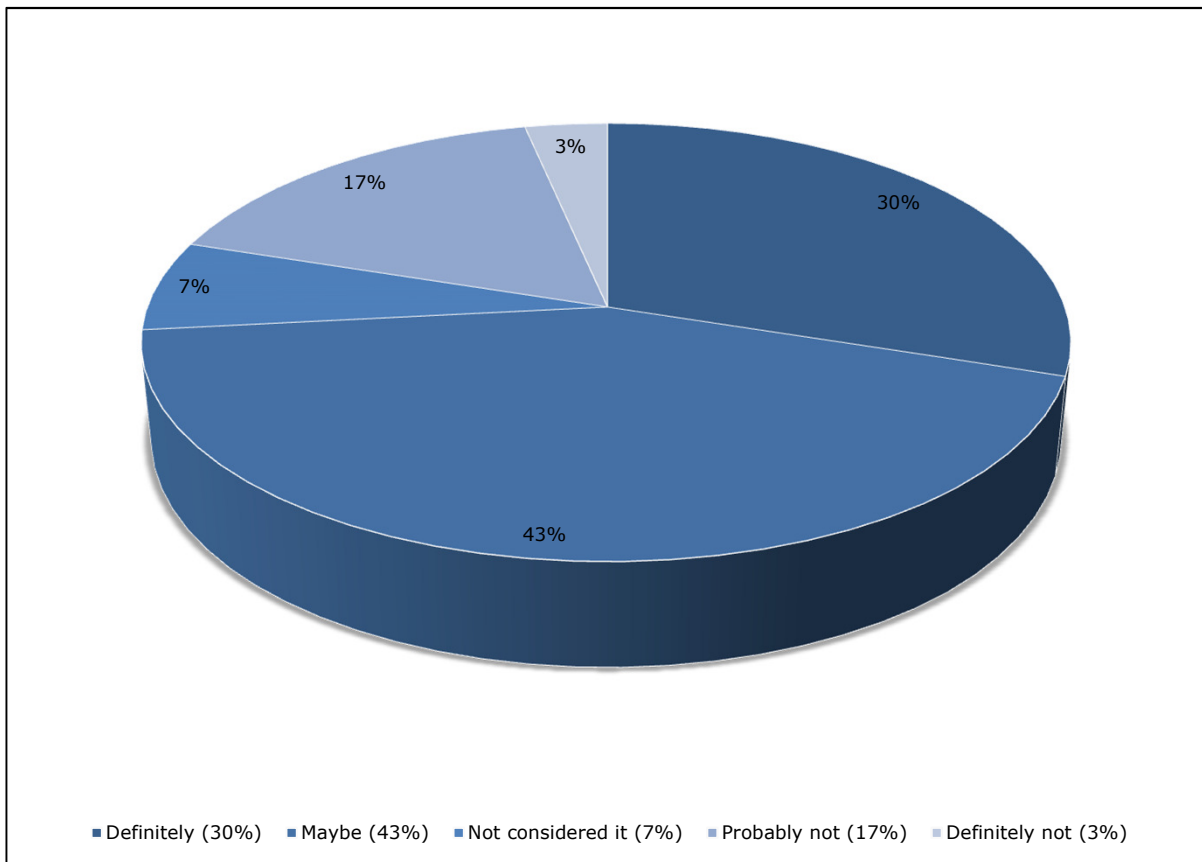
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18. Are you changing the way that you provide services to clients in response to the Legal Services Act?



The survey results show that 73% of all law firms are considering changing the way they provide services in response to the Legal Services Act.

The comments in respect of this question show that firms are generally looking to achieve efficiencies through IT systems and new working practices. Also, firms are generally looking to introduce fixed fees for certain types of work.

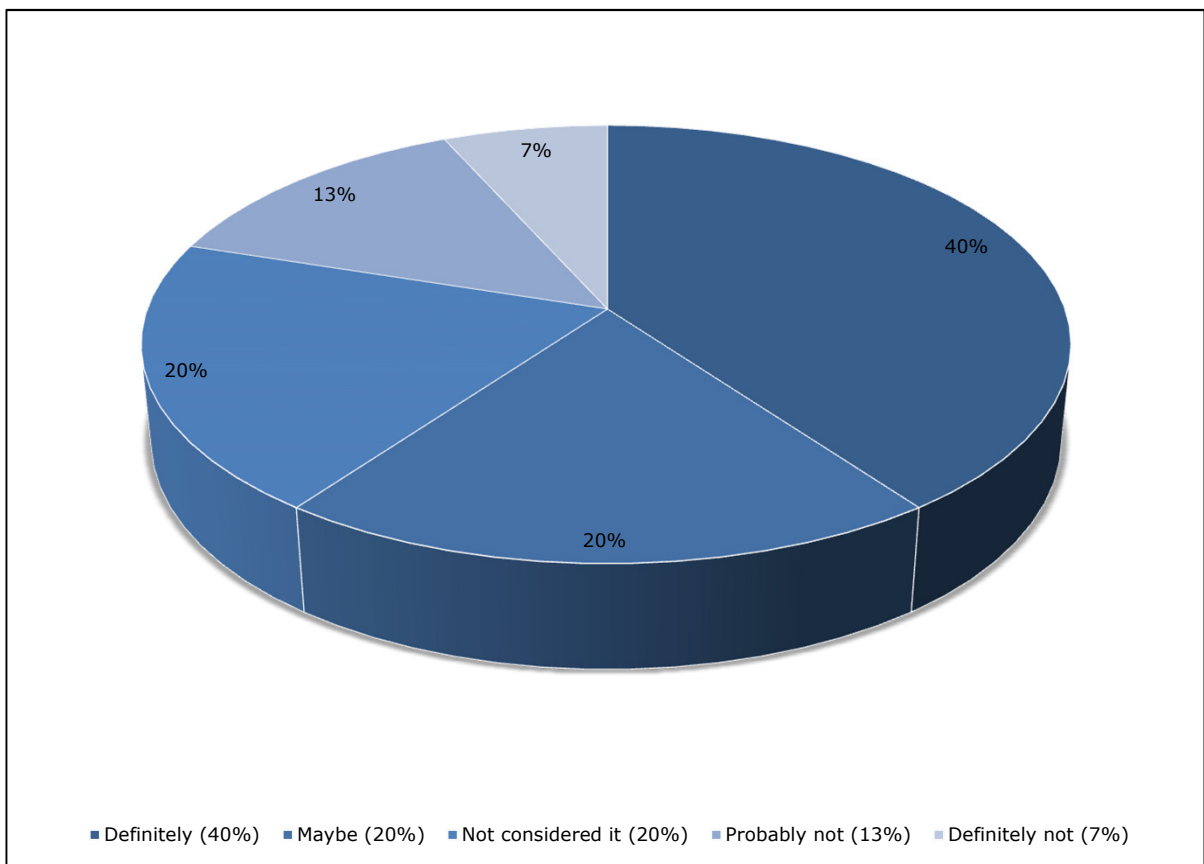
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19. Are you changing the way that you generate new business in response to the Legal Services Act?



The survey results show that 60% of all law firms are considering changing the way they generate new business in response to the Legal Services Act.

The comments in respect of this question show that firms are generally anticipating spending more on marketing in response to the Legal Services Act.

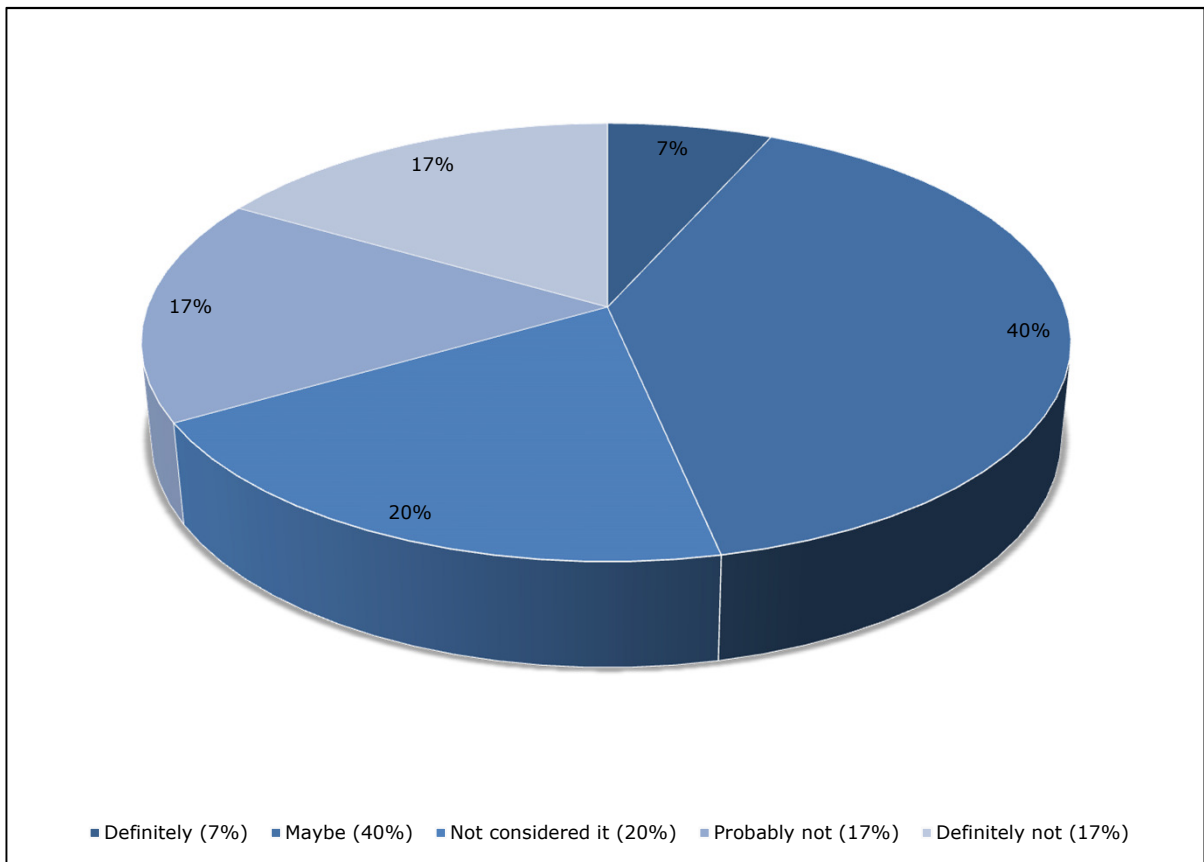
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20. Are you changing your trading structure (Partnership/LLP/Company/Hybrid etc.) in response to the Legal Services Act?



The survey results show that 47% of all law firms are considering changing their trading structure in response to the Legal Services Act.