

Legal Sector Breakfast Briefing

Leeds

8 February 2023



ArmstrongWatson[®]
Accountants, Business & Financial Advisers


Legal Sector Breakfast Briefing

Welcome & Introduction

Tom Blandford, Legal Sector Partner
Armstrong Watson

Legal Sector Breakfast Briefing

- 8.00am - Arrival and breakfast
- 8.30am - Welcome
- 8.35am - Briefing
- 9.30am - Q & A
- 10.00am - Close



Tackling today's industry challenges

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Results Delivered

Who we are



- 1 We can increase your profits by 5-15% of turnover in 12-24 months
- 2 We guarantee to improve your customer service, costs, cash and risk
- 3 You gain a competitive advantage and an investment in your team

The next 60 minutes

- 1 The importance of marginal gains
- 2 Cost of acquisition
- 3 Direct costs
- 4 Reducing indirect costs and losses
- 5 Exploding some market myths with data

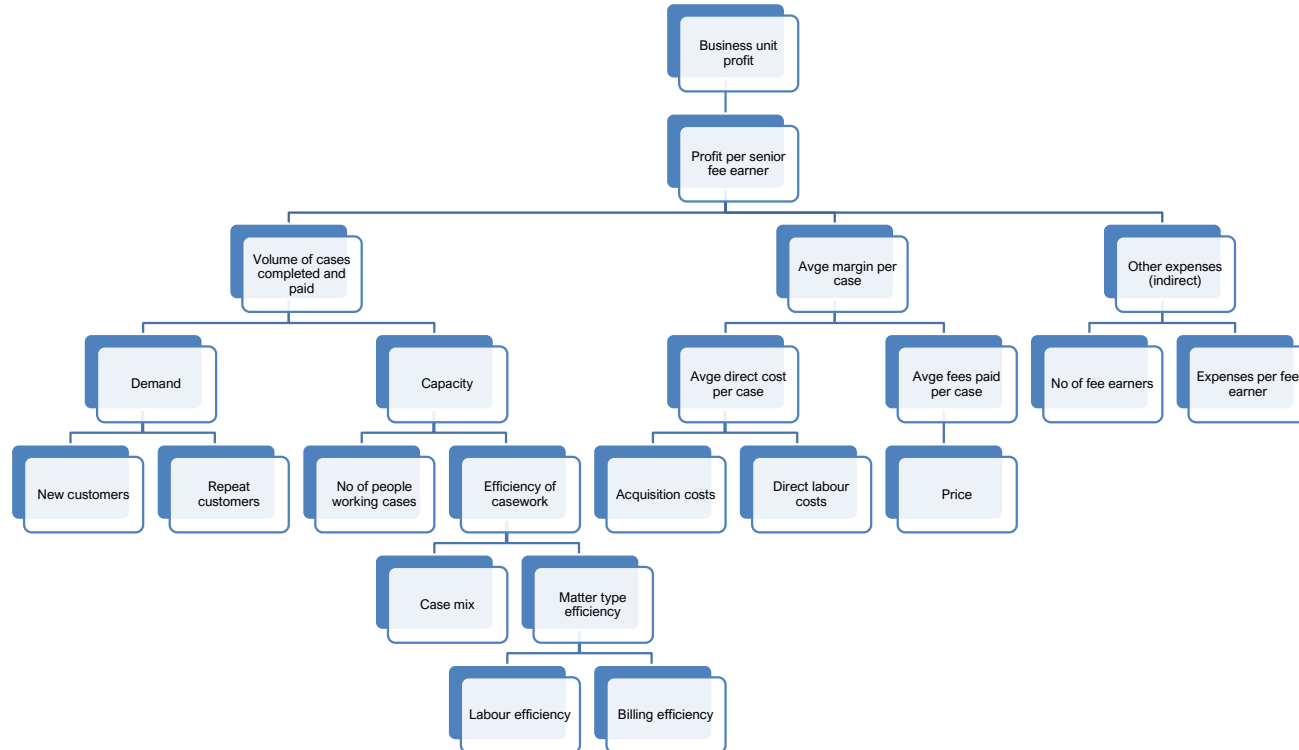


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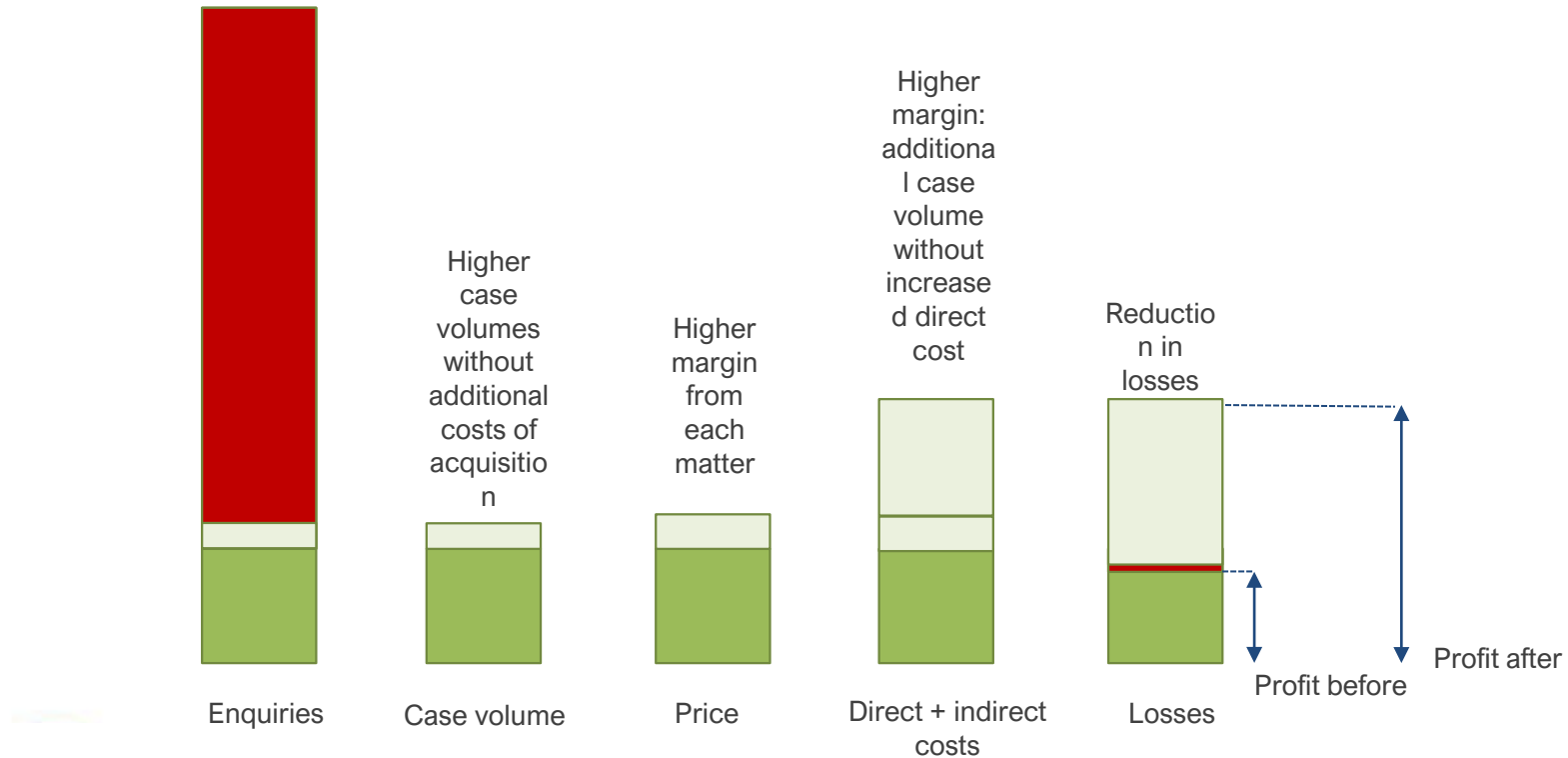
Margin or Cost Improvement



The firm needs to understand the causes of performance



Marginal gains can lead to big improvements in cost and profit



ACQUISITION COSTS

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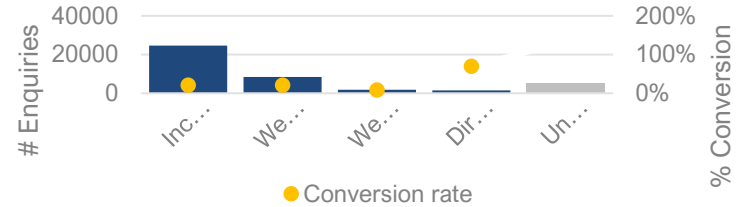
You have more control over client intake than you think



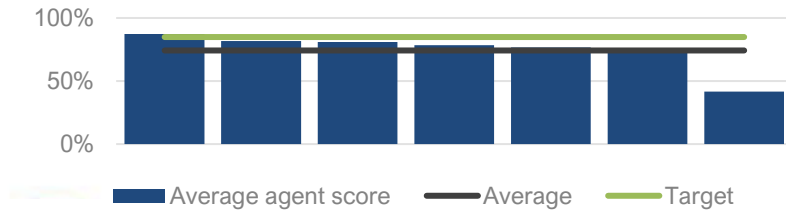
Average intake losses



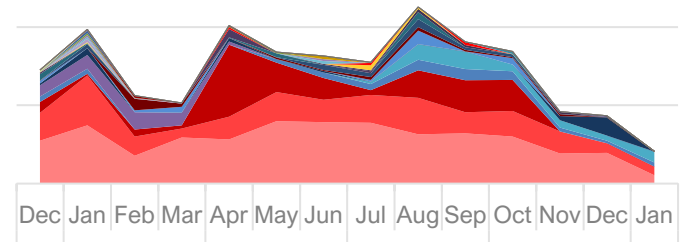
Conversion by channel



Conversion by call handler



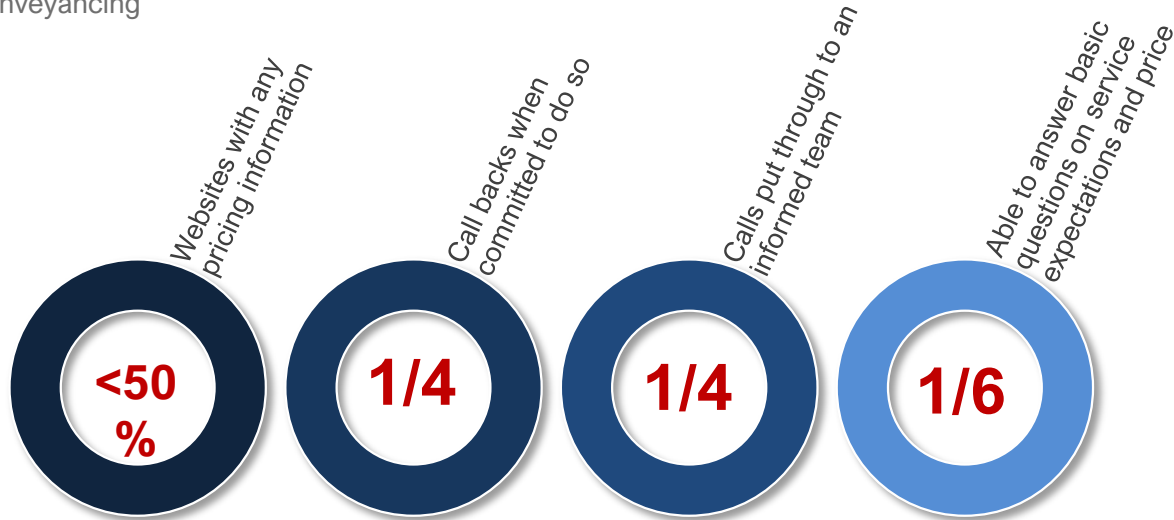
Revenue by source of business



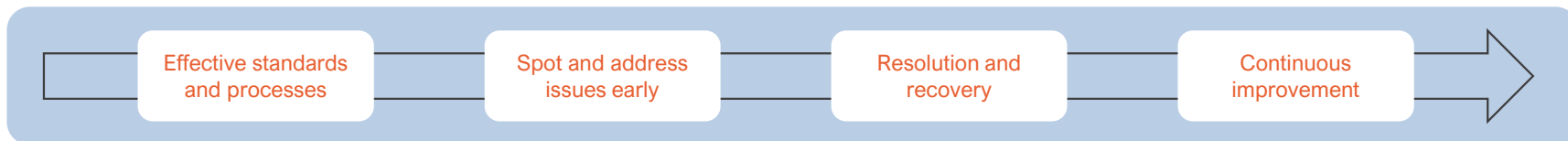


Get customers at zero cost by responding to enquiries

- 23% of customers shop around for legal services
- Secret shopping data gathered from top five and bottom five consumer law firms by Trustpilot score
- Personal injury
- Residential conveyancing
- Wills



Deliver consistent customer service at scale



1 Effective customer service standards and processes

- Understand your customers' expectations in detail
- Build your SLAs and processes around these
- Make your people aware, and incentivise them to deliver
- Check expectations are being met with data and monitoring

3 Resolution and recovery of any complaints

- Follow best practice for complaint resolution (quick, bespoke, empathetic)
- Go above and beyond
- Resolve public complaints openly

2 Spot and address any deviation from excellent early on

- Flag predictable lapses in service early,
- Train and empower staff to recover minor slips
- Be available to customers and provide timely, accurate information

4 Embed continuous performance improvement

- Understand and measure the drivers of performance
- Diagnose issues to root cause
- Review with action in mind
- Ensure time and skills for taking action
- Check expected changes in performance are delivered

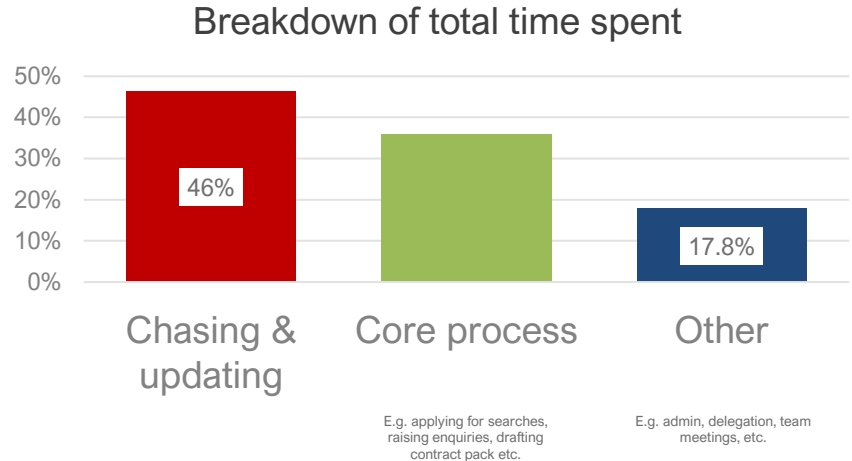
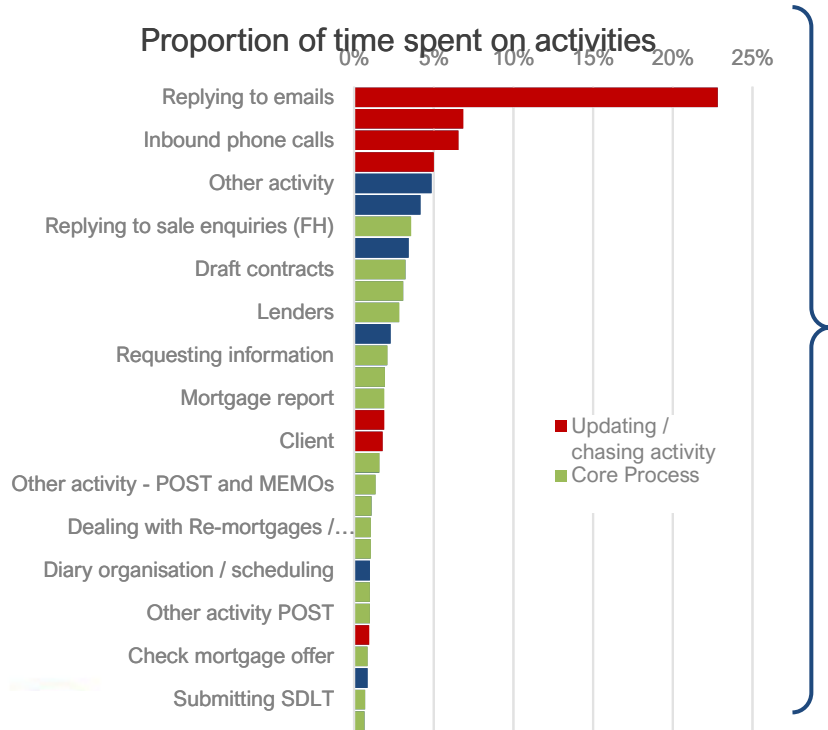
DIRECT COSTS

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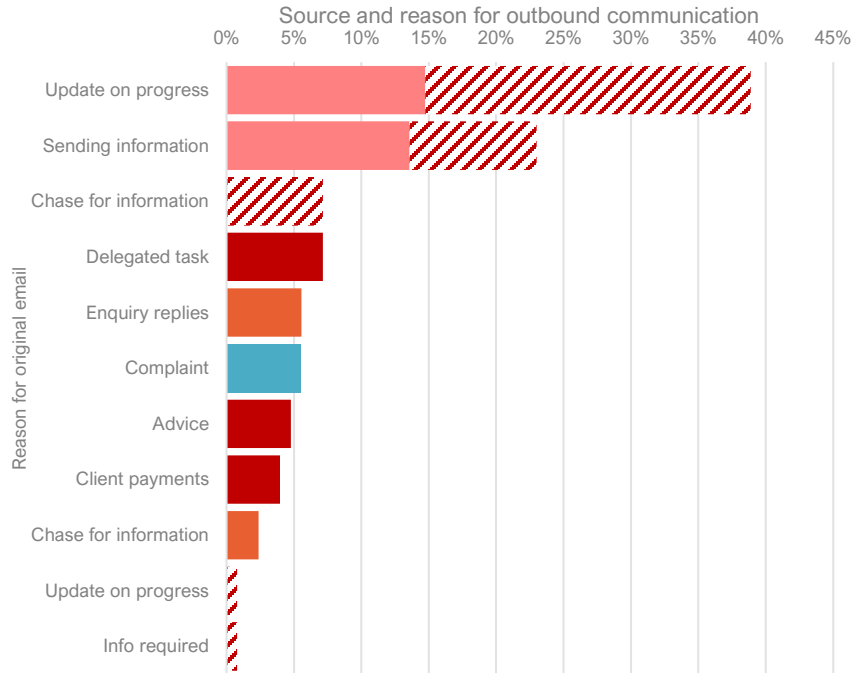


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Understand where the time goes

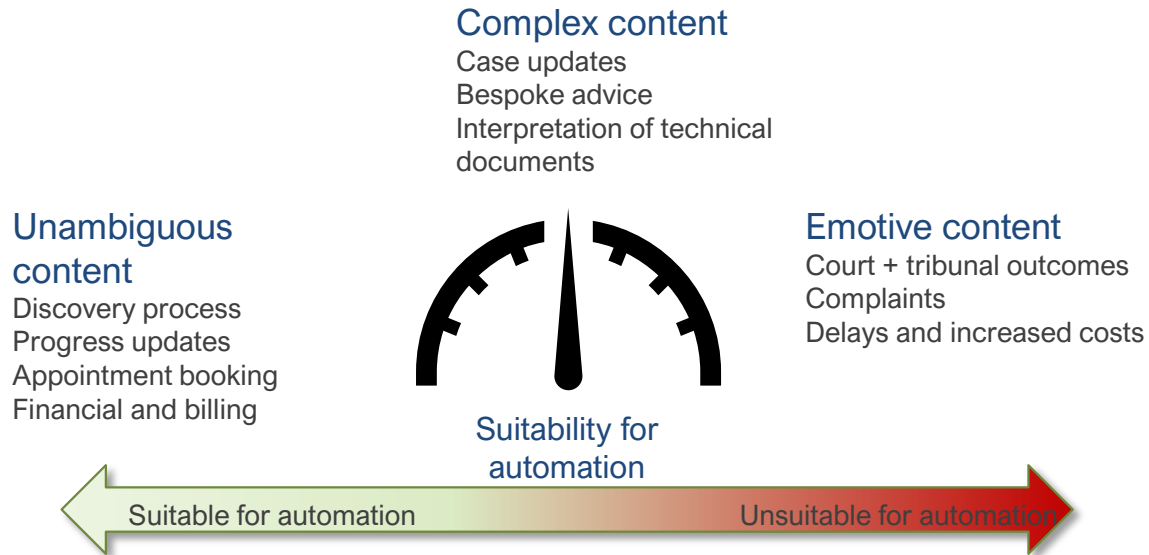


Fix the biggest issues in sequence



- Client-update templates
- Automated requests for information and chasers
- Portal updates and automated emails
- Recovers 42% of time spent on outbound communication
- This saved 20% of staff time
- This allows 20% more cases to be processed without any increase in fee earner costs

...but understand and manage the complexity



Delegate wherever possible



63%

The amount of fee earner time that could be delegated

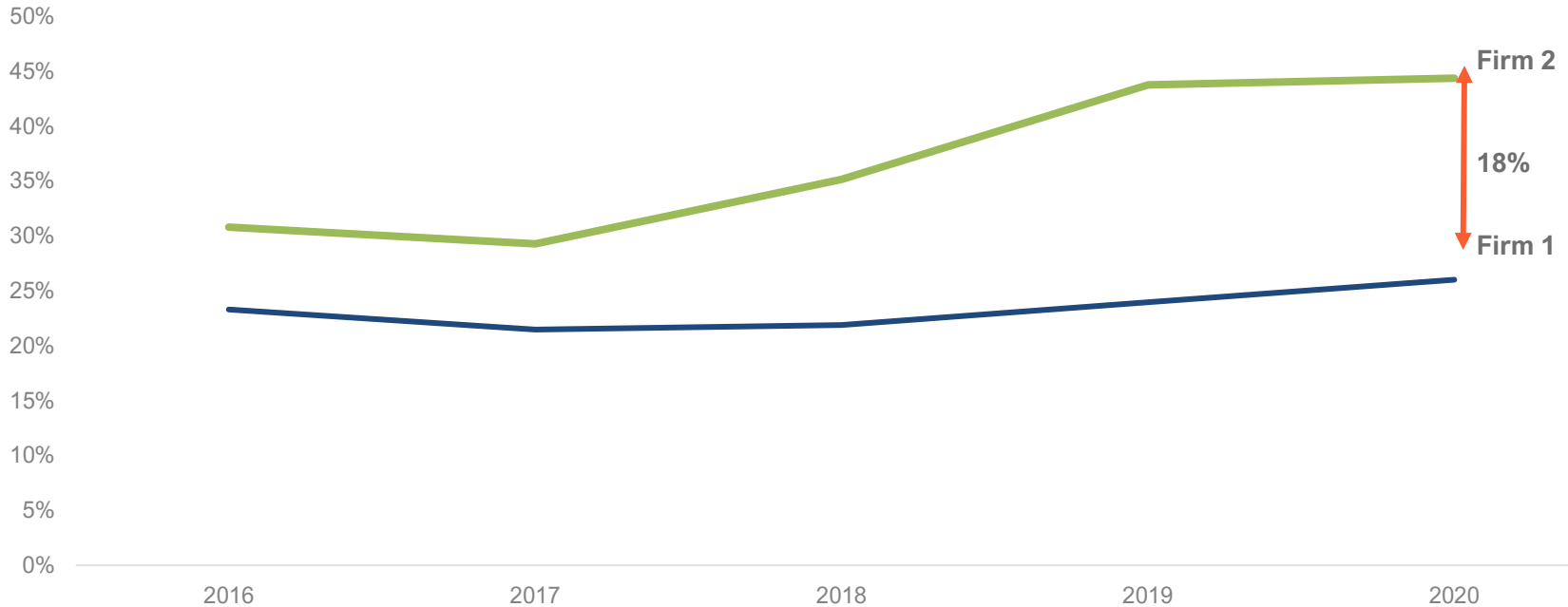
Task	Can it be delegated?	Who to?	time (FTE)
Delegating tasks / management / supervision	Y	Team Leader	0.15
Other activity - approving payments	Y	Team Leader	0.1
Team meetings	N	Solicitor	0.79
Other activity	N	Solicitor	0.54
Review complex / miscellaneous documents	N	Solicitor	0.42
Other activity (finance)	N		
General admin	N		
Leasehold title report	N		
Training (meetings or workshops)*	N		
Review Leasehold title check	N		
Waiting for step to run	N		
Diary organisation / scheduling	N		
Check replies to enquiries	Y		
Review Freehold title check	Y		
Draft completion statement	Y		
Freehold title report	Y		
Replying to sale enquiries (LH)	Y		
Review Source & proof of funds	Y		
Search report	Y		
Check Searches	Y		
Replying to sale enquiries (FH)	Y		

Task	Can it be delegated?	Who to?	Time (FTE)
Mortgage report	Y	L1 or L2	0.25
Check mortgage offer	Y	L1 or L2	0.15
Draft contracts	Y	L1	0.11
Gather and review ID	Y	L1	0.06
Submitting SDLT	Y	L1	0.06
Review Proof of ID & Address	Y	L1	0.06
Running milestones	Y	L1	0.06
Chasing Other side's solicitors	Y	L1	0.04
Completion letters	Y	L1	0.02
Requesting information	Y	L1	0.02
Replying to emails	Y	Paralegal - all levels	3.01
Outbound phone calls	Y	Paralegal - all levels	0.69
Outbound email updates	Y	Paralegal - all levels	0.65
Inbound phone calls	Y	Paralegal - all levels	0.29
Dealing with other client issues / queries	Y	Paralegal - all levels	0.06
Other activity - dealing with completions	Y	Paralegal - all levels	0.04
Rework due to system crashes	Y	Paralegal - all levels	0.02

Staff capacity and effectiveness matters



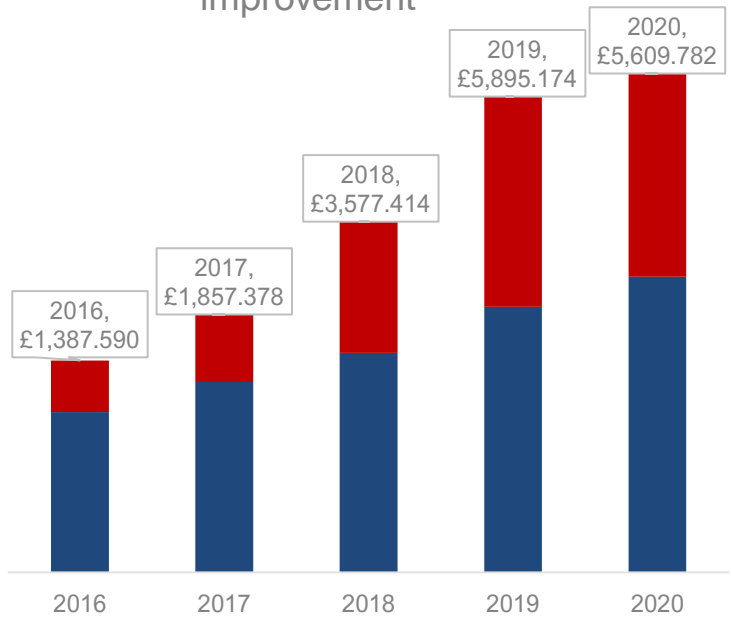
Operating Profit Margin





The impact on the bottom line is significant for firm 1

Lost profit opportunity from margin improvement



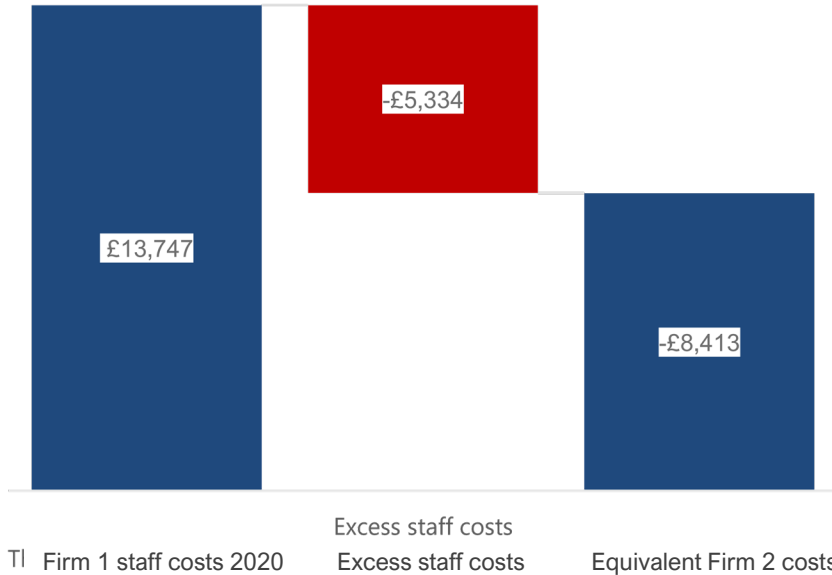
£18.3M

The profits sacrificed through lower margins over 5 years

Staff costs are the cause of the difference



Staff Expenditure Compared to firm 2



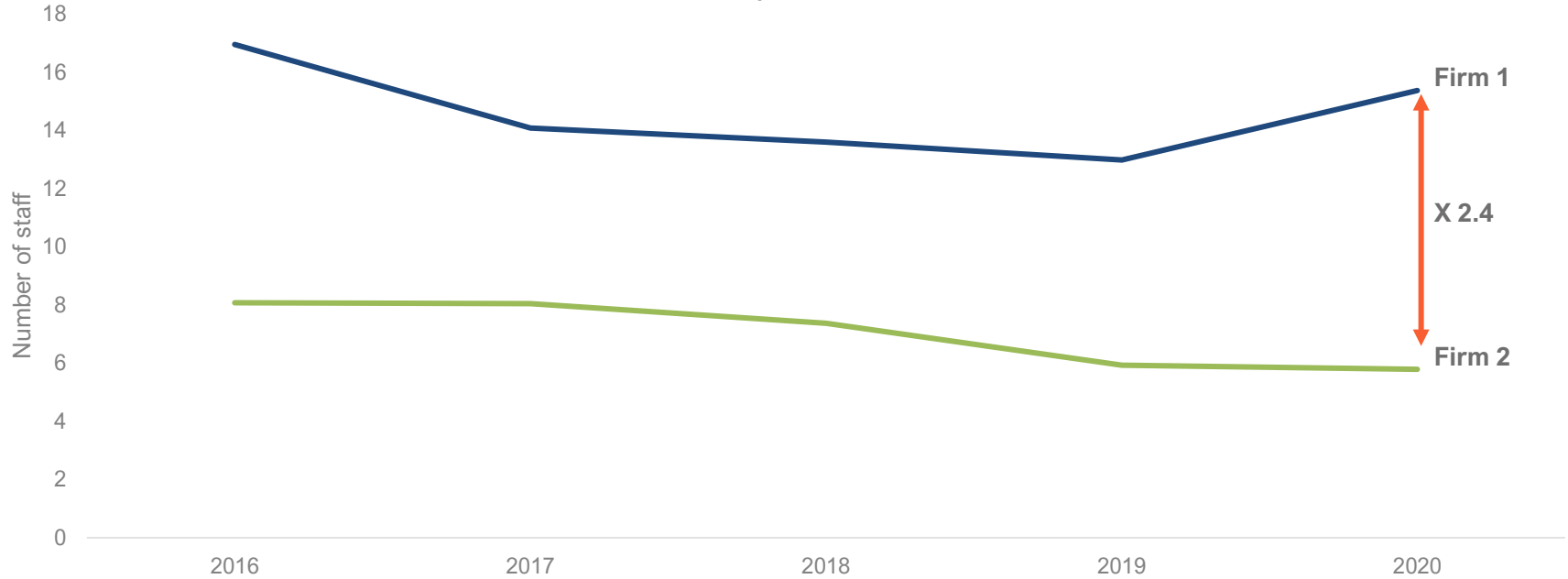
95%

The proportion of the difference in profitability explained by staff costs

Firm 1 has 2.4 times as many staff per unit revenue



No of staff per £M revenue



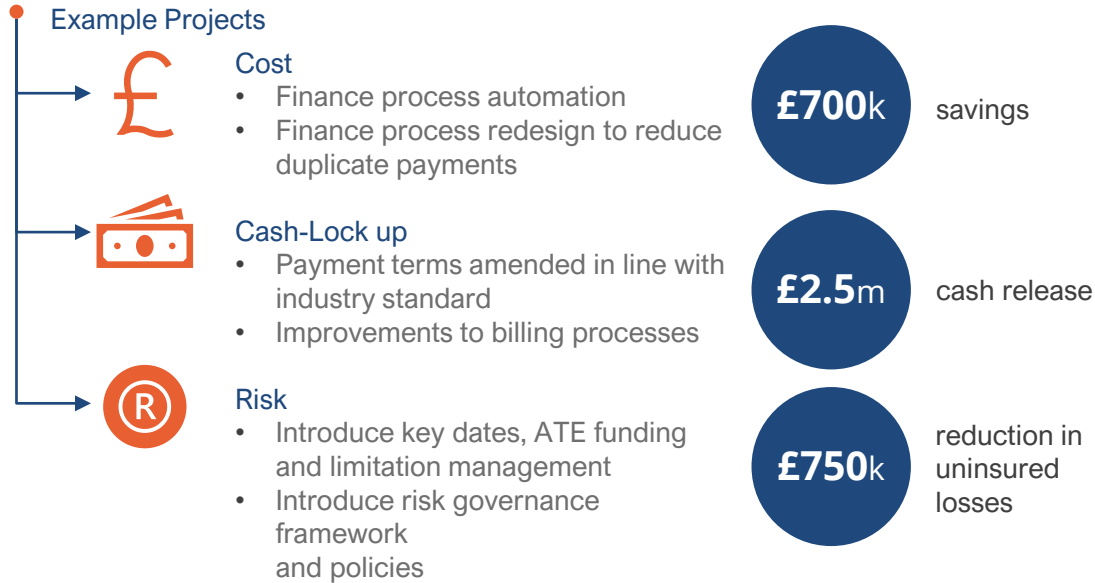
INDIRECT COSTS AND LOSSES

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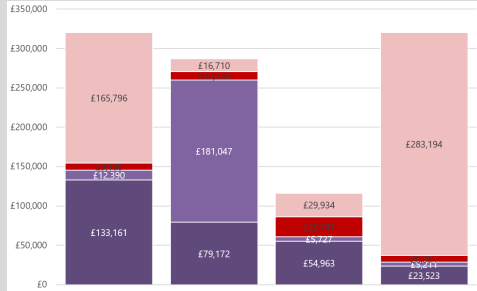
Indirect costs



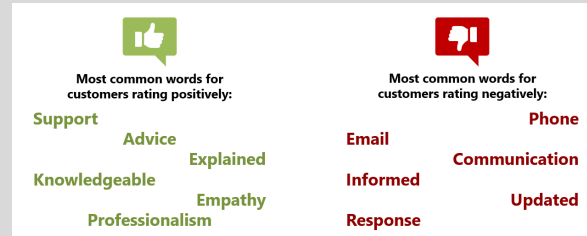
Losses



All fee, complaint, and disbursement write-offs and remediation costs were quantified



Example Opportunity: Design out customer complaints



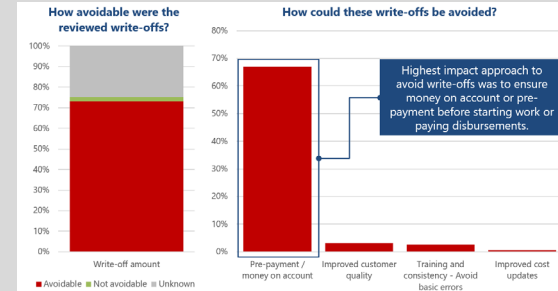
- 80% of all negative feedback coming from one practice area

Example Opportunity: Addressing remediation costs



- Payment terms
- Standardise client comms
- Improved tracking of case progress

Example Opportunity: Resolving write-offs



One minute CEO change checklist



AIMS

Can everyone express clearly what will be different when this change is complete and their role in the change?



LEVERS

Can the delivery team describe the activities, their sequence and the impacts that will make the performance dial move?



MEANS

Do you understand the time, skills and executive support needed to make the change work and have you provided them?



TEAM

Is the team engaged and onboard with the change?



EVIDENCE

Do you have regular evidence that the change is on track to deliver the results?

EXPLODING SOME MYTHS

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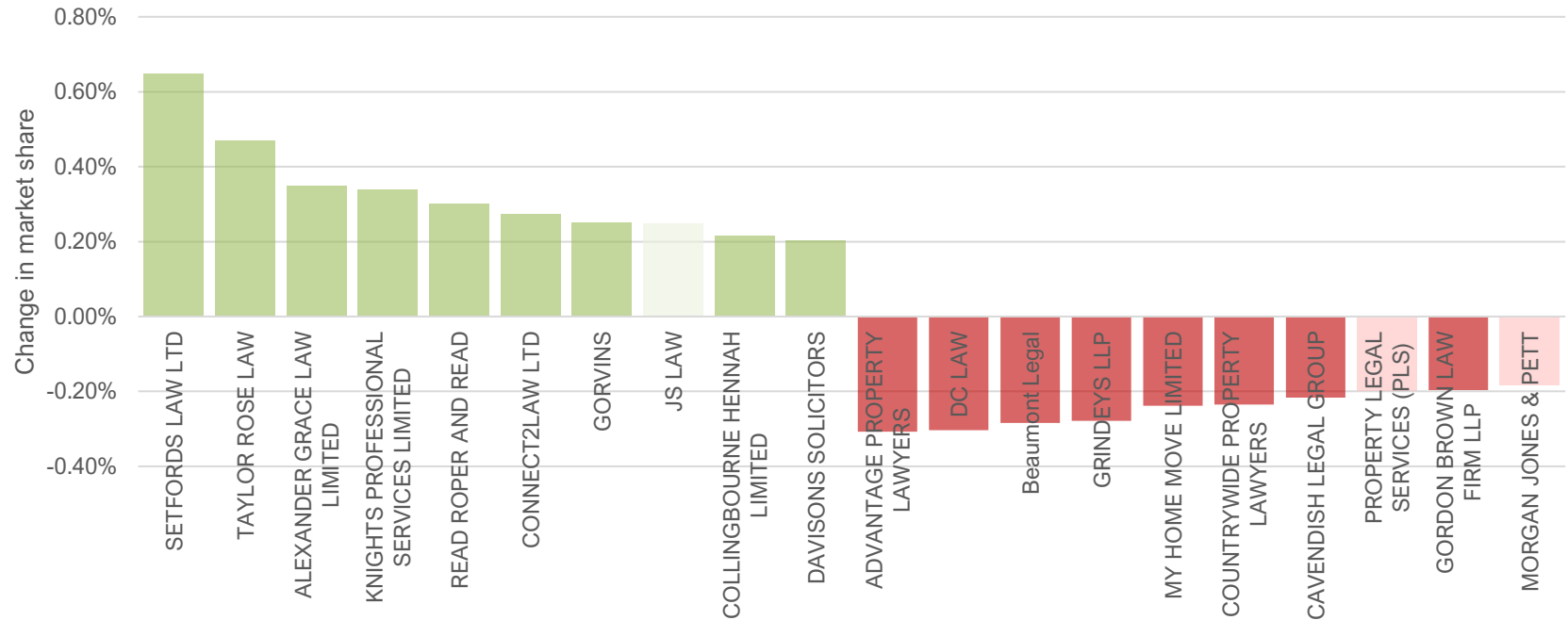


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Organic growth drives gains, corporate ownership drives losses



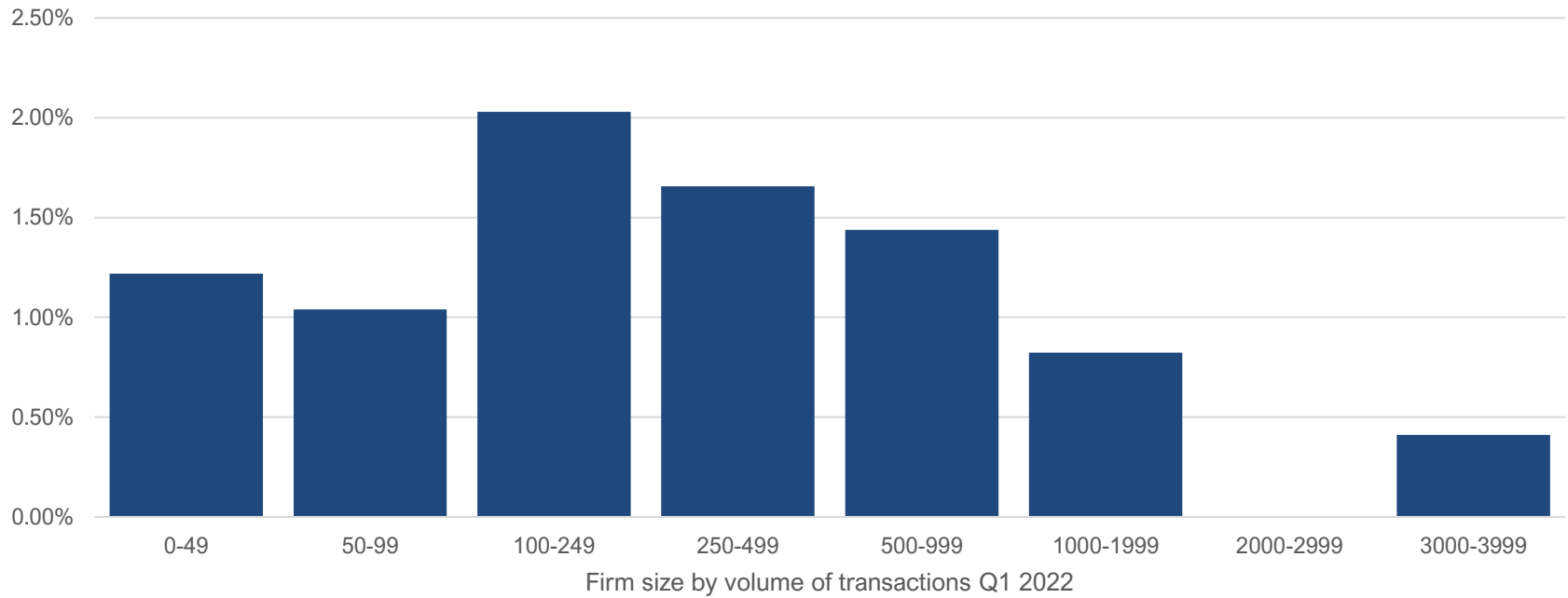
Whole market: biggest gains and losses in market share by brand: 2019-Q1 2022



Size is no barrier to superior performance

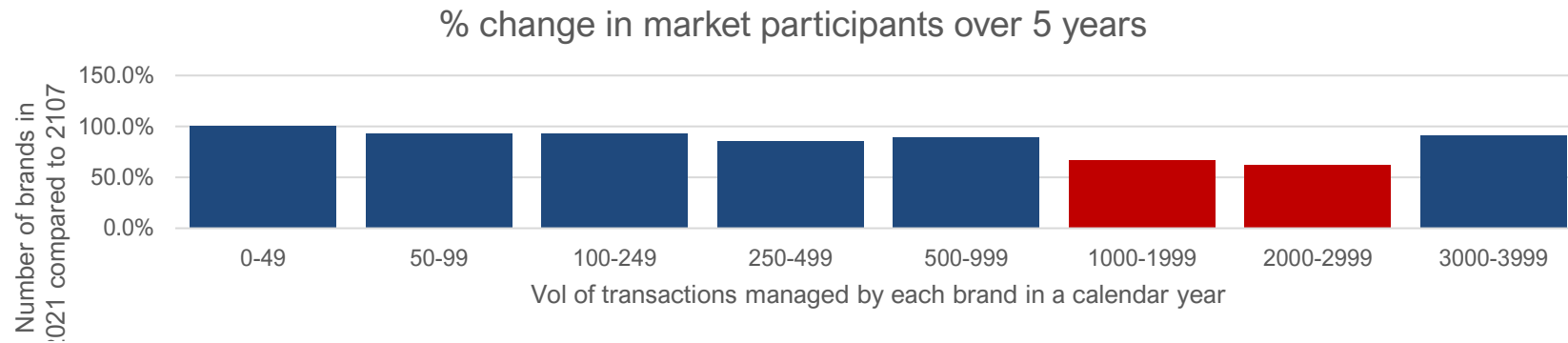


Where is growth in mkt share coming from





Consolidation hits the mid-market hardest but remains insignificant



3.1%

Market share of Palamon Capital Partners brands:
(biggest market participant by volume)

External capital and consolidation is not an immediate threat

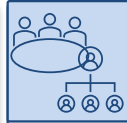


PE CONSOLIDATOR/CONGLOMERATE

DESCRIPTION: Private Equity Partnerships seeking to buy firms operating in the same market to achieve scale and efficiency and link them with other firms that provide complimentary services.

Representative firms included:

- Palamon Capital Partners
- Inflexion Private Equity



OWNER MANAGED

DESCRIPTION: Regardless of corporate structure a firm in which the owners of the business are principally engaged in the day-to-day activities of the firm:

Representative firms included:

- Read Roper and Read
- Gorvins
- Ison Harrison
- Talbots Law Limited
- JMW Solicitors LLP
- Birchall Blackburn
- Shoosmiths
- Property Legal Services



CORPORATE CONGLOMERATE

DESCRIPTION: A firm operating within a group structure in which other firms serve complimentary services

Representative firms included:

- Skipton Holdings Ltd (Countrywide)
- Keenans Estate Agents (Alexander Grace Law Limited)
- Metamorph Group Ltd (Beaumont legal)
- Knights Professional Services Ltd



DISTRIBUTED CONSULTANT

Description: A firm whose delivery is managed in whole or in part by fee earners who are engaged as consultants rather than employees and whose growth is principally driven organically than through acquisition:

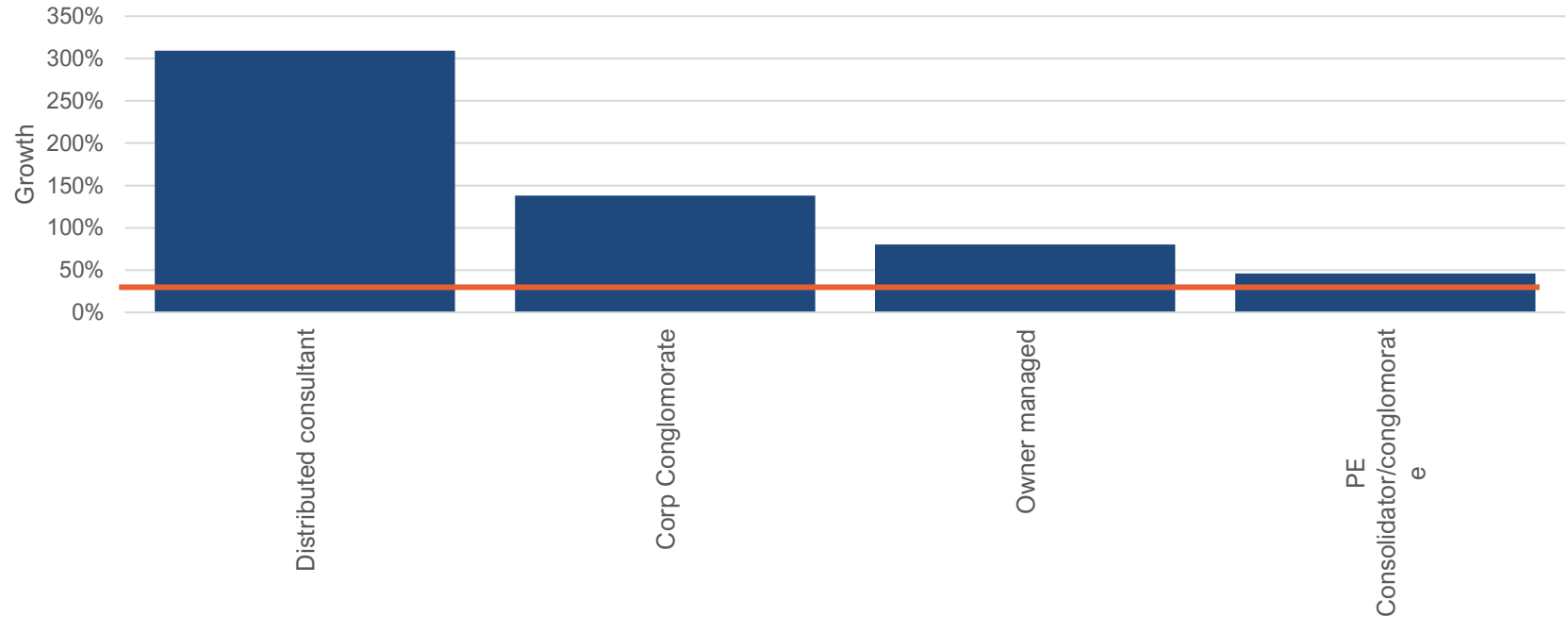
Representative firms included:

- Setfords (Owned by Phoenix Equity Partners)
- Taylor Rose

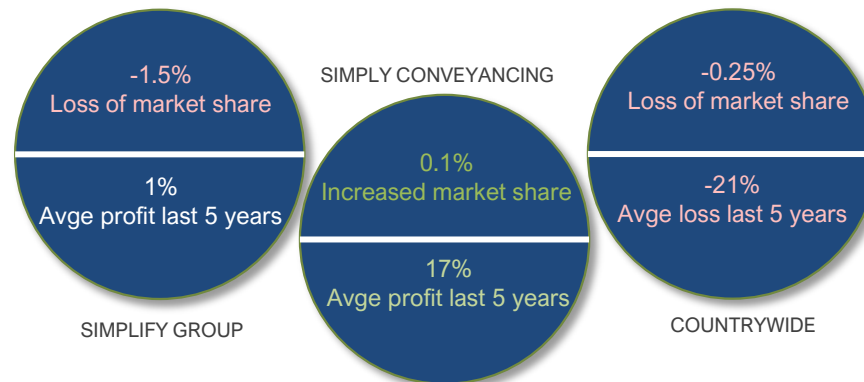
Distributed consultants are growing most rapidly



Top 20 firms growth by business type



PE consolidators and conglomerates are not yet adding value



Operating profit margin 2017-2021



Summary



1

The importance of marginal gains

- Marginal gains across the matter lifecycle can have a big impact on costs and profits
- This is especially true when improved conversion of enquiries can be combined with improved fee earner productivity to service additional work at no/low cost
- There are usually significant time and customer service losses in how we communicate with clients



2

Market consolidation and growth

- Consumer law remains viable for firms of all sizes
- Organic growth remains the most reliable way to scale
- PE firms and consolidators have yet to show they add value
- Market consolidation is limited and is driven by external capital and legislative change, not economies of scale and tech investment

3

Top tips

1. A modern law firm is built and managed on data, use it to understand where your improvement focus should be
2. Understand where the time in your firm goes and how to improve the effectiveness of your internal and external communications
3. Organic growth is the least risky approach, pursue other options with care and expert guidance



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Questions & Conclusion

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