



**UNCERTAIN FUTURE FOR THE UK LEGAL MARKET BUT STILL OPPORTUNITIES FOR INNOVATIVE HIGH STREET LAW FIRMS**

**Introduction**

This brief looks at some of the potential opportunities that mid-tier and smaller law firms could consider as the new liberalised legal services market gathers pace in the UK.

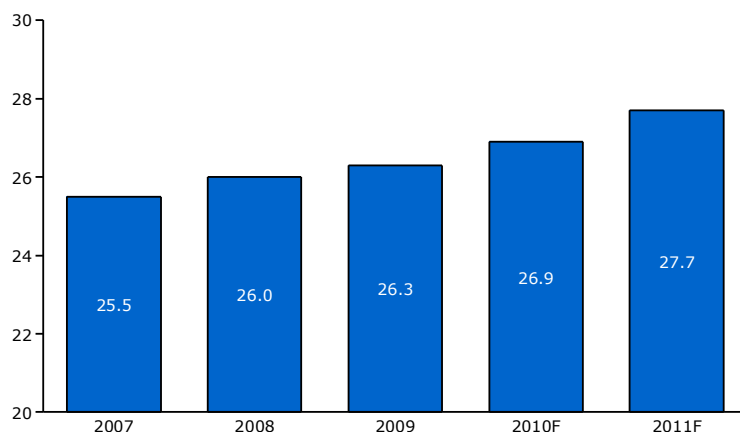
Much of the coverage regarding the changes taking place has focused on the threats to smaller law firms but it is not all bad news.

***First the bad news.....***

IRN’s regular research report on the UK legal services market (<http://www.irn-research.com/news/new-report-on-uk-legal-services-market/>) estimated annual growth of just 1.6% in value terms for the sector in 2009, the lowest for many years.

The short term outlook for the legal services market also remains cautious with the IRN report forecasting growth of 2.3% in 2010 and 2.9% in 2011. The worst of the economic downturn may be over but there are little signs of a strong recovery in key legal markets while increased competition and consolidation in the sector seems inevitable, and more pressure on costs and fees.

**Table 1: Legal Services Market Size (£bn) & Forecasts**  
£bn



Source: *UK Legal Services Market 2010*. IRN Research, April 2010

The number of legal aid firms is being drastically reduced, while many personal injury (PI) firms are struggling to deal with dramatic increases in their professional indemnity insurance fees following the substantial increase in solicitor PI claims. In some cases, these run into an extra tens of thousands of pounds while others cannot even get cover. As a result, some firms are being forced to close or merge with others.

A recent survey of high street law firms (<http://www.lawgazette.co.uk/news/high-street-firms-fear-future>) suggests that the overwhelming majority of 150 firms surveyed are worried about their future.

***But opportunities for innovative firms....***

The likely arrival of Alternative Business Structures (ABSs) in October 2011 should signal the start of external investment in law firms. There had been rumours that the new Coalition Government would abandon ABSs but this rumour appears to have been quashed: in June 2010 the new Legal Services Minister Jonathan Djanogly stated that ABSs would be supported by the new Government.

However, the main assumption so far is that this will only interest the larger firms.

It is true that many larger law firms are likely to use ABSs to attract outside investors, possibly become listed companies, then use the investment to fund expansion, acquisitions. Some may move into the retail end of the market (high volumes, national branding introduced, lower prices etc) and increase the competitive pressures on smaller firms.

But there are also opportunities for smaller firms in the changing legal services market and here are some possible outcomes:

- Some mid-tier/smaller law firms could merge with each other, and partner with other professional service businesses on the high street, e.g. accountants, estate agents, to create a one-stop shop for services and possibly attract external investment.
  - Even if a merger is not practical, the one-stop shop concept is still a possibility while more smaller firms are likely to look at shared outsourcing of support services to achieve benefits of scale and improve their competitive position. A pilot scheme involving 10 law firms is already underway in Manchester - <http://www.lawgazette.co.uk/news/smaller-firms-collaborate-north-west> - with these firms setting up a single management company to manage their shared support services.
  - Many small law firms operating in specialist legal sectors will continue to thrive.
  - More boutique law firms operating in relatively specialist niche markets will emerge as partners leave larger firms to set up new law firms funded in part by external investment
  - More “virtual” law firms will be created to take advantage of new ways of working, reduce overheads, and increase outsourcing of non-core activities. Virtual firms will have the flexibility and low cost base to be able to continue to compete effectively.
- Some national/regional legal brands are likely to emerge based on networks of local law firms, or franchise agreements involving local law firms. One that has already appeared is QualitySolicitors.com, aiming to become a national brand with QualitySolicitor branded offices and retail outlets in various towns and cities. In October 2010, the brand announced expansion plans to increase its franchise network to 150 law firms (<http://www.lawgazette.co.uk/news/qualitysolicitors-steps-expansion-50-new-branches> ). Another franchise - [www.HighStreetLawyer.com](http://www.HighStreetLawyer.com) – is set to launch in April 2011. There are 6 firms involved in a pilot. Other national and regional legal brands can be expected based on similar networks although business models may vary.
  - Online legal services will become more important and offer another opportunity for law firms, willing to invest in interactive and client-friendly websites, to compete with the bigger brands. Included in the IRN report noted above are the results of a survey of 2,266 adults commissioned by IRN from YouGov. A clear majority – 57% - agree or completely agree that good law firms should give their customers access to, and ability to use their services online in the next couple of years. Only 8% disagree.
  - Traditional business models will change. The need to incorporate online services described above is one example. More subtle changes should be considered to deal with the new competitive environment, for example flexible working hours to deal with consumer demands for convenience.

- Evidence from various consumer research continues to show that experience and trusted advice are still key factors influencing clients when they choose legal representation. Innovative law firms will build their local profiles around these strengths, and focus on good client care.
- The key is the development of this local profile. Too many firms think a Yellow Pages ad is enough but a local profile should be much more. Some examples to consider: joint advertising/marketing with other local service companies, e.g. car repair businesses, retailers, dentists etc; regular news items and features in local press; sponsorship of local groups/events; membership of, and attendance at, local business groups/networking events; special deals for groups, e.g. young adults, over 60s/65s; innovative ads, e.g. local radio, on taxis, local transport etc.

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