



UK Legal Services Market: a sudden transformation or gradual transition?

The 3rd edition of IRN's *UK Legal Services Market* report will be published at the end of 2011. In the meantime, here is an update on current market trends and some of the changes about to take place.

These changes are led by the arrival of Alternative Business Structures (ABSs) and the introduction of Outcome Focused Regulation (OFR). Links to recent reports and articles provide further information.

1. Market Trends

Recent measures of the financial performance of the UK legal sector all suggest a return to some market growth after declining sales at the height of the recession in 2009 and early 2010.

Official statistics on turnover in legal services point to a market growing by 5% in 2010 to reach £25.6bn (includes patent & copyright agents, barristers, as well as law firms & solicitors). Growth has continued in the first half of 2011 although at a slower pace: turnover increased by 2.4% in the first half of 2011 compared to the same period in 2010. (Source: TOPSI Production and Services Turnover, June 2011. Office for National Statistics)

Results from the top 100 law firms for the fiscal year 2010-2011 show total revenues to be £14.3bn, up by 3.7% compared to the previous year (Source: The Lawyer 200).

The Law Society Law Management Section's annual profitability survey for 2010 shows a modest return to growth after a significant decline in 2009. In 2010, there was only an average increase of 0.2% per practice fee income compared to a fall of 6.5% in 2009.

The latter two surveys also show some increases in profits alongside revenue growth.

This is encouraging news for the legal sector as a whole but the market is far from homogenous and the detail behind these overall trends is less clear:

- Most top law firms are growing revenues but a significant part of this increase is being driven by overseas growth not UK growth.
- Away from the top 200 or so firms, there is a long tail of thousands of law firms, many of which are in consumer law areas where demand is still weak and competition is increasing.
- Economic uncertainties particularly in the UK and Europe continue to create doubts about the extent of the legal services market recovery.
- Changes, like the arrival of Alternative Business Structures (ABSs) and new regulations are likely to increase competitive and cost pressures on many law firms.

2. Alternative Business Structures (ABSs)

ABSs enable outside investment in law firms for the first time, allowing new entrants to come into the market. Some are predicting a "Big Bang" leading to the demise of thousands of law firms while others see a gradual change.

A report from the Legal Services Board in August 2011 details their view on likely market changes and states the following:

“It is likely that, by increasing competition, ABS will hasten existing trends in the market. This includes moves to commoditisation, standardisation, deployment of technology in lowering marginal costs of document production, outside pressure for external investment, and greater flexibility to raise capital...to a greater or lesser extent, these are pre-existing trends. Allowing ABS will not, in itself, introduce these trends into the legal services market”.

(Source:

http://www.legalservicesboard.org.uk/news_publications/latest_news/pdf/research_note_on_the_legal_services_market.pdf)

IRN would agree with this view of the market and the likelihood of a gradual but still significant change in the market.

After all, there is already competition in the market with various ways for consumers to purchase legal services: from law firms and solicitors through to brands like the Coop and the Halifax, claims companies, web sites from businesses offering low-cost divorces, wills etc. and others offering DIY legal forms, and legal process outsourcers (LPOs).

ABS Timetable

Whatever ultimately happens, the arrival of ABSs in England and Wales is being held up because the designation of the Solicitors Regulation Authority (SRA) as the licensing authority for ABSs has been delayed.

Parliament has yet to enact the necessary legislation. The original launch date of 6th October 2011 for the first ABSs licensed by the SRA is now more likely to be early 2012.

However, the situation is complicated by the fact that another body – the Council for Licensed Conveyancers (CLC) – can start licensing ABSs from the 6th October although the CLC can only license ABSs that want to undertake reserved conveyancing and probate for now but not litigation or advocacy.

The CLC expects to deal with around 100 ABS applications by the end of the year.

3. Outcome Focused Regulation (OFR)

ABSs may be delayed but another change – Outcome Focused Regulation (OFR) - will be “live” on 6th October 2011. OFR focuses on the high-level principles and outcomes that should drive the provision of legal services for consumers. The existing detailed and prescriptive rulebook will be replaced with a targeted, risk-based approach concentrating on the standards of service to consumers. There will be greater flexibility for firms in how they achieve outcomes (standards of service).

The detailed strictures of the old rules have been replaced by an outline of 10 mandatory ‘principles’, covering the professional standards expected of the solicitor and firm at all times. The principles cover areas such as accounts, disciplinary rules, and client care.

OFR gives the SRA various powers, including the ability to visit firms at random or carry out risk-based assessments and receive an annual compliance report. Law firms will also have to nominate dedicated compliance officers for legal practice (COLP) and for finance and administration (COFA) by March 2012.

Further details regarding OFR can be found at: <http://www.sra.org.uk/handbook/>

ABSs - Current Position
ENGLAND & WALES
Almost there.....but no definite estimated time of arrival ABSs licensed by the SRA should be set up in early 2012. The CLC can start to consider applications for ABSs limited to conveyancing and probate from 6 th October 2011.
SCOTLAND
Following England & Waleslikely to arrive later in 2012 Slightly watered down version of ABSs than in England & Wales as 51% ownership share still has to be in hands of solicitors or “members of other regulated professions, e.g. accountancy”. First ones likely to be later in 2012.
NORTHERN IRELAND
No plans for market liberalisation No plans to change the current structure although some lawyers are asking the Law Society of Northern Ireland to open the debate on ABSs.

4. More Competition, More Marketing

Wider interest in the changes about to impact on the legal market is reflected in the number of articles and news items on the sector appearing in the general business and marketing press recently. One of the most recent and most detailed was published in *Marketing* magazine on the 18th August 2011. Many of the themes in the article are familiar ones, such as the impending arrival of big consumer brands into the consumer legal market and their likely impact. However, there are also some interesting contributions from existing law firms looking at the opportunities arising from a liberalised market, and a plea for law firms and solicitors to embrace more marketing to combat increased competition.

The article adds that marketing to compete head-on with the new entrants is unlikely to work and notes that a large slice of this marketing should focus on client satisfaction and the role client recommendations can play in business development. Here are two quotes:

“A more convincing strategy may be for law firms to attempt to use their strengths in marketing, such as focusing in recommendations”.

“The professional services sector is not as sophisticated as the retail sector and the legal profession needs to learn what retailers do best – customer satisfaction and customer service”.

(Source:

<http://www.marketingweek.co.uk/analysis/cover-stories/brands-taking-the-law-into-their-own-hands/3029329.article>)

Back in 2009, IRN produced a briefing on the importance of client feedback not just to measure client satisfaction with existing services and delivery but to identify new business opportunities: so you would expect us to agree with many of the points raised above.

(Source: http://www.irn-research.com/index.php/download_file/view/34/)

Some law firms and solicitors (by no means all) have been slow to appreciate the value of marketing but the new regulatory and competitive pressures may encourage more to bring marketing and client feedback into the heart of their business development strategies.

FURTHER RESEARCH

The 3rd edition of the *UK Legal Services Market* will be published in December 2011. The report will include:

Industry Overview
Market Size 2007-2011 & Segmentation
Market Drivers
Key Trends and Issues
PEST Analysis
Competitive Structure
Profiles of Key Players
IRN Law Firm Research Results
Market Forecasts 2012-2013

Price £350 (plus VAT). Available to advanced purchasers for only £300 (plus VAT) if ordered before 25th November 2011. More details from david.mort@irn-research.com

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