

**Notes to the presentation of Reform of the English legal Market by Roger James,
partner Taylor Vinters Solicitors**

"We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next 10" so said Bill Gates, the founder of Microsoft.

Bill Gates was not specifically talking about the UK legal market place of course, but it will be interesting to see whether his comment holds true in relation to changes currently taking place in that market.

The English legal market place changed little in hundreds of years. Many English law firms can trace their roots back to the 1800s and beyond and though the people running those firms will have changed over that period, the environment in which they operated remained constant.

The traditional law firm model over that period involved firms owned by lawyers employing other lawyers to assist them providing legal services with those employed lawyers aspiring to one day become a partner in the firm themselves. The partners shared the profits (and losses) of the business.

It was not until the late 1980s until lawyers could even advertise their services. Prior to that time word of mouth and reputation were the only tools a legal business had to develop their business. Consequently, there was little change, little competition, most legal businesses neither grew nor shrunk, just continuing as they were with restrictive practices and vested interests ensuring that the partners who owned the businesses became fairly wealthy in the process.

The introduction of advertising started a shake-up whereby law firms with the best marketing and the most innovative approach to winning new work began to pull away from the pack.

The genie was out of the bottle and this change was the first step in the transformation of the English legal market place. However, many felt there was still not enough competition in the supply of legal services. Furthermore, there was too much regulation around who could provide legal services which was restricting the market place. In particular, it was felt that the system needed reform in three areas:

- 1 Being able to access outside capital. A traditional law firm is funded by its partners (themselves lawyers) investing their own money into a firm at the time they become partners. From then on they share the profits (and losses) of the business before reaching retirement, at which point they withdraw their invested capital. This model limits investment in a business to the amount the partners can afford to inject as capital (or persuade the bank to lend them). Furthermore, it leads to short-termism as older partners are often unwilling to invest some of their profit share if the return on investment will not occur until after their retirement.
- 2 The regulation limited ownership of equity stakes in law firms to qualified lawyers. Sometimes a business may wish to provide equity to an important non-lawyer, such as a finance director.
- 3 Limiting ownership to lawyers also prevented the establishment of multi-disciplinary partnerships, such as law firms and accountants combining to form a single business.

These pressures led to the fundamental reform we are now seeing as a result of the Legal Services Act 2007.

Alternative Business Structures

The Legal Services Act allows so called "Alternative Business Structures (ABS)" and allows non-lawyers to take management or ownership roles within legal businesses.

This new regime is not completely unregulated. Firms that wish to operate as an ABS still require a licence from relevant government authorities. However, the reform has opened up the market place considerably to new business ventures.

Examples of ABS organisations include:

- 1 Normal law firms bringing in non-lawyer partners, perhaps with important expertise required for a successful business. For example, bringing in an accountant into a finance director role.
- 2 Consumer brands such as the Co-op (who have interests in retailing, banking and other services such as funeral care) and BT.
- 3 Insurance companies are getting involved in owning law firms to handle their claims.
- 4 Virtual firms are emerging such as Excello and Brilliant Law.
- 5 We are seeing private equity entering the legal market place with firms such as Parabis and Keoghs benefitting from investment from wealthy individuals / organisations who are not themselves interested in running a firm or being a lawyer, but hope to make a decent return on their investment.
- 6 Not for profit organisations such as the Community Advice and Law Service.
- 7 Multi-disciplinary practices where organisations are emerging which can provide a multitude of services in addition to legal advice.
- 8 We have also seen the world's first listed law firm, Slater & Gordon, enter the UK market place, using the money it is able to raise from the Australian stock market to buy up English firms.

How are law firms adapting?

All of this is resulting in law firms, a once safe, un-dynamic if slightly boring environment facing competition like they have never seen before. It was recently announced that 30 of the top 200 UK law firms have had to enter intensive engagement with UK regulators over their financial difficulties. There have been some large scale casualties such as the insolvency of large 70 partner firm Cobbetts earlier this year.

50% of law firms have reviewed their structure to allow non-lawyer ownership (or expect to do so in the future). However, the other 50% hope to continue as before without reform.

Successful firms are now looking at external funding as a way of broadening their horizons beyond the means of their existing partners.

Firms that are looking to attract external investment are needing to raise their game in relation to financial discipline and measuring financial performance.

What is the impact on service delivery?

These new entrants and new capital coming into the market place have seen a revolution in the way services are delivered to clients to the benefit of individuals and corporates who are consumers of legal services.

We have seen a shift away from hourly billing with the emergence of more innovative pricing arrangements and fixed fee work wherever possible.

We have seen the emergence of internet only virtual firms with impressive websites offering a whole range of documents and services at competitive prices.

We are also seeing the so called "unbundling" of legal services where consumers adapt a "pick and mix" approach to engaging legal advisers, often choosing to do a lot of the work themselves in order to keep costs down.

New technology has also played a part with organisations like iSolicitorUK offering consultations via Skype.

What has been the impact on law firm management?

The traditional partnership arrangements whereby lawyers became partners and therefore owners/managers of their business is still very common, not least because there are significant tax and other difficulties for existing organisations to change their structures. However, new entrants into the market place are typically setting themselves up as companies and there can be many advantages to doing so, including more streamlined decision making. However, a consequence of setting up as a corporate is that a business cannot then offer partnership as an incentive to its up and coming lawyers. Such businesses are going to have to find new ways of incentivising staff.

There has been an increase in the number of firms who have brought in non-lawyer managers to roles such as finance, marketing and operations.

Modern UK law firms will have a dedicated management team who just work on running the business and do not undertake client work.

How has Taylor Vinters responded to these changes?

Taylor Vinters, like many English firms, can trace back its history to the 1800s. For many years it was a relatively small law firm operating out of Cambridge in eastern England.

We have welcomed the recent reforms, seeing them as an opportunity to differentiate ourselves from traditional law firms and seek out exciting new business opportunities.

We have focused on the areas we are best at. In our case, that is providing legal services to clients in the technology, investment and wealthy private client markets. We have endeavoured to become the best when it comes to providing services in these areas.

We have pulled out of areas in which we cannot be the best or which do not fit our new focus – for example, selling our personal injury litigation practice to Slater & Gordon to release funds for further investment in our core areas.

We have branched out beyond our heartlands opening new offices in London and more recently Singapore.

We have targeted larger companies and premium work, competing on quality not price. We believe we can beat many of the new entrants into the market when it comes to quality, but we would not be able to beat them if we tried to compete on price. We do not currently have their economies of scale or low cost base.

We have also sought and found growth through innovation. In particular we have for some years now been developing a vibrant international strategy. Some examples of this are:

Our International Counsel service where we provide multinational clients with a single point of contact for their legal matters around the world. For clients this provides them with consistency of advisor, removes the need for them to source law firms in new countries as we do it for them, and our quality assurance of the advice provided, and all provided with an "in house" feel. This service has won us new clients around the world, including just last month a multinational IT company who want our employment advice services in relation to their 30,000 employees around the world.

We have also looked at new income streams such as the creation of a joint venture Clarity Taylor Vinters, which enables us to earn revenue from non-legal services i.e. financial advice provided to our wealthy clients.

Lawyers are a conservative breed, not known for being adventurous or taking risks (at least in the UK). But it is my view that traditional firms will need to reform to survive. Those who bury their heads in the sand face a very difficult future. However, for the adventurous the potential rewards are great, especially if many of their competitors fail to rise to the challenge.