

Understanding solicitor firms

1. Background

This paper presents a summary of findings from the survey of solicitor's research, *A picture of change: Findings from a survey of solicitors' firms*, published in 2013 along with the context for the LSB. This research has been undertaken by TNS BMRB, and the analysis and report written by Professor Pascoe Plesence, Dr Nigel Balmer, and Professor Richard Moorhead. The project was jointly funded by the Ministry of Justice, the Law Society and the Legal Services Board.

This is the largest data based survey of solicitor firms in England & Wales as yet undertaken, with a sample of 2,007 firms, providing a statistically representative picture of these firms. This is a survey of all types of solicitors firms – high street and corporate. It provides a 2011 baseline of the supply of legal services by solicitor firms.

2. Background: Seeking to define a 'High street' solicitors firm

The term 'high street' law firm is widely used, but there is no single accepted definition of what it means, and therefore no clear sense of which firms would count as high street solicitors firms and which would not. While the term 'high street' might suggest a small local business with an office on the main thoroughfare of a market town, the reality is very different. None of the range of definitions include geography of office location.

High street solicitors firms have in the past been defined as those services provided by firms with ten or fewer partners. However, this definition is not flexible enough to cover the range of legal services actually available in towns and suburbs throughout England & Wales, as it fails to capture other legal services such as those provided by other regulated providers such as conveyancing firms, or by other unregulated providers such as NfP organisations. Additionally, the expectation is that size of partnership will become increasingly irrelevant as the ownership structure of legal service providers changes over time.

If we were to use partnership size as the key factor, on this measure high street firms represent 95% of all solicitors firms and 46% of all solicitors working in legal practice, as is shown in Figure 1 below. Based on LSB analysis of SRA turnover data in 2010¹, this group account for approximately £5.5bn of turnover – around a third of the total solicitor value for England & Wales. Legal aid is often associated with firms with 10 or fewer partners², and legal aid payments to solicitors totalled around £1.5bn in 2010, accounting for barrister's fees and disbursements, and other funding. Therefore, legal aid accounted for around 25-30% of total turnover for this group in 2010. This group are the majority supplier of solicitor services in crime (84%), immigration (77%), residential conveyancing (72%), family (69%), and injury (59%), but only just in terms of will writing and probate services (51%)³. Further this group tend to undertake fewer categories of work than their corporate counterparts, specialising in a few areas. Over a quarter of these firms derive the majority of their income from conveyancing (27%), and over a tenth from crime (13%), and family (12%).

¹ This is based on a sample of 9,156 firms.

² See <https://research.legalservicesboard.org.uk/analysis/supply/static-market-analysis/structure-of-supply/#Legal-practice—solicitors>

³ LSB analysis of 2010 SRA turnover data of 9,156 firms

Figure 1. Who are the high street solicitors?

Number of Partners	Number of firms	As a %age of all Legal Practices	Number of Solicitors	As a %age of all Solicitors at Legal Practices
Sole Practitioner	4,011	39%	6,746	8%
2-4 partners	4,824	46%	19,936	23%
5-10 partners	1,018	10%	13,112	15%
11-25 partners	348	3%	10,901	13%
26-80 partners	155	1%	15,736	18%
81+ partners	57	1%	20,318	23%
All firms	10,413	100%	86,748	100%

The Law Society review of regulation⁴ offers the clearest definition based upon the types of consumer served. It defines high street solicitors as those providing services to consumers who “are not usually knowledgeable about the law, nor about legal procedures; they may be poor and require financial sponsorship from the state to obtain legal services; normally, they will be infrequent users of lawyers, and the matter may be the first or only time they deal with a solicitor”. Further, the consumer dimension is key to the Oxera market segmentation model, shown below with the relevant segments highlighted in green. This serves to demonstrate the role of this group as key providers of solicitor legal services to private consumers and smaller businesses.

Figure 2. The relevant market segments

Type of Consumer	Legal aid consumers			Private consumers			SMEs and charities			Large business & Government			Government sole purchaser		
	Research	Advice	Representation	Research	Advice	Representation	Research	Advice	Representation	Research	Advice	Representation	Research	Advice	Representation
Type of Activity															
Type of consumer problem															
Crime - prosecution															
Crime - defence															
Injury															
Wills, trusts and probate															
Conveyancing															
Family															
Property, construction, planning															
Employment															
Immigration															
Consumer problems															
Welfare and benefits															
Other rights & civil liberties															
Intellectual property rights															
Corporate Finance															
Other business affairs															
Other															
Public & admin. law															

However limited by the gaps in knowledge⁵, this analysis is limited by the assumptions made. Defining one group as not the other – high street firms as not corporate firms - does make sense but only if the other is defined, which the city firms investigation

⁴ Review of the Regulation of Corporate Legal Work, The Law Society 2009

⁵ see paragraph 1.8 , Impacts of the LSA - Final baseline report, LSB 2012

<https://research.legalservicesboard.org.uk/wp-content/media/Impacts-of-the-LSA-2012-Final-baseline-report.pdf>

demonstrates is not in fact the case⁶. The survey of solicitors firms takes forward our understanding and provides some definition to these boundaries.

3. Findings from the Survey of Solicitor firms

The summary findings are:

- **Services offered:** the most common area of work was residential property, with 48% of firms generating at least 10% of their gross fee income from such work. A majority of firms conducted property related work of one type or another.
- 40% conducted at least 10% of their work in wills, trusts, probate & estate administration.
- **Range of work:** 27% of firms reported that they conducted at least 90% of their work in a single category of work ('narrow practice' firms).
- While 38% of single solicitor firms were narrow practice firms, no firms with more than 40 solicitors could be defined as narrow. 47% of single solicitor firms undertaking criminal work did little, if anything, else. The figure was 41% for immigration.
- This is most common in crime, immigration and personal injury work. In contrast, firms undertaking wills, trusts and probate work and property and planning work far less often had a narrow practice.
- **Client acquisition:** 64% of firms engaged in media advertising. The most common form of advertising was via the Internet (54%), with local newspapers and magazines (30%) also popular.
- Firms with a lower proportion of repeat clients made more use of advertising channels: firms with 75% or more repeat clients 46% made use of media advertising, compared to 70% for other firms.
- **Outsourcing:** 87% of firms outsourced one or more activities. The most common forms of outsourcing were for IT support (44%) and accounting and finance (35%). A third of firms outsourced at least some advocacy work and 20% of outsourced all their advocacy work. Only 13% of firms outsourced other aspects of legal work, such as legal advice and drafting - 'legal process outsourcing'.
- **Diversity of management:** Female and BME majority partnership firms were significantly smaller than others were (female mean solicitors 2.7, BME mean solicitors 2.6, others mean solicitors 9.5), and have higher proportions of part time fee earners.
- They are significantly more likely to undertake 90% or more of their work in one area of practice (44%, compared to 23% for female, and 37%, compared to 25% for BME).
- Female majority partner firms were more likely than others to report working near-exclusively for non-legally aided individuals, and BME majority partner firms were more likely than others to report working mostly for individuals, rather than organisations.
- **Problems facing the firm:** The survey found that firms faces a range of problems in relation to:
 - Premises (7%)
 - Obtaining investment (10%)

⁶ See Benchmarking the supply of legal services by city law firms research undertaken by Charles River Associates (CRA) in 2011

- Competition from non-solicitor organisations (10%)
 - Competition from solicitor organisations (15%)
 - Availability of finance (16%)
 - Changes in legal aid (23%)
 - Complying with regulations (29%)
- Firms containing between 6 to 12 solicitors most likely to report one or more problems.
 - Firms undertaking substantial volumes of commercial, employment or wills, trusts or probate work were least likely to report problems, across the board.
 - Firms undertaking personal injury work were most likely to report problems concerning competition, both from other firms and from non-solicitor organisations.
 - Firms undertaking property work were most likely to report problems concerning complying with regulations.

The report looks at the factors that influence productivity. Here productivity is calculated by dividing income by number of fee earners to yield a £ per fee earner figure. The findings are summarised in the table below.

Figure 3. Impacts of factors on productivity

Factors associated with higher productivity	Factors that made no difference	Factors associated with lower productivity
<ul style="list-style-type: none"> • Located in London • <50% local clients • 75% of more repeat clients (8% increase) • Majority organisation clients (16% increase) • > 50% personal injury (32% increase) • Broad practice • Media advertising (10% increase) • Outsourcing IT (17% increase) • 100+ clients per F/E (13% increase) • Facing challenges from non legal competition (10% increase) • Experiencing problems complying with regulations (8% increase) 	<ul style="list-style-type: none"> • Rural/Urban • >90% legal aid clients • Being a member of a Network • Outsourcing accountancy/finance 	<ul style="list-style-type: none"> • Located in Wales • >50% local clients • Majority female (12% decrease) or BME partners (18% decrease) • New firms (31% decrease) • >50% Crime (33% decrease) or immigration (37% decrease) • Narrow practice (8% decrease) • Neither broad nor narrow (14% decrease) • LPO (9% decrease) • Experiencing a problem with cost of premises (19% decrease)

Underlying these findings is the different value of the categories of work undertaken. By way of example, firms offering services in crime and immigration are associated with lower hourly rates and firms with narrow practice – potentially driving the 8% decrease in productivity.

The report also looks at the recent changes in turnover firms have experienced:

- 42% of firms reported a decrease in turnover in the past three years, compared to 32% reporting an increase and 27% reporting no change.

- Those firms undertaking more than 90% of their work in one area were more likely to report a relatively large increase in turnover, and less likely to report a small decrease in turnover. This presumably reflects increasing income associated with different types of work/clients. This is shown in figure 4 below.
- 19% of firms in the sample were new within the past three years, 50% of which were single solicitor firms and 40% of which undertake work in just one area. These new firms are more likely to do less common areas of work, more likely to be members of networks and more likely to outsource accounting and IT. They were more likely to have a majority of BME or female partners.
- Of those firms that were in existence in both 2007/8 and 2010/11, 8% moved into one or more new areas of work, while 9% reported moving out of one or more areas of work.

Figure 4. Change in turnover over a 3 year period

%age change	Size of firm (solicitors)					
	All firms	1	2-5	6-12	13-40	41+
More than 10% increase	19 %	14%	20%	25%	24%	28%
1 to 10% increase	13%	13%	11%	13%	18%	20%
Remained the same	27%	31%	26%	24%	26%	28%
1 to 10% decrease	13%	10%	14%	14%	10%	18%
More than 10% decrease	29%	33%	30%	23%	22%	6%

- For firms reporting more than a 10% increase in turnover:
 - o 54% had invested in new technology while 2% had reduced investment,
 - o 51% had increased the number of permanent fee earning staff while 10% said they had reduced the number of fee-earners,
 - o 42% had increased fee levels while 8% had decreased fees,
 - o 32% had changed the breadth of their practice,
 - o 25% had changed their method of charging,
 - o 18% had changed their geographical coverage, and 7% had merged with another firm.
- For firms reporting any level of decrease in turnover;
 - o 42% also reported having invested in new technology while 8% had reduced investment,
 - o 37% had reduced the number of fee earners employed while 11% had increased the number,
 - o 31% had changed the breadth of their practice,
 - o 28% had increased fee levels,
 - o 25% had changed their method of charging,
 - o 12% had changed the breadth of their practice,
 - o 6% had merged with another firm.

Figure 5. Impacts of factors on turnover

Factors associated with higher turnover	Factors that made no difference	Factors associated with lower turnover
<ul style="list-style-type: none"> • London • Female (increased by 1%- 10%) • BME (increased) • >25% Wills (increased 1%-10%) • Personal injury, commercial work • Advertising (increased by more than 10%) • Outsourcing IT (increased by more than 10%) 	<ul style="list-style-type: none"> • Urban/rural • %age of legal aid clients • %age of individual or organisational clients • Family • Employment • Networking • LPO • Number of fee earners 	<ul style="list-style-type: none"> • Wales • >75% repeat clients • BME (decreased by more than 10%) • >25% Crime, property (decreased by more than 10%) • Not outsourcing accountancy/finance (decreased 1-10%) • More clients per fee earner (decreased by more than 10%)

4. So what does it mean? Findings in context for the LSB

Primarily, this provides knowledge about solicitors firms that did not previously exist, gaps in knowledge that had previously been filled by assumption and anecdote. These findings will be used as part of the LSB's evaluation of the market impacts of the LSA reforms. However, the findings can be considered against the regulatory reform context.

It confirms the diversity of firms in terms of their financial performance, challenging the assumption that all solicitors firms face the same challenges, despite the homogeneity of the partnership business model. Firms delivering personal injury services tend to operate in very different ways to those delivering legal aid for example. Having 50% or more work in personal injury related to a significantly higher productivity - 32% higher than other firms, while having 50% or more work in crime or immigration related to significantly lower productivity of 33% and 37% respectively compared to other firms.

The survey also shows that a significant proportion of these firms are performing well, in spite of the challenges faced. Further, the picture is not as simple as smaller firms faring less well, as might be suggested by some media headlines⁷. The reality is that competition does exist in legal services, with some firms doing better than others across all the different market segments – just like in most other industries. Looking solely at size, sole practitioner firms a higher proportion saw an increase or no change in turnover than those with 2-5 partners, shown in figure 4 above. While 43% of sole practitioner firms have seen a decrease in turnover, 57% have seen income stay the same or increase during an unprecedented period of 'double dip' recessions. Taken together these types of firms account for over 80% of all solicitors firms but less than 35% of solicitors working in private practice - see figure 1 above – i.e. the majority of business 'units' but not the minority of individuals. However, a smaller proportion of bigger firms have seen reductions in turnover – 32% of those with 13-40 partners and 24% of those with 41+. The changes in turnover were mainly associated with the areas of work - firms with a reasonable exposure to personal injury, employment and commercial/corporate work more often reported increases (and, particularly, larger increases) in turnover, in

⁷ E.g. <http://www.guardian.co.uk/law/2012/oct/08/sole-practitioners-alternative-business-structures>

contrast to those working in the wills trust and probate, property, family and crime areas. Another key driver of changes in turnover was client type, with firms with a majority of business clients reported an increase in turnover slightly more often than the rest, and firms with more legal aid clients more likely to report a decrease in turnover. Where repeat clients made up 75% or more, firms were more likely to report a decrease in turnover of over 10%. This may be indicative of a squeeze on fees as firms have sought to retain existing business, while experienced clients have sought to exercise their purchasing power.

Further the survey points to a possibility of financial inefficiency of face to face delivery of advice from a firms perspective. This is if we assume that locally based clients are less likely to use telephone and email for communications. The survey found greater proportions of local clients associated with lower level of productivity - significantly smaller for firms with 50-89% of local clients when compared to those with 0-49%. Those with 90% or more local clients also had lower productivity than those with 0-49%. Further there is no evidence of any rural or urban association with productivity. However this may be driven in part by the increased productivity associated with more organisational clients who are less likely to be local. Perhaps most surprisingly the survey shows that the benefits of networks have yet to be fully realised. Networking had no relationship to productivity. However advertising was associated with a significant 10% higher productivity compared to other firms.

That residential conveyancing is the most commonly delivered form of work – representing 10% or more of the work of 47% of firms - is not a surprise based on consumers use of legal services⁸. Its prominence despite the continued slow down in the housing market – running at 54% of 2006/07 levels in 2011/12 – is surprising. Further, 40% conducted at least 10% of their work in wills trusts and probate. While concentration on issues of justice is important, legal services are used mainly for the buying and selling of property and distribution of estates – facilitated by the rule of law and just relationships – as well as for the enforcement of civil rights and criminal prosecutions.

Vulnerability of these firms may be too generalised. It's not unreasonable to say that firms that have a narrow practice scope – derive more than 90% of their income from one area – are at risk of 'shocks' because of reliance on income from one segment. Narrow firms operating in conveyancing or probate will have suffered from the national reduction in volume of work since the 'credit crunch' of 2008, and the subsequent periods of recession. People are not moving home as frequently, or are conducting probate themselves more often. These shocks may be exacerbated by the impacts of large-scale new entrants. It might be reasonable to put these firms at the top of 'at risk' list. However, firms undertaking substantial volumes of commercial, employment or wills, trusts or probate work were least likely to report 'problems'. Firms undertaking personal injury work were most likely to report problems concerning competition, both from other firms and from non-solicitor organisations (32%, compared to 14%, in the first case; 25%, compared to 9%, in the second). Firms undertaking property work were most

⁸ See Legal Services Benchmarking Report, BDRG Continental, 2012 - <https://research.legalservicesboard.org.uk/wp-content/media/2012-Individual-consumers-legal-needs-report.pdf>

likely to report problems concerning complying with regulations. The survey shows that problems relating to the cost of premises (19% lower productivity), changes in legal aid (14% higher) and complying with regulations (8% higher), are significant in terms of their impacts on productivity. Problems with the cost of staff (3% lower), availability of finance (6% lower), obtaining investment (11% higher), legal competition (4% lower) and non-legal competition (10% higher), are not significant in terms of their impacts on productivity.

The survey also shows that the provision of legal services by solicitors firms is not static. Between 2007/8 and 2010/11, 8% had moved into one or more new areas of work, while 9% reported that their firm had moved out of one or more areas of work. Those firms that undertook at least 10% of their work in family were more likely than others to have withdrawn from an area of practice. In contrast, those firms that undertook at least 10% of their work in immigration were more likely than others to have moved into a new area. For firms undertaking 50% or more commercial work, they were less likely than others to withdraw from an area of practice. This points to a greater churn in services provided to individual consumers, than those provided to businesses.

The survey also highlights areas that warrant specific further investigation from the regulators, prompting more questions about regulatory effectiveness. That BME majority partner firms were also more likely to report problems concerning competition from other firms and complying with regulations is one specific area of concern. It provides more evidence about links between diversity and firm ownership and the financial status of these firms, with both gender and ethnicity continued to relate to a significant reduction in productivity. This is in part driven by co-incidence of other factors – small size, narrow practice, working in crime and immigration – associated with diversely owned firms. But this also underlines the dominance of white male owned firms in the more lucrative commercial segments.

The survey reports that 6% of firms are intending to seek external investment from non-solicitor professionals or companies following the introduction of ABSs, although only 1.5% of firms had undertaken any specific actions to take this forward. This was more prominent among firms with 13-40 solicitors, and firms undertaking a significant amount of personal injury and immigration work.

The full report was published in January 2013, and can be accessed via the Legal Services Board web pages, alongside survey data - published to encourage others to use this evidence to help shape further research.