

A very warm welcome to this latest edition of Intelligent Times, the news bulletin from Intelligent Office UK, a leading provider of onshore business process outsourcing (BPO) solutions.

Following the recent publication of The Lawyer's list of the UK Top 200 law firms, this edition features an article by Simon Slater, in which he investigates the profit margins of the Top 200 and ponders the implications of his findings for all legal firms going forward. In addition we are pleased to welcome an editorial by our first guest author, Jane Galvin, Managing Director and Head of Professional Services at Barclays Corporate. In the article, Jane offers her own thoughts on how law firms can make a positive impact on their profitability.

Of course, no edition of Intelligent Times would be complete without a round up of what is going on in our three business divisions. This time we are pleased to tell you about some very interesting trade press coverage we received recently, plus there is encouraging growth in our Consulting Services and Transcription Services divisions.

Record downloads proves legal firms' burgeoning interest in outsourcing

The legal sector's interest in the benefits of outsourcing appears to be increasing steadily, evidenced by the enormously positive response to Legal Support Network's recent issue of its "Briefing" magazine.

In September, "Briefing" focused on the topic of outsourcing and we were thrilled to discover that the issue featured an interview with Sue Shale, CFO of our Managed Services client, Farrer & Co.

Making an impact on profitability

In the current economic climate, law firms, traditionally partnerships and LLPs, are becoming increasingly aware of the disciplines that have historically been exercised in corporates. Profitability and cash generation is now more than ever on the radar, and it is shaping the way firms do business. So how are firms addressing profitability and what measures should be considered?

The golden rule to increasing profitability, in any sector, is either a reduction in costs or an increase in the topline. Management teams in law firms of all sizes are revisiting the traditional processes and dynamics which have shaped the profession.

Whilst profit per equity partner (PEP) can be improved by shrinking the number of partners, this metric does not account for other factors which are crucial to financial success; such as value adding activities for clients, resourcing these activities from within, financing the firm, and ultimately managing the 'correct' resources through efficient monitoring. Management teams must look beyond the numbers to improve profit, establishing foremost a 'vision' and firm strategy; underpinning where value is created and where it is allocated, as well as what distinguishes the firm from competitors.

A focus on staff and clients is necessary. When well managed, both generate value and are the basis of sound financial health. Key considerations need to be made around: What is the partnership criteria? How is performance measured? How do the top earners drive the topline and cash flow? Which staff issues are most pressing? How is talent recognised and rewarded?

Many firms have increased lateral hiring, while others have concentrated their efforts on devising part-time schemes, or alternative routes to partnership status. By introducing professional development plans that promote leadership skills, work sharing, and revised billing structures a culture shift is taking place and it involves all levels of the pyramid structure in an attempt to define what the best model is.

Flexibility is vital with clients, as their needs and demands shift in the current challenging environment requiring new frameworks linking value to relationships, and not merely engagements. The Pareto principle, formulated by the economist Vilfredo Pareto, shows that 80% of profits come from 20% of the client base, yet very few firms have a structured approach to assessing client profitability and growth areas. An in depth review of the top clients by practice group, industry analysis, realisation/profitability, client satisfaction scores and questioning the traditional fee for service, are just some of the approaches that have proved successful in a corporate environment and that are now at the forefront of law firm leaders' minds also.

cont./

cont./

In the article, Sue talked about how top law firms are turning to outsourcing to deliver efficiency gains and cost savings. Sue also gave an honest appraisal of the benefits Farrer & Co. has enjoyed since the firm outsourced its non-core business functions to Intelligent Office.

Such was the level of interest, Legal Support Network very quickly reported record circulation figures, with more than 9,000 downloads. If you haven't already, we would urge you to read the article by visiting www.bit.ly/LSNBriefingonoutsourcing Sue's article begins on page 4.

Consulting Services update

The performance of our Consulting Services division is also very encouraging and, now more than a year after we introduced its portfolio of services to the market place, there is much evidence which confirms that the legal sector has a strong appetite for consultancy services which are designed to secure sustainable improvements to firms' operational efficiency.

Indeed, one of our areas of expertise is that of secretarial restructuring. This is an area where firms can make marked improvements to their efficiency and service standards, all the while making optimum use of the firm's resources and supporting their fee earning staff as effectively as possible.

In August, Sandie Craciun published a white paper entitled "Jack of all trades, or master of none?" in which she asks why law firms still have generalist secretaries, even though general practice lawyers disappeared decades ago.

cont./

To make an impact on profitability it is vital to take a more sensitive approach to clients and people through effective cost monitoring and efficient structures. As firms review their overheads, downscale property, evaluate outsourcing more of their services, they are also understanding how alternative resourcing may contribute to firm performance. Creating the appropriate debt structure and financial systems to support the sustainable workflows from major global clients, may lead to a calibrated expansion policy achieved either through mergers or international re-positioning.

Jane Galvin
Managing Director and Head of Professional Services
Barclays Corporate

The heat is (still) on

This time last year I analysed the relative profitability of the UK's Top 200 law firms and concluded that the economic landscape had changed for good. Gone were the days of high average profit margins. 20% was the new 30%. I also said that market consolidation was overdue and firms still had some way to go to take costs out of the business.

A year on and little of substance has changed.

The average profit margin of the Top 100 firms has flat-lined at 24.7%, whilst the average profit margin of firms in the 101-200 grouping is half this figure.

The good news

First, the Top 100: the "Magic Circle" group has increased its average profit margin to 42.4% (up from 42% last year); firms in the "national" category have improved by 1% point to 21% on average; and firms based in London (with no other UK offices) have increased their average margin to 29.4% (up from 28% last year). The gap between London based firms and regional ones (21.3% this year, 22% last year) has widened to 8.1% (6% last year).

Additionally, firms in the Top 50 have fared better than those lower down the list: the average margin here is now 28.4% (up 2% on last year), with those based solely in London achieving 31.1% (up from 29%) and those in the regions making 25.7% (up from 24% last year). Here again the gap has widened (from 4.9% last year to 5.4% this year).

It would seem that it pays to be in the Top 50 rather than the 51-100 tier and to be a London firm rather than a regional one. Is this really the case?

cont./

There has been an extraordinary amount of interest in the paper and you can read it by visiting www.bit.ly/irr32zl

Transcription Services update

We are encouraged to note that the uptake of our Transcription Services is also growing quickly. In September, we welcomed Tees Solicitors as a Transcription Services client and, looking to the future, we are confident that we will be announcing some major new business wins for Transcription Services very soon.

As we spoke about recently in an article in BD in Law magazine, the reasons why legal firms are becoming more and more interested in outsourcing their document production comes down to cost savings, operational efficiency and service standards. Indeed, permanent in house secretarial support can be expensive but that does not stop it from at times being inefficient and troublesome to manage. By way of contrast, experience has shown that the firms we work with are able to reduce their secretarial costs by as much as 60% when compared to an in house secretary. On top of that, service standards are often improved since the workload is shared across a larger team of transcriptionists, all of whom are working flexibly. To read the article, please visit www.bit.ly/sioTMx

Until the next edition of Intelligent Times.

Margaret Lang
Chairman
Intelligent Office UK Ltd
margaret.lang@intelligentofficeuk.com

The not so good news

Firms in the bottom half of the Top 100 this year achieved an average profit margin of 21.9% (down from 23.5% last year). The gap between them and the firms in the top half is now 6.5% (up from 2.9% last year).

London based firms in the 51-100 section saw a dip in average profit margin to 24.8% (down from 27% last year), whilst regional firms in the same category achieved an average margin of 18.9% (down from 20% last year). Here the gap between the two has actually narrowed slightly from 7% to 5.9%.

But the really worrying statistic is this: one-third of the firms in the 51-100 range made a profit margin of 15% or less.

We don't have profitability data for firms 101-200, but we can make a calculated assumption based on relative fees per lawyer. The average "fees per lawyer" generated by Top 100 firms is £391,000. The average generated by firms 101-200 is £183,000 (less than half). Therefore, these firms are probably doing well to achieve a profit margin of 10%-12%.

Of course, there are exceptions to any generalisation. During the last year, I have - on an interim basis - led a firm in the 101-200 category which produces a 30%+ profit margin. I have also been involved in two mergers involving 4 firms (inside and outside the Top 200), each of which was producing a 20% profit margin.

But my point this year is the same as it was last year. A profit margin of less than 20% is unsustainable for a modern legal business. It does not produce enough cash for reinvestment in the business as well as to remunerate the shareholders in the manner they expect. Further work is necessary to trim the cost base and further consolidation must take place to realise economies of scale.

[Data source: The Lawyer 200]

Simon Slater
Managing Director
Intelligent Office Consulting Services
simon.slater@intelligentofficeuk.com

To receive a copy Intelligent Times in your email inbox, completely free, three times per year, visit our web site www.intelligentofficeuk.com and click on the "subscribe to our newsletter" link, which can be found on the home page.

We promise to keep your data private, we won't ever pass your details to any third party and, of course, you can opt-out of our mailings at any time.