The four key challenges in the legal sector

How effective unified communications delivers a competitive advantage
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INTRODUCTION

“For many law firms, the introduction of Alternative Business Structures, pricing pressures, effective utilisation of fee-earners, inadequate investment in infrastructure projects and the continuing need to reduce costs means that their medium-term survival is not guaranteed.”

The legal sector continues to face an increasing number of challenges to its traditional operating practices. The global economy is beginning to change, bringing potentially favourable opportunities to those firms poised to take advantage of the upturn in corporate activity. However, for many law firms, the introduction of Alternative Business Structures, pricing pressures, effective utilisation of fee-earners, inadequate investment in infrastructure projects and the continuing need to reduce costs, means that their medium-term survival is not guaranteed.

External factors, such as new market entrants, have created uncertainty and a rapidly evolving legal landscape. As recognised non-legal brands exploit their established reputations to enter the market, law firms must adapt and prepare themselves for the increasing consumerisation of legal services, seeking innovative ways to deliver their expertise. In addition, clients are becoming increasingly discerning consumers, demanding exceptional service and fixed fee offerings, particularly for transactional business, such as conveyancing, wills, and family matters.

Other factors challenging the sector include the retention of talent and the emergence of flexible working arrangements. With more firms using temporary staff to augment contracted salaried staff, there is clear evidence of a growing trend towards the concept of the “virtual” firm.

Finding effective ways of using advanced communications solutions will be key to future success in the legal market, providing the foundation for responsive and seamless business communications inside the firm and externally with clients, suppliers, and associates. This white paper provides an overview of the key challenges currently faced by the legal sector and the key benefits that can be derived from a successful unified communications implementation.
The most agile legal firms anticipate change and adapt their working practices, systems and processes to meet evolving market forces. Agility in any business organisation requires a thorough appreciation of the specific business challenges faced, so that effective strategies can be deployed to alleviate their impact. We have used research from a number of independent sources, as well as feedback from our legal clients, to identify the key four challenges faced by firms operating within the UK legal sector.

1. A CHANGE IN FEE STRUCTURES

The UK legal sector earns revenue through fees charged for services, or for referrals given to other organisations. Profit per Equity Partner (PEP) remains the critical Key Performance Metric (KPI) in the sector and while Top 10 law firms continue to outperform the rest of the market, recent research by PricewaterhouseCoopers’ (PwC) indicates that the average UK PEP is under considerable pressure. Significantly, any recent improvement in PEP within the top law firms has been largely achieved through cost reduction and headcount management, rather than from organic growth in fee income.

While many law firms are beginning to see signs of recovery from the global economic downturn, the fundamental characteristics of the industry remain under close scrutiny, including fees based on billable hours and the partnership structure of law firms. In the past, fees were normally charged on a per hour basis, which meant that the legal firm was less accountable for their charges. Today, more clients want to negotiate flat fees for services so they have a better sense of what their legal expenses will be upfront. This has led to an increasing pressure to offer more legal services on a fixed fee basis, enabling clients to make a more informed choice about who they engage for legal services. Ultimately, with increased choice, clients have the flexibility to switch suppliers freely, with more clients moving transactional work to lower cost providers. The net result is that many law firms have seen a dramatic negative impact on their cashflow.

In addition, referral fees have been scrapped for personal injury (PI) cases, due to the resulting litigation culture in the UK. It is likely that this change could expand into other practice areas within the legal sector.
2. THE CHANGE IN CLIENT NEEDS AND BEHAVIOURS

Clients are becoming increasingly sophisticated procurers of legal services, expecting more flexible, accessible methods of service delivery, available “on-demand”. At the same time, lawyers no longer have a monopoly on the provision of legal services, allowing clients to seek legal assistance from a growing number of non-lawyer professionals, including paralegal technicians, legal document preparers, legal self-help sites, virtual assistants and even offshore legal vendors.

These new options help bring affordable legal services to individuals, SMEs and larger enterprises, empowering clients to address their own legal matters. As the cost of legal services continues to rise, new legal delivery models will continue to emerge and gain momentum in the coming years. Without a doubt, the legal sector is undergoing considerable change and law firms need to pay heed and deliver a better client experience, irrespective of their service offering, if they are to prosper.

3. THE INTRODUCTION OF ALTERNATIVE BUSINESS STRUCTURES

Introduced in 2007, The Legal Services Act and introduction of Alternative Business Structures (ABS) allows a non-lawyer or non-legal entity to own or invest in a legal practice. Currently, there are over 100 ABS entities approved by The Solicitors Regulation Authority or The Council for Licensed Conveyancers in the UK. Predominantly, these ABS entities are high profile non-legal brands, such as The Cooperative Bank, Direct Line, Capita and BT.

As a result of deregulation, these new business structures carry a unique set of potential benefits and risks. Notably, equity can be realised from a wider pool of potential partners and directors - for example, from other professionals or non-lawyer staff, who can be promoted to partner status. This enables firms to attract external talent with high levels of skills, knowledge and expertise in commercial or operational functions, which may not have been possible within the traditional partnership hierarchy. Examples of this include the appointment of former Managing Director of Mothercare, Greg Tufnell, to Radiant Law, and ex-Dragon’s Den entrepreneur James Caan, who has invested in Knights solicitors.
In addition, law firms can expand their service offering or become niche “one-stop shops” in order to diversify their practice. However, firms must also bear in mind the implications of introducing non-legal staff, workflows and culture into a complex environment, such as risk assessment, relationship management and public profile.

For clients, the introduction of ABS entities has widened the market of service providers, offering greater choice and the ability to pick the most appropriate firm for different requirements, depending on the complexity and sensitivity of the legal matter.

4. CHANGING WORKING PRACTICES AND VIRTUAL TEAMS

With the onset of the financial crisis in 2008, many law firms restricted expenditure on core infrastructure, with the greatest impact on IT spend. Recent research by PwC confirms that many firms now need to reinvest in infrastructure projects, with approximately 80% of firms identifying their top priority as the need to upgrade or implement new IT and communications systems.

One of the key trends that IT departments are currently preoccupied with is trying to capitalise on mobile technologies, such as iPads, iPhones, Android devices and other handheld communication devices. The increasing trend towards Bring Your Own Device (BYOD) within the workplace, combined with an increasingly mobile and geographically dispersed workforce, presents a range of new challenges. The adoption of BYOD can reduce costs significantly, giving fee-earners the opportunity to work remotely from any location, without any negative impact on productivity.

Running in parallel, an increasing number of firms are using temporary staff to augment contracted salaried staff. This new approach to working practices comprises a small core headcount of permanent fee-earners, supported by additional services delivered by a pool of self-employed or zero hours contracted fee-earners, who may work remotely.
1. A CHANGE IN FEE STRUCTURES

This change will have most impact within the more specialised practices and brings with it the largest short-term risk for the industry. A move towards more fixed fee work directly leads to a reduction in per transaction revenue. Fixed fees, while more predictable for a legal organisation, mean that clients can commercially benchmark legal practices more easily. This will lead to competitive pricing packages within the transaction space and, ultimately, can result in declining fees. When not addressed, this leads to pressure on cashflow and less money for the practice to invest for growth.

The natural strategies against this challenge is to enforce greater cost management or increase the number of transactions handled per annum. Both of these approaches offers the opportunity to align processes, people and the way in which client services are delivered.

Many practices will opt against tackling this issue directly, choosing to sell out or merge with other practices in order to achieve the transaction rate required to maintain profitability. In turn, this will result in further market consolidation, giving clients the option to consider alternative service providers. Practices currently focused on transactional work are likely to be least affected by this change, as they already operate within the environment.

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<th>Challenge</th>
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<td>Reduction in per transaction revenue.</td>
<td>Attract larger number of transactions without increasing costs.</td>
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<td>Cashflow restrictions due to the increasing demand for fixed fee service provision.</td>
<td>Reduce costs and expenses.</td>
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<tr>
<td>The need to manage new clients for volume-based transactional services.</td>
<td>Allow for faster expansion of infrastructure.</td>
</tr>
<tr>
<td>The need to “downshift” service provision to more cost-effective resources.</td>
<td>Ensure first time identification of transaction, plus routing of transactions to the right resource.</td>
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2. THE CHANGE IN CLIENT NEEDS AND BEHAVIOUR

As the legal market unfolds, the consequences of market evolution and competition matched by regulatory changes will result in a shift in the make-up of legal providers. In the coming years, there will be greater consolidation, resulting from the amalgamation of firms or key individuals into larger entities, including more brand-led service providers from outside of the traditional legal market.

As a result, clients will demand new types and styles of service delivery through innovation of process, technology and client service, different use of paralegals and other non-lawyers, and virtual delivery. The mystique of legal practice will disappear and advice and offices will be have to be more accessible and user-friendly. This change is an opportunity for practices to build a world-class brand that delivers client satisfaction.

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<tr>
<td>Meeting client demands to interact with the firm across varied channels without compromising the quality of service and response times.</td>
<td>Introduce the infrastructure to support on-demand access to information and multi-channel communications.</td>
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<td>The desire to adapt without capital outlay.</td>
<td>Consume communications services on a utility pricing model or proven lower Total Cost of Ownership (TCO) with leasing.</td>
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<td>The need to invest to maintain competitiveness in infrastructure but uncertainty about prioritisation of CRM, voice, data centre or connectivity.</td>
<td>Prioritise where the highest percentage of client interaction takes place and where a solution can have impact across multiple areas (cost savings, revenue growth and increased productivity).</td>
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<tr>
<td>To build a world-class brand in order to attract new clients and retain existing clients.</td>
<td>Introduce infrastructure that is flexible, easy to adapt and highly scaleable, plus will support brand consistency across all touch points.</td>
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3. **THE INTRODUCTION OF ALTERNATIVE BUSINESS STRUCTURES**

The advent of ABS entities signalled a major shake-up for the legal sector, with many industry pundits predicting that buying legal services would be as simple as visiting the supermarket - hence the widely predicted “Tesco Law” effect. There has been a rise in the number of new entrants and brands delivering legal services, but contrary to expectations, smaller firms have not disappeared, with many choosing to specialise in niche areas. However, the market for consumer and retail legal services has changed considerably since deregulation, with access to work and clients concentrated in large providers, particularly from insurance companies, financial institutions, retailers, membership organisations and affinity groups.

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<td>Niche firms need to present a responsive, personalised service.</td>
<td>Evolve business practices to offer responsive and personalised services.</td>
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<td>Introduction of non-legal personnel to deal with customer contact.</td>
<td>Develop enhanced client communication strategy.</td>
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<tr>
<td>New entrants into market place with an already established brand and customer base.</td>
<td>Develop marketing and brand strategy to compete with new market entrants.</td>
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<tr>
<td>Use of advanced communication solutions with clients.</td>
<td>Deploy advanced communication technology to sustain competitiveness.</td>
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4. CHANGING WORKING PRACTICES AND VIRTUAL TEAMS

Within any business environment, it is commonplace to find a myriad of mobile devices across varied platforms in use. Preference for specific devices can make standardisation impossible, so many law firms are seeking ways to embrace BYOD, while maintaining integrity and security. The increased mobility of fee-earners, whether they are on the road, at another site or working from home, can help firms to work smarter with lower overheads, but can often hamper client communications. Service providers may be salaried or contract staff, office or remotely-based and work across numerous time-zones. They all share a common requirement for easy access to the right tools and systems that ensure the delivery of a seamless, responsive service to clients.

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<tr>
<td>Embrace BYOD without compromising productivity and client service.</td>
<td>Implement an integrated BYOD solution in line with existing working practices.</td>
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<td>Deliver a scalable and flexible communications platform for all fee-earners, irrespective of location, time-zone and working mode.</td>
<td>Implement Unified Communication (UC) strategy delivering cost-effective, scaleable services.</td>
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<tr>
<td>Reduce overall costs.</td>
<td>Conduct detailed benchmarking of existing costs and engagement with proven alternative suppliers. Evaluate business practices to find more efficient strategies focused on Total Cost of Ownership (TCO) or Whole Life Costs.</td>
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MORE EFFECTIVE COMMUNICATIONS

The goal of unified communications (UC) is to break down the barriers between different methods of communication so that individuals can communicate easily and seamlessly with each other, no matter which device or medium they choose or where the individual is located. Ultimately, an effective UC solution helps an organisation to drive collaboration and productivity. Through a single, intuitive client, end-users take control of all their communication methods (voice, video, Instant Messaging), regardless of location, providing fee-earners with the versatility to work smarter, where they want, when they want and on whatever device they choose.

The benefits of seamless communication and collaboration are game-changing. Not only are end-users unconstrained and free to communicate and collaborate fluidly inside and outside the organisation, but IT resources can shift their focus from mundane phone system management to more strategic initiatives.

In the legal field, communications equals revenue. Whether it is billing clients for phone consultations or ensuring fee-earners have access to the right data to win the case, powerful communication solutions are now necessary. Here are a few examples of why law firms communicate better with UC.

SINGLE-PLATFORM INTEGRATION

Firms using UC solutions such as IP telephony, audio and web collaboration and voicemail to email benefit from having services converged on a single platform. This allows for one-stop management and visibility across the entire communications infrastructure.

IMPROVED TRACKING AND MEASUREMENT

Whether billing on a contingency fee basis or an hourly rate, law firms must have accurate tracking methods in order to finalise settlements. In all cases, reports are needed to show accounts receivable by fee-earner, along with the rate of collection and a record of write-downs and write-offs. Since many billable hours can be acquired through phone or data communications, firms with a UC platform can integrate call monitoring and management with a practice management solution to make sure all client communication is accurately billed.

“...We needed a telephony system which would deliver a rich, yet easy to use communications environment to all our users. Our ShoreTel unified communications platform provides a host of advanced features that make everyday communications faster and more efficient. As our firm expands, we need to embrace new working practices and be flexible in our communication while remaining responsive to clients. Fortunately, our communications environment is highly scaleable and easy to manage, so we can add more users to the system easily and quickly, irrespective of their working location or role. Put simply, unified communications delivers less complexity, ease of use and a much lower total cost of ownership to Ison Harrison.”

Michael Peel, Practice Director, Ison Harrison
COMMUNICATE FROM ANYWHERE

UC isn’t just limited to the office. Mobile integration and virtual office capabilities extend the power of the UC platform to remote employees. For law firms, the ability to effectively conduct meetings, depositions and conferences over IP can help firms minimise travel, courier fees and meeting space expenses, as well as allowing firms to respond to changes in working practices.

CONTACT CENTRE IMPROVEMENTS

Contact centre functionality can enhance UC for law firms that experience high volumes of calls. Contact centre software can be easily customised and integrated into the overall communications platform, giving employees an agent desktop that unifies customer information all on one screen. This is particularly beneficial for companies that are expanding or deliver client services across multiple locations.

REDUCED IT STAFFING COSTS

By using a UC platform, firms can focus their IT staff on strategic, mission-critical tasks, instead of monitoring and managing complex communications systems.

CONSOLIDATED BILLING AND CONTRACTS

The number of service providers it takes to operate a piecemeal communications system can create an IT and administrative nightmare. Thirty percent of firms reduced the number of external service providers in 2010 (up seven percent from 2009) in order to solve this problem. UC allows firms to eliminate multiple service provider contracts and consolidate their entire communications infrastructure on a single bill.

SIMPLIFYING COMMUNICATIONS FOR USERS

Unified Communications transforms the end-user experience by improving productivity and enabling more efficient workplace collaboration. At-a-glance availability and click-to-call functionality are embedded within a common interface, so end-users can connect whenever work demands it. Communication can switch from an instant message to a phone call or video conference on the fly with drag-and-drop ease, saving time and allowing end-users to focus on billable work. The results include faster decision-making, greater opportunities for collaboration, lower costs and more effective communications.
Unified Communications – Conclusion

The Critical Imperative for Competitive Advantage

Business support continues to be an area of ongoing development and improvement for many law firms. Evolving client demands, the shifting legal marketplace, deregulation and the need to reduce costs are all contributing to the continued need for change. Future priorities for business support are to improve the use of technology, standardise business processes and ways of working and cost reduction. Law firms must pay close attention to improving fee-earners’ ability to be more responsive to clients, while the firm’s processes and systems must support increasingly flexible working practices and teams. With increased competition across the legal landscape, UC is a cost-effective way to achieve service differentiation in what has become an over-crowded and increasingly competitive marketplace. Not only aiding customer retention through better service, the inherent flexibility built into a UC platform also supports a law firm in improving operational practices, allowing it to flex and respond efficiently to market changes and client demands.

UC delivers tremendous ROI, helping an organisation increase its business agility, decrease operating costs, and improve customer loyalty and acquisition. In most cases, these improvements bring a host of tangible benefits, including better customer satisfaction, increased Profit per Equity Partner, cost savings and greater market share.

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Grant Thornton – Legal Sector Report 2011
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Legal Futures – www.legalfutures.co.uk

Conclusion

Incom Business Systems designs award-winning business communications solutions that enable people to collaborate and work more effectively, while reducing operational costs and capital expenditure. Our expertise in voice and data convergence and contact centre technologies enables us to address the evolving requirements of SMEs, enterprises, Not for Profit and government organisations. Since 1989, Incom has been the trusted partner for thousands of satisfied clients across the UK including Audi, The Range superstores, The Salvation Army and Horizon Nuclear Power.

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