AUDIT • TAX • ADVISORY

Legal Benchmarking

Annual Report 2019

mha MONAHANS

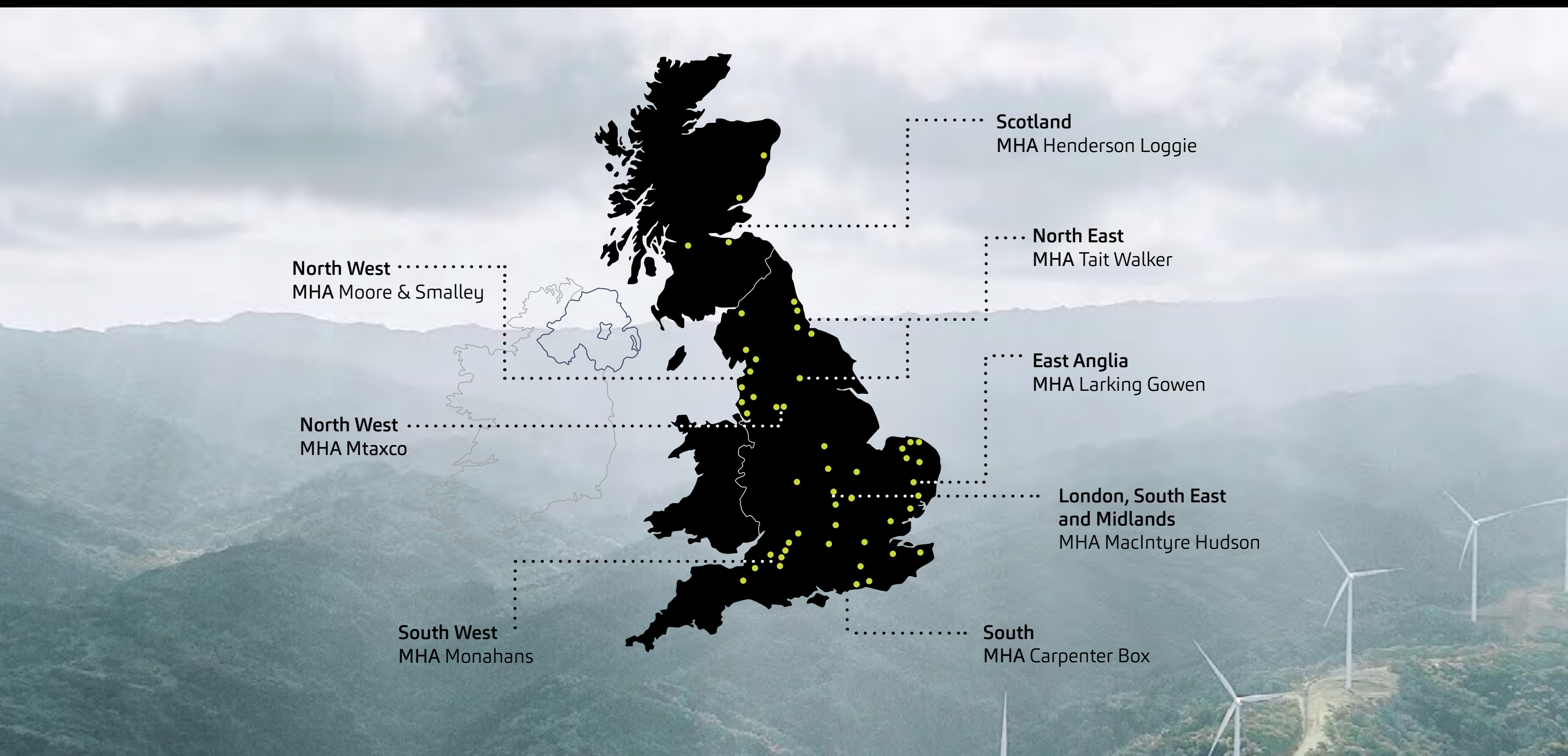
About MHA

MHA is an association of progressive and respected accountancy and business advisory firms with members across England, Scotland and Wales. Our member firms provide both national expertise and local insight to their clients. MHA members assist clients with their needs wherever they are in the UK, as well as globally through our membership of Baker Tilly International, which has a network of trusted advisors covering 145 territories worldwide.

Our Sector Approach:

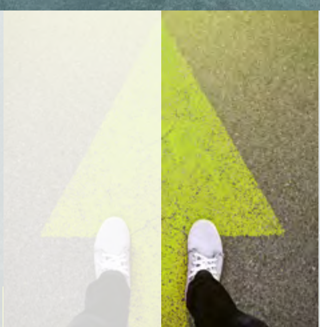
MHA allows clients to benefit from our in depth sector knowledge, which adds value to the specialist services that we can provide in accountancy, audit, tax, regulatory and expert business advice. Professional Practices is a key sector for MHA.

We act for over 400 professional practices, including over 200 legal firms. We are committed to assisting both our clients and the sector as a whole and this report is just one of the tools we use to give our clients insight into issues affecting the sector, to give them a head start when it comes to mitigating risks and exploiting opportunities.



National Reach

50+ Offices nationwide



International Reach

125 Member firms in 145 territories

8 Independent accountancy firms

Combined turnover of **£143m**

10th Largest network in the world by combined revenue

US$3.6bn Combined member firm revenues

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Introduction

Welcome to the seventh MHA legal benchmarking report looking at results across the country from 2018.

Karen Hain
MHA Moore & Smalley

Head of the Professional Practices Group at MHA

Thanks once again to my colleagues across the MHA group for sharing their daily experience of working with legal practices so that we can share these key themes with you.

How quickly has the year flown by? It has been a busy time for most of our legal sector clients and contacts. Before we dip into the numbers, over the last 12 months the legal landscape has changed significantly with the large getting larger, the small getting smaller, and the gap between them getting even more distinct.

2018 has been a year of mergers. We have seen for many years that smaller practices with succession issues surrounding retiring partners have been looking to be housed in ongoing firms, to avoid the cost and negativity of a "close down". Some more of the elder statesmen have indeed retired and perhaps not unsurprisingly have walked away without the significant capital payout that mirrored their own entry into equity. It will be interesting to see how 2019 results reflect successful integration of these smaller practices.

We are seeing more mid-tier firms talking to their competitors about merging, with the aims of generating economies of scale, reducing local competition, removing staffing shortages, and generally de-risking the business for the future.

There has also been a growth in brand new start-up law firms. Sometimes this is a senior fee earner who craves independence and a work life balance setting up in the back kitchen. In other circumstances we have seen small teams of specialists setting up niche boutique practices, where decent fees can be generated from a very low overhead base.

Competition for work has been fierce. Some larger commercial businesses have actually begun to place new instructions with smaller law firms than they have used in the past. In some circumstances this has been to follow a senior fee earner. These law firms are now benefitting from their marketing effort, along with the commerciality of buyers of legal advice wanting better value for money. Fixed fees for corporate and commercial work enable this comparison to favour smaller firms, who can set their fees at higher than usual rates when they are competing with much larger law firms.

The larger law firms have also been hit with competition from new entrants into the legal sector, namely the Big 4 accountancy firms, who are in a strong position to market their new legal service offering to their current client base, under a "one stop shop" banner on corporate transactions.

We have returned to a period of partner promotion, that had been flat in recent years. Senior fee earners are being promoted or recruited into partner positions, as part of a general staff retention policy. More equity partners, or shareholder directors are also coming into practice. One bonus of this is that they each contribute some level of equity capital into the firm, at a time when banks are generally pulling away from massive funding agreements with law firms. There are a number of smaller banks who see the legal sector as a growth target and I would expect to see more movement in banking services across the sector.

There has been a real mixed bag of income growth figures in the review, with some improvements, but also some small downturns. Some of the decreases in fee income seems to have been directed by the choice not to accept an instruction, if it were seen to be non-profitable, as across the board we have seen improvements in profits earned.

There has been a lower spend on staffing this year, with part of the reason being the increased promotion of partners out of the staffing base. Even as we see the positive impact on profitability, it is short-sighted from a succession planning viewpoint not to have trainees slotting in at the bottom to start their career track.

Profitability has improved across all sizes of practice mainly as a result of pricing, staffing, and efficiencies, rather than overhead reduction. It is disappointing that few firms have embraced change in working practices, such as location independent working, and the use of IT, such as artificial intelligence. Perhaps getting the staff mix sorted is the first step before making other changes that are more radical.

It is pleasing to see that lock up in most firms is getting back under control, but there is still effort needed on shortening the cycle of turning hours logged into cash.

I hope you find the report useful and that it triggers further plans to improve. Each article contains some key call to actions to support imporovements.

> “ Competition for work has been fierce. ”

Income

While the average income for a fee earner was not dissimilar to last year, the income range is now much wider

£121K - £170K

(Last year was £136K - £169K)

David Smith
MHA Henderson Loggie

Consolidate or Grow?

The results of our survey this year reflect what we see and hear when we meet our clients. Half of business leaders in the legal sector see their current strategy as one of growth, while the other half see now, as a period of consolidation.

Whichever strategy has been followed, we have seen a renewed focus on improving profitability.

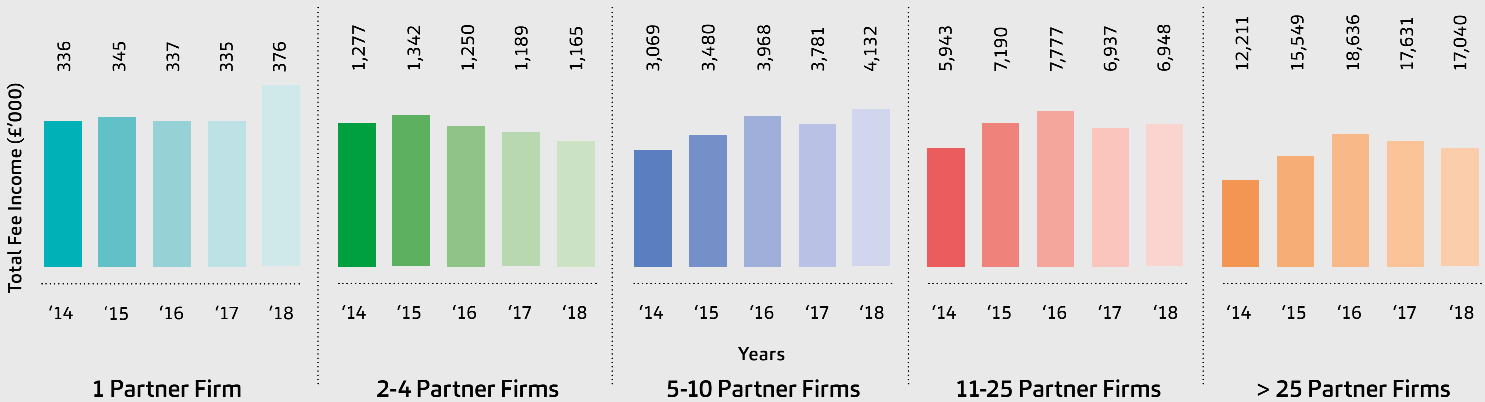
Fee Income Trends – A Mixed Bag

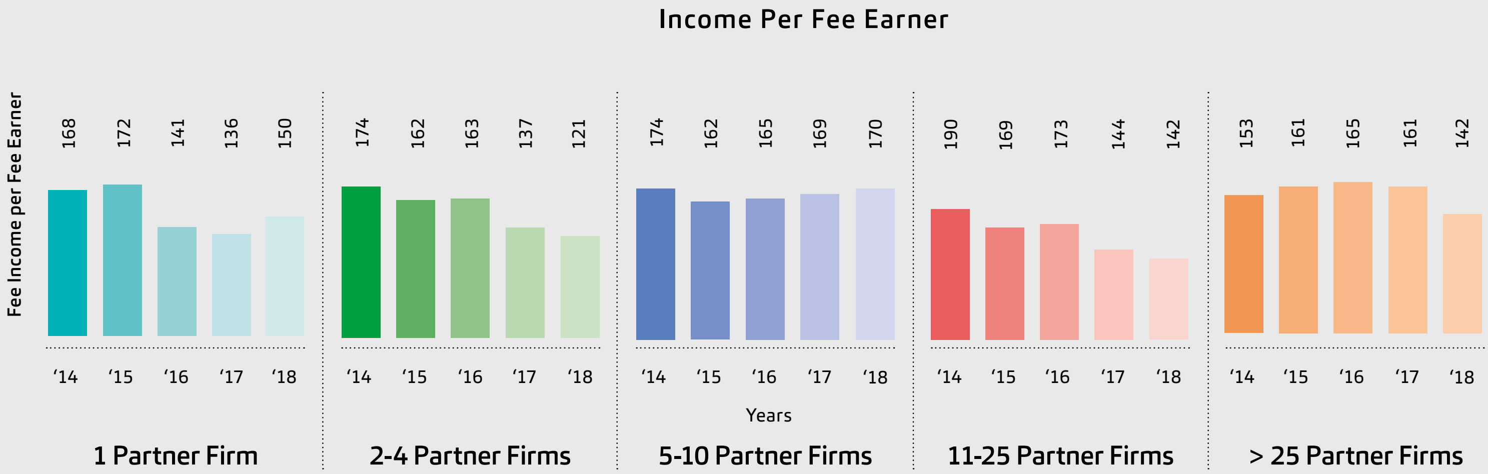
Growth in fee income has been achieved by sole trader practices (12%) and 5-10 partner firms (9%), with mid-tier practices of 11-25 partners seeing minor growth at 0.1%. Whereas, the larger firms of more than 25 partners and smaller practices of 2-4 partners saw falling income of 3% and 2% respectively.

The summary of changes in fee income levels across the different size categories of firms was mirrored by the changes in income per fee earner.

There was growth for sole trader practices and 5-10 partner firms of 10% and 0.6% respectively, while the mid-tier firms saw a minor drop of 1%. Firms with 2-4 partners and the larger practices both saw more substantial falls of 12%.

Total Fee Income





Across the board there has been a drop in the number of fee earners as a ratio to equity partners. This has been impacted by a series of promotions of senior fee earners up to partner level, as a strategy to retain key staff. As opportunities present themselves in 2019, it may be many firms find it very challenging to take on board too much growth too quickly, as the systems, people and structures are not ready to scale up. It has also resulted in different outcomes for income per equity partner depending on the firms' size.

Different Trends Depending on Size

Significantly, the changes compared to last year in the income per equity partner ratio, show diverging trends.

The smaller practices of 10 partners or less all highlight increases in income per equity partner, with a 2% increase for partnerships of 5-10; 5% for 2-4 partner firms; and 12% for sole traders.

However, the mid-tier firms have a fall of 13%, while the large firms show a drop in income per equity partner of 10%, as their overall number of partners grows by promoting existing staff, without replacing them with new fee earners.

Specific Strategies to Suit the Situation

Deeper analysis of these trends highlights firms having different focuses depending on their size. Smaller practices of 10 partners or less have been tightening their belts, ensuring they have the right people on the pitch, but where there have been skills or capacity gaps, the equity partners have had to step in to do more. While this has led to short term improvements in profitability, it is not sustainable in the long term.

The income and profitability trends of the larger practices of 11 partners or more, are indicative of bedding in the acquisitions and mergers of recent years, in advance of seeing the longer-term benefits flowing through from wider service offerings to the client base.

As the leaders of all legal firms look forward to the rest of 2019 and beyond, they must ask themselves whether their strategies have been framed for the future and ensure they are not too lean to grow.

Key Considerations:

- Review your recruitment strategy to make sure you have long term succession plans in mind.
- Create a strategy for recruitment and retention of key staff, focusing on leadership development and building a strong culture for the firm.
- Improve your training and supervision of staff to get best chargeable use of their time. Setting tighter billing and chargeable hours targets.
- Agree detailed scope and fee quotations with clients to avoid wasted unbillable time.
- Look at technology and AI to drive efficiencies and reinvent the business.

Profitability

The positive news this year is that there has been a marked improvement in profit per equity partner (PEP) for every category of firm we benchmark, other than 11-25 partner firms where the PEP showed a small 3% fall on the previous year.

Charlie Eve
MHA Carpenter Box

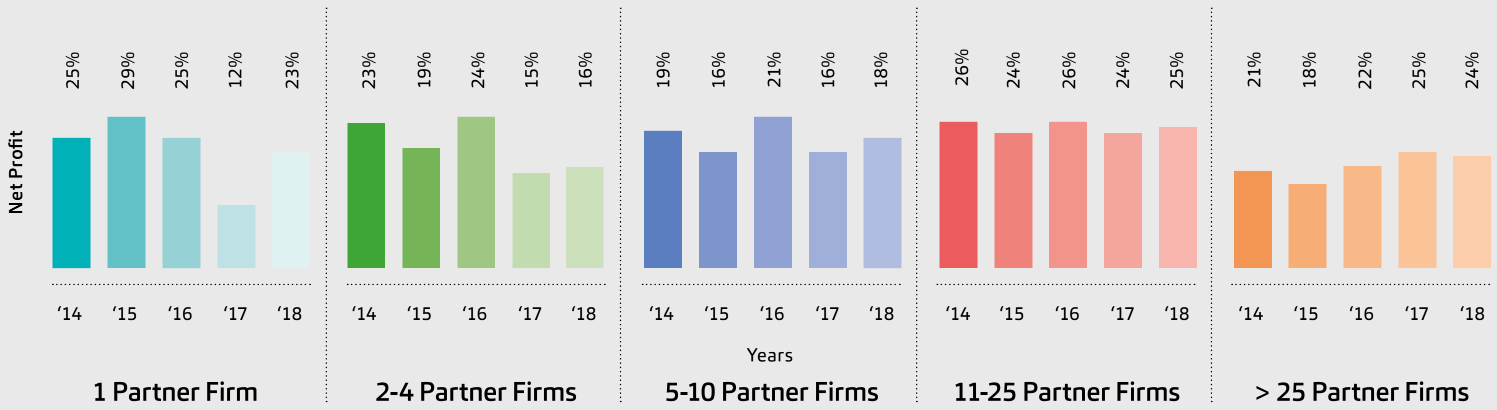
Positive Profit Improvements on Prior Year

PEP is such an important statistic and it is what the partners work hard to achieve. The PEP for each of the firm categories has increased year on year in excess of £15,000 per partner. This is not insignificant and is welcome following the prior year results where profits had been impacted by a hard market and increased wage demands by staff.

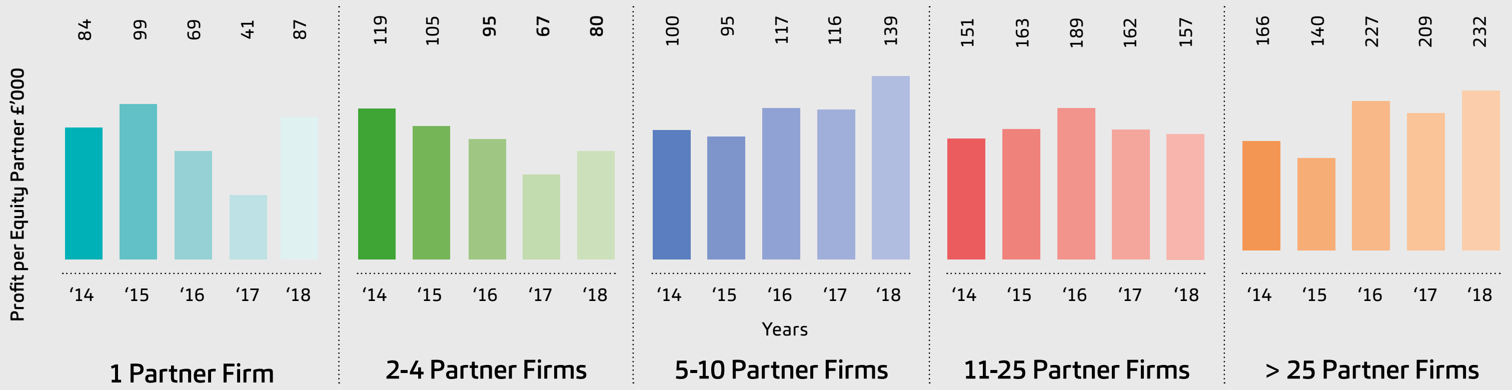
Still Tough for the Smaller Practices

Average PEP for sole practitioner firms has exceeded the PEP of 2-4 partner firms for the first time since our benchmarking report started, 7 years ago. With PEP sitting at an average £80,000 for 2-4 partner practices, this is some £60,000 less than the average for 5-10 partner firms and you have to question whether the highest non-partner fee earner will be being paid similar levels to that of an equity partner who has capital invested in the business and all the risks of ownership that go with it.

Total Net Profit



Profit Per Equity Partner



Larger Firms Continue to Invest in Ownership Changes

The stalling of the PEP for 11-25 partner firms seems to correlate with what appears to be a continued investment in new equity partners. When this happens there tends to be a period of profit investment by the existing equity partners as the new equity partner grows into the role, increasing their own fee earning over time.

Work Harder or Smarter

It is easy to increase fees by selling your services at too low a fee level, but you will not make any profit by doing so. The firm should concentrate on the types of matters which earn the most profit. A firm making a reasonable return for the work they are doing would be generating net profit at a level of 25% or more and it is only the greater than 11 partner firms who appear to be achieving that, with 2-4 partner firms struggling at 16% and 5-10 partner firms at 18%.

> **"The PEP for each of the firm categories has increased year on year in excess of £15,000 per partner."**

Is Bigger Better?

The profit gap between the larger firms and the smaller practices continues to be very evident, with the PEP of larger firms being significantly higher than smaller firms. 11-25 partner firms have a PEP which is double that of 2-4 partner firms.

It is not a surprise that the larger firms continue to consolidate the smaller firms and that seems set to continue. There is still room in the marketplace for small boutique specialists, who are driving up the profit margins in smaller firms.

Key Considerations:

- Review recoverability on work delivered to analyse where profits are being made.
- Are you selling services too cheaply or delivering too slowly?
- Can you review work pricing to improve profit?
- Review processes to see where you could streamline and save time.
- Do your staff need training so they can deliver what your client wants in a faster way?
- Are you using IT to save other time costs?

Employment Costs

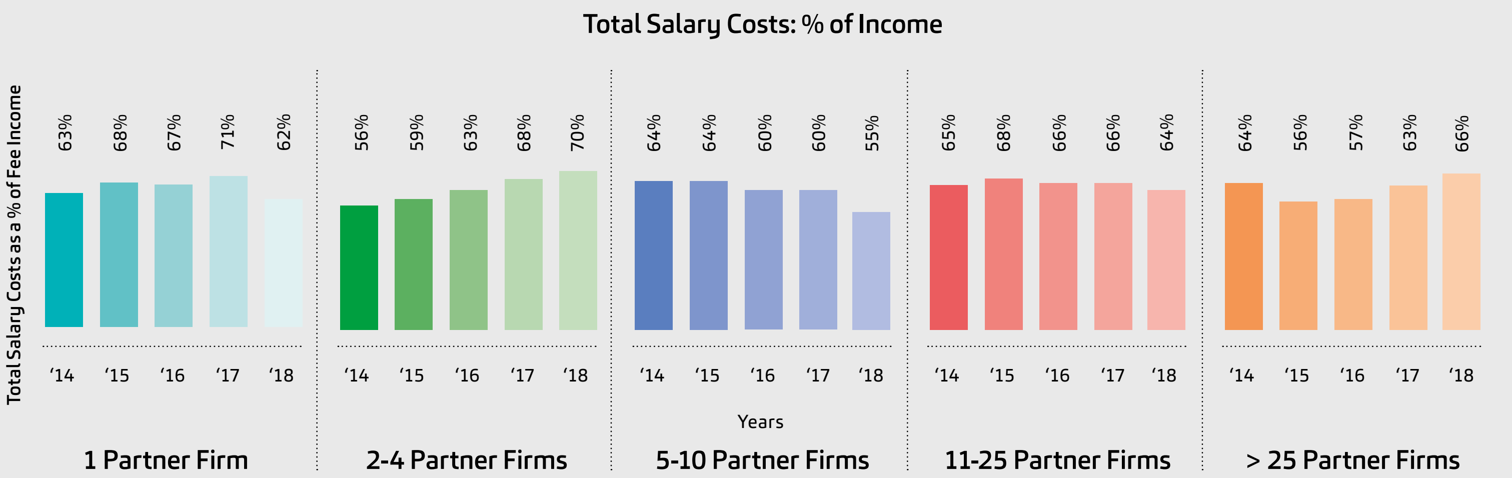
Across the board, total employment costs have either reduced or remained broadly consistent with last year.

Jon Woolston
MHA Larking Gowen

At first glance, this would appear unexpected as, all else being equal, the effects of inflation and auto-enrolment pensions were predicted to push costs up. The key lies in the staff mix and total workforce, which paint varying pictures across firms of different sizes this year.

Costs Back Under Control

The decrease was driven by a large rise in fee income (12.3%) despite salary costs remaining at last year's levels, showing that sole practitioners have managed to generate more income from the same cost base. Marginal reductions in the average numbers of both fee earners and total staff prove that sole practitioners have achieved the extra fees with fewer chargeable hours available, and indicates a good year in general. This is confirmed with an average underlying profit more than double that of last year.



Last year, salary costs for sole practitioners were the highest as a percentage of overall fees, at 71%. This year the costs reduced considerably, to only 62%, the second lowest percentage in this measure.

Struggle to Convert Chargeable Time

In contrast to sole practitioners, firms of 2-4 partners saw a rise in salary costs as a percentage of fee income, continuing a 5-year trend. In 2014, the costs were only 56% of fee income, whereas they are now an average of 70%. The problem appears to be a struggle to convert chargeable time into fees, as income reduced by 1.7% despite an increase in the number of Fee Earners and therefore available chargeable time.

More for Less

Firms of 5-10 partners saw a reduction in total staff numbers, an increase in Fee Earners as a percentage of total employees, and a corresponding reduction in average numbers of support staff, all of which were observed in the 2-4 partner bracket as well. A crucial difference, however, is that the larger firms enjoyed an increase in fee income of 9.3%, which brought the percentage of salary costs down to 55.4% from 60.2%. Firms of this size also appear to have been more productive per Fee Earner, managing to bill more fees with a smaller Fee Earning (and total) workforce.

Mind the Gap

Larger firms of 11-25 partners have also seen a reduction in total employment costs as a percentage of fee income (from 66.2% to 64.3%), as a result of both a decrease in total salary costs (2.8%) and a marginal increase in fee income. Total staff numbers remained the same, but an increase in fee earners as a percentage of total staff, coupled with the reduction in total costs, indicates that the fee earning workforce is now more heavily weighted towards lower paid members of staff.

Too Much Support?

The staffing mix in the largest firms has become yet more heavily weighted towards support staff, who now account for nearly half of the total workforce, rising from 42% last year and 39% two years ago. This indicates that more of the work of the largest firms is now being undertaken by support staff, perhaps made possible through standardising processes. The total workforce has also increased sizeably, by 15.3%. However, these largest firms have not managed to convert their extra available time into fees, as income dropped for the second consecutive year.

Key Considerations:

- Review the matter types that the firm completes, and how you might use lower grades of staff to complete some of that work.
- Review "who is doing what" to check that senior fee earners are not completing work that could be done by more junior staff.
- Check that fee earners are not completing "admin" tasks.
- Staff bonus schemes should be driven by financial results.

Practice Expenses

Premises costs as a percentage of fee income was broadly consistent with 2017.

Mark Brunton
MHA Tait Walker

Throughout 2018, the overhead expenses as a percentage of income remained broadly consistent with the previous year. Only the largest practices have seen a significant increase in expenditure compared to income.

Premises

Premises costs as a percentage of fee income was broadly consistent with 2017. It ranged from 5.5% - 9.9% in 2018, compared to 5.9% - 9.3% in 2017. The rental element of this cost ranged from 3.2% - 6.3% in 2018 compared to 3.3% - 6% in 2017. Sole practitioners demonstrated the largest decrease in premises costs, reducing to 5.5% from 7% in 2017. The largest percentage costs remain for practices with in excess of 25 partners, generally preferring city centre offices with higher rent and service charges.

IT

The range of spend on IT costs as a percentage of income widened in 2018 to 1% - 3.3% compared to 1.6% -2.2% in 2017. The larger practices, 11-25 and over 25 partner practices increased their investment in IT to 2.7% and 3.3% respectively from 2.2% in 2017. Given the speed of growth in technology, it seems likely that all sizes of practice will remain under pressure to increase this spending to maintain secure and robust systems.

Marketing

The range of marketing costs as a percentage of income between different practice sizes narrowed from 0.4% - 2.9% in 2017 to 1.2% - 2.5% in 2018. There are increases in the proportionate marketing spend during 2018 amongst sole practitioner, 2-4 and over 25 partner practices, as firms increased the emphasis on growing fee income.

Professional Indemnity Insurance

The reduction in spend on Professional Indemnity Insurance (PII) has continued in 2018 for the smaller sole practitioner, 2-4 and 5-10 partner practices. In 2018, the range as a percentage of fee income was 2.4% - 4.8% compared to 2.1% - 5.5% in 2017. Only the largest, over 25 partner practices found PII increase as a percentage of fee income to 2.7% from 2.1%. The higher risk is still perceived to be one partner practices, which pay a proportionately higher premium than all other sizes of practice.

Books and Library

There is a relatively modest spend in this cost category, but it remains a necessary cost as legal practices need to maintain a reference library to keep up to date with legislation changes. The cost as a percentage of fee income in 2018 ranged from 0.2% - 1.1% compared to 0.4% - 1.4% in 2017. Practices continue to take advantage of online solutions, which prove to be the most cost efficient.

Bad Debts

2018 has continued the trend of the previous three years, that 2-4 partner practices are suffering the highest proportionate cost of bad debt. This has risen in 2018 to 3.3% from 3.2% of income, which equates to an average cost in 2-4 partner practices of nearly £40,000 or £16,000 per equity partner. This is likely to be due to not having a dedicated credit control function and a high proportion of partner time being chargeable.

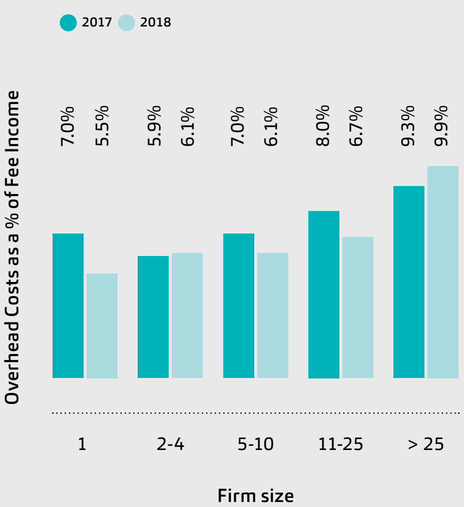
Non Salary Overheads

The general trend of expenses as a percentage of fee income remained consistent in 2018 across all practice sizes, except sole practitioners. As a percentage of fee income, non salary overheads, range from 28.6% - 34.8% in 2018, compared to 29.8% - 33.8% in 2017. The outlier was one partner practices who reduced their non salary overheads to 23.5% in 2018 compared to 33% in 2017. This cost reduction fed straight to the bottom line with a significant increase in profitability.

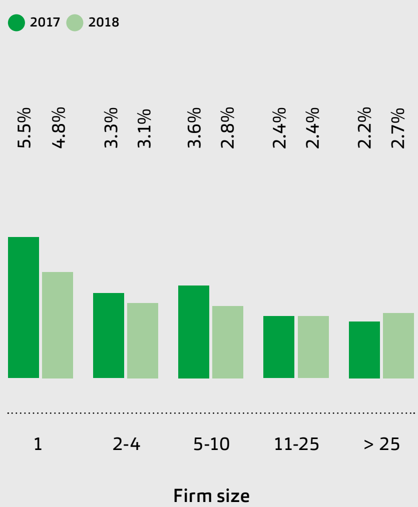
Key Considerations:

- Restrict premises costs by considering hot desking, open plan shared areas and rearranging the work environment to fit in smaller modern work spaces.
- Consider allowing staff to work from home some of their working week to free up space.
- Set a marketing plan with a strict budget and track spend to new work wins.
- Review risk registers to see if you can reduce overall risk that will impact on lower PII premiums.
- Centralise the control of spend on library to stop duplication of ordering books, and move online where possible.
- Designate some of the finance function time to credit control activity, with monthly targets for fee earning staff on cash collection where they have an ongoing client relationship.

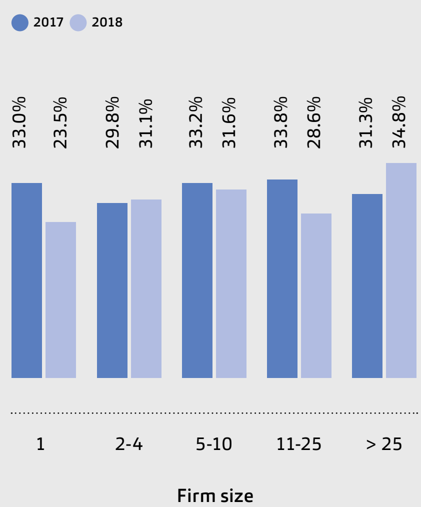
Rent and Premises



Professional Indemnity Insurance



Non salary overheads



What Drives Profit and Financial Stability?

Profit is arguably the most important measure of all, because it is profit and only profit that is divided amongst the partners and is after all the reason why the vast majority of firms exist.

Simon Tombs
MHA Monahans

Achieving increased profit and financial stability in a highly competitive market is increasingly challenging and firms need to concentrate on profits and margins, rather than fee income growth. Increased competition from not only within the industry, but from outside the legal profession means that concentrating on the drivers of profitability is a must for all practices and without a solid understanding of them, firms will fail.

Fees and Chargeable Time

Production of quality chargeable time is key and successful firms have a higher ratio of fee earning staff to non-fee earning staff and understand that fee earners need to earn fees and not be side tracked into non-billable work. There is also an increasing trend in successful firms to automate and gain efficiencies from maximising the use of technology and up to date software.

Ensuring work is performed at the right level of staff also increases margins, but it is equally important that fees billed to clients are at the right level for the service provided. In a competitive market there is often a desire to undervalue the service the firm has performed and pass on all cost savings to the client.

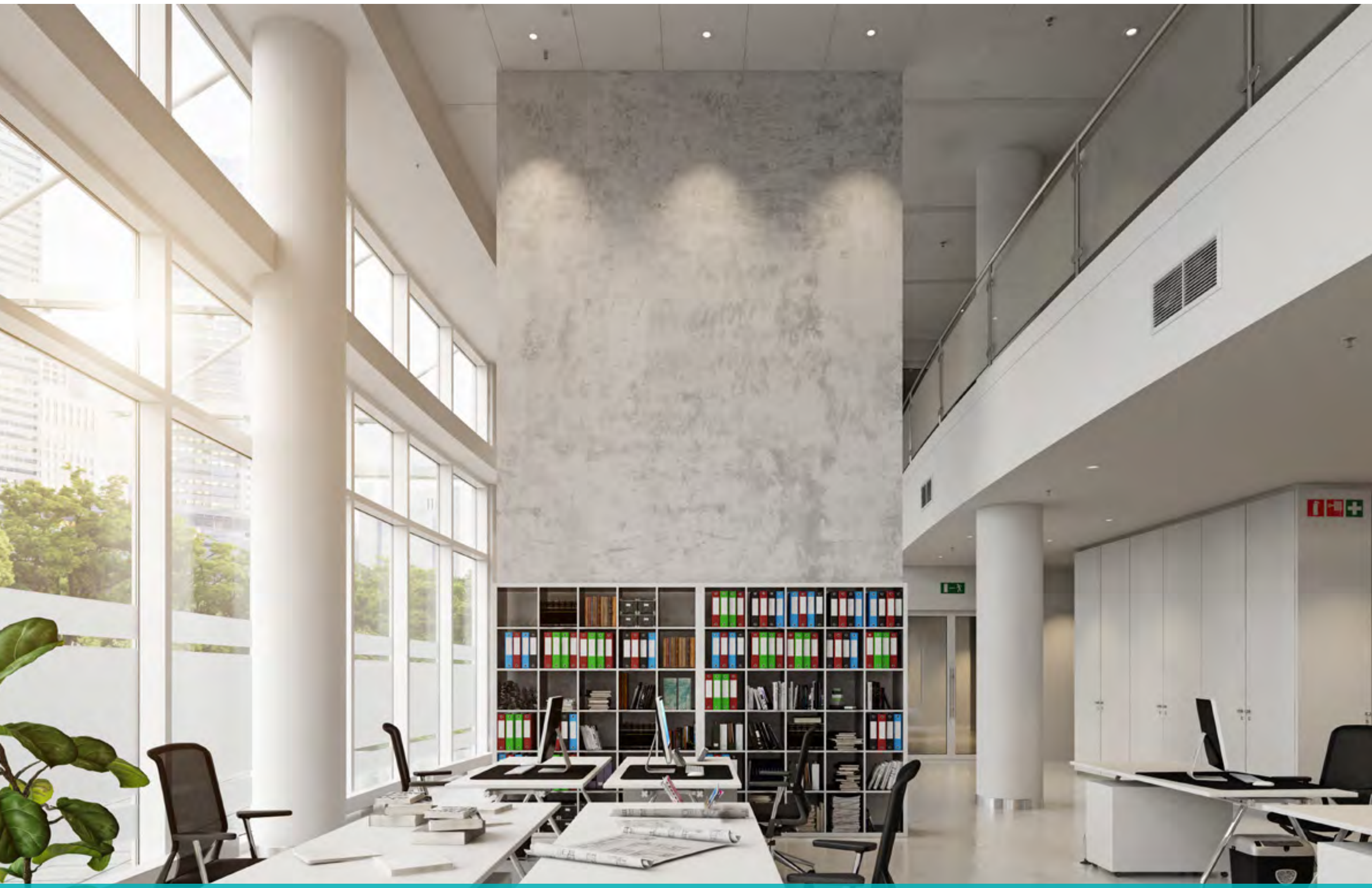
It is vital that practices sell the value of what they are providing rather than base the fee on what it costs. Successful firms are the most efficient at billing. Procedures are needed throughout a firm to ensure that time is entered and that bills are raised promptly to ensure that clients see the value of the work that has been done. A fee has a maximum value immediately after a service has been promptly and efficiently delivered.

Staffing

Staffing is normally the major cost and the staff are a major asset of the firm. It is vital that firms recognise this and spend time ensuring that the team works well together, is engaged and focused on the firm's strategy and plans. A minor incremental increase in a team's output can significantly improve margins and consequently profits.

Strategies to Increase Fees

As firms battle to increase profits, they strive to look after existing clients and increase the average spend per client by providing them with more services or undertaking more of the same work for that client. Firms that are delivering the best profits are in possession of up to date management information and understand which of their service lines and clients are the most and the least profitable. Some of the most profitable practices specialise in only a limited field and add value to their work as specialists.



"There is also an increasing trend in successful firms to automate and gain efficiencies from maximising the use of technology and up to date software."

"A minor incremental increase in a team's output can significantly improve margins and consequently profits."

Cost Control – Overheads and Variable Expenses

It is vital that no firm loses sight or control of its overheads. The results of our survey shows that all firm sizes have continued to keep a tight control of their overheads. Profitable firms have seen savings, taken as a percentage of turnover, in many areas including rent, Professional Indemnity Insurance (PII) and non-salary overheads which has a knock-on improvement on net profit.

Key Considerations:

Successful firms will understand the value of the services that they provide. With that understanding, they can provide client service effectively and know how to target their profitable market. Firms that understand this will achieve value in their billing and ensure their clients recognise and pay this value. Whilst also controlling costs, they can achieve the best profit levels and ultimately financial stability in an ever changing profession.

Finance and Funding

The most common reason law firms fail is poor cash flow. Losing sight of working capital requirements and adequately managing them can lead quickly to collapse.

Martin Ramsey
MHA MacIntyre Hudson

Overall Funding Levels

Total funding per equity partner has continued its downward trend, decreasing significantly this year from £25,000 in the smallest firms to £139,000 in larger firms with more than 25 partners, compared with £42,000 to £228,000 last year.

The majority of firms have also seen a significant decrease in their percentage of funding from external sources. The largest firms have seen a drop from 65% to 32%, with 11-25 partner firms seeing a drop from 26% to 18%.

It is the percentage of external funding in comparison to equity partner funding that has seen the biggest drop again this year, with averages in all bar the 5–10 partner firms dropping significantly.

Down to the Partners?

Although the total funding per equity partner has decreased across all firms surveyed, the actual capital invested in the year has varied depending on the size of the firm, with both the largest firms and those with 5-10 partners seeing increased levels of capital being invested by their equity partners.

Equity capital as a percentage of fee income fluctuated greatly this year, rising significantly in firms with 2-4 partners and 11-25 partners, but decreasing by over 10 percentile points in the largest firms. The actual amounts of capital invested also saw fluctuations, with the largest firms and 5-10 partner firms seeing a decrease in absolute terms. All other firms showed a moderate increase in capital invested.

The range of external finance offering is wider than ever before. However, traditionally, law firms veer away from carrying too much debt. Financing becomes much more readily available if partners have invested themselves, showing a commitment to their own success and the firm.

This is supported by the level of borrowing per equity partner continuing to fall across all sizes of firms. The highest level of bank borrowing was seen in the larger firms at £95,000, compared to £112,000 last year and £228,000 in 2016. This drop is likely to have been driven in part by banks requiring firms to reduce their overall lending.

Equity funding as % of fee income

18% 2018 | **27%** 2017 | **11%** 2016

Total Funding Per Equity Partner

£25,000 in the smallest firms

£139,000 in the largest firms

Financing the Future

Firms are having to review financing options. Traditionally, law firms have raised funding from partner capital injections, bank loans and finance leases. To replace the fall in bank funding, legal practices have had to look at alternative finance streams, including private equity investment, IPO's (Initial Public Offering) for larger entities and in some cases litigation funding options. Purchases of new assets tend to come with a finance option, and more short-term finance companies are being utilised to fund the payment of large one-off expenses, such as Professional Indemnity Insurance (PII) renewals.

It is vital to plan and monitor cash flow and funding requirements accurately, both in the short term, with a rolling quarterly cash flow, and also with at least an annual projection of cash needs. The level of finance available to firms remains crucial as it is the available capital that still determines a firm's viability and future success.

Key Considerations:

- Be aware of the importance of accurate and timely cash flow monitoring and forecasting.
- Review the level of capital in the firm, is it sufficient?
- Review the distribution policy – can the firm afford to pay out profits in full?
- Ensure the cost of succession is adequately investigated. Capital needs to be paid out to retiring partners, will the injections by new partners cover this?

Lock Up

Lock up continues to be the hot topic for law firms. The amount of cash tied up in either work in progress (WIP) or debtors directly impacts the ability of partners to draw profits and can threaten the very existence of firms.

Kate Arnott
MHA MacIntyre Hudson

Cash remains king in professional service firms, with poor cash flow being the largest contributor to the failure of firms in recent times.

Why Worry?

Lock up represents work in progress not yet billed and debtors not yet collected, effectively the amount of cash that could be available for use in the firm. This issue is exacerbated in legal firms, as the majority of overheads incurred by firms are fixed and have to be paid out regardless of work completed.

Suppliers enforcing 30 to 45 day credit terms have to be balanced against 'potential cash' which may sit in work in progress for 60 days and then take a further 60 days to be collected from clients.

A gap in working capital availability usually has to be bridged by further capital investment by partners and means limitations on partners drawings, a double hit to individual partner finances.

Seeing Results

Our survey showed that 2-4 partner firms are still struggling to gain control of lock up, the average lock up days have continued to increase to 130 days, which is almost 50% higher than it was five years ago.

Pleasingly, all other sized firms have either remained static, in the case of the largest firms, or achieved a decrease in average lock up this year, with the most significant improvement in the smallest firms of 11 days.

Overall, this has meant a marginal decrease of 3 days down to 120 days across all the firms surveyed. With one day of lock up per fee earner generating nearly £19,000 in the 11-25 partner firms, continuing to make inroads into lock up could be the easiest way for firms to improve cash availability.

Words of Warning

Although the majority of firms have seen a decrease in the amount of cash tied up in lock up since last year, there are still vast improvements which could be made. All bar the smallest firms have lock up days in excess of 100 days. This equates to lock up per equity partner ranging from £67,000 to £385,000. For the largest firms, simply reducing lock up by one day could generate nearly £46,000.

It is imperative that firms do not become complacent and continue to concentrate on reducing lock up significantly. Profit needs to be converted into cash as quickly as possible for firms to flourish and have a competitive advantage in an increasingly uncertain marketplace.

Average lock up days for all firms

123 days

in 2017

Average lock up days for all firms

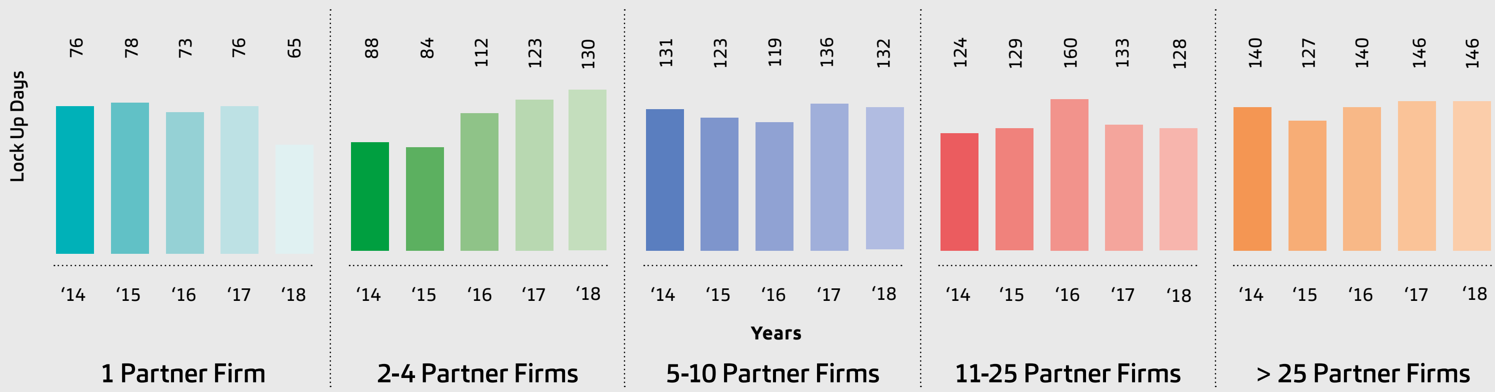
120 days

in 2018

Key Considerations:

- Fee earners, and in particular partners, need to take responsibility for credit control procedures. This should not be left to the finance team alone.
- Interim bill on matters. Bill immediately on completion rather than following traditional billing cycles.
- Avoid surprise bills. Debts are much harder to collect when they are under dispute.
- Enforce credit terms with customers. In certain cases it may be appropriate to ask for money up front before commencing work.
- Review performance targets and KPI's for fee earners. Consider the balance between a reward and penalty system.
- Put sufficient monitoring systems in place so that accurate and timely data can be extracted to ensure the lock up position is fully understood and addressed.
- Ensure fee earners are fully trained and understand the importance of releasing lock up. We can deliver training courses to educate lawyers on 'understanding finance'.

Lock Up



Conclusion

I hope that you have found this report interesting, and it has generated some ideas to go away and check what your firm does now and how you might improve.

Karen Hain
MHA Professional Practices Sector Head

We all desire some form of advancement and so this year our report has included "key considerations" that suggest where your action plans might start.

It may seem odd to suggest that a fall in fee income is a positive move, but our review shows that this has been done profitably. The staffing mix has been reprofiled across many firms, again to reduce expenditure and maintain profits. Firms need to ensure that they can react quickly and efficiently to new work prospects as they arise and this will involve their staff base being nimble and ready for challenge.

Further work efficiencies should be considered including staffing mix, IT and case management systems. Firms should be making changes now that will see them into a different future work environment, which includes less paper and more flexible work patterns. Firms should invest in future proofing their business, which will see payback in the coming years.

Please make sure that further improving lock up is still on the agenda. Firms fail due to lack of cash flow. Review your new client procedures to ask for payments on account, and keep these amounts topped up as you are interim billing, by asking for additional payments from your clients. Make fee earners take more responsibility for fee and debt discussions with their clients, as they have the relationships and more contact than your finance team do.

Keep challenging your finance team to prepare quicker, more accurate, and relevant management information so that you can make faster decisions or stop bad behaviours before they impact negatively on the practice.

My MHA colleagues across the country have many years of experience in dealing with legal practices. Please do contact your local team for assistance with your business review, to support you through detailed action plans, or to act as a sounding board and a sense check.

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