Capital ideas

How can firms expand their business without breaking the bank? Josh Adcock reports on the ways SME law firms are improving processes and cultivating relationships to fund growth

The finicky nature of funding growth makes finance at SME law firms a delicate balancing act. While there is a range of options available for finding the money to make change happen, sometimes it can boil down to improving everyday financial hygiene – but it can also mean rethinking a firm's identity.

Several firms we spoke to this month have chosen to become limited companies, which offers more options for raising equity and incentives for transformation and flexibility. A common theme, however, was the need for eternal vigilance and the ubiquitous potential for improvement.

"Cashflow forecasts have really helped," says Brian Cullen, CEO at Liverpool-based Jackson Lees. Clinical negligence is the firm's biggest department, and although the working capital requirements of this practice area are a barrier to entry for potential competitors, the firm has found effective management of cases crucial for its own business.

"Each case has a three-to-five-year lifecycle – sometimes longer. We have to fund the people working on that until we're paid. So, some months you might make £50,000 out of a £250,000 target and suddenly there's a £200,000 hole to fill. We have to manage the peaks and troughs."

Jason Rahman, practice manager at Sykes Anderson Perry, has seen similar hurdles at a variety of law firms over the course of his career. "If you have key lawyers working on big files that won't have interim payments you have to try and fund those, or suddenly you'll find you can't pay rent or PAYE."

He also says that, in order to grow, firms need to delineate their financial planning. "There's a massive difference between business-as-usual costs and project costs. You must split them up."

Having detailed information on cashflow is also crucial – at a previous firm, Rahman says, accurate planning was the key to growth projects. "We calculated an average case time and could predict, within a seven-to-ten-day window, when we'd have cash spikes coming in. So, instead of borrowing, we could predict when would be a good time to invest, because we'd have extra capital."

In fact, many SME law firms will look at becoming more financially disciplined to fund growth before looking to lenders, as Julia Warrilow, finance director at Thursfields, says of her firm. "As we're a fairly traditional law firm, we looked internally first. Our growth has been entirely financed by changes to our policies and procedures around WIP and debt housekeeping. It's not been a quick win at all."

Over at Druces, finance director Edward Gordon-Hall says: "Where possible we fund from existing cashflow, but for longer-term investment projects, such as strategic technology programmes, we would consider external financing. Leasing, for example, provides greater funding flexibility in areas like IT."

ASKING FOR THE BILL

Keeping on top of working capital finances inevitably involves prompt billing of clients, but those with the most direct contact with the clients – lawyers – can be subject to what Barry Davies, practice director at Douglas-Jones Mercer (DJM), calls "client fear".

"Some lawyers are too afraid to ask for payment because they think they'll upset their clients. Particularly in the more commercial areas of work, they're hesitant to talk about anything other than the status of the case."

It isn't a logical fear, says Davies. "You wouldn't go into a restaurant and say 'I enjoyed my meal – I'll pay you in two months'. Clients respect that our lawyers do a good job, and are prepared to pay. So, I'm always trying to improve our fee earners' understanding of working capital management, and even pricing."

Rahman at Sykes Anderson Perry agrees. He stresses the importance of scheduling interim payments when possible, but he also believes

that there are times when removing the fee earner from the billing process, or at least distancing them from it, is the right thing to do.

"It's good to have an intermediary – the accounts manager or a credit controller, for example. High-profile clients forget to pay, so you've got to have regular communication."

Melissa Butler, head of operations at Greenwoods GRM, says her firm is looking at ways technology can help people collect on money owed to the firm. "Part of my remit for the next 12 months is to look at our processes, particularly billing. I'm investigating whether automation would be helpful and, if so, how we implement it across the firm. Although they're on the same case management system, teams have different processes and ways of doing things."

Butler also says her firm is further exploring the utility of fixed fees and differing pricing models, across all work types. In addition to improving the client experience, she says it could make internal processes slicker. "It depends on the type of work, but we can see it being implemented in the next 12 months."

Gordon-Hall says Druces, like other firms, is currently working on technology projects intended to further automate standard working processes. "It remains as important as ever to ensure that fee earners have the up-to-date tools needed to facilitate useful conversations with clients, whether that's related to pricing, work in

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LPM FIRM FACTS

Douglas-Jones Mercer
Revenue: £4.5m
Corporate status: Ltd
32 fee earners, 54 total staff
Offices: Swansea, Mumbles, Porthcawl, Cardiff

LPM FIRM FACTS

Druces
Revenue: £11.7m
Corporate status: LLP
21 partners, 90 total staff
Office: London

LPM FIRM FACTS

Greenwoods GRM
Revenue: Undisclosed
Corporate status: LLP
80 fee earners, 140 total staff
Offices: London, Peterborough, Cambridge

LPM FIRM FACTS

Jackson Lees
Revenue: £11.8m
Corporate status: Ltd
135 fee earners, 280 total staff
Offices: Liverpool, Manchester, Hoylake, Birkenhead, Heswall

LPM FIRM FACTS

Sykes Anderson Perry
Revenue: Undisclosed
Corporate status: Ltd
14 fee earners, 19 total staff
Office: London

LPM FIRM FACTS

Thursfields
Revenue: £8.9m
Corporate status: Ltd
75 fee earners, 155 total staff
Offices: Birmingham, Worcester, Solihull, Halesowen, Kidderminster, Sedgley, Stourport

progress and outstanding debt, or to facilitate regular billing discussions with clients."

Back at Thursfields, Warrilow says that business services professionals can and should handle more business decisions and protocols. She says her firm has employed business managers to support the central finance function and to dive into the details of financial processes.

"One of our key objectives is to implement a billing protocol suitable for each area of law – what works in a conveyancing transaction won't work in a corporate one. We have two business managers currently – one's a former fee earner and the other is from outside the industry, with a third, who is currently with a national logistics company, joining us at the end of September 2019."

She adds that having appropriate central resources to manage cashflow is a vital progression. "We've almost completely taken credit control away from the fee earners by creating an internal recoveries team. We used to allow our lawyers to chase the debt, because they have the relationship with the client, but that can often be counterproductive. Now the debt-chasing process automatically switches to the central resources after 60 days."

In much the same way, Davies says DJM chose to implement new processes. Though lawyers might not feel comfortable with the idea of using workflows to routinely chase up a client, for fear of offending, Davies says that removing the human element is a necessity. He explains that some follow-up letters and calls are currently being held back at the request of fee earners – a power which shouldn't be in their remit.

About three years ago, the firm migrated to a new practice management system, to help join up and automate these processes. "We decided to develop a number of workflows so that, if everyone decided to go on holiday, the follow-up process would still happen."

BANK ON IT

But what about external partners? Cullen at Jackson Lees says getting those relationships right is crucial. "We've been very lucky with our bank – our account manager feels like an extension of the firm."

Cullen says that his firm has been with its bank for just over three years, but the beginning of the relationship was unusual. After its previous bank couldn't support the firm during an acquisition, another was happy to seize the opportunity, despite the circumstances.

"Bizarrely, we used the target firm's bank to fund the acquisition – and they've been superb ever since," he says.

The urge to achieve that personal touch, which might be more down to firms themselves to encourage, might also be part of a wider shift among banks. Davies says that the feeling used to be that cold, hard computer logic drove banks' decision-making, but he's noted a reversal of the pendulum more recently.

Davies says that, having previously been a client of DJM, Svenska Handelsbanken caught the firm's attention: "It has a more personable approach, with a commercial manager who oversees the relationship. The model offers a very mature, professional opinion."

Rahman at Sykes Anderson Perry says that, following a number of large firms over-extending themselves financially and going into administration in the last five or six years, the banks were justifiably jumpy for a while. But clearing the air is not that difficult. "Tell them your vision, invite them to your office and they'll understand you're genuine – that you're not in any sort of panic. But you have to be transparent."

Warrilow says that Thursfields' recently improved financial health has facilitated a better relationship with its bank – enabling new investments. "It just makes the conversations much easier – Lloyds have been able to help us invest, through purchasing the freehold of one of our key sites and relocating others."

MIND HOW YOU GROW

Sometimes, however, the banks are not enough. Having previously acquired another firm with help from its bank, Jackson Lees is contemplating a number of others, Cullen says, and it has set an ambitious task for itself. "We have seven target firms – we're talking about tripling the size of the business over two to three years. That's going to require significantly more funding than the bank could ever provide, so we're looking into private equity."

Cullen says that, as a limited company, the firm is able to work with corporate finance to create

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funds for its future acquisitions. "We're not in a rush to do anything – alignment with our sense of purpose is very important – but a number of existing shareholders are looking to sell, for lifestyle and personal reasons. We'll dilute some of our shareholding as owners of the business in order to fund our growth."

Warrilow says that her firm has benefited from changing its structure. About 18 months after she joined the firm, Thursfields converted from an LLP to a limited company, and this was a catalyst for change – prompting growth targets of 20% each year, many of which the firm has met. Now the intention is to grow further, adding more stakeholders into the mix.

But this was one part of a larger transformation. When she joined Thursfields seven years ago, Warrilow says the firm was losing revenue, but the managing director had the vision to change that.

"Our MD had seen that the writing was on the wall for legal aid, and that was a significant amount of our revenue. The turnover was just shy of £3m, the lowest many of the partners could remember it being. He could see what needed to happen – which is why I think my skillset was of interest. We did formerly have a financial controller, but they only worked on the traditional chargeable hours information, profit and loss, balance sheets and audit work. I was the first person to take on the detail of the role."

But whether or not business services expertise is leveraged successfully can depend enormously on the firm in question. "I know one person at another firm who was promoted into the same role as mine, but she couldn't even see the bank account. The partners very much felt it was their business. The culture of a traditional partnership doesn't necessarily support the potential of the role," says Warrilow.

Keeping people on their toes, and constantly open to new ideas and ways of doing things better, is an important part of her remit. "One of the things I've been challenged with this year is income maximisation strategy, starting with time recording and effective billing rates. Everyone says, 'Yeah, yeah, you don't need to tell us Julia, we know what we're doing'. As soon as you say 'Well, your charge-out rate is £250 an hour, but your effective billing rate is around £100 per hour', that gets them thinking."

Looking to the future, Davies at DJM says that alternative business structures have opened up new capital-raising opportunities, but there may yet be more change to come. "When the new Solicitors Regulation Authority standards are enforced on 25 November 2019, I think we'll see a whole new approach to the market and raising capital, due to the ability to employ freelancers."

Considering alternative ways of doing things seems to be key to firm growth, whether that be corporate structures or new processes. As Warrilow puts it: "It's all about having the culture and the processes in place. But that's probably the hardest thing to achieve in an SME law firm." That's not to say it's not a worthwhile challenge to set oneself against – it just requires a little flexible thinking. LPM

LPM FIRM FACTS

Keystone Law Group

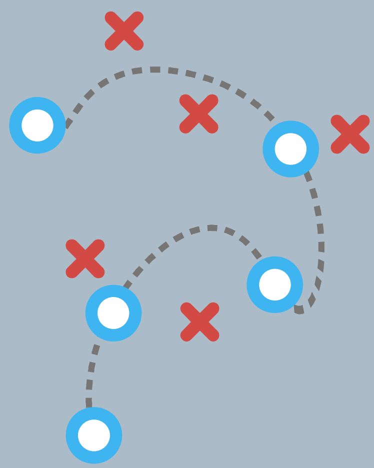
Revenue: £42.68m

Corporate status: plc

300+ fee earners, 345 total staff

Offices: London, Bristol, Newcastle, Leeds, Belfast, Douglas, Sydney, Melbourne, Canberra, Brisbane

GROWTH FACTORS



Keystone Law has been a big growth success story. Having climbed past the SME ceiling, the firm's revenue grew from £18m in 2015 to £42.7m by January 2019. Director of operations and compliance William Robins says the firm's November 2017 public listing on the Alternative Investment Market (AIM) was helpful for growth, but he points out the specific advantages of such a move. "Equity finance is nothing like debt finance. It might be cheaper, but equity is not just about the money – there needs to be another reason, and for us it was transparency. We wanted to open our books to the public and reassure our lawyers that their firm was in good shape."

Its fee earners, referred to as 'principal lawyers', contract with the firm, offering flexibility. But it's a two-way street – Robins says lawyers are paid when the firm is, aligning the interests of those doing the work and those paying for it, and prioritising the solicitor–client relationship over involvement from management.

Technology is also a priority, being one of the firm's "big-budget items." But, perhaps most importantly, Robins says focus and strategy are crucial. "Managing growth is harder than you'd think – so many things change. We've had to turn down many lucrative opportunities because they don't fit with who we are – and if you don't know who you are, you're lost."

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