

The Digital Budget - Spring 2023

How law firms can drive growth and greater efficiencies through technology

WHITEPAPER



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Executive summary

The Chancellor's Spring budget statement has set out next steps for the country, mapping out areas where budget cuts will be made and where there will be additional investment. Now is the time for law firms to scrutinise their budgets too, setting new fiscal policies and targets for this year and beyond.

The current position for law firms in the UK in 2023 is not straightforward. The cost-of-living crisis is impacting on all areas of business. Energy bills have risen sharply, materials and services are more expensive, and lawyers are demanding bigger salaries as they feel the pinch at home.

The talent shortage remains one of the greatest challenges in the sector, driving higher salaries and benefit packages to attract new employees. Retention is also a concern and there is a risk that top fee-earners may be tempted to jump ship to a rival firm.

Recent years have seen a reduction in the number of UK law firms, and the Solicitors Regulation Authority (SRA) has reported a spike in the number of firms of all sizes facing financial difficulties. If these trends continue it may be a concern for the sector, although they also present growth opportunities for other, more resilient firms. Fortunately, it's not all doom and gloom in the legal sector. At the end of 2022 the Law Society

Gazette reported that despite the economic downturn, profits-per-lawyer were 17.6% above their pre-pandemic levels. Many areas of law are seeing increase in activity; litigation, employment law, insolvency, and even in commercial property as many businesses are downsizing or relocating in response to increased levels of hybrid working.

Other legal specialisms such as domestic conveyancing may be on the verge of decline as higher household bills, increased mortgage rates impact on people's motivation to move. Government figures show there were 96,650 house sales in January 2023, compared to 99,260 in the previous month. However, the UK's biggest mortgage lender, Halifax, reports that property prices are continuing to rise with 2.1% year-on-year increases November to February, indicating that demand for conveyancing will remain. Areas such as criminal and family law are also likely to remain steady although the massive backlog in court dates stemming from lockdown closures continue, putting specific pressure on some firms.

As we enter the new budget period, it's time to consider the meticulous cost-saving and investment decisions that can boost productivity for law firms of all sizes, helping them maintain staffing levels and client relationships through the unpredictable year ahead.

Investing in people

Building a sustainable talent pipeline is crucial for supporting organic growth, reliant on increasing productivity so that staffing levels increase in line with rising demand. Data collected for Advanced's Business [Trends Report](#) in 2022 shows that **40% of firms** state Employee retention and development as their number one priority for the coming year.

The importance of having strong policies for employee retention and development in place are further exacerbated by the amount of time it is taking to fill legal positions. According to recruitment consultants, [Search](#), the hiring process for legal positions was as long as 4.8 months back in 2021 – and constraints on talent have only worsened since.

This means that for staff who have a month's notice period, firms could be waiting upwards of four months on average to have that seat filled. Add in the first month to get settled with the cases and processes at a new firm and even with a three-month notice period, the fallout is about three months.

There are a number of strategies for attracting and retaining the best talent – the key to long term business success.

The most obvious incentive for talent is of course salary, and 2022 saw significant increases for lawyers at firms of all sizes. Researchers for the accountancy firm Crowe recently found almost half (45%) of City and one-quarter (26%) of regional firms expect to increase employee salaries by more than **7.5% in the next financial year**. They described salary as by far the biggest driver in successful recruitment.

Hybrid working has now become a standard expectation for lawyers and our Trends Report shows that **52% of lawyers** feel equally productive working remotely as from the office. Technology has been a game-changer in helping people work effectively from home with 51% of lawyers saying the most important attribute in a leader is ensuring staff have the tools to be productive, and 46% that it is ensuring employees are engaged and productive in all working environments. Digital natives expect to work for digitally literate employers and offering powerful technology solutions is crucial to attract younger employees in particular.

Remote working does of course increase potential risks for cybersecurity, as well as maintaining effective communication between colleagues and with clients. Other challenges that can be exacerbated by a remote workforce include thorough and accurate monitoring of individual performance management and progress and development. Mentoring is a crucial element in helping to support and develop experience and skills, particularly for younger lawyers who need to have easy access to senior colleagues for guidance and advice, as well as watching how they work and successfully manage their cases.

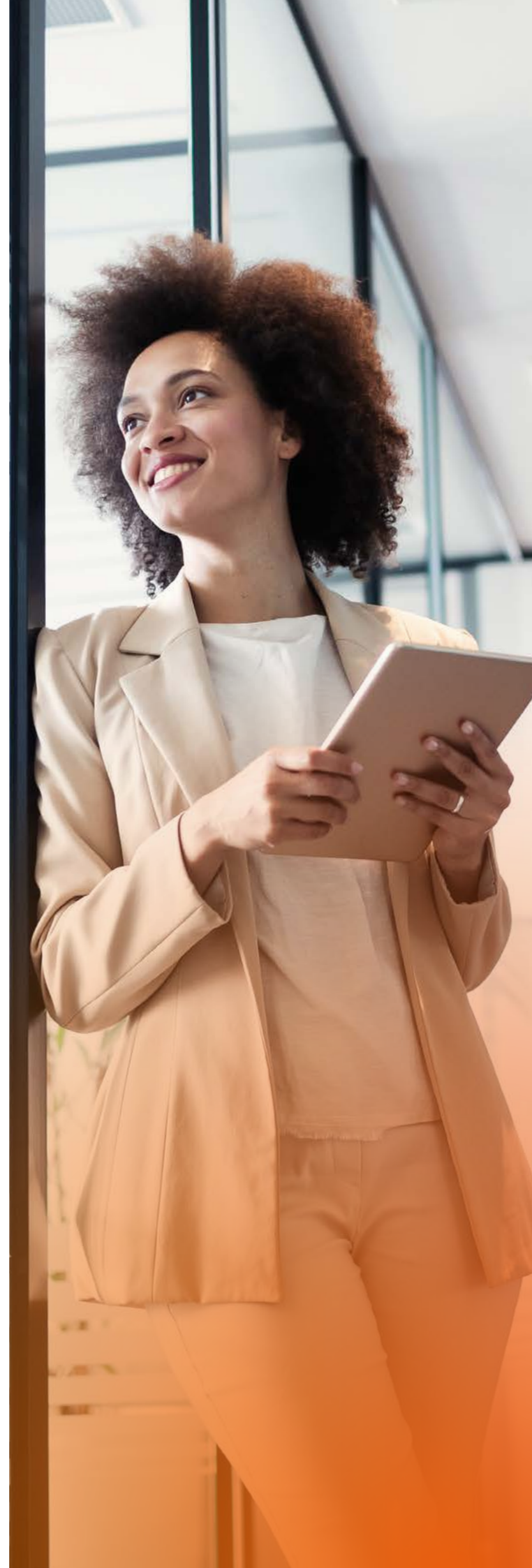
Effective performance management tools are crucial to ensure that all staff remain engaged and productive, wherever they are working. These can facilitate better communication between mentors and younger employees, helping them to address any skills gaps and to ensure remote staff don't end up feeling isolated and demotivated. Implementing effective lines of communication and a culture that encourages transparency and frankness is important

so that leaders are made aware of instances of inappropriate behaviour that might otherwise go unnoticed.

An entrenched 'long hours' culture means that legal professionals are at a higher-than-average risk of burnout. **85% of lawyers** in our Trends Report work additional hours before and/or after their allocated working day. Being constantly available via smart phones and laptops can make it more difficult for ambitious and conscientious lawyers to maintain healthy barriers between work and home life. It is therefore important that the technology implemented to deliver faster and easier processes does not end up piling more work onto the existing workforce.

After the pandemic, employers and employees are much more aware of the importance of protecting mental health and overall wellbeing, and digital tools can help with ensuring people work productively when they should be working and switch off to prioritise their own wellbeing at the end of the working day.

By utilising these strategies, firms will be better placed to retain their own staff, reducing time lost on recruitment and changes in fee-earners, as well as be more attractive to new talent, either as part of standard recruitment cycles or to recruit for departing fee-earners - reducing the amount of time it takes to recruit those roles.



Automating economic activity

Effective digital business solutions help firms to achieve more with less. One of the key ways is with automation, transforming repetitive processes and workflows and potentially saving days spent on cases. Automation also reduces the room for error, as sections of forms are completed automatically and solutions include 'user proof' workflows that ensure important steps and details are not overlooked.

Cloud-based software means that all individuals who need to see a file are doing so in real time, accessing the same version. This transforms the onerous pressure on time and resources for making and sharing multiple copies of records such as court bundles and ensures that no one ends up with out-of-date information by mistake. Digital solutions lighten the load, literally and data is far more secure when legal professionals don't have to carry reams of paper in their brief cases to and from court.

Through a forms solution such as Advanced's Cloud Forms software solution there are a host of automated features including a cloud-based library to ensure that no time is taken up to ensure that the most up-to-date and correct form is used, and with automation through integration between forms and a practice and case management system you can pre-populate form fields with matter and client data at the touch of a button, **saving upwards of 15 minutes per form submission.**

Automation tools not only save time when it comes to execution, but the increased accuracy in form filling allows for firms to avoid requisitions and resubmission requests from third parties which push back matter completion times, increase the amount of work spent on matters, and squeezes the profit potential of cases, particularly those conducted on a fixed fee basis. Since HM Land Registry introduced the Digital Registration Service as a mandatory step, requisitions for incorrect name and fee **errors have fallen 40%.**



Time and fiscal management

The legal sector's most precious commodity is time and identifying ways of saving, maximising and analysing time spend remains an ever-present focus for law firms large and small.

Using automated time capture solutions can significantly increase billable time and boost realisation rates. These improve the process of time capture for lawyers, letting them focus on clients and the law, without getting bogged down in admin.

Time capture software means there are fewer errors in time and billing, resulting in a reduction in disputed invoices which are time-consuming to deal with and costly as they represent non-billable time. Just as importantly, accurate and timely billing helps build more trusting and transparent client relationships for better feedback.

In recent reports, write-offs in invoicing has increased upwards of 10% both in the UK and in

North America in the legal sector with up to **40% of firms** placing improving client communication to limit 'surprise bills'.

Efficient billing and prompt payment of outgoing invoices is crucial for maintaining workable levels of cash flow and efficient cash flow management. Digital solutions can help implement faster, more frequent billing, with fees on account and also enable better debt management to ensure that problems are spotted and dealt with as early as possible. By maximising efficiency in this area as well as by capturing all billable time worked, users of Advanced's time recording software solution Carpe Diem **recover 5.5 hours per month** on average.

The data from time capture solutions can also help leaders to focus on non-billable time activities and seek ways to reduce this burden, ensuring more of the firm's employee time is fee earning.



Customer service

Reputation is critical for law firms. Often, they are dealing with clients around unusual life events and in difficult, sometimes emotional circumstances, and trust in their lawyer is imperative.

Satisfied customers drive repeat business and better reviews and client recommendations help to secure new clients. This supports an organic growth strategy where resources and talent grow in response to increasing customer demand, for sustainable long term growth.

For a new client or case, digital time capture helps a firm build a data set to enable more accurate bill estimation. There are then no surprises for the client when the invoice arrives ensuring they feel fairly treated and be less likely to quibble and delay payment.

As all legal operations are governed by regulation it makes sense to implement a digital solution with integrated compliance that ensures delivery of compliance, best practice service and that protects the firm's reputation. This has a potential impact on client relationships as well as the firm's ability to attract and retain talent.

The pandemic changed the way many people interact with services. Online shopping and banking were already well established but lockdown meant that more clients began using self-service and DIY legal services. There is no turning back of the clock and firms need to be able to provide the modern, digital experience that clients expect now. Client portals, digital client intake processes and digital Client Relationship Management (CRM) solutions provide the 24/7 access that clients are looking for, enhanced by the added value of legal expertise and experience provided by legal professionals.

Growing your economy

Data is the crucial weapon for making fully informed decisions that can transform profitability in a legal business. Digital solutions provide a wealth of information for analysis at broad and granular level. They allow teams to create bespoke reports for better insights into individual business activity and function, helping identify areas where cost-savings can be implemented and where further investment is required.

As Cloud-based data is real time, reports are always up-to-the-minute and can be produced repeatedly, in very short time frame. For example, where once finance teams spent days preparing a report, they can now be produced, and reproduced following small changes, as many times as necessary with very little additional human input. The data can support more accurate predictions around business activities and productivity, with projections that enable more accurate strategic planning.

Going back to the start of this report, we identified that talent is a law firm's most important asset and a high quality team of legal professionals is essential for sustainable growth and driving the business forward. Digital transformation supports high staff retention rates as individual employee and case performance can be tracked accurately, using data so that success can be recognised and rewarded accordingly.

Responsible fiscal strategy

The cost-of-living crisis may be having an impact on business now, but it hasn't slowed the impetus of the UK's carbon zero ambitions. Implementing 'greener' practices and being able to demonstrate that with accurate ESG reporting is good for a firm's reputation, helping attract clients, talent, and even investment. UK law firms lead the world in ESG performance, apparently driven by client pressure, but there are other sound business reasons to implement more environmentally-kind processes.

For example, Cloud-based storage takes the place of bulky paper files, using less physical storage space and significantly reducing printing and copying costs. The digital solutions that enable effective hybrid working are contributing to a reduction in the carbon impact of daily commuting for many lawyers and support staff, while also improving the employee experience and reducing their personal commuting costs.

Through document management solutions such as NetDocuments, firms are able to reduce the amount of time that fee-earners spend looking for files, which is as much as **20% of the working week**. Reducing this will expand the billable hour capabilities of fee-earners undoubtedly, as well as allow firms to explore options of smaller workspaces to streamline operations.


Digital solutions are also helping firms to increase diversity within their teams, ensuring they are drawing on the talents of individuals with a wide range of background, ideas and experience. Having a more diverse workforce is also crucial to ensure that legal representation reflects the communities and people it serves, and can draw on specific cultural and social knowledge and understanding to promote better lawyer-client relationships for more effective case resolution.

According to the Solicitors Regulation Association (SRA) [one in five](#) UK lawyers are black, Asian and minority ethnic (BAME), and around 48% of UK lawyers are female. Only 3% report themselves to be disabled against 10% of the wider working population who are disabled. Having access to data around Diversity and Inclusion (D&I) allows firms to have a realistic view of where they are now and use that data with digital processes to implement hiring practices that help reduce unconscious bias. 'Blind CVs' mean that recruiters cannot see things like a candidate's name that provide clues to their gender and ethnicity. Hiding information about schools attended during screening means that social background should not be a factor either – the SRA says 22% of lawyers attended fee-paying schools compared to 7% of the general population and firms that do mostly corporate law have the lowest proportion of state-educated individuals (56%). Hard data is required to help firms initiate and drive change.

Firms also have a responsibility to their clients, employees, suppliers and other stakeholders to ensure the highest levels of data security. Cyber-crime is a real and increasing threat, particularly with so many lawyers now working remotely. The data threat also extends to what has been named the 'great exfiltration' – lawyers quitting and taking client data with them.

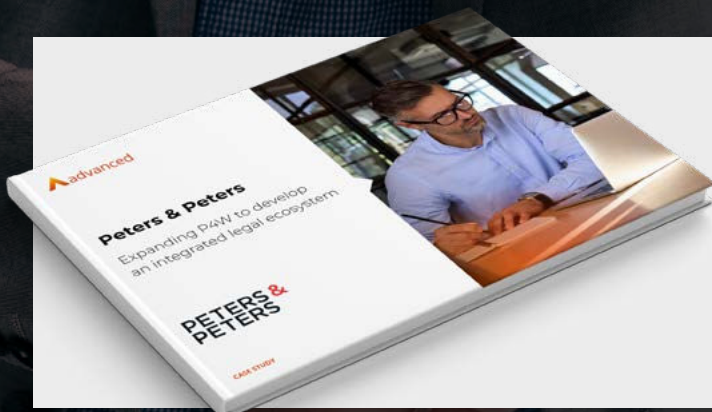
In fact, the largest threat to data comes from within and **68% of data breaches** in the legal sector come from insiders, with less than half of those, 32% coming from external malicious actors. Most of the insider leaks are inadvertent and down to human error, for example **52% occurred from sharing data** with the wrong person such as via email, post or verbally, and 10% were caused by loss of data, including the loss or theft of devices containing data and carelessness with paperwork. Cloud-based data storage uses encryption to ensure that even if a device falls into the wrong hands, it cannot be accessed and abused.





“It’s been an absolute game changer for our fee earners. In terms of firm efficiency, we do see time entries coming in more quickly because they are so readily available. We’ve seen a reduction in the number of fee earner chaser emails, and bills can be sent out in a timely manner.”

Brian McDonald, Head of IT, Peters & Peters



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Sustainable development for small-medium firms

Small-medium sized firms account for around **72% of all UK firms**. There are some specific challenges for smaller firms and rising business costs may be making it more difficult for small groups of partners to set up and run new firms. The overall reduction in numbers of UK firms may be a reflection of this, as start-ups struggle to compete with larger firms with more of a financial cushion behind them.

There are times when being smaller is an advantage, providing more agility and ability to react and change strategy quickly in response to a changing business environment than larger firms with multiple 'layers' of seniority in decision-making.

Many small-medium firms are situated in high street locations and are highly dependent on their local reputation and word-of-mouth from clients to drive repeat and new business.

Delivering outstanding service that matches or surpasses client expectations is crucial. Implementing modern digital communication processes can make all the difference between average and excellent levels of client feedback.

Talent attraction and retention can be a challenge for these firms. With many located in smaller villages, towns and cities, they can promote a better work-life balance and a strong sense of purpose in being able to make a positive difference to people's lives as a talent strategy. Some of these firms focus on a specific area of business to provide a 'boutique' service, such as tax matters or

intellectual property that makes them an employer of choice for individuals pursuing that area of law.

One of the ways that smaller firms can compete with their larger contemporaries is by implementing up-to-date technology that makes working lives easier for lawyers. A digitally-literate firm is in a strong position to attract digital natives – the new generations of talent that are seeking a good work-life balance with tools that enable flexibility to work from home and elsewhere.

Another challenge for small firms may be in keeping up to date with the frequency of legislative changes. Small teams may find that digital solutions that have integrated compliance simplify this, ensuring that all activities and processes remain compliant with reduced risk of human error and oversight.

One of the trends that emerged during Covid-19 and lockdown that is continuing is that of clients using online self-service legal services, such as DIY divorce and will writing. Firms that rely on these areas can leverage the established legal experience and expertise that only a trained lawyer can bring, in order to compete with cheaper, online services.

Environmental, social and governance (ESG) can be more difficult for smaller firms to prioritise, as it may not present any immediate financial benefit, particularly at a time when cost control is paramount. There are however tangible cost-

savings when implementing 'greener' practices, enabled by digital technologies that, for example, reduce paper, printing and waste disposal costs. Digital solutions can also provide data that makes monitoring and reporting on ESG progress much simpler and quicker. This is important when clients, employees, suppliers and investors are all increasingly seeking to work with partner businesses that have a strong ESG policy and can demonstrate progress towards a stated carbon neutral ambition.

Size should not be a factor in a firm's ability to access investment capital, but this may be proportionate to its size and number of employees and partners. When capital is tight, leaders must make wise investment decisions that can produce efficiencies for greater productivity and profit, in the short and longer term. Choosing an established software and solutions partner with experience in the legal sector, means that the technology it implements will have the desired effect and produce identifiable return on investment. There is also the option to outsource IT support and training for firms that do not have their own in-house digital team, ensuring that everyone who uses the solutions is doing so in the most effective way.



Fiscal management for large law

For Large Law there are a number of areas of concern, specifically addressing the talent shortage, general economic uncertainty, the inability to recover costs through pricing in a competitive marketplace and cybersecurity.

Many of the larger law firms are centred in London, and all of the top 40 global law firms have an office in the capital. The Tier 1 (top 200) and Tier 2, the next 425, firms are almost all London-based. This has created a centre for talent that is also extremely competitive and the battle for talent in London is particularly ferocious. Top fee-earners can easily quit and move firms for higher salaries and a more attractive working experience, with things like higher profile clients and more complex cases being a big draw.

Salaries are much higher in the capital too. Newly qualified lawyers can earn £25-50k in a small-mid firm, and anywhere between £65-170k in large law. There is a battle to retain the best trainees within the firm, so that it can leverage a return on the investment of their training.

The so-called 'Great Resignation' has had an impact here, as in other areas of the country. Traditionally corporate lawyers have accepted a culture of long hours both in the office and additionally working from home, and the toll this takes on family, relationships and leisure time. Work-life balance is increasingly talked about and younger employees in particular have different expectations about what their career and employer should deliver. Working from home is now instead of working in the office, saving employees the time and stress

of an arduous daily commute and they welcome digital tools that make it easier to draw a line under the working day, protecting their domestic time.

The very largest firms, operating in more international legal jurisdictions will face multiple and complex compliance issues and require digital solutions that simplify processes, maintaining compliance for the peace of mind of lawyers as well as clients.

A recent challenge to Large Law is the rise of the Big Four – Deloitte, EY, KPMG and PwC, the global accountancy firms that are increasing competition for customers in the marketplace with a one-stop-shop approach to consultancy and services. In many regards they have a very compelling offer and must not be underestimated. Clients are attracted to the convenience of a single supplier with specific experts who can all work together to deliver service. For those who are already clients of the accountancy side, it may feel easier to extend this existing relationship to include legal counsel.

Large Law can respond to the challenge by adopting more flexible pricing models, away from classic hourly rates in favour of the lower rates and set-fee models used by Big Four.

The Big Four also have considerable capital for investment and can attract talent with higher salaries and the provision of powerful technology solutions. Effective technology is crucial for efficient internal communications in large firms, as well as for better client communications and seamless, efficient processes that drive improved

client experience and a continued business relationship. There is an expectation from clients now that, just as they can access their bank and other services online, a large legal firm will offer a full digital experience with 24/7 availability.

The reduction in the overall number of UK law firms may partly attributed to mergers and acquisitions, as large firms join forces with others. They can reduce costs by centralising admin functions such as HR and payroll, invoicing and accounts payable, and estate management, to focus investment on talent and technology to drive their business forward.

Many large firms were early adopters of technology-based solutions. The biggest of these are also developing their own bespoke solutions. However this can be a minefield of regulation and legislation, with the potential to invalidate crucial professional indemnity cover. For many, working with a tried and tested supplier and software development partner is a less-risky option.

Cybersecurity is a serious challenge for all law firms, none more so than for the large firms who have been selected to work for banks and other large national and international clients because of their reputation. A recent survey by PwC reveals that **78% of the top 100 firms** say they are concerned about the impact of a potential cyberattack and size is not in itself adequate protection - the 2018 global ransomware attack on the UK's wealthiest firm, DLA Piper made shockwaves at the time and continues to influence cybersecurity decisions even now. The perception that large firms have more resources increases the expectation from clients, prospective employees and others in the supply chain to implement a vigorous ESG policy. This requires investment in ESG tools and time to collect and measure data to produce accurate ESG reports. Being able to demonstrate progress towards carbon net zero objectives is increasingly necessary to boost a firm's brand reputation, helping to attract and retain clients, talent and investors, crucial to supporting business growth.

Future policy

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+44(0) 330 343 8000



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hello@oneadvanced.com