

Leadership & Management Section

Quarter 2 Pulse Survey (April - June 2023)

For the last 20 years the Leadership and Management Section has undertaken an annual Financial Benchmarking Survey. It is the leading survey for medium sized and smaller firms in England & Wales, providing participants with a bespoke report showing how their firm compares to similar firms.

To compliment insights from the annual survey, the LMS and the Law Society's Futures & Insights team have developed a quarterly pulse survey to provide a timely barometer of business conditions for small and medium sized solicitor firms. This paper reports on firms' experiences of Quarter 2 (April to June). 74 firms participated.

Main Points from the Quarter 2 Survey

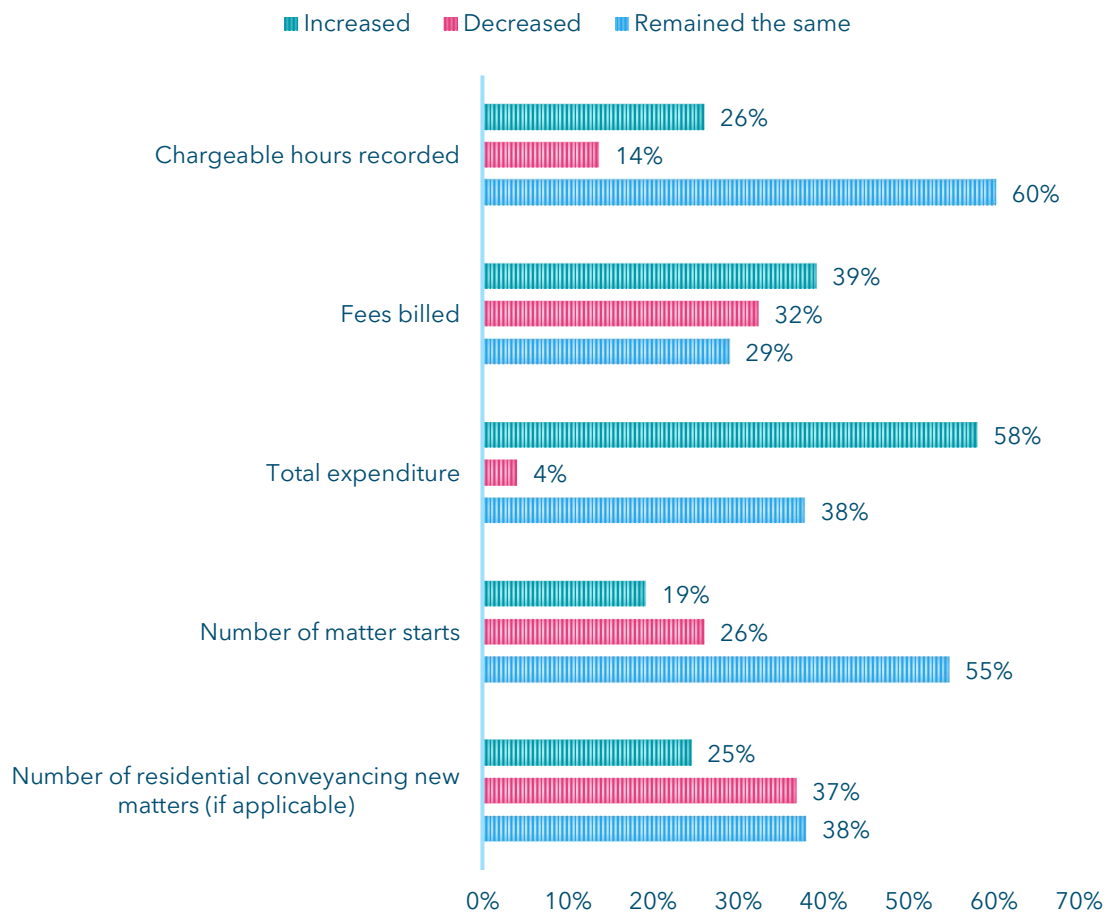
- General activity levels in the participants' results in Q2 remain stable with a slight increase in the percentage of firms reporting growth in chargeable hours, while billing remained stable. The proportion of firms reporting an increase in matter starts for conveyancing (25%) is higher than for new matter starts in general (19%), the latter seeing a decrease from Q1.
- Total expenditure again increased for the majority of firms, albeit the proportion was slightly down on Q1 figures (58% of firms reporting increases compared to 62% in the Q1 survey).
- Headcount remains stable, with 16% of firms increasing their fee-earner headcount over the last quarter. Firms continue to offer hybrid working arrangements to staff: a higher proportion of fee earners than support staff are hybrid working.
- Cash positions have improved or remained stable for almost three-quarters of firms (73%), and most firms expect the same for Q3 (82%). 18% of firms expected cash position to worsen in the following quarter.
- 70% of firms anticipated firm's fees would either increase or remain the same over the next 12 months. Forty percent of firms predicted profitability would either increase or remain the same. 20% expected profitability to worsen.
- Business confidence over the next 12 months was mixed. While 80% of firms expected fees to increase or remain stable, this was muted by concerns around profitability (35% expected a decrease whilst 27% expected an improvement).
- 22% of firms expected their marketing spend to increase over the next six months, 70% thought it would remain broadly the same. In the 2023 [Financial Benchmarking Survey](#), firms reported spending 1.2% of their total fee income on marketing (including staffing).

- Views were mixed on the use of AI to assist in the delivery of legal services. Five percent of participating firms indicated they were already using AI, and 14% had plans to introduce it over the next two years. 57% of firms were considering the option, whilst 24% said they would never use it.
- In Q3, 2022 we asked you about your firm's PII premiums. 74% had experienced an increase in premiums, 5% a decrease and the remaining 21% had seen no change. Our wider survey on the 2022-23 PII renewal process has been [published](#), and a similar proportion of firms had experienced an increase (72%); a larger proportion reported a decrease (17%) compared to Pulse Survey participants, and 11% had experienced no change. Read the [report](#) to look at factors impacting on premiums.

Income, expenditure, and new work

- The number of matter starts remained stable for over half of firms compared to the previous quarter. For the remainder, a higher proportion reported a decrease, than an increase.
- More change had been experienced by residential conveyancing firms: 38% reported conveyancing matter starts had remained the same, 37% had experienced a decrease.
- Total expenditure had increased for 58% of firms, 4% had experienced a reduction in costs.

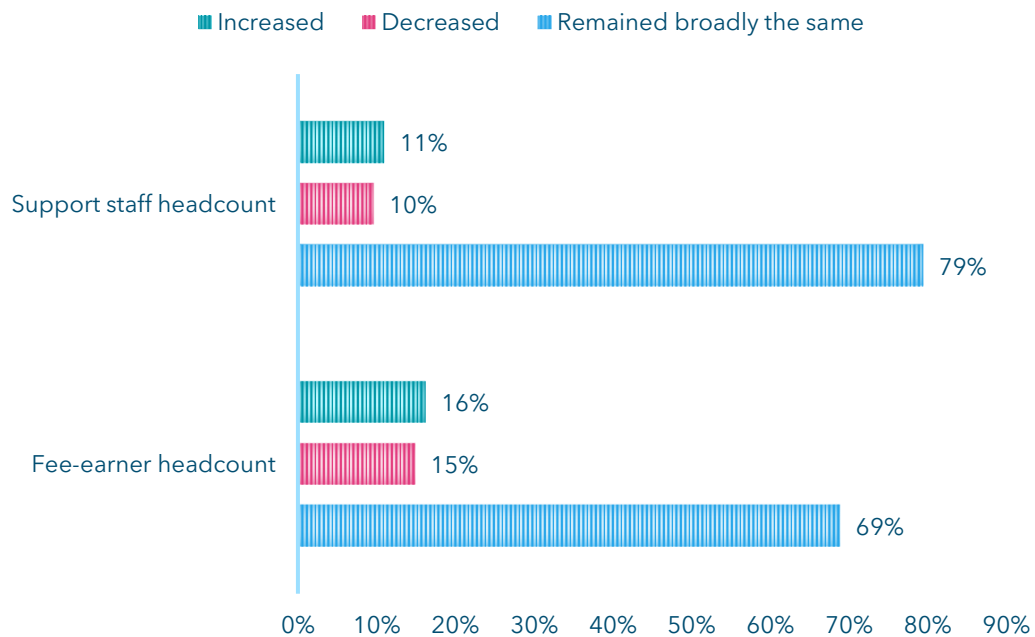
INCOME, EXPENDITURE AND NEW WORK



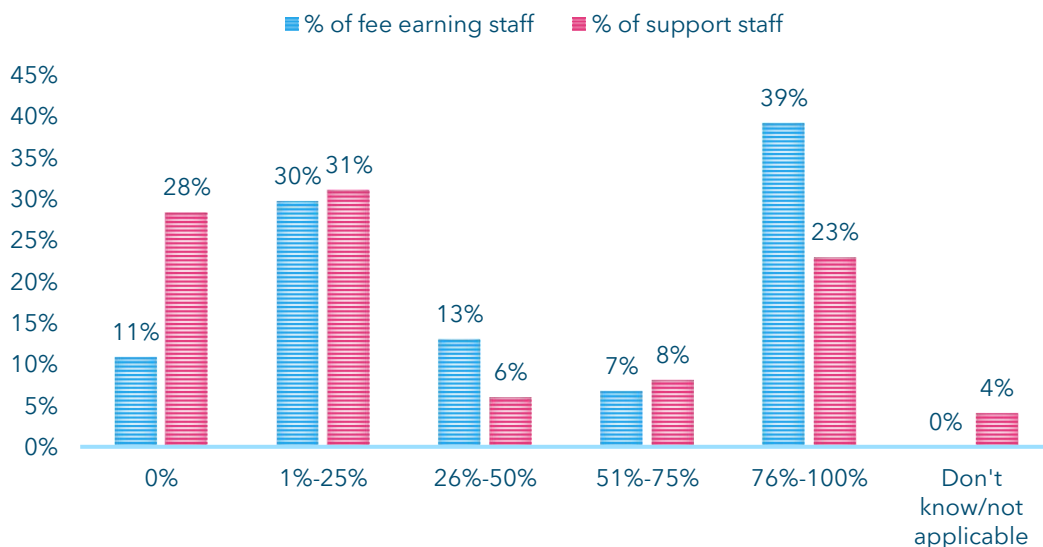
Staffing (headcount and working arrangements)

- Headcounts remained stable.
- 59% of firms had half or more of their fee-earners operating under hybrid arrangements.
- A lower proportion of firms reported having half or more of their support staff working under a hybrid arrangement (37%).

HEADCOUNT



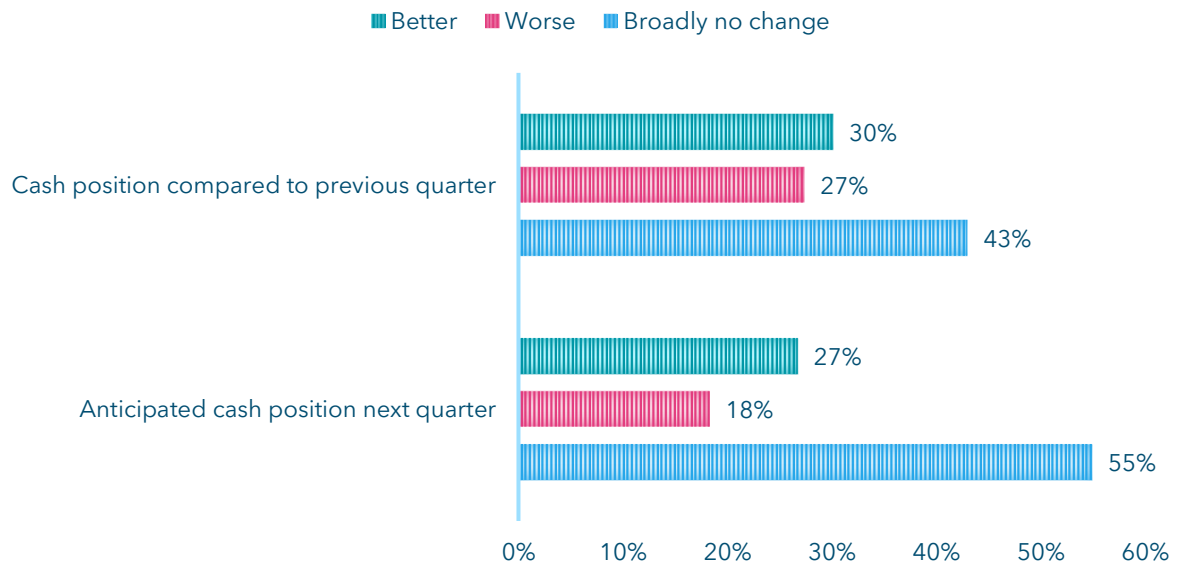
% OF STAFF WORKING IN SOME FORM OF HYBRID ARRANGEMENT



Cash position

- A high proportion of firms reported their cash position was stable or had increased, compared to the previous quarter. Twenty-seven percent had experienced a worse cash position in Q2 compared to Q1.
- Looking forward to Q3, 55% anticipated their cash position would remain the same, 27% anticipated an increase, and 18% a decrease.

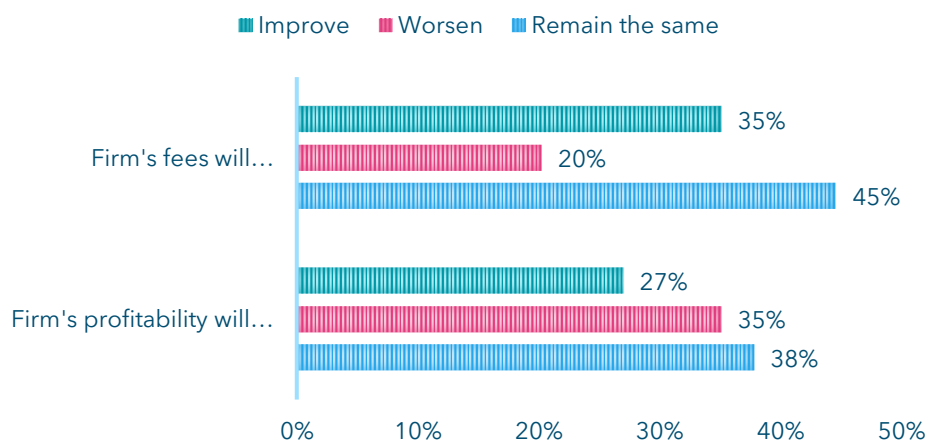
CASH POSITION



Business Confidence

- Most firms anticipated fees would increase, or remain the same over the next twelve months, 20% of firms expected fees to decline.
- Firms were less confident regarding profitability; 65% of firms expected profitability to increase or remain stable, whilst 35% predicted profitability would worsen.

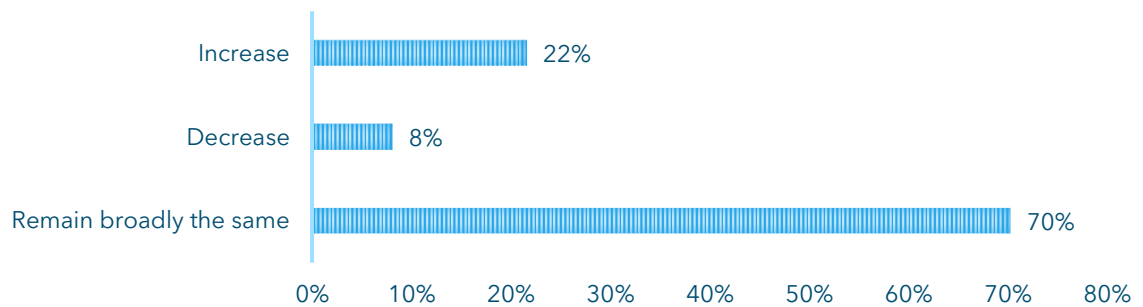
BUSINESS CONFIDENCE OVER THE NEXT 12 MONTHS



Marketing Spend

- 22% of firms anticipated marketing spend would increase over the next six months, while 70% expected spend to remain broadly the same.
- In the [2023 annual financial benchmarking survey](#), firms on average were spending 1.2% of their fee income on marketing (including staff costs).

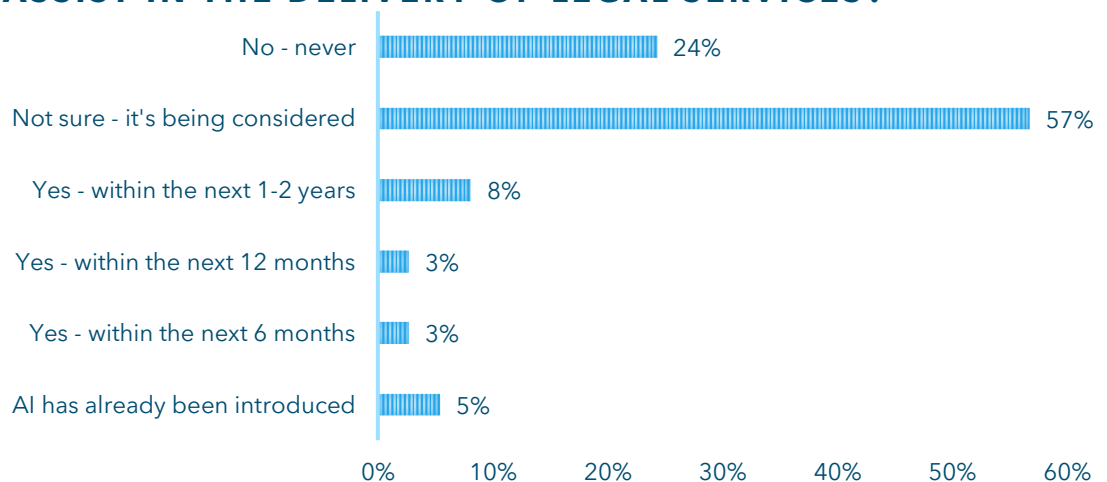
ANTICIPATED CHANGE IN MARKETING SPEND OVER THE NEXT SIX MONTHS



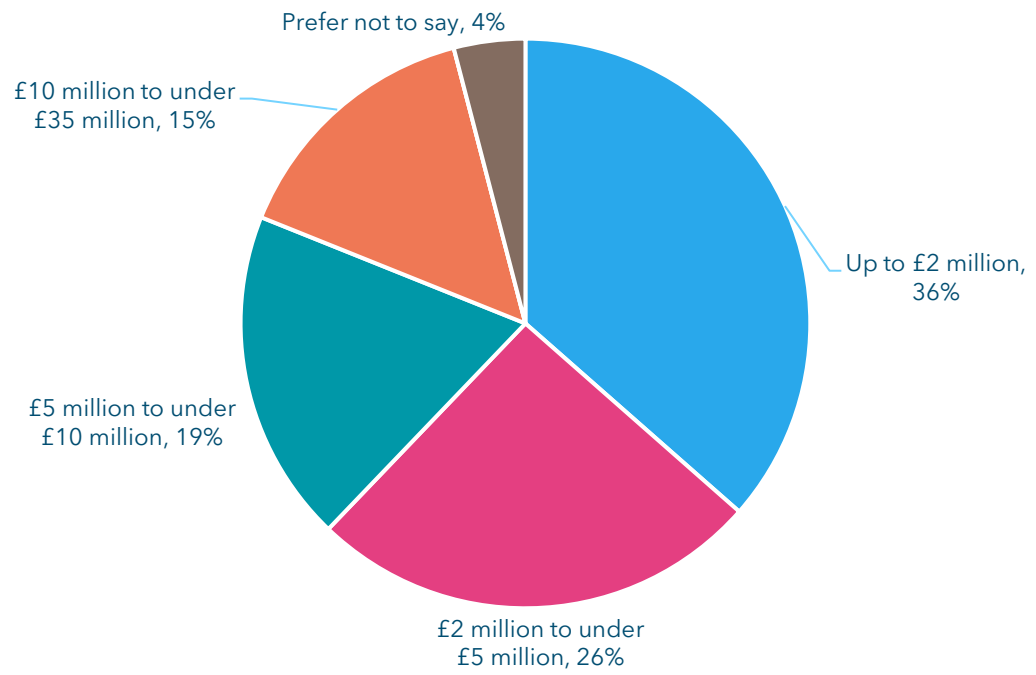
Introducing AI into the delivery of legal services

- Views were mixed on the introduction of ai to assist in the delivery of legal services, 5% of firms were already using AI, and 14% had plans to introduce it within the next two years.
- 57% of firms were considering the option whilst 24% indicated they would never use AI.
- These findings resonate with the Law Society's [research](#) with the University of Manchester and UCL earlier this year which found that adoption remains relatively limited. The study found a strong recognition among legal professionals of the potential of lawtech. Adoption was found to be driven by two principal motives: to improve the quality, and the efficacy of legal services delivery.

DOES YOUR FIRM PLAN TO INTRODUCE AI TO ASSIST IN THE DELIVERY OF LEGAL SERVICES?



Thank you to participating firms in Quarter 2!



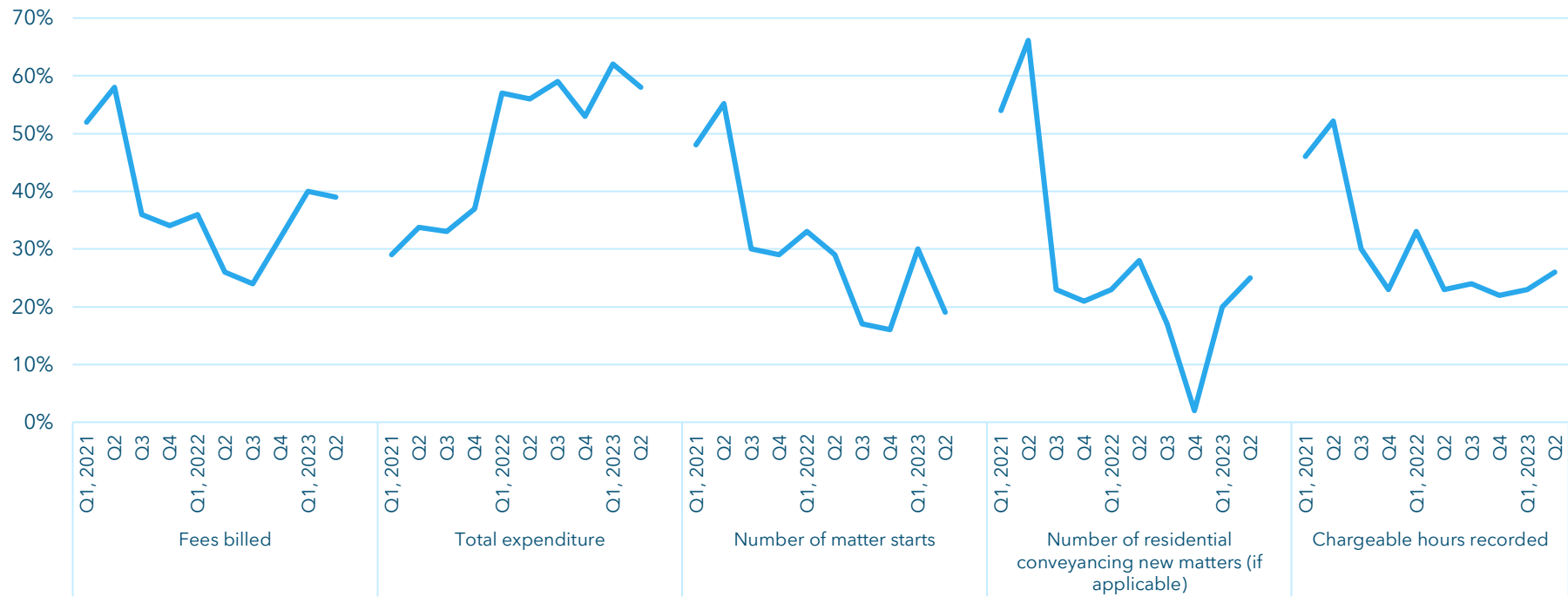
Timeseries data

Additional insights can be gained by looking for changes between the quarterly surveys. Some caution needs to be applied as the number and profile of participating firms may differ between Quarters. In Q2 2023, 36% of firms had turnover of up to £2m, compared to 92% of in Q1 in 2022. This difference may have an impact on aggregated findings. As further data is collected, analysis will be conducted to look differences by size of firm and for any seasonal affects. The more firms taking part, the more robust our evidence base. We'll continue to sense check results from the pulse survey against other surveys and data sources.

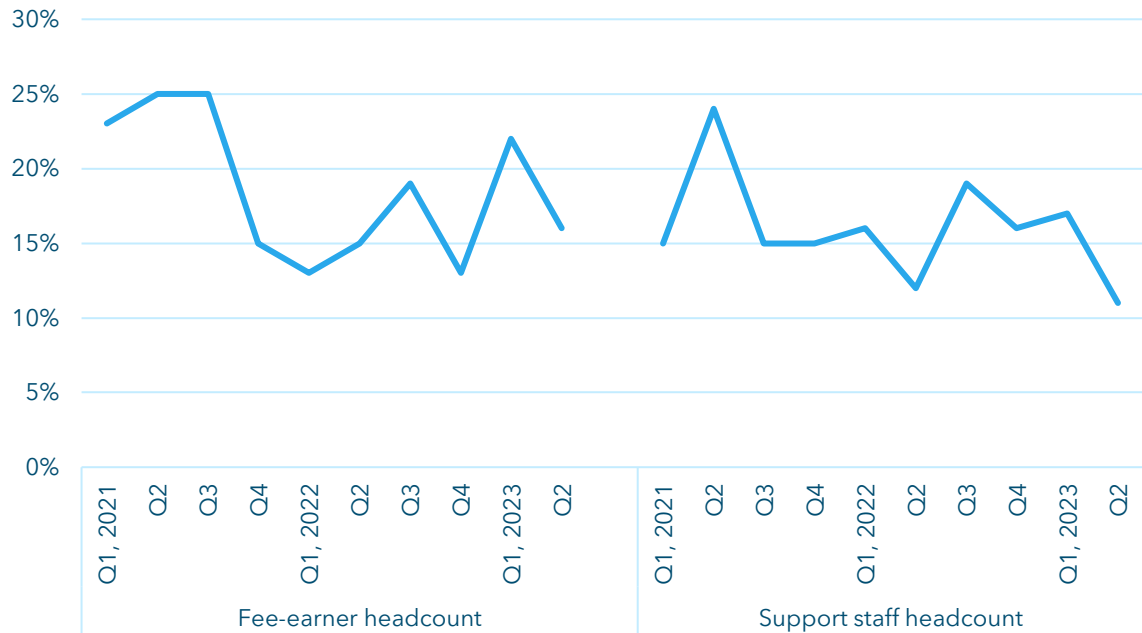
These charts suggest that over the last 10 quarters:

- A slight decrease in Q2 on fees billed and in the percentage of firms seeing an increase in matter starts, but not to the same extent as in Q3/4 in 2022.
- The proportion of firms reporting an increase in matter starts for residential conveyancing continues to rise from a low in Q4, 2022. After a levelling off in chargeable hours recorded in Q4 and Q1 compared to earlier in 2022, chargeable hours have risen in Q2, 2023.
- After expenditure levels quarter on quarter continuing to show a steady profile of increasing to Q1 2023, Q2 sees a slight reduction.
- Both fee-earner and support staff headcount decreased by the same proportion (-6 percentage points), however, for support staff, this is from a lower point in Q1.
- Uptick in the percentage of firms reporting improved cash positions after three quarters where figures were static.
- Anticipated cash position for the next quarter continues to increase from the low in Q4, 2022.
- Q2 shows a continued increase in firms fees from a low in Q4, 2022. Anticipated profitability for the next twelve months drops from a high in Q1.

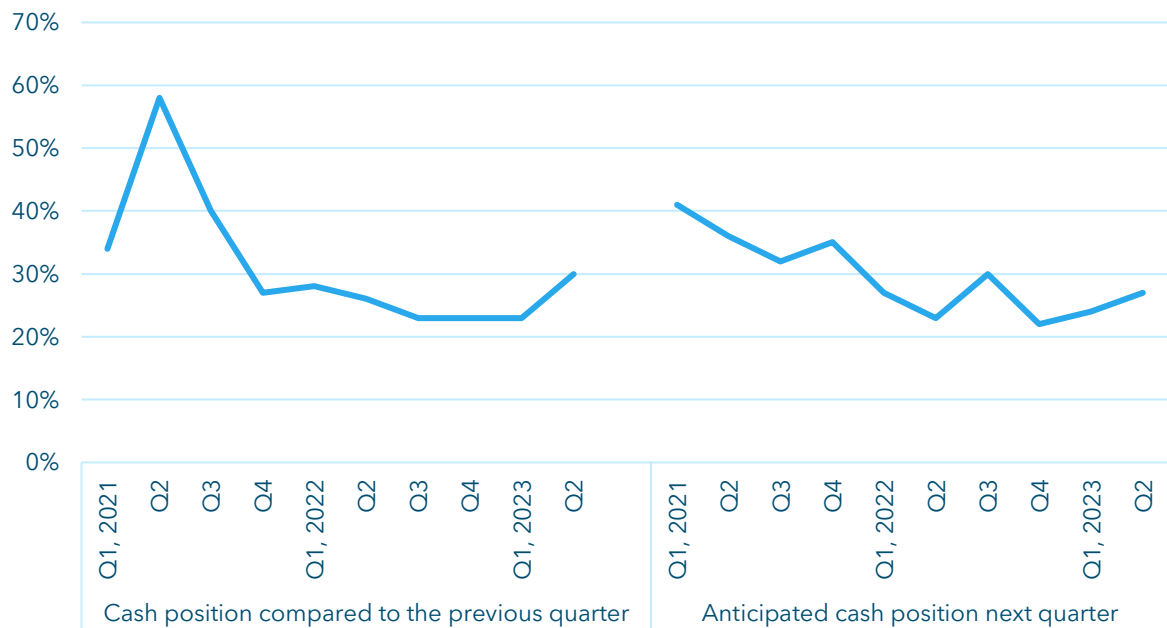
PERCENTAGE OF FIRMS REPORTING AN INCREASE Q1, 2021 TO Q2, 2023



PERCENTAGE OF FIRMS REPORTING AN INCREASE IN FEE-EARNER AND SUPPORT STAFF HEAD COUNT (Q1, 2021 TO Q2, 2023)



PERCENTAGE OF FIRMS REPORTING AN INCREASE IN CASH POSITION AND ANTICIPATED CASH POSITION FOR THE NEXT QUARTER (Q1, 2021 TO Q2, 2023)



PERCENTAGE OF FIRMS PREDICTING AN INCREASE IN FIRM'S FEES AND PROFITABILITY OVER THE NEXT TWELVE MONTHS (Q1, 2021 TO Q2, 2023)

