



REPORT 4: BDO LAW FIRM LEADERSHIP SERIES 2017

CHANGING CLIENT RELATIONSHIPS

THE SCOTTISH PERSPECTIVE





INTRODUCTION



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“Change is inevitable. Change is constant.”

Benjamin Disraeli

Law firm leaders agree that change is inevitable and that we are entering a new era of client relationships with different expectations around the services legal firms provide and how these services are delivered.

It is now a decade since the start of the global financial crisis which saw a seismic shift in the relationships between law firms and their clients. This resulted in a clear shift of power and control towards the client who themselves were being measured on their control of spend and efficiency. Whilst this aspect appears to have settled to a degree, change is a constant and the need to adapt is still an essential element of a managing partner role and function.

Our research shows that legal leaders think that how law firms interact with their clients will be key to maintaining and growing a successful law firm. It is times of rapid change that create opportunities for the bold and we are seeing some law firms spending time with their clients to understand their business to adapt their offering to align with the clients' own business and markets.

In our law firm leadership series, we look at how law firm leaders plan to manage, adapt and respond to a new market and their outlook over the next five years. Four main areas of change emerged, each of which we have examined in the following reports:

- Managing Rapid Change
- The Impact of Technology
- Law Firm Structures and Models
- Changing Client Relationships

Clients know that they can get the advice they seek from many different legal service providers and, if this is all they want, it is inevitable that services delivered in a processed manner for the cheapest price will be sufficient. For such work, the investment in technology will be key but competition is fierce from large well-funded organisations, aggressive new entrants and those working in a way that minimises structural costs.

HOWEVER, IS THIS ALL THE CLIENTS WANT?

The law firm leaders we have consulted for our research often referred to connectivity, integration, collaboration, new ways of delivery and closer relationships/partnerships. This all points to firms considering new client relationships where being an integral part of the team and not just a service provider will be key to future success and survival. For some, there is great opportunity to prosper and this is already part of the strategy for growth.

Our research was conducted with RSG Consulting and we surveyed 63 law firm leaders and held seven in-depth interviews with Managing and Senior Partners.

THE FULL SERIES OF REPORTS IS AVAILABLE ON THE LAW FIRM LEADERSHIP WEBSITE

THE FEATURES OF THE NEW CLIENT RELATIONSHIP

Asked an open question about how they expect to have changed the way they work with clients in five years' time, two out of five law firm leaders mentioned technology in some part of their response. However, new technology or greater use of technology was seen as a feature or driver of the new way of working, rather than the important change itself. The most frequently mentioned changes to how law firms work with their clients have been categorised in the chart opposite.

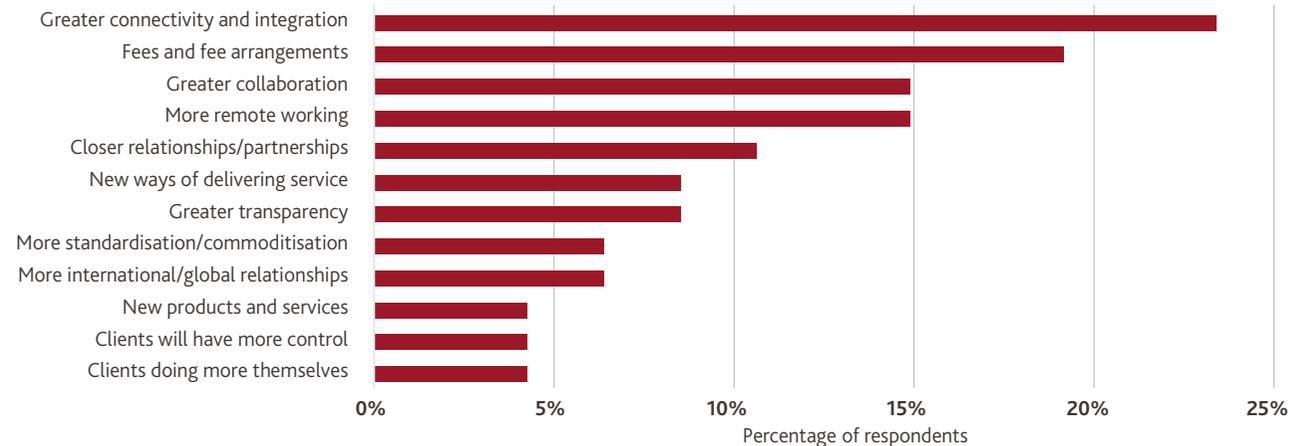
The top five responses to the question were as follows, and each is explored in more detail.

1. Greater connectivity and integration
2. Changes to fees and fee arrangements
- =3. Greater collaboration between law firms, clients and third parties
- =3. More remote working and less face-to-face interaction
5. Closer relationships or partnerships

While clients are important drivers of change in the industry, a number of law firm leaders commented that they were not driving change as much as they should be, or as much as these leaders would like to see.

One law firm leader felt that change would be slower over the coming years because there was not enough push for change backed up by resources, time and budget from clients.

What do you expect will be the greatest change to how your firm works with its clients in five years' time?



* Open text responses were categorised into one or more area

“Diversity is front and centre for general counsel as it’s something they can shape and are passionate about. But collaboration tools, eDiscovery, or document automation, for example, don’t get the same attention.”

GREATER CONNECTIVITY AND INTEGRATION

When asked what the greatest change would be, almost a quarter (23%) of law firm leaders surveyed mentioned greater connectivity or integration with their clients.

“Increased partnering from the technology layer upwards will drive more collaborative working with a knock-on effect on commercial models, where rewards reflect the achievement of key outcomes and increased revenue.”

GREATER CONNECTIVITY AND INTEGRATION WILL INVOLVE:

- Greater integration of technologies between law firms and their clients
- Shared processes
- New platforms for sharing files and data
- Greater use of law firms' client extranets and IT portals
- Shared project management tools
- Collaborative online workspaces

WHICH WILL GIVE CLIENTS:

- Direct access to files and data
- More engagement with their files and transactions
- Ability to have greater input into legal work
- Ability to collaborate more with outside providers
- More transparency on work progress and costs
- More control

While greater connectivity and integration relies primarily on new and shared technologies, the access these will provide clients has wide ranging implications. They have the potential to change the way clients work with law firms, provide clients with more transparency and control, and provide the tools for more collaborative ways of working.

FEES AND FEE ARRANGEMENTS

The conversation about fees has moved on significantly from the aftermath of the financial crisis when discounts and headline fee rates were often at the centre. Now a discussion about fees is more nuanced.

“The global financial crisis created a race to the bottom in terms of pricing. It was a watershed moment. But that bottomed out two years ago as the economy started to improve and there has been a recognition from clients that they can't squeeze anymore out.”

According to law firm leaders, new fees and fee arrangement will be designed to deliver clients:



“ I think there will be far greater automation and transparency enabling clients to keep up to date with and even control how transactions are progressing and how fees are being incurred. ”

Greater transparency will allow clients to be more demanding when it comes to fee arrangements, but new ways of resourcing and delivering legal work are also expected to drive changes. Particularly where legal advice becomes commoditised or the cost of delivery is dramatically reduced. For example, one law firm leader felt that “technology will drive what we can effectively charge for and what the client will pay for.”

It means that fees and fee arrangements need to match the value of the work delivered. As one law firm leader said, this means that law firms “need to be able to deliver different work types with different profit margins.”

A respondent from a US headquartered global law firm expected to see clients in the US using more fee caps and fixed fees as has become common in Europe.

MORE REMOTE WORKING AND LESS FACE-TO-FACE INTERACTION

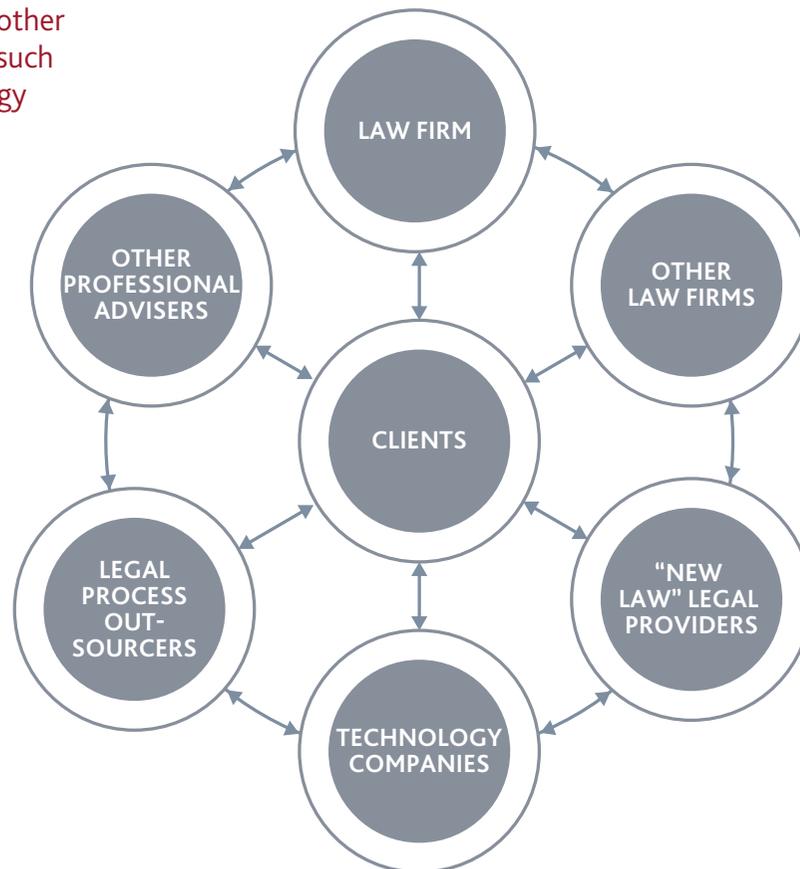
For some law firm leaders, the ability to communicate with clients via online tools will mean less face time with clients and fewer meetings. The benefits are more agile and flexible working arrangements for lawyers, less travel time, and lower travel costs. At a firm-wide level, one law firm leader pointed out that it also means "not being required to be physically present in all jurisdictions", which opens up opportunities for law firms to serve a wider range of clients. It also potentially opens markets to increased competition from overseas providers.

Just as importantly, the ability to work remotely will need to be balanced with the need to build closer relationships with major clients. As one law firm leader said, "clients will continue to value personal relationships, perhaps more than ever."

GREATER COLLABORATION BETWEEN LAW FIRMS, CLIENTS AND THIRD PARTIES

The majority (57%) of responses mentioning collaboration relate to greater collaboration between the law firm and client. Others referred to collaboration between law firms and other external legal providers or third parties, such as legal process outsourcers or technology companies.

The new network of law firm and client collaborations is likely to be more complex than before, as clients work with a greater range of providers directly and demand they collaborate with one another.



“ I expect to see more collaboration between law firms. At the moment it’s fierce competition or you get married. Clients will drive greater collaboration, but it may require a different billing or profit-sharing model. ”

CLOSER RELATIONSHIPS OR PARTNERSHIPS

“ Clients want lawyers to be more like partners – to bring ideas to the table that can help them, and more creative ways to add value. Less is about a purely transactional need.

New relationships will mean “identifying those areas where we are able to make a difference and create value to our client’s business - being trusted partners, not just trusted advisors.”

One law firm leader expected to see more sole supplier relationships, with a client committing to using a single law firm for a large portion of its work, usually at a fixed cost.

More predicted a move towards “strategic partnerships” and a shift away from purely transactional engagements with clients. This means lawyers and other experts within the firm will provide more advice and support to their clients outside specific matters and often outside technical legal issues.

For instance, a growing trend is for in-house legal departments to turn to law firms for advice on management and operational issues, such as new technology investments.

Many also see building closer partnerships as an opportunity to reverse the trend of companies moving management of law firm relationships out of the hands of the in-house legal team to a centralised procurement function.

The view from some is that in-house legal teams are now pushing back against procurement teams, wanting to retake control of their law firm relationships.

One law firm leader summed up many of the features of the new client relationship in this report, with the following prediction:

“It’s always a risk when a client grows that the relationship gets moved to procurement. Some banks took it too far and lost the trust and good relationships they had with law firms”.

“ I would expect that the larger clients will be working closer with far fewer providers, where there is greater transparency and greater sharing of know-how and information. To keep ahead, firms will have to collaborate with a variety of different organisations to develop and hone their service offering, some of which may be provided with no physical intervention.”

THE SCOTTISH PERSPECTIVE

As part of BDO's series of reports on law firm leaders and managing change, we surveyed 63 law firm leaders based in the UK, including 13 at Scottish law firms.

The final report in the series looks at how the pace of change, technology and changes to law firm structures are likely to impact the law firm-client relationship over the coming five years.

We asked law firm leaders an open question about how they expect to have changed the way they work with clients in five years' time. The top five changes mentioned by Scottish law firm leaders and those based in the rest of the UK are below.

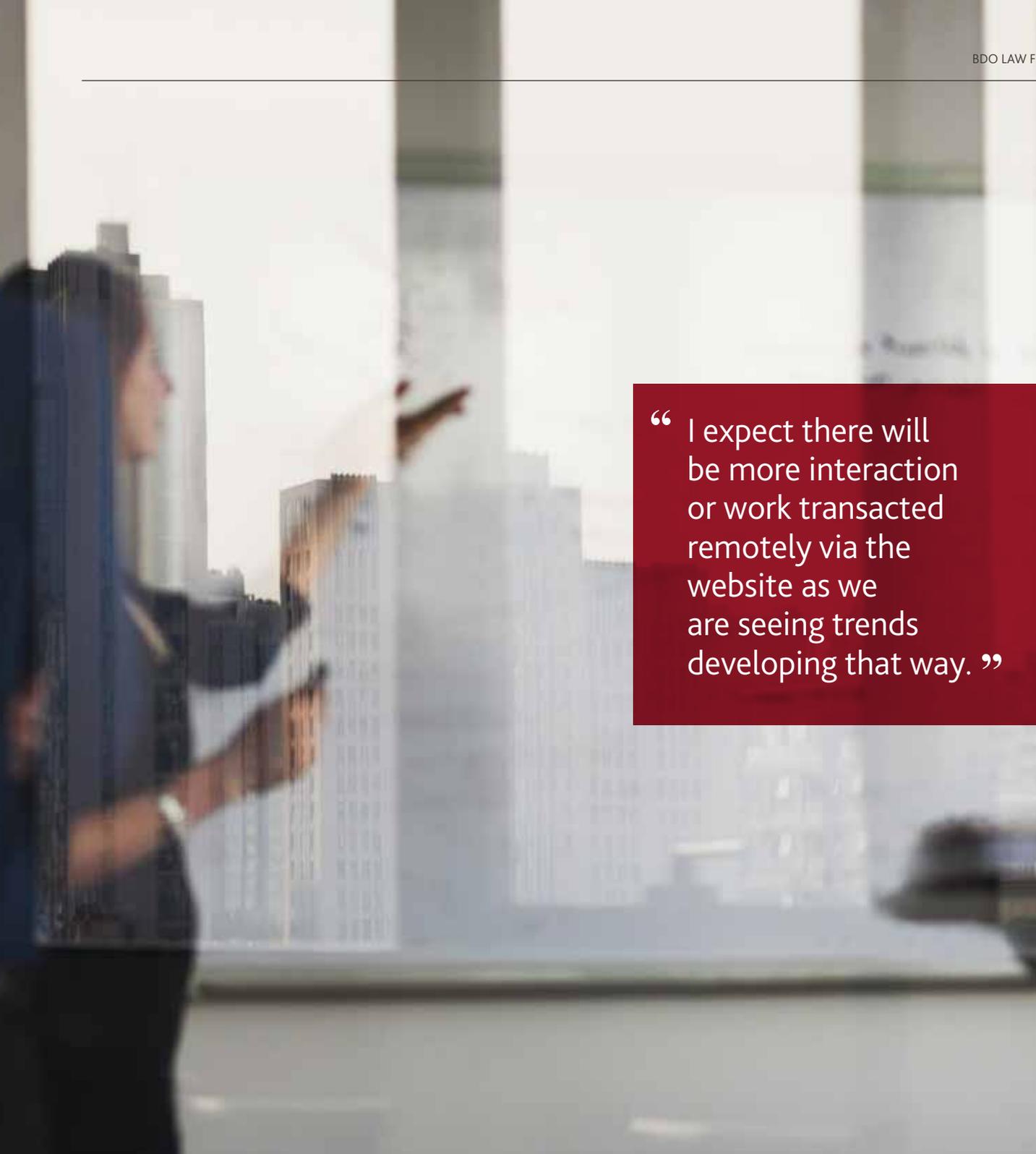
TOP FIVE CHANGES PREDICTED BY SCOTTISH LAW FIRMS	TOP FIVE CHANGES – REST OF THE UK
=1. Different methods of communication	1. Greater connectivity and integration
=1. More remote working and less face-to-face interaction	2. Changes to fees and fee arrangements
3. Changes to fees and fee arrangements	=3. Greater collaboration between law firms, clients and third parties
=5. Closer relationships or partnerships	=3. More remote working and less face-to-face interaction
=5. Greater collaboration	5. Closer relationships or partnerships
=5. New ways of delivering service	

How much will the change be driven by technology?

The majority (70%) of Scottish law firm leaders mentioned technology in some part of their response, compared with just 40% of law firm leaders in the rest of the UK. Most of those commented that technology would change the way legal advice was delivered, provide new ways for lawyers to communicate with clients or enable more remote and flexible working.

“ I expect that our clients will continue to expect us to be available whenever they need us to be and to give good commercial, solutions oriented advice. Those fundamentals are unlikely to change because of technology, however, the means of delivery may change and may enable us to be more efficient in delivering the advice. ”





“ I expect there will be more interaction or work transacted remotely via the website as we are seeing trends developing that way. ”

Different methods of communication, and more remote working

Different methods of communication were frequently mentioned by Scottish law firm leaders, although it was not a response from those based in the rest of the UK.

One law firm leader expected younger customers to want to communicate with lawyers using new technologies and apps they use in other areas of their lives. Others expect to use existing technologies more often. Video-conferencing, for example, would help enable **more remote working**.

Related to new ways of communicating were **new ways of delivering the service**. Not only did some Scottish law firm leaders expect to interact with clients via apps or websites, but to transact work this way. For commoditised legal work, technology platforms could increasingly be used to receive instructions and deliver legal work with no or very little individual interaction.

Changes to fees and fee arrangements

Comments from Scottish law firm leaders on how fees would change were consistent. They either predicted that time and line billing would become rarer, or that it would be completely unheard of in five years' time.

Closer relationships or partnerships between law firms and clients was also expected to produce more opportunities to collaborate. More integrated ways of working would both improve service quality and help manage costs to the benefit of both the firm and client.

FOR MORE INFORMATION:

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