

# Bellwether 2021:

## Small law in the pandemic: The good, the bad, and the new



# Introduction

Our 2020 report looked at how small and SME firms were impacted in the immediate aftermath of the UK lockdown as the coronavirus pandemic hit the country. It found the industry remained robust in the face of uncertainty, but some firms struggled more so than others.

A year later, the pandemic still looms over the industry. As restrictions have eased across the country, we look back on how firms fared.

While firms appear to have once again weathered the storm, showing strong financial performance and confidence in the future, they face new threats to their business, such as an increase in professional indemnity insurance (PII) premiums, adapting to new ways of working, and keeping workers happy after a difficult year.

As the industry looks to move on from the pandemic, there is also uncertainty around working practices and how to drive innovation in a traditional industry.

This report was compiled using data from in-depth interviews with lawyers in small or SME firms, as well as online surveys completed by 305 solicitors in England and Wales.

Respondents were from a wide geographical area and represented a broad sample of lawyers in a variety of positions in the firm and areas of expertise. The research fieldwork was conducted by Burlington Media, throughout May-June 2021

## 2. The good

**Most firms have seen revenues and profits hold strong through the pandemic. As such, lawyers are confident about the future of their firms and most expect to grow without the need for merging or acquiring firms.**

*“Our work is growing massively – I don’t know if that’s Covid-related or if people are taking stock and re-evaluating what they are doing.”*

*“While it’s not been perfect by a long stretch, I think a year and three months ago we’d have been very, very thrilled to be where we are, there is no doubt about that.”*

## 2.1 Money talks: Revenue and profitability performance

Most law firms made it through the pandemic unscathed. **Around three quarters** of responding firms said their revenues and profits were level with or higher than their projections for 2020-21.

Despite national restrictions and market uncertainty, **31%** of firms were able to outperform their revenue expectations.

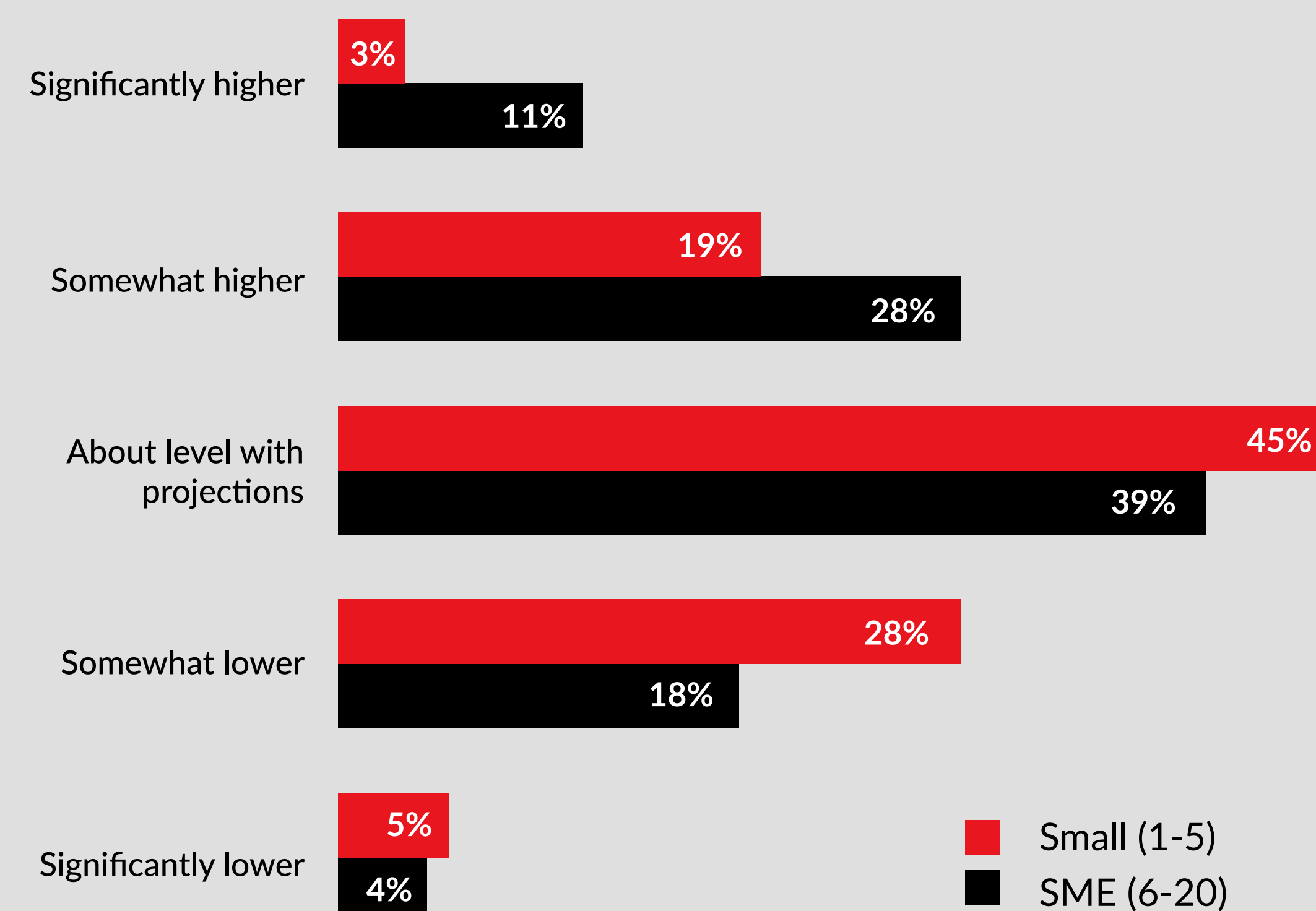
**A third (33%)** of responding firms outperformed profit expectations, bolstered by government support and some practice areas performing better than expected.

One such practice area was property, which saw strong results thanks to the temporary stamp duty tax holiday.

“Conveyancing has just been incredible. We saw a frenzy of buyers, especially as the stamp duty holiday began to taper off. It will really tail off, but we only expect this to happen later in 2021.”

### Size matters

While performance was positive overall, more small firms saw lower-than-expected revenues compared with SME firms.



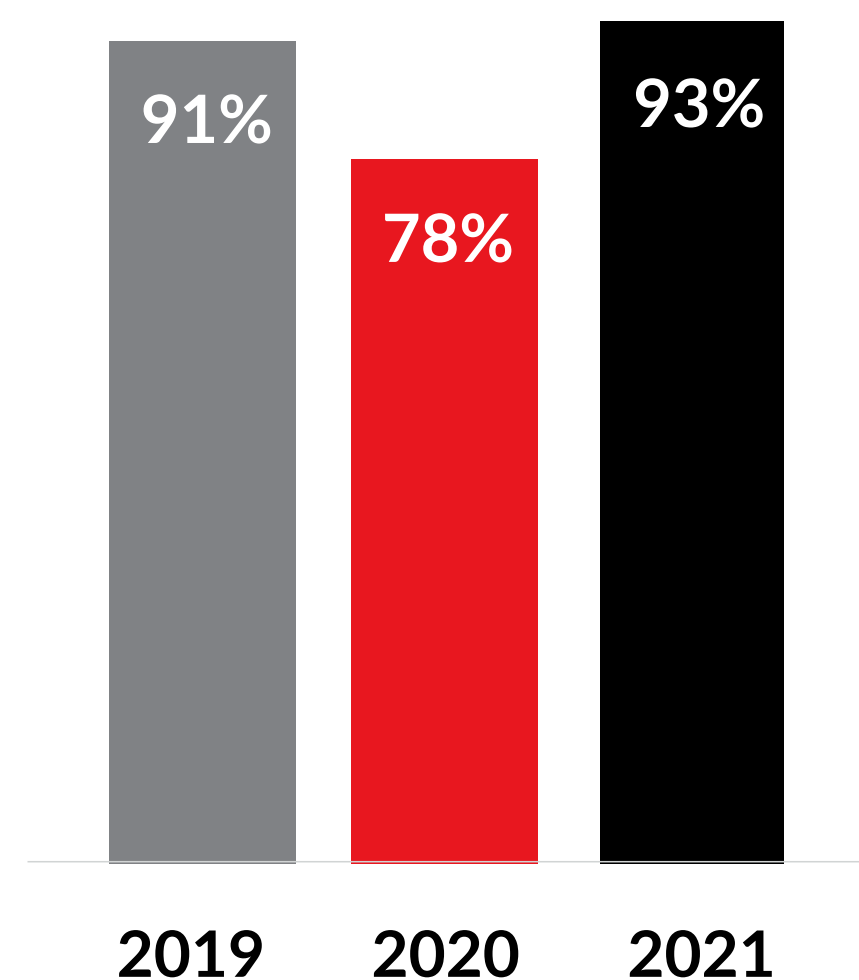
[Fig 2.1]

## 2.2 Not-so-quiet confidence: Market outlook

With firms' finances holding strong, pre-pandemic bullishness is back. Respondents were overwhelmingly confident about the future.

Market confidence is higher than pre-pandemic levels, with **93%** of respondents being confident in their firm's future.

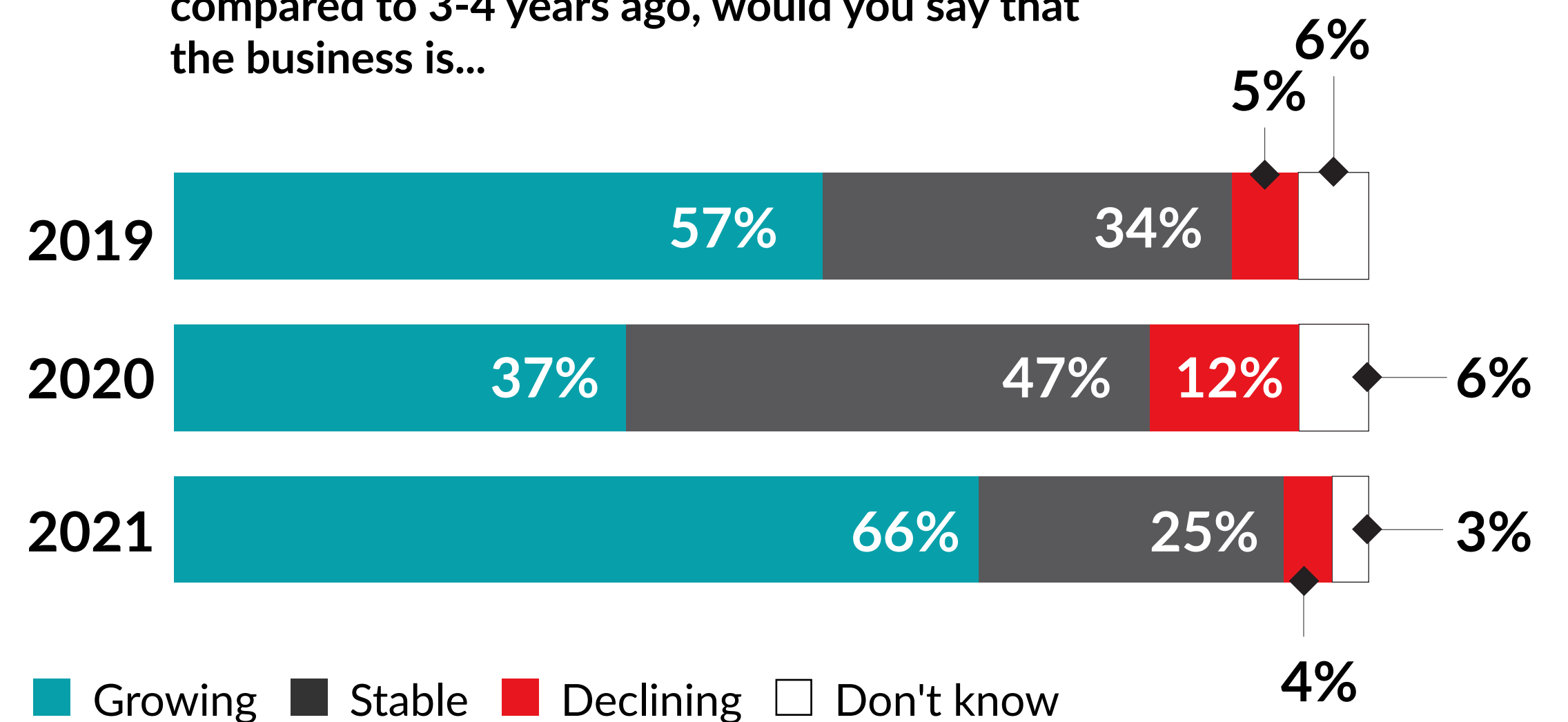
How would you describe your level of confidence about your firm looking forward?



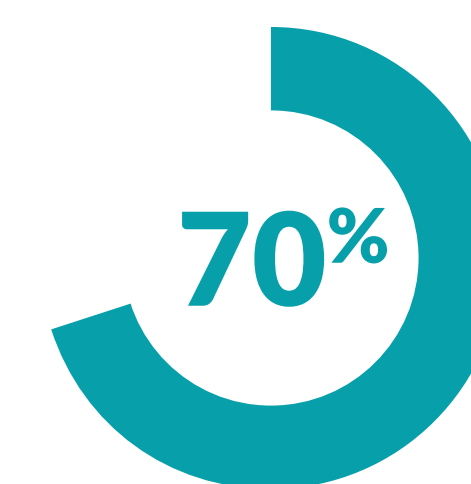
[Fig 2.2]

Business is also picking up again. **66%** said their firm is growing compared with three to four years ago, as opposed to only **42%** in the second half of 2020.

[Fig 2.3] Thinking about the performance of your practice compared to 3-4 years ago, would you say that the business is...



However, while confidence is high, most lawyers think the future won't be straight forward.



agreed there are rough times ahead for law firms.

[Fig 2.4]

### Winners and losers

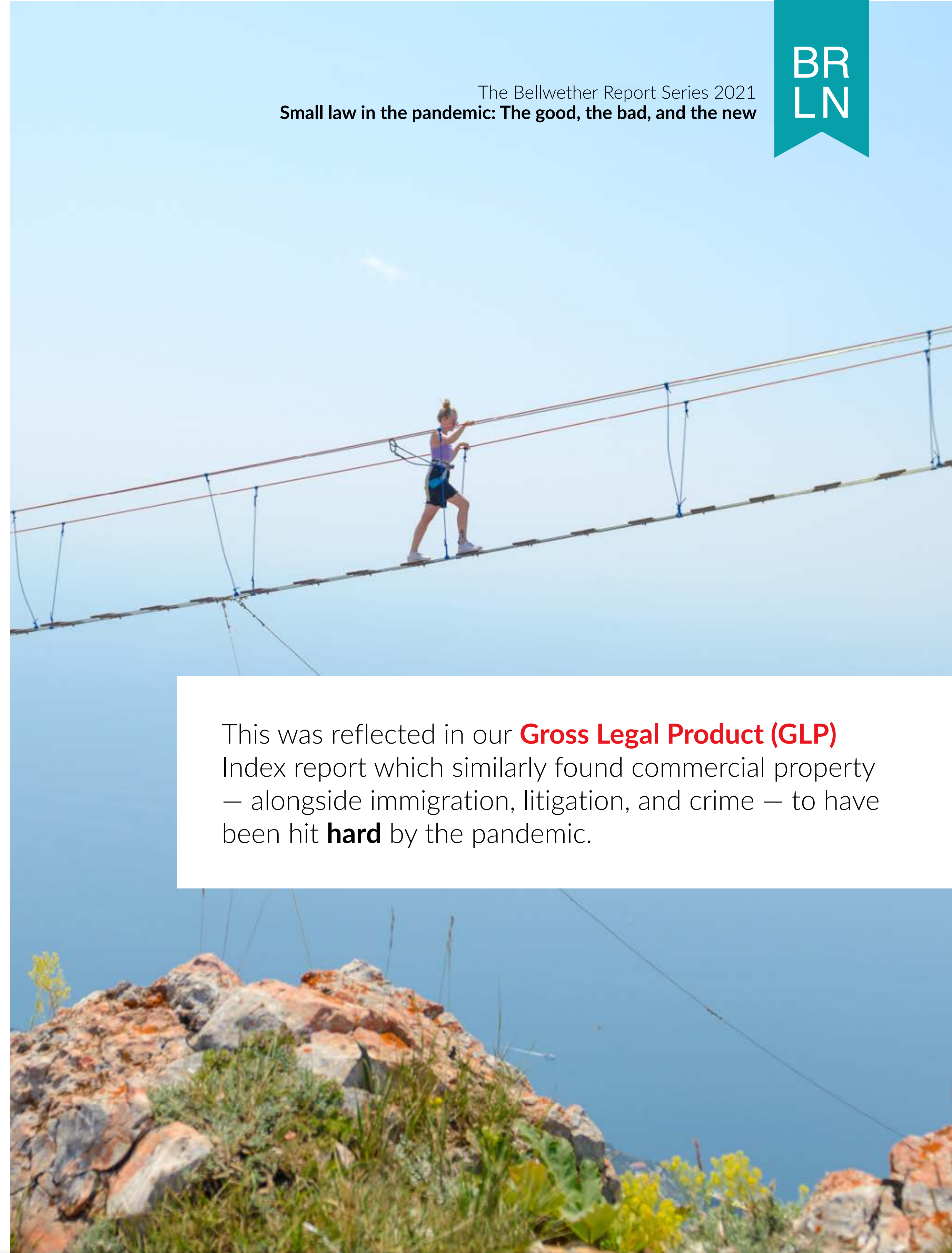
The pandemic boosted business for some practice areas while others took a hit. With a global health crisis in full swing, clients reconsidered their personal and family arrangements. Family, will-writing, and taxation areas saw more work, and lawyers expect this trend to continue as private clients look to pre-empt potential tax changes.

“ I think you will see an increase in higher level private client work once we have a clearer picture of future tax rates. I expect people will want to manage their affairs to make sure that things go to their children rather than paying for the pandemic.”

In contrast, some practice areas have struggled. For example, commercial property was seen by some as a “loser” in the pandemic.

“ There are always winners and losers. In this pandemic, the winners are companies like Amazon and Zoom. The losers are specialists like us who rely on a particular market thriving; in our case, commercial planning.”

This was reflected in our **Gross Legal Product (GLP)** Index report which similarly found commercial property – alongside immigration, litigation, and crime – to have been hit **hard** by the pandemic.



## 2.3 Certified organic: Growth prospects

Unlike larger firms, the pandemic hasn't pushed small law firms to consider mergers or acquisitions. Instead, lawyers are targeting organic growth, increasing revenues by attracting new clients.

[Fig 2.6] **> 2/3** firms plan to grow organically.

[Fig 2.5] **62%** said the pandemic had not changed their view on the matter.

**14%** said mergers or acquisitions are now more attractive



Most respondents said acquiring other firms simply isn't worth the risk at this time.

“From our point of view, I don't think anybody is going to be terribly interested in investing money to come into a relatively small market.”

However, others are growing their practice area expertise by acquiring new staff that have been furloughed or laid off by other firms.

“We've taken this opportunity to adapt and recruit staff that other firms have shed. Not because I have the work for them today—I don't—but because they are bringing skills or adding an area that we didn't have to the business. I would describe this as 'organic-plus' growth.”

### The how:

In order to grow, some firms are looking to diversify their offerings and take a more generalist approach.

“From a purely cynical perspective, when you specialise in a few areas you can get rich very quick. But, when business crashes, it crashes hard. Diversity of practice is helpful because you can redeploy, move around, and retain people within the business instead of making redundancies. It's not quite as lucrative but it is more sustainable. In our view, it's the healthy way forward.”

### 3. The bad

Professional indemnity insurance has fast become the top threat for law firms thanks to rising premiums. At the same time, firms must find new ways of bringing in business and keeping staff happy to address talent retention risks.

*“Pll is going to drive smaller firms out of business. I think it’s shocking. Absolutely shocking.”*

*“People have been exhausted keeping their own ship afloat.”*



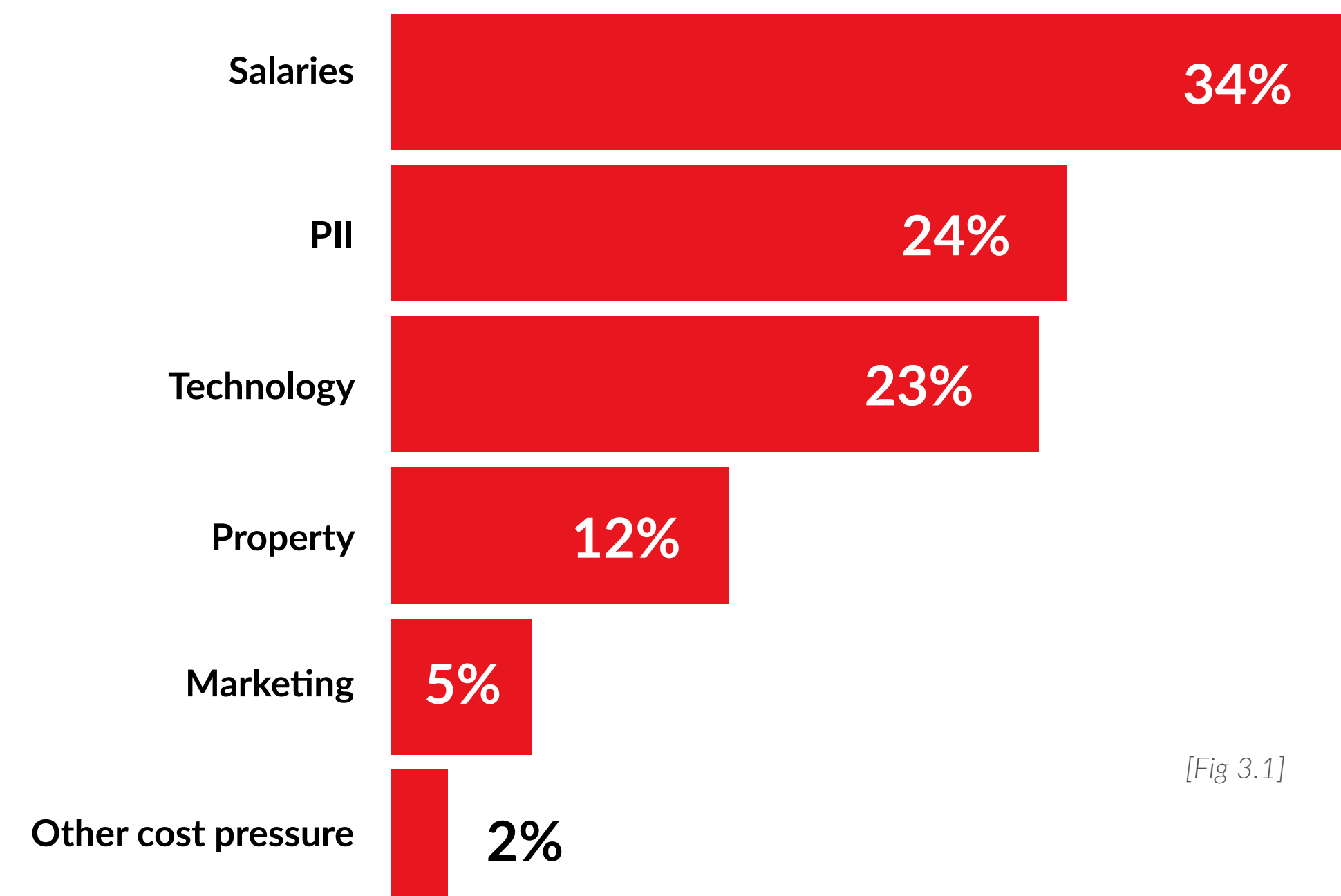
### 3.1 Humble PII: Operational costs



Firms' operational costs are still dominated by salaries and were bumped up by buying new tech for remote working. However, professional indemnity insurance (PII) is now firmly on their radar.

**66%** of respondents said PII was the biggest threat to business, alongside the continuing demands of compliance.

**What have been the most significant operational cost pressure/s on the business in the last 12 months?**



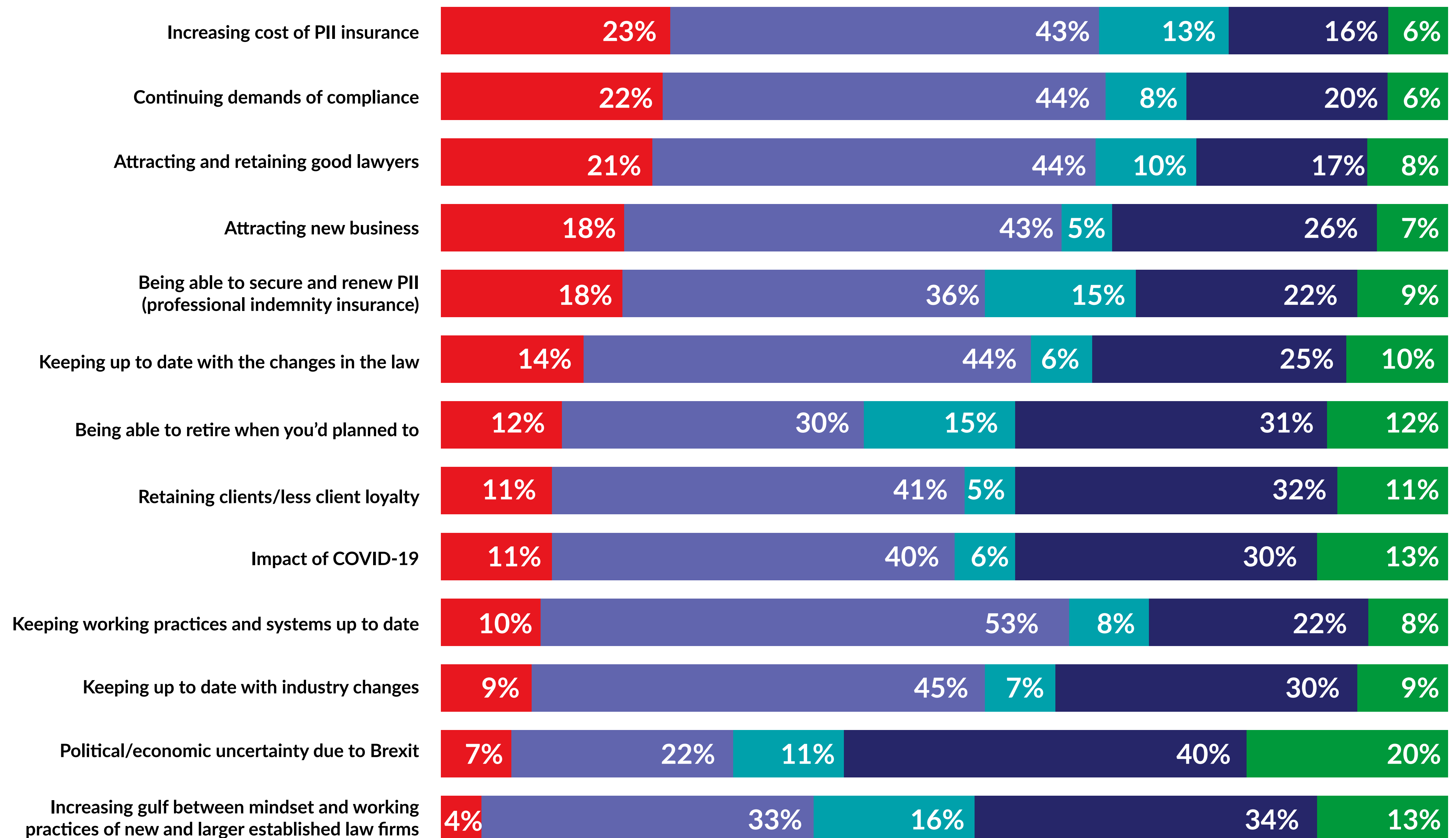
[Fig 3.1]

### 3.1 Humble PII: Operational costs



How significant are each of these to your current business?

Very significant threat   Quite significant   No opinion   Not very significant   Not at all significant threat



[Fig 3.2]

Most firms saw a rise in PII, attributing this to increased risk during the pandemic and market hardening owing to insurers leaving the market in recent years.

While PII costs typically rise every year, small and SME firms saw an average increase of around **30%**. This is **15-20 percentage points higher** than **findings** from Miller in May this year.

“This last year has been particularly difficult but PII is demanded of us by the SRA. Insurers know that we have to buy it, so we have little power to negotiate costs.”

“There's a lot of firms that are going to need bailing out. We've been approached by one- or two-people firms saying, ‘we can't get indemnity insurance this year’ and ‘compliance is hard, we can't invest in the technology.’”

Beyond the increasing costs, lawyers also found the process behind PII time consuming and overly complicated.

“All I've heard is horror stories from everyone. An industry colleague had to do a massive presentation to try to sell the firm for them to get the insurance.”

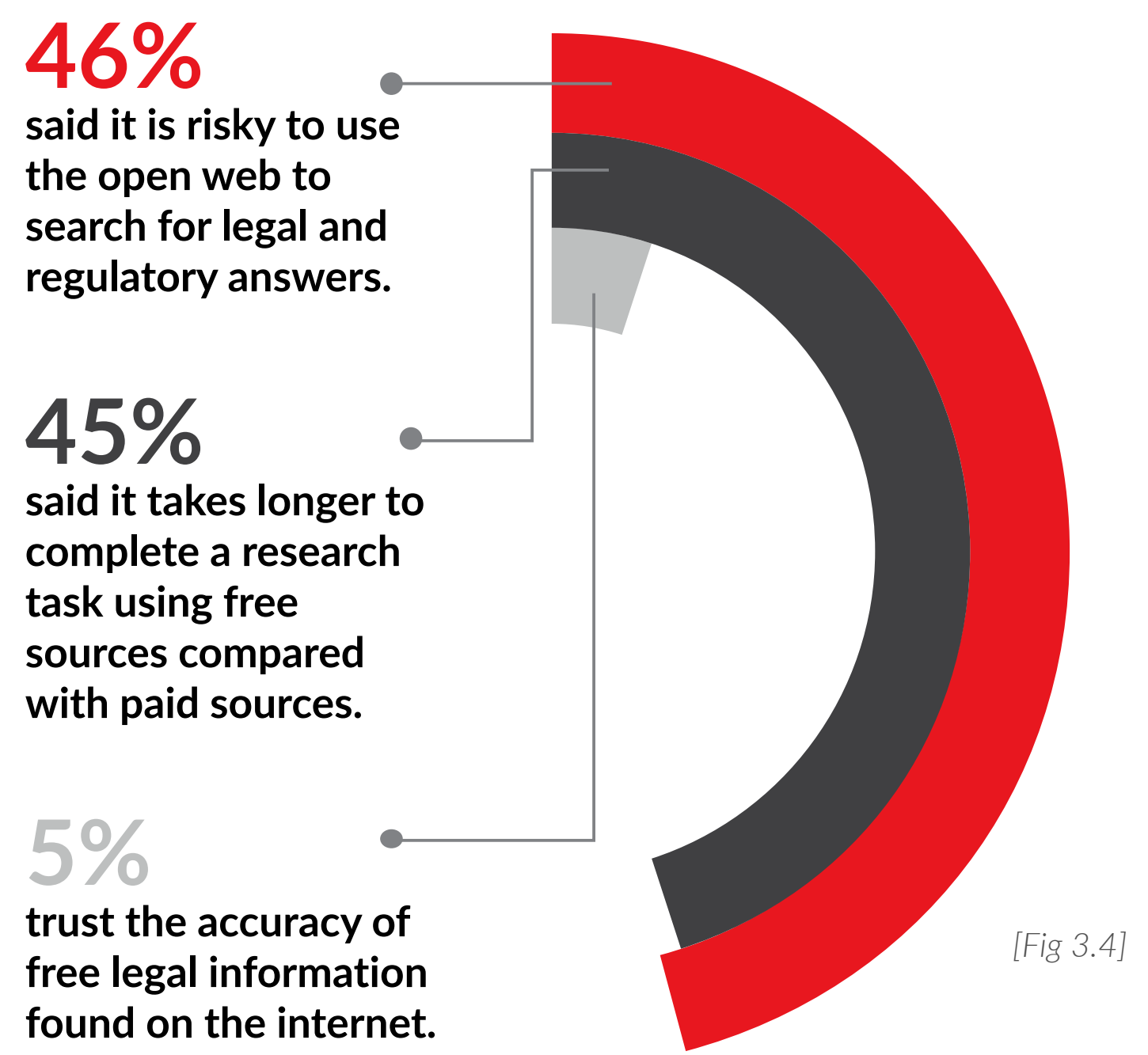
“They want a lot more narrative behind you, how are you actually running the firm, rather than how many claims have you had against your premium.”

“Previously, my renewal would involve a five-page form that took two hours. Now, I've set aside two days to do this. Insurers will restrict how we operate, handle cyber security, and monitor our staff. I think all of that's going to be problematic.”

Ok, Google?

Firms' PII costs may be higher if lawyers use the open web for information, as lawyers are at a greater risk of using inaccurate or misleading information. Despite this, Google was the most-used source for research and guidance information.

“ I think that's how you solve any question in life at the moment: you stick it in Google. It doesn't surprise me, but it does scare me. If you're getting your information from Google, the insurers aren't going to be too thrilled with you.”



[Fig 3.4]



[Fig 3.3]

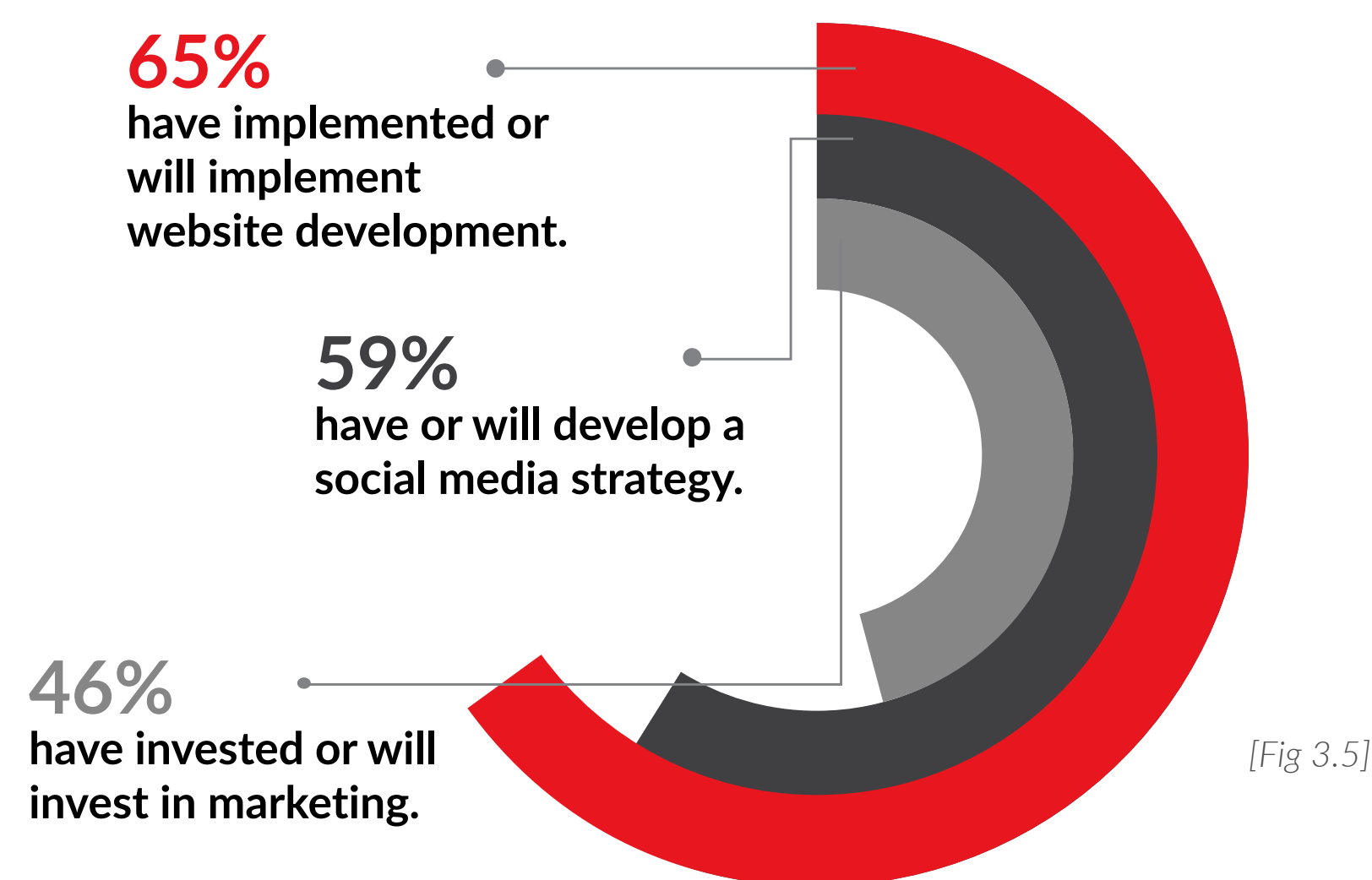
Most lawyers were unsurprised that free resources were more popular than subscription-based online libraries. However, all firms stressed the necessity of these tools when gathering accurate and relevant information.

“ You've got to give people the tools to do their job, as with any career. You can't give a painter and decorator a toothbrush and a pot of poster paint and say off you go. You shouldn't be getting your law from Google.”

## 3.2 Digital developments: Generating new business

Another threat listed by firms was generating new business. To respond to this, firms are taking on a digital-first strategy to draw in clients. Responding lawyers said they will be investing in website development, social media, and marketing.

“Previously, it was probably an advert in the paper. Now we’re all forced to update our websites and social media.”



With staff already stretched thin, some firms are looking to bring in outside talent to help them online. **26%** of firms plan to hire, or have already hired, more staff to focus on marketing or business development.

“We have just taken on a marketing executive because it is taking up too much of mine and partners’ attention that could be focussed on fee earning. The pandemic has made us realise we just don’t have enough time.”

“Attracting new business is a huge challenge. Last year, we created and filled a Business Development Director role. This has allowed me to focus more on strategy while mitigating growth challenges.”



### 3.3 People pleasers: Workplace happiness

At first glance, lawyers seem to be happy at work. Job satisfaction is high, and lawyers are generally pleased with how their firms have supported them throughout the pandemic.



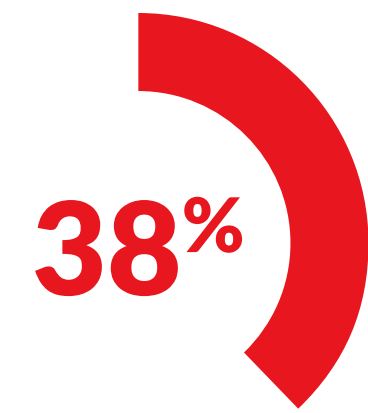
[Fig 3.6]

However, while workers clearly think firms have done a lot right, stress levels are worryingly high. Firms need to investigate how their staff are coping and assess if they can take appropriate action to support their workforce.

“I think that a lot of people have suffered from mental health problems. I think a lot of people are covering up.”

“We’ve seen some extremely high stress levels. This tends to be where working from home has been difficult because of children running around or other domestic situations. Combining that with high workloads and not having your support network alongside you, it’s been really difficult.”

### 3.3 People pleasers: Workplace happiness



of lawyers said they wouldn't go into law if they were starting over.

[Fig 3.7]

The strange mix of high job satisfaction, worrying stress levels and career regret paints a complicated picture. Lawyers may feel their jobs are fulfilling, but spending more time at home has perhaps pushed some to reevaluate if the pressures of the job are worth it.

With SME firms listing their biggest challenge as attracting and retaining good lawyers, firms need to check in with their people to make sure they're happy at work. This risk of losing staff is compounded by the ease of remote onboarding during a hiring boom.



*With the increase in remote working, geography becomes less of a problem. The appeal of firms that aren't in big hubs, such as ours, lessens because the top talent in our area can easily work remotely in larger-city firms."*





 **59.2**  
**JULY**

vs. 56.4 in March

[Fig 3.8]

The UK's Purchasing Managers' Index rose from **56.4 in March** to **59.2 in July** this year, indicating the private sector is growing at its fastest rate since 2013. With so many jobs on the market, firms have to offer more than salary incentives to retain staff and bring in new talent.

### The cost of happiness

Giving workers more freedom over their lives requires investment. This was spurred on by the pandemic forcing people out of offices, with firms having to buy hardware for flexible working.

**“** We are finding a lot of businesses like us have moved to a much more agile and flexible working model for staff. People have viewed this as a temporary state but, as they decide how they want to work post-pandemic, we will need to provide them with the right equipment. This will have an impact on costs.”

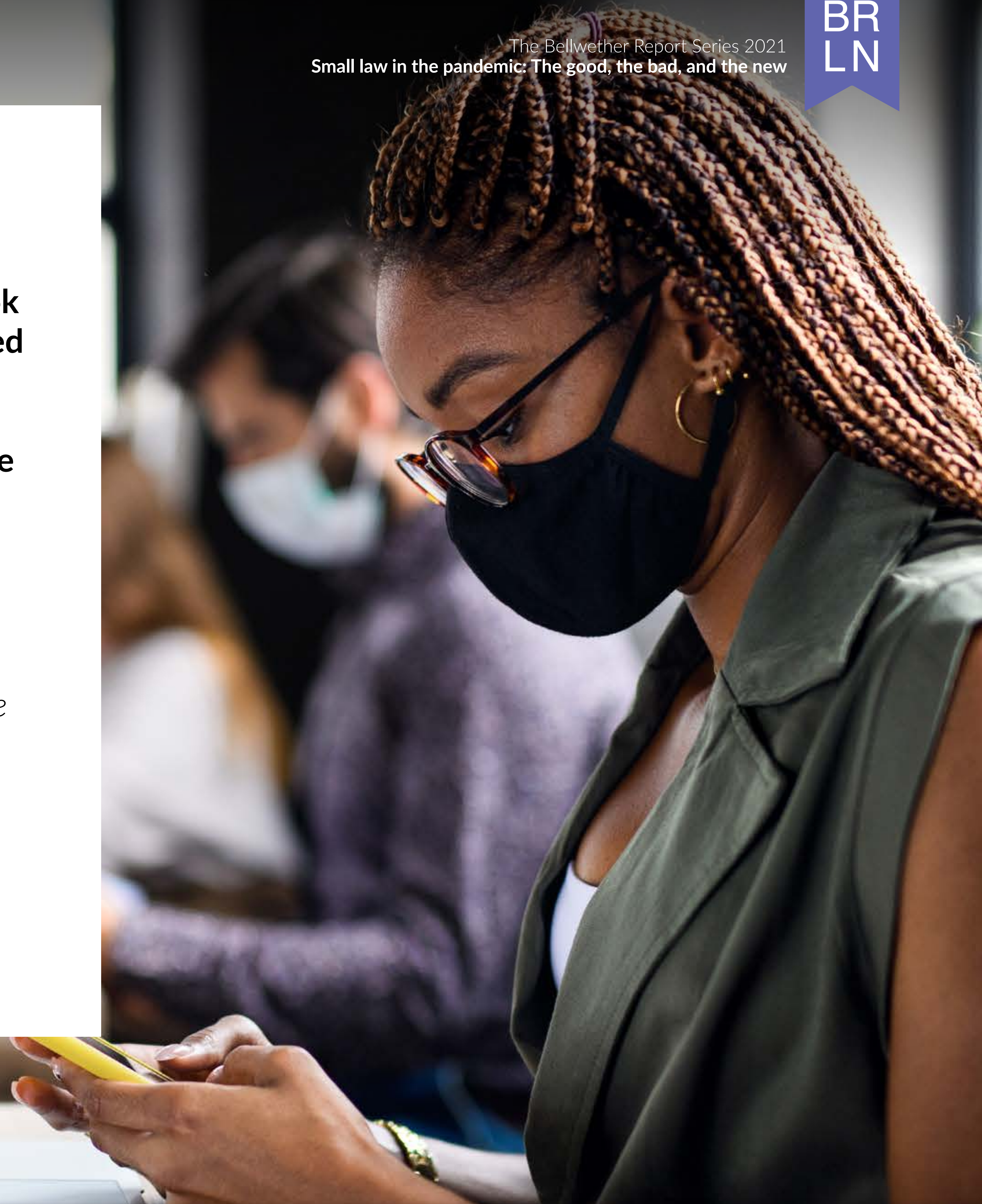


## 4. The new

The pandemic presented a host of new scenarios to firms. In response, many took on government-backed loans and engaged in the furlough scheme. However, as restrictions have eased across the country, firms are split on what the future of work actually looks like and how to adapt to the new normal.

*“Businesses have massively benefited from loans and government support. It’s kept people afloat, but whether that is sustainable longer-term is yet to be seen.”*

*“We’ve adapted to technology because we had to, not because we wanted to. We’ve introduced new technologies, more efficient ways of handling basic stuff.”*

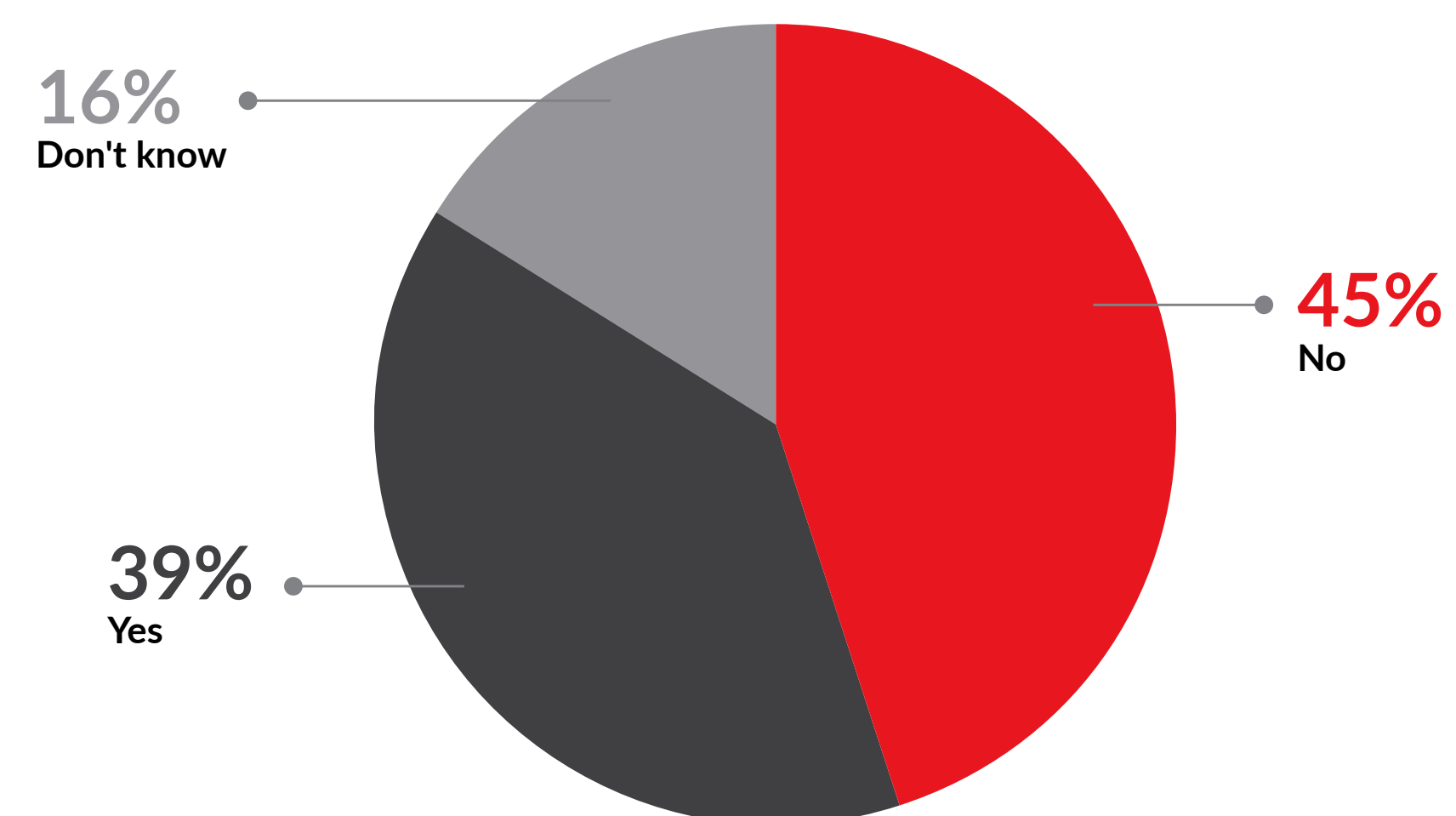


## 4.1 Safe, not sorry: The year in review

The past year was anything but business as usual. As firms faced uncertain times ahead, some took advantage of government-backed aid or participated in the furlough scheme.

### Government aid was useful, but not always necessary

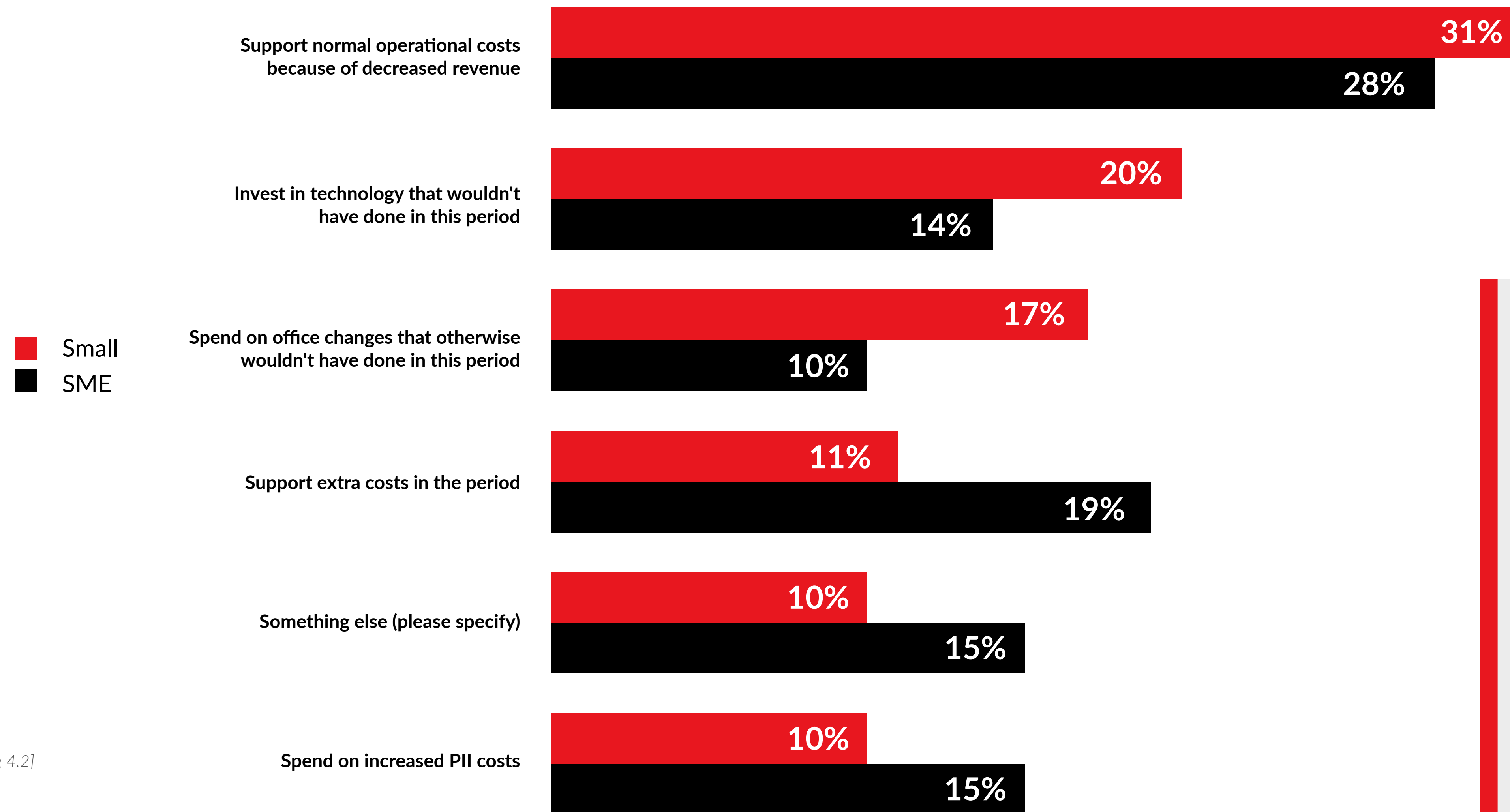
Did your firm take out any form of government-backed pandemic-specific debt?



[Fig 4.1]

**Over a third** of firms took out government-backed pandemic-specific debt, but slightly more firms didn't. This suggests small law weathered the pandemic quite well.

Government aid was useful, but not always necessary

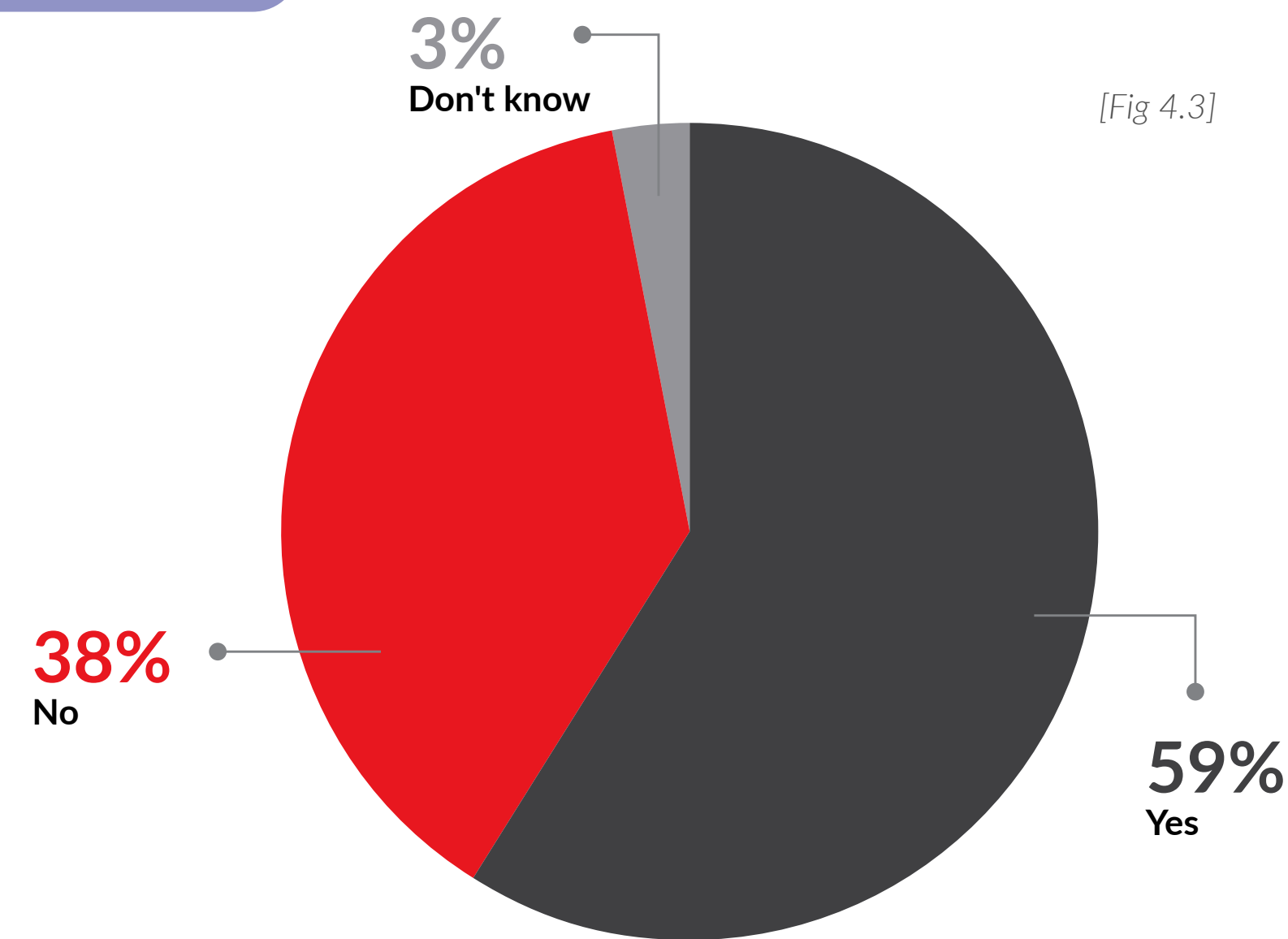


[Fig 4.2]

“What I've seen is that turnover was reduced, but profit has been relatively stable because so much of the workforce has been put on furlough over the last year.”

Loans were mainly used to cover operational costs because of decreased revenue, but smaller firms also used them to invest in pandemic-specific technology.

## Firms made use of furlough

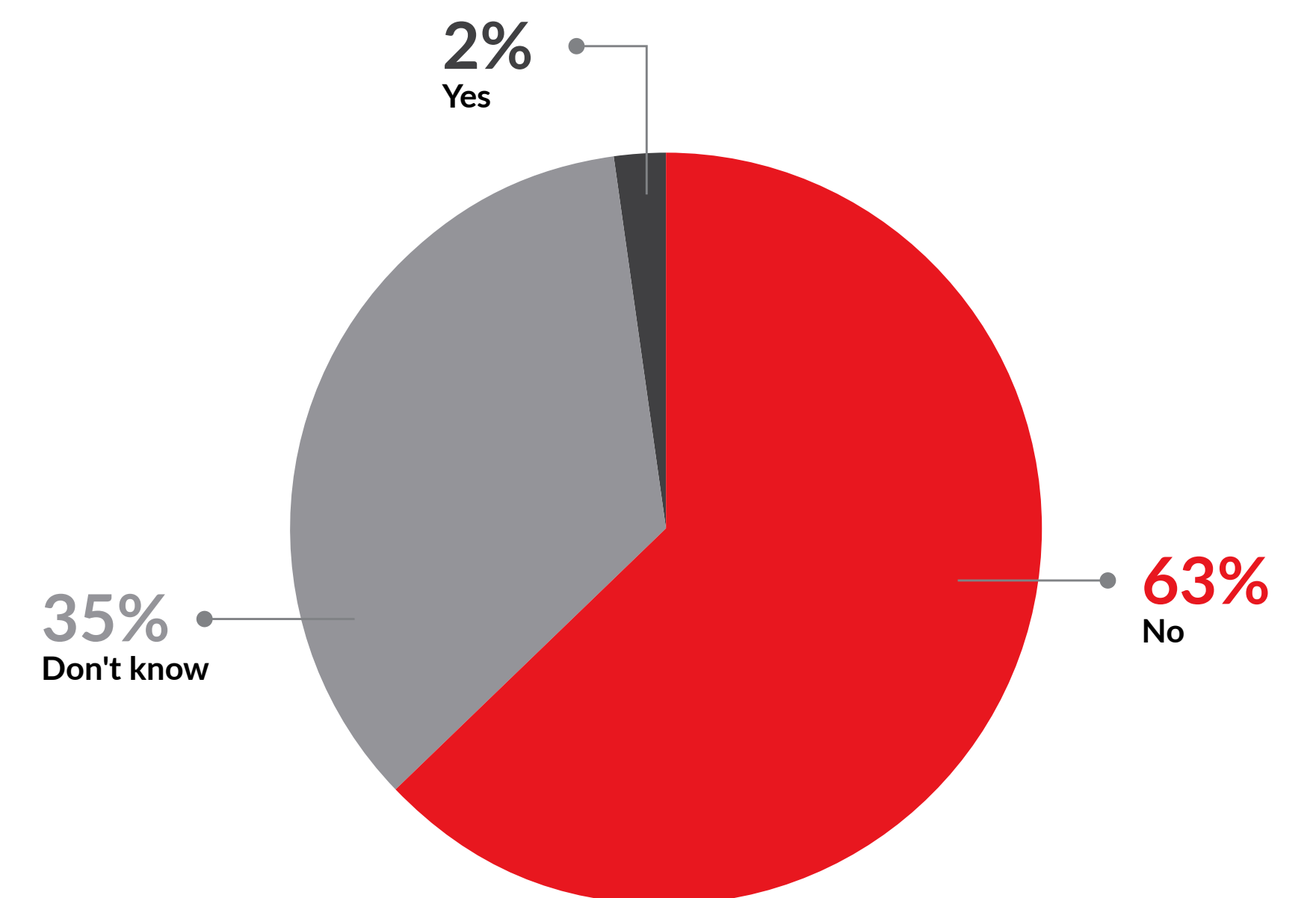


Has your firm furloughed any of its staff since March 2020?

For the firms that did furlough staff, most aren't planning on repaying furlough money back to the government. This is despite strong revenue and profitability performance.

The majority of firms made use of the furlough scheme, which was credited for keeping businesses in the green.

“The furlough scheme cannot be underestimated in terms of how it kept businesses afloat and allowed them to get through that first phase of the pandemic.”



Is your firm paying back to the government any furlough monies claimed?

### Firms made use of furlough

Firms aren't required to repay money claimed through the Coronavirus Job Retention Scheme unless they overclaimed. However, over £700m of furlough payments had already been voluntarily repaid by UK companies by March 2021.

For some, it is simply too early to think about repaying the government.

“Well, we're not through it yet. Until you've got the full picture, I think that's quite a tough decision to make.”

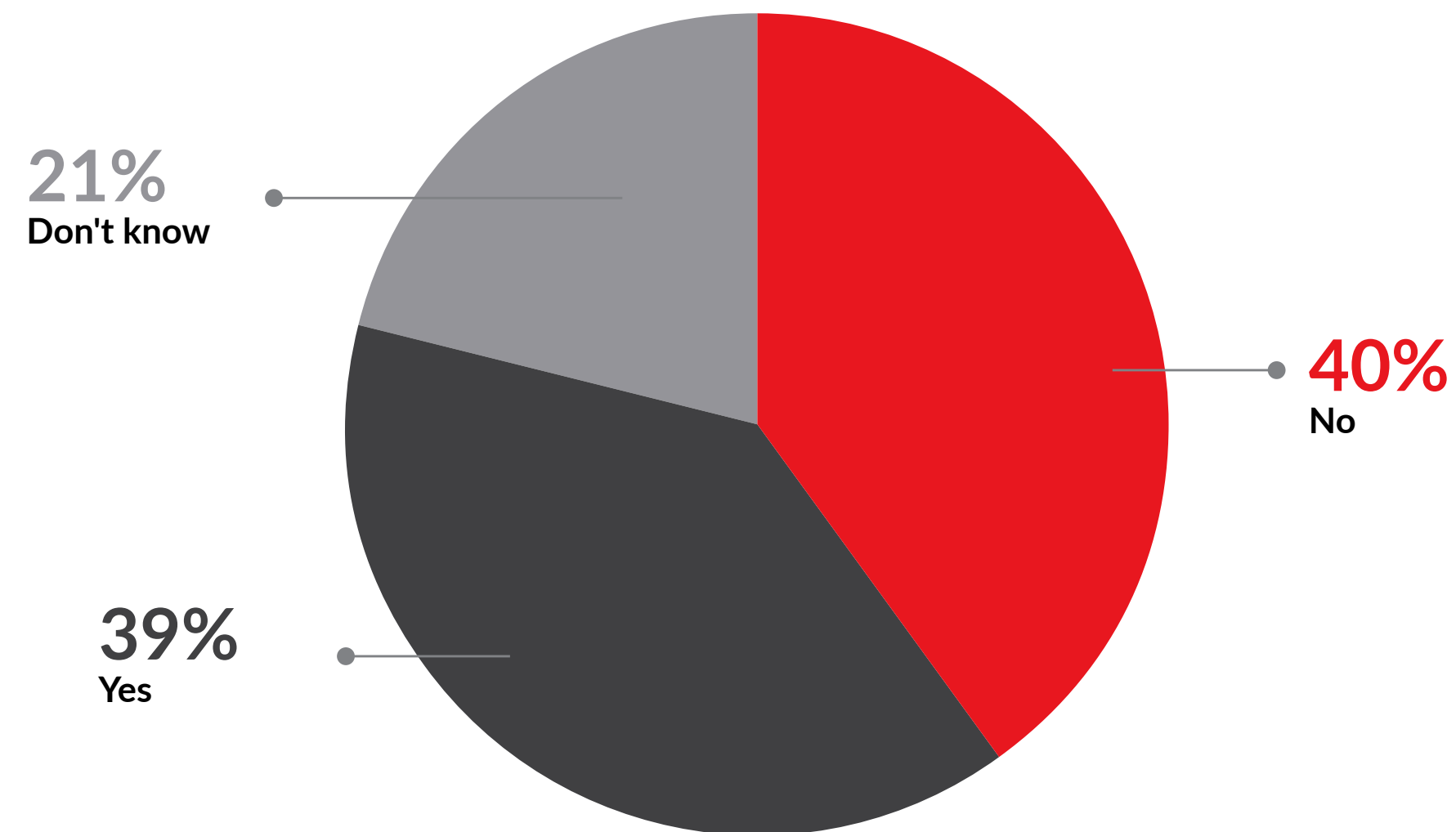
However, others expected firms to do their bit.

“We furloughed no staff. If we had furloughed staff, I would have felt duty-bound to repay it.”



## Furlough salaries weren't always topped up by firms

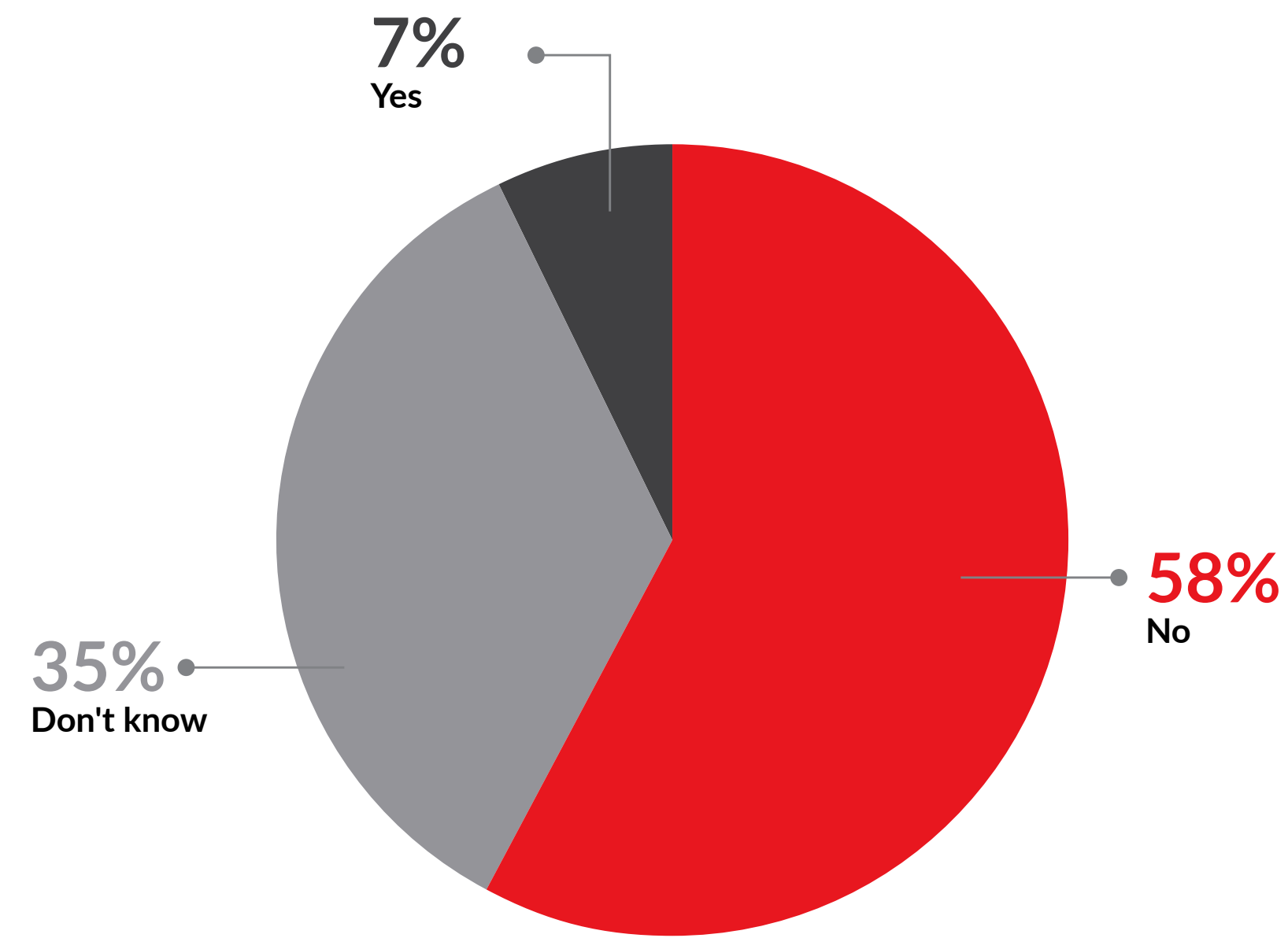
Were furloughed staff's salaries topped up by the firm at the time of furlough?



[Fig 4.5]

While the government initially paid up to 80% of furloughed staff's salaries (up to £2,500 a month), one in four firms didn't pay the difference to keep salaries at 100%.

If your firm DID NOT top up the salaries of furloughed staff: Has your firm committed to pay, or has already paid, lost salaries back to employees?



[Fig 4.6]

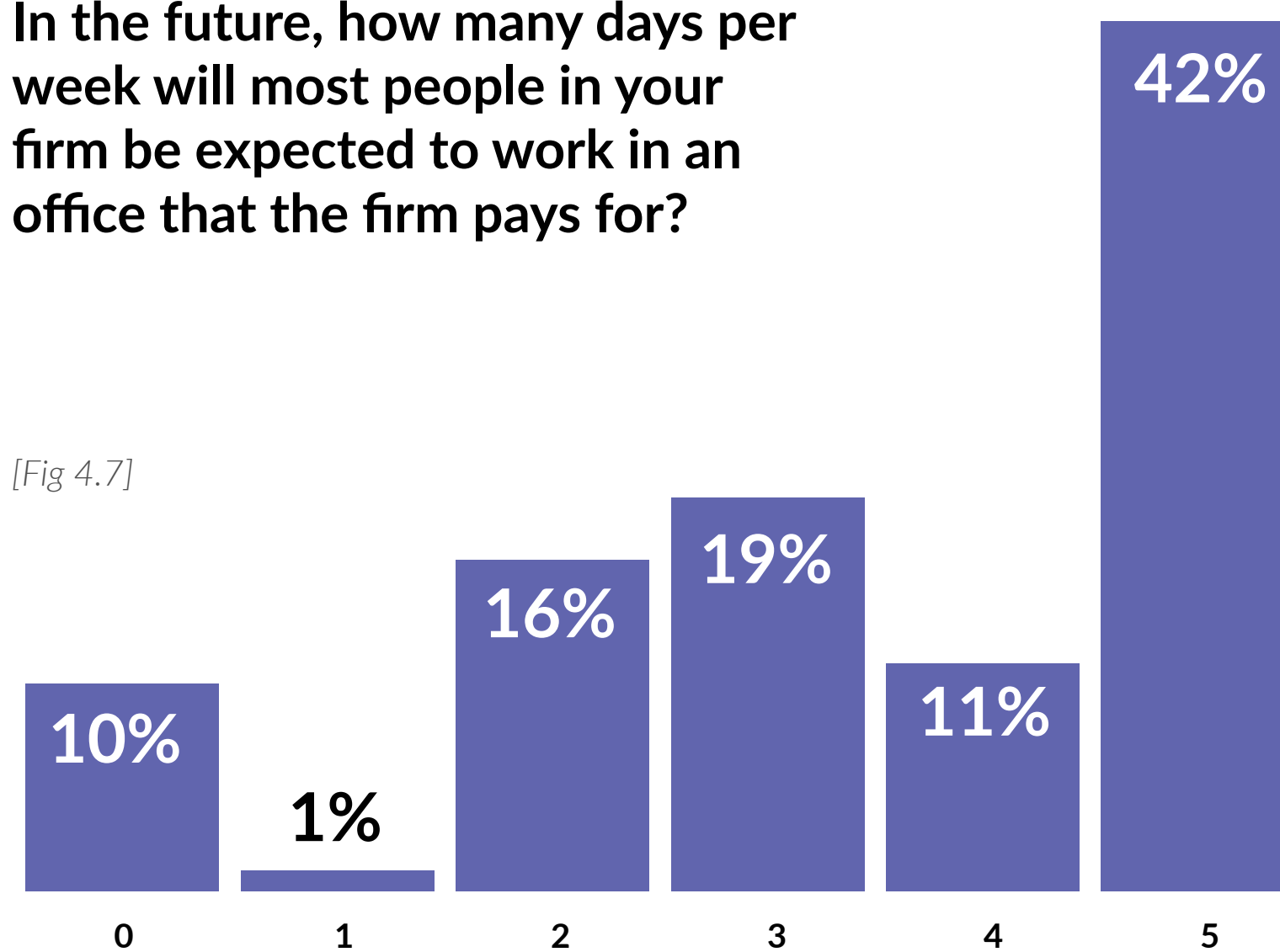
If firms didn't top up salaries in the first place, it is unlikely staff will see this money in the future. **Less than one in ten** firms have committed to repaying lost salaries.

## 4.2 Working from where?: Returning to the office

Lawyers expect to return to offices, but many are split on how many days they'll be there. The most popular option was returning to the office full time, but a majority expect the future of work to be (at least in part) at home. This is in line with wider research from Aviva that showed seven in ten UK workers want hybrid working to stay.

**In the future, how many days per week will most people in your firm be expected to work in an office that the firm pays for?**

[Fig 4.7]



Balancing these expectations is no easy feat, especially in a traditional industry such as law. **63%** of respondents listed keeping working practices and systems up to date as a significant threat to their business.

**“** We are creatures of habit, particularly in this profession. People like working in a certain way, having files and paper surrounding them and so on. People like their own desk. It's very much an ego thing in some respects.”

Business leaders are aware of the benefits of having staff meet in person, especially for new joiners or younger workers.

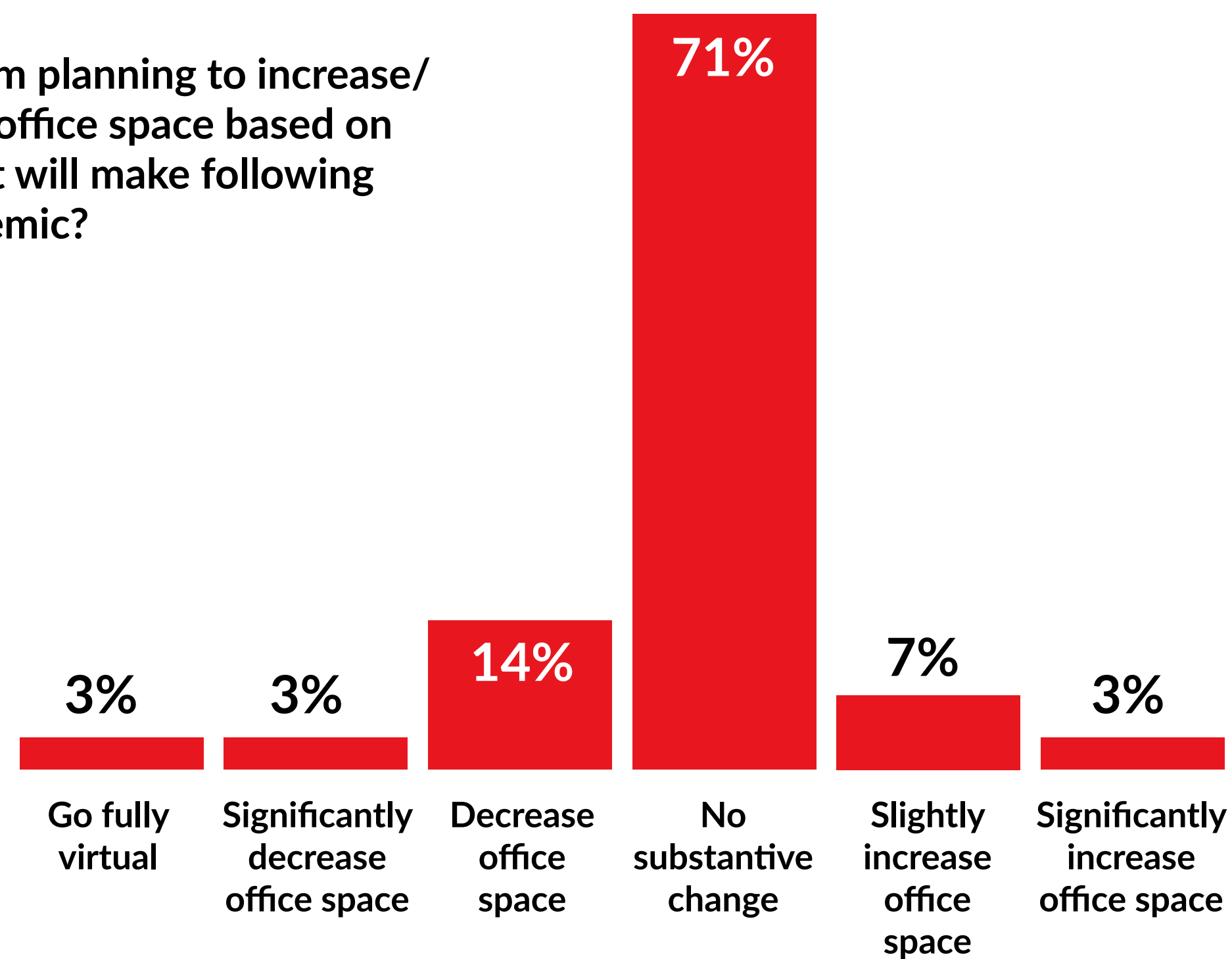
**“** I'm really concerned about losing the social capital of human interaction in the workplace. Small firms like us rely a lot on this for cross selling and understanding people. New joiners only get these things by osmosis and integrating with colleagues. We are thinking about how we can adapt so that people can come into the office to interact and collaborate and then go home and work.”

## 4.2 Working from where?: Returning to the office

This perhaps explains why the vast majority of firms (**71%**) won't be changing their office size, with only a handful going fully virtual.

Is your firm planning to increase/decrease office space based on changes it will make following the pandemic?

[Fig 4.8]



### Small changes

Smaller firms are more likely to hold on to traditional ways of working, whereas most workers (**62%**) in SME firms expect some form of hybrid working.

**54%** of small firms want their staff back in the office full time.

**32%** of SME firms want their staff back in the office full time.

[Fig 4.9]



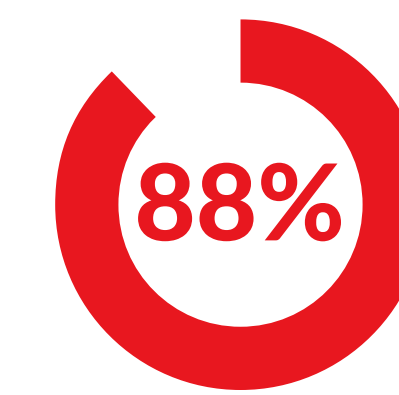
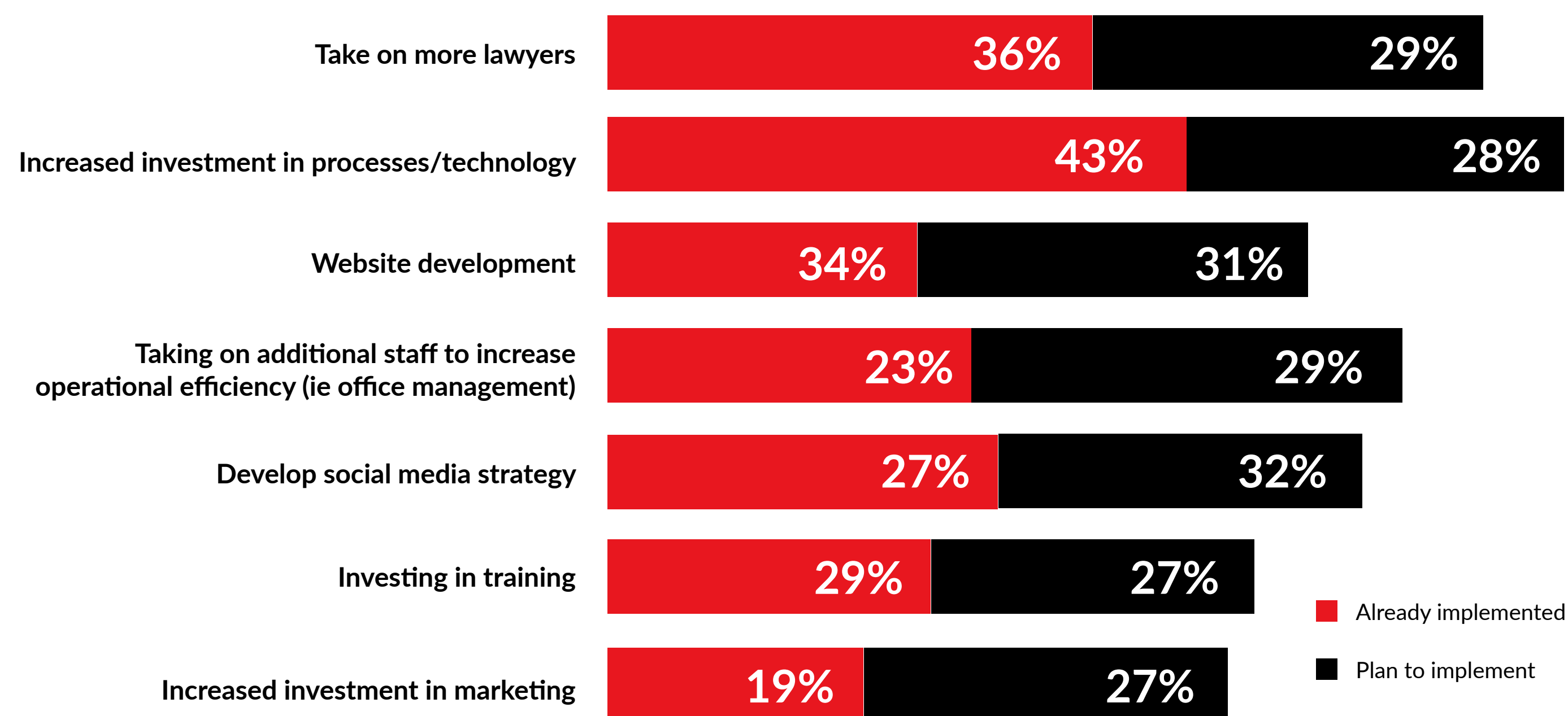
## 4.3 Necessary changes: Innovation in legal

Innovation is alive in small firms, spurred on by disruption from the pandemic. Firms are already moving to change how they operate.

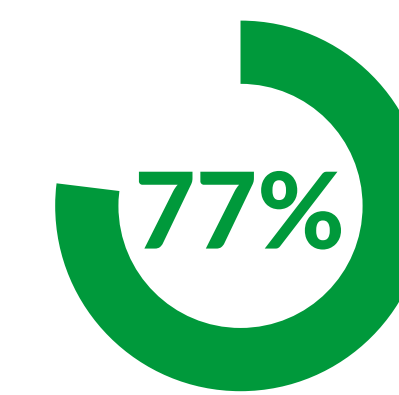
Looking forward, firms plan to up their investment in new processes and technologies while developing stronger online presences. A large percentage of firms are also investing in their people, either through training or bringing in new hires.

**Thinking about change, please tell us whether each of the following things is already implemented, is planned for implementation, or you don't know what's happening about it**

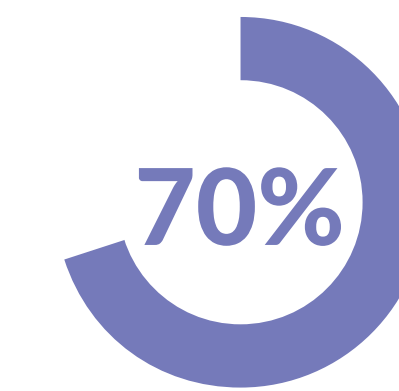
[Fig 4.10]



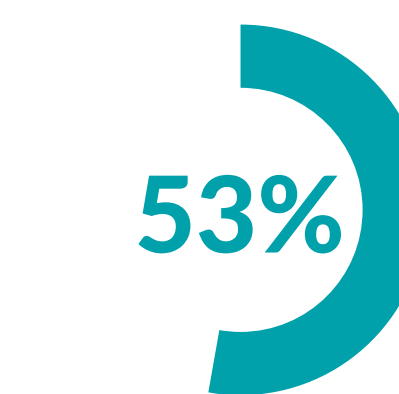
88% agree the legal landscape is changing at a faster pace than ever.



77% agree that Covid-19 has presented an opportunity to drive innovation and change in working practices.



70% agree that their firms actively embrace change.



53% of respondents have tried to, or plan to, convince established lawyers or key decision makers to modernise business practices.

[Fig 4.11]

### Innovation PII'd

Along with bumping up costs, PII can be an inhibitor for taking risks. Some firms are worried about future increases to their premiums due to taking on new workstreams or practice areas, restricting their scope for change or innovation.

“There is reluctance among insurance providers to take on the high-risk stuff. There are some that don't want to insure you if 30%, 40%, 50% of your turnover is from one of those areas.”

A **recent study** from the Solicitors Regulation Authority (SRA) and the University of Oxford similarly found PII requirements to be one of the top regulatory barriers to innovating and using technology. Firms were also put off by client confidentiality and data protection requirements and not knowing if wider regulations and legislation would allow planned changes.

## Final thoughts

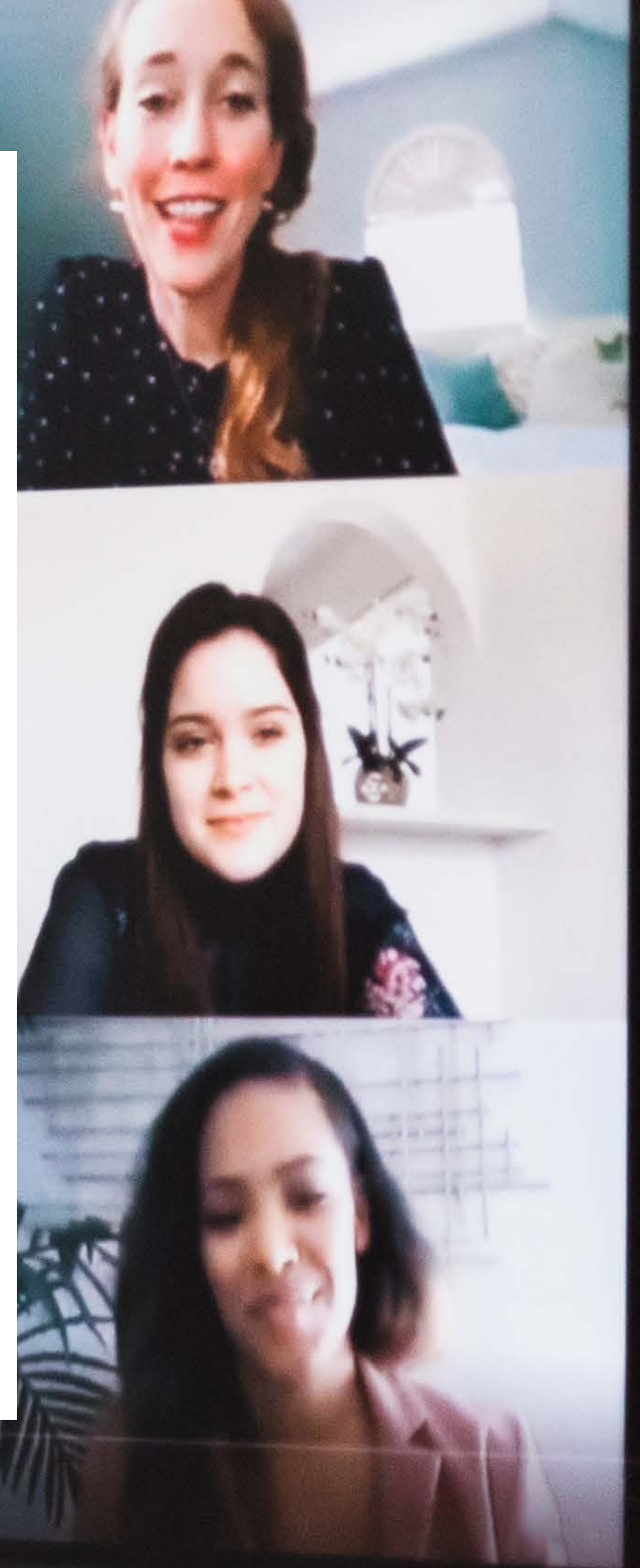
Small law has performed surprisingly well in a hugely disruptive global crisis. Firms' finances have held strong as the furlough scheme and government loans took the pressure off. Lawyers are now confident in the future as they prepare to invest in new ways to attract clients.

However, the last year wasn't all Zoom pub quizzes and lockdown hobbies. PII, while nothing new, has taken up more headspace than ever for small firms. Business leaders need to be strategic in how they approach renewals. This will involve investing in new technology to meet compliance needs, long-term planning in the lead up to renewals and thorough discussions with brokers and underwriters.

Firms also need to reassess how they look after their people, or risk losing staff. Business leaders must understand what their employees want out of hybrid, flexible working and act accordingly. This should be carefully balanced to ensure workers still get all the benefits of meeting colleagues face to face and aren't left stranded at home without support. Those who fail to act could be caught having to offer higher salaries to fill positions as the remote hiring boom continues.

**Is your firm doing all it can to retain talent and stay competitive?**

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