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LPM

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BUSINESS INFORMATION FOR EVERYONE IN PRACTICE MANAGEMENT

SIMON McCRUM

THE FIXER

From financial intensive care to becoming a national legal services provider, it's been a hard but fruitful road for Darbys' managing partner. He talks to Declan Tan about turning around a legal business from the brink of disaster, finding routes to market and better profitability, and incentivising and treating lawyers and business services staff alike

Few firms can brag of the war wounds Oxford-based Darbys has sustained over the last seven years – and few would want to. When Simon McCrum joined as managing partner in 2007, the firm's problems were already serious. Minimum visibility on profitability and revenue-negative teams were setting the firm up for a fall. The push required to turn that state into disaster came in 2008, when the financial crisis bit down hard.

Now, Darbys is a poster boy – year-on-year growth, new locations and leveraging new routes to market mean that the firm has already emerged from the flames of its past, reborn.

But back in 2007, before the lethal blow, things were already functionally broken at the firm. "The old Darbys was a traditional county town firm," McCrum says. "That means a certain structure and personality, with no direction and certainly no real corporate structure."

To rehabilitate it, he had to focus on the key elements that would turn the firm around. But a reinvigoration of such a scale required a strategic rethink. Reinvestment, vision and decisiveness – hard to come by in many SME law firms – were the baseline.

"We started by analysing each team and its gross profit. When we did that, we discovered that very few parts of the whole were actually making money." Until then, he says, the firm considered recorded time as their only KPI, which is just WIP stagnating in files – totally the wrong indicator, McCrum says.

"The firm wasn't looking at how much of that WIP had been converted into bills which had then been paid. We were carrying a lot of

FACT FILE

Darbys

£12.6m revenue

22 partners, 100 lawyers, 210 total staff

**Offices: Oxford, Manchester,
Colchester**

**Specialisms: Full service, commercial
and personal**



FINDING NEW ROUTES TO MARKET

McCrum has grown Darbys through a combination of strong marketing and affinity offerings – directly pitting the firm against new entrants and ABSs – unearthing and capturing a wider, national client-base.

Darbys already had two grass roots sub-brands that offer 20 minutes of free legal advice to members, over the phone and online – that welcome them into the main Darbys brand.

Purple Legal targets some 300,000 consumer households through various affinity relationships, and Blue Law serves 1,000 business members. Acquiring the national legal helpline provider Legal Assistance Direct in 2012, Darbys became one of the few firms with such an offering.

Colchester-based LAD boasts around 50 affinity contracts that cover five million potential users in its network, made up of policyholders and various members of associations, banks, insurers and federations – from accountants to engineers, police federations to the British Horse Society.

“That’s an enormous pool of people to tap into that other firms just don’t have,” McCrum says. And in 2014, a major focus for Darbys is to leverage LAD as a direct route to market.

worthless WIP. Looking at recorded time for how well your business is doing, instead of rewarding solicitors for converting WIP into bills and for then getting those bills paid, drives bad behaviours – solicitors are encouraged to record absolutely everything, and to never write anything off.”

McCrum and his team were making progress – then the recession hit. “We went into the credit crunch on what consultants call a burning platform,” he says. “Ours was seriously on fire.” The firm ended up in its bank’s ‘intensive care unit’.

McCrum and the firm’s management had no choice but to make some big decisions. The first critical moment, he says, was the firm’s owners recognising something needed to be done that they couldn’t do as a committee. “That was the biggest thing. They said: ‘We’re going to give you power, not paperclips.’ And that’s what they did.”

PEOPLE VS PROBLEM

With this new framework and licence to change in place, the firm pushed through changes and took on “good people” who had been cast into the legal job market by the coming recession.

Teams were re-structured. Overheads were analysed and addressed – not to reduce spending, says McCrum, but to support a business with a “dynamic future”.

By 2010, the firm’s Oxford HQ were “firing all cylinders” – the best year the firm had ever had – and Darbys was now looking at entering high-growth areas of the country. A new office was opened in Manchester, a shrewd business move – he says it’s been “flying” since its inception.

By 2013, McCrum had achieved the seeming impossible – he’d raised a business from the (near) dead. From a turnover of some £7m in 2006/7, the firm’s 2013 turnover was a comparatively staggering £12.6m. Darbys achieved turnover growth of 35% in 2012, and did it again in 2013. The rest of the SME legal market, meanwhile, is struggling – some surveys put segment growth at 4%, others as low as just 2%.

The antidote to this near-death experience lies in HR’s black books. “You need good people – both on the legal side and in business support,” says McCrum, a phrase he repeats many times. There are now 210 people in the firm, grown at a time when competing firms were typically hacking away at operational resources.

Darbys now fully recognises, he says, that business services people are central to the firm’s success, and it rewards them appropriately. Firms need a transparent career structure, says McCrum, to bring about more parity inside the business – a career structure for everyone, not just lawyers. Lawyers who think they’re more important than management and business services had

better look out. “Business support people are as valuable and effective to our business as our lawyers – it is only right that both areas of the firm are represented at the associates’ and partners’ tables.”

Business transformation on this scale is seldom easy. Many agents for change in ailing firms face brick walls, particularly when that change depends on analysing cold, hard numbers.

“In the legal profession, sometimes when you try and bring in this innovation stuff – this embracing, human stuff made of fairness – you come up against tradition and inertia. That’s where you have to be certain of your values, and push them through.”

Pushing through change requires singular (or at least limited) leadership. “If you’ve got decisions to make, I’m not sure committee is the quickest way of doing it. I was empowered by the firm to take an awful lot of decisions, and very quickly.”

STAFFING AGILITY

The way law firms have always worked is that solicitors take the natural ascendancy, he says. Other lawyers – legal executives, paralegals – and business support staff are seen as second-tier. “We had to break down those barriers. We no longer have the long discussions about whether someone crucial from business support ought to be promoted to associate level, for example.” The firm’s associate group now includes people from IT, finance, operations, marketing and accounts.

That attitude to staffing was fundamental to what he calls a “quantum leap” in making the firm more commercially agile. “Getting the right individuals in every job has taken a lot of work and a lot of guts,” he says.

Better middle management plays a vital part in implementing that approach.

“The right team leaders make a firm able to implement plans and policies – because those plans don’t break down once they leave ‘central management’. Putting a new leader in place can transform results.”

Speed of decision-making is linked to certainty of direction, says McCrum, and many firms fail in this vital area of agility, “either through the owners not being decisive, or the decision-making process being too complicated”.

Does every law firm need a ‘magic McCrum’? A former Pannone partner with a lengthy track record of instigating change – he led that firm’s innovative Connect2Law programme, a now-nationwide franchise scheme set up first in the North West – he was just the man Darbys needed, and in many ways the SME legal market needs this kind of change agent across the board. There may not be many of him about.

But McCrum is (fortunately) more humble about the magic. “We have only done basic things. It’s not rocket science. The fact is,



though, that we did things rather than talk about things.”

MARKETING GROWTH

Leveraging IT systems to better deliver services efficiently and to analyse the firm’s finances is a key component of Darbys’ vision for revenue growth.

Removing inertia in any firm, says McCrum, first means shining a light on profitability and cash flow. Enabled by rising profits to “invest heavily in the future of the firm”, a new finance system, developed with Peppermint, is being piloted at the firm’s Manchester office and will soon be rolled out firm-wide. This set-up will allow more forensic reporting and transparency, says McCrum. His aim is for further growth, better returns – and therefore constant longer-term reinvestment to follow.

Darbys’ teams now work to gross profit level targets – it’s not the team’s problem what the firm spends on business overheads, says McCrum. Addressing the strengths and responsibilities of both business services and lawyer roles is another value-add of a rethought management culture. “We share information and have quarterly staff meetings where all 210 people get detailed finance information – the whole shooting match.”

McCrum says the firm now tries to celebrate, recognise, and reward effort – “I’d hate to think we didn’t know about what someone was doing to help the firm.”

Performance measures shouldn’t solely rely on how much a person bills, he says. At Darbys, performance is also linked to how much work is referred to other teams. Cross-referring work is another staple legal fail, and making it work can boost revenues – but it only works if there’s an incentive for referring.

“People here clearly see that if they perform, they’ll benefit. Someone in property, for example, has no qualms about sending a client to employment or to litigation. Everyone trusts everyone’s abilities and commitment, and everyone trusts the firm enough to know they don’t have to keep clients protected from other parts of the firm.”

“No individual owns a client – not only do they not need to, but everyone knows that nothing but good will come from spreading the client around the firm.”

But this behaviour has to be instilled from at the top, says McCrum, by partner-level behaviour. “Do the partners feel secure, or do they feel like they might be fired next week? If it’s the latter, that partner then becomes protective over his or her clients. It might be their ticket into another firm. We don’t have any of that.”

“ We started by analysing each team and its gross profit. When we did that, we discovered real horror stories. Very few parts of the whole were actually making money.”



THE HOUR OF FIXED FEES

Unbundling the firm into teams and analysing each area individually is crucial to visibility, he says. "The prize achievement in our core law firm is that we've separated everything out and now every one of those 20 or so teams makes a profit, based on the proper indicators. Each conversion from loss to profit is a story in itself."

Leveraging management information through IT provides business agility and allows Darbys to deliver on what the clients want. QualitySolicitors' recent 'fixed fees only' announcement, itself a neat bit of marketing, has got people talking about getting much more cost predictability from legal services providers. Darbys' "across-the-board fixed-price menu", a year in development, says McCrum, will shortly be announced.

McCrum says the move towards more fixed fees is the market moving in the right direction – client satisfaction is the aim, after all. "I'll be amazed if anyone's doing chargeable hours in 10 years. More fixed fees are the way the world is going. As a consumer, I want fixed fees. Who wouldn't? Inevitably, there will still be some hourly based pricing, but we want wherever possible to offer the consumer AFAs. The process will be lubricated by our new IT system's workflow capabilities."

Many firms are still unnecessarily afraid of the fixed fee, he says. "Don't forget, it can be a high fixed fee." McCrum isn't suggesting that Darbys compete on price alone, "but give clients certainty of that price, not the lowest price".

"That's a common misconception. People think 'Oh, you're bargain basement, are you?' No. We've got fantastic people and systems – all of which costs money. We're willing to take a share of the risk by giving a fixed fee, but it won't be a low fee".

Resistance to the fixed fee reads as fear of change. But there may not be much time for refuseniks – firms that embrace the change will become more agile and stronger businesses.

INVESTING IN INNOVATION

Darbys' innovation is moving them toward an altered mindset, removing inefficiencies, killing inertia and readjusting the firm's hierarchy. And McCrum says there's much more to come – though his lips are sealed about the nature of that change. "Our innovations are and will be to do with delivery, process, packaging, marketing and pricing," he says. "We don't want to be forced; we want to do the forcing."

Perhaps one of the biggest changes Darbys has adopted is in relation to what the firm does with its profits – it doesn't let partners take them all at the end of the year.

"We leave a lot of our profit in our business – it pays for new offices, IT systems, recruitment, and heavy marketing expenditure." That's business basics – but it's very different to the way many SME firms behave. In many firms, partners have allowed drawings to exceed the firm's profits. This is, sadly, a problem in today's legal market, and a potential reason for wide-scale financial instability.

"We are investing, not cutting back – investing in our people, infrastructure, and direction. Ultimately it's about who the most important people are around here. Ask a traditional law firm and they might say their partners are at the top of that. If you ask me, I'd say how about our suppliers, our clients, our staff? It's not about hierarchy here – we all deliver. We're not a firm of solicitors anymore. We're a national provider of high-quality legal services." **LPM**

THE FALL AND RISE OF DARBYS

In 2007, Darbys was a firm *manqué* – most of its teams were operating at a loss; it was suffering from uncertain financial management, a lack of cohesion, and an absence of direction. A combination of issues – staffing, leadership and cashflow among them – had the firm stagnating.

Its partners realised there was a problem they couldn't fix and one that wasn't going away without a serious revamp. McCrum brought with him his vision for that change.

Much of that vision was his belief in solid business services staff, know-how in marketing, and understanding the business properly, through the right KPIs – then reinvesting in that model to grow. Teams were restructured and overheads analysed – not with the intention of cutting staff, but instead cementing that base. Client retention rates soared. New offices opened in Manchester and Colchester.

In 2006/7 turnover sat at £7m. This year, it reported an annual turnover of £12.6m for 2013 – growth of 35% from 2012, with all of its 20 or so teams making a profit. Now, with movement toward a fixed price menu of legal 'products' and potential mergers sought, Darbys is looking outward and upward...