

LAW FIRMS IN LOCKDOWN – WEEK 4

REPORT – 21st APRIL, 2020

Introduction

With my usual huge thank you to those firms who participated in this week's survey, I set out below latest feedback "from the front".

I am also pleased to include here (see below my Report), a Question & Answer session with Sue Carter, Head of Legal Sector at Clydesdale and Yorkshire Bank Group, on the thoughts of her and her bank on law firms at the current time. My huge thanks go to Sue and to Clydesdale and Yorkshire Bank.

My latest Report makes very interesting reading. Perhaps the most interesting reading yet of my weekly reports. But it also makes concerning reading. I really hope that I turn out to be one of those pessimists, who like some grim economists, have predicted 7 out of the last 3 recessions.

I said last week that I believed that we had entered the foothills of a profit squeeze and a cash squeeze on law firms. The data set out below - on reduced lawyer numbers, reduced file-opening levels, and reduced chargeable hours - reinforces my view and frankly makes frightening reading. Those are big numbers.

These inputs to revenue (and therefore to profit and ultimately to cash) are widely down. I believe that for many law firms, they are going to hit PROFIT this month. Absent any change, I can see them hitting May profits even worse.

You can make a positive impact on your profit, even at times like this. As I discuss in Briefing 1 on my website, and in the video that I did for the Law Society that is on their website, there are ways to make the most of the clients and cases that you have, to improve profitability.

Of course, revenue is only one part of the "profit" equation and provided that costs are reduced in line with forecast revenue falls, then health and profitability are to a degree safeguarded (though the resulting business would be in a very different shape).

CASH of course is a different thing, and if a law firm has good access to cash (whether through its own funds, additional or undrawn partner funds, bank overdrafts, loans, Government schemes, and by costs it cuts and savings it makes, etc) then it will be able to weather the profit storm for a while. If a firm is impacted by any of these reductions and it is not in a great cash place, then some real pain is coming as monthly cash receipts that keep the firm breathing will in many cases be adversely impacted. The one absolute here is that firms must get their cash piles as high as they can, because we don't know how far down profits will go or how long they'll stay down for.

What happens to the COVID graphs and what happens on TV at 5pm over coming days will be very important. I feel sure that such huge reductions in the inputs that lead to the output of billing are going to catch up with law firms as April month-end arrives and even more so if there is no change

as we go through May. If it goes on beyond that then the pain will get much worse. Existing caseloads can only last for so long, and the pipelines are not filling up as they normally do.

To repeat what I finished with last week – make sure you are doing all the basics that The Perfect Legal Business would do. These aren't just for "now" – they are perennially valuable practises. In terms of where you might focus right now, have a look at Briefing 1 on my website, and go to the Law Society's website where you'll see the Toolkit for law firms that I participated in and the video I did in which I set out in detail the specifics of what I would do now were I leading a law firm in the current climate. In essence, I set out there, in detail, the key aspects of the Perfect Legal Business, that mythical law firm that I talk about in my work with law firms and in my forthcoming book, that are most relevant right now. You'll be surprised at how basic and straightforward the practises are – I'm not telling you about anything you don't already know.

I'll do a further survey at the end of Week 5. If you get anything of value out of reading these reports, why not make them even more valuable? If you would like your firm to participate, please just email me at simon@mccrumandco.com

In closing, I hope again that the following report is of value to you. Any feedback is gratefully received.

Best wishes to you and your teams.

SIMON MCCRUM
MCCRUM CONSULTING
www.mccrumandco.com

LAW FIRMS IN LOCKDOWN – WEEK #4 REPORT

MY QUESTION	YOUR REPLY
<p>As a percentage, how many fewer fee-earners do you have in Week #4 as compared to pre-Lockdown?</p>	<p>Some 20% of our fee-earners are on furlough – we have made no redundancies</p> <p>We have 20% fewer fee-earners now</p> <p>As a PI-only firm, we still have full staff in place and indeed we are recruiting for three more lawyers.</p> <p>As a Private Client firm, we have increased fee-earner numbers</p> <p>We are 5% down on fee-earners</p> <p>We have 60% fewer fee-earners now</p> <p>In total, staff numbers are 30% down but in fee-earner numbers we are just 5% down</p> <p>We have had no change in fee-earner numbers</p> <p>We have 30% fewer fee-earners</p> <p>We are 7% down on fee-earner numbers</p> <p>Fee-earner numbers are down 5%. We have furloughed mostly secretarial and support staff. The fee-earners that have been furloughed are in property and are trainees.</p> <p>Fee-earner numbers are 12% down</p> <p>Fee-earner numbers are 20% down</p>

PRACTICES · PARTNERS · PEOPLE · PROFIT

<p>Compared to a pre-Lockdown, as a percentage, how were file-openings across your teams in Week 4?</p>	<p>We have seen a significant drop – ongoing work is holding up but it’s new matters which have dropped sharply, so the longer this goes on the more we will slow down.</p> <p>Our file-openings are down 66%</p> <p>File-openings are down 15%. They are up in Employment and Contentious but are down significantly in Property.</p> <p>As a Private client firm, file-openings are up 20%</p> <p>File-openings last week were down to only 20% of normal levels – and some of the files that were opened are still on the start line.</p> <p>File-openings in Care, Court of Protection, and Family work are 10-20% down. In Conveyancing and Wills & Probate they are 10% up – but I believe the Conveyancing rise is a blip to reflect pressure to complete transactions immediately following lockdown as well as having to renegotiate the deals because the estate agents have closed down. Commercial and Litigation new matters are 75% down.</p> <p>File openings are 20% down</p> <p>File-openings fell by 20% in Week 2 but were down by 60% in week 3.</p> <p>Surprisingly we have only seen a very negligible decrease</p> <p>File-openings are 40% down</p> <p>As a PI firm, file-openings haven’t fallen – in fact they went up as a result of a recent marketing campaign</p> <p>File-openings are down 80%</p> <p>File-openings are down 30%</p>

PRACTICES · PARTNERS · PEOPLE · PROFIT

	<p>Matrimonial file openings are 50-60% of what they were pre-Lockdown but this is difficult to gauge as there can be a long lead-in time (ie – the first consultation might not result in a formal new case for weeks/months). Generally, there has been a bit of a slowdown in Family finance cases but an increase in urgent/children cases. Compared to the same period in 2019 it is actually very similar.</p> <p>File-openings are 40% down</p>
<p>Compared to a pre-Lockdown week, as a %, how were chargeable hours across your teams in Week 4?</p>	<p>We are 17% down on a normal week</p> <p>Our chargeable hours are down 35%</p> <p>Our chargeable hours are just 62% of normal</p> <p>As a Private Client firm, our chargeable hours are up 30%</p> <p>Our chargeable hours were only at 50% of normal last week. Some teams were higher or lower on a daily basis – most were 20% down – but we have reduced the working week by one day, so this drop is to be expected.</p> <p>Our chargeable hours are down 25% compared to pre-Lockdown</p> <p>As a PI firm, the Lockdown weeks have produced some of the highest chargeable hours we have seen all year – there are less distractions and interruptions at home.</p> <p>Chargeable hours are just 5% down</p> <p>We have only seen a very small decrease</p> <p>Down 10%</p> <p>Down 20%</p> <p>Down 80%</p> <p>Down 10%</p>

PRACTICES · PARTNERS · PEOPLE · PROFIT

	<p>Compared to a normal week, PI was up 48%, Clinical Negligence was up 20%, Court of Protection was up 6%, and Probate was up 26%. However, Conveyancing was down 82%, and surprisingly our LPA team were down 89%</p>
<p>The data shows that property search levels increased last week – did you see a pick-up in Conveyancing or Commercial Property work?</p>	<p>We saw no pick-up in either Residential or Commercial property last week.</p> <p>We saw no pick-up last week</p> <p>We didn't see any pick-up last week.</p> <p>Week 4 was nearly 50% up on Week 3</p> <p>No – both teams are receiving ongoing instructions but are still down on pre-lockdown levels. Conveyances are being prepped and made ready, but we are getting to a point where the transactions are being put on hold pending the mortgage company making offers</p> <p>We saw a further decline in our Commercial property work last week</p> <p>Commercial Property up, Residential not.</p> <p>No – we had some simultaneous exchange/completions and sales this week and circa 30% of 'normal' activity for this time of year. A few more completions are expected this week. Genuinely active files with completions say in the next 3/4 weeks are very few in number.</p> <p>We saw no pick-up last week</p>
<p>Have you yet received any actual cash as a result of any of the Government initiatives?</p>	<p>No actual cash, but we are paying PAYE and NI under a 3-month deferral arrangement now.</p> <p>No – CJRS is to be applied for next week when the next phase of furloughing has been agreed this week.</p> <p>Not yet</p> <p>Not yet but Furlough cash has been applied for</p>

PRACTICES · PARTNERS · PEOPLE · PROFIT

	<p>No – we are just submitting furlough info to the portal and we sought a loan which the bank are saying should be fine but we are waiting on news. We have no immediate need for cash though – rather, it is prudent management should we face a longer-term dip in trading.</p> <p>No</p> <p>None.</p> <p>No</p> <p>No – still waiting</p> <p>Yes – we have received a £10k Small Business Grant</p> <p>No cash yet but it’s great knowing that the furlough money is on its way (hopefully)</p>
<p>Is it a case of “cometh the hour, etc” – have all your partners and all your people truly changed up a gear to help you through this?</p>	<p>Mostly – but not all</p> <p>Absolutely. The teamwork has been incredible. There has been a lot of support generally. People are keeping busy. What some appear not to be doing is looking at how to promote the firm or individually BD-wise and being innovative by using IT. There remains the expectation or belief that someone else will do it.</p> <p>Generally , we have worked hard on culture and behaviours over the past two years, and we were in need of pruning those who were not living those values out and this has accelerated the need to do that. We are parting company with some partners who were not living out our behaviours or not performing. This is part of wanting to position ourselves for when lockdown finishes in as strong a position as we can, and our view is that it’s not the time to duck difficult decisions.</p> <p>Some individuals have really come to the fore and go beyond the ‘call of duty’ to win new work, working unsocial hours etc.</p> <p>There is a very strong sense of unity with all staff joining our Monday morning Zoom chat.</p>

PRACTICES · PARTNERS · PEOPLE · PROFIT

Yes, almost without exception. IT have been particularly strong. Admin and Facilities have been helpful and adaptable. The fee-earning teams have got used to the new normal very quickly.

Generally, yes. It has affected some people emotionally far more than others but on reflection this was a process they have had to go through mentally to get to a better place.

Absolutely – they are all on board. We have been very transparent with weekly updates on the firm, and they appreciate that.

Everyone has either adapted to remote working or have understood why they have been furloughed. Everyone has been supportive but chargeable hours are down. Whether that is a reduction in levels of work in some teams is not yet known.

Some support staff and junior staff have been excellent and clearly demonstrated that they want to be retained. Some Equity Partners' and Salaried Partners' attitude and support to others has been astonishingly poor and this has been communicated to them very directly.

Yes – I would say so. We have set out to the whole firm the financial measures that we are taking, and why. People seem to be taking this on board and acting accordingly. The crisis has given us an opportunity to engage with everyone in the firm on “the business of law” and I think for some the penny is starting to drop. Can't wait to continue the discussion when we are all back and probably will be able to implement significant changes to make the firm more financially robust

What if anything is keeping you awake at night?

I am worried about just how long this will continue. Having coped with the initial shock I am looking for reassurance that we can operate like this for as long as it takes. At the moment, I am fearful that it becomes progressively and cumulatively worse and at what point am I really questioning survival of the firm? For the main part, I am able to keep those negative thoughts in check but occasionally they get the better of me.

Nothing – as a Private Client firm we are in a really fortunate position

Nothing at the moment – obviously though the longer this goes on the more damage to the economy and the bigger dip in turnover we will face so the more we would have to contemplate redundancies when furloughing ends. As with all the way through this process, it's the uncertainty that's difficult to manage. Cash was the big worry at the start but cash receipts are holding up far better than I feared and we are in stronger position than we anticipated.

What the firm will look like as we come out of lockdown and how quickly things will approach " normal " and what that will look like. In particular, whether we will be able to keep everyone on and whether we will have to make redundancies.

The reality that there are colleagues who are going to be made redundant regardless of the Government "Help" schemes

Our predicted fees for the year ahead look like a 25% drop thus wiping out all profit

As a Private client firm, I think we're fortunate to be in our area of law and being a niche firm we don't have any poorly performing departments dragging us down. The challenge for us (and I know it's quite an enviable one to have) is how we recruit effectively with the current constraints. Do we take the plunge or is it a necessity to wait until we can meet candidates in person?

The ending of furloughing and the paying of salaries at 80% for the short- to medium-term with redundancies almost certain before the end of the Summer.

When will this end? Will we have a business? What will work-life look like?

Cash – clients are currently paying their bills but it is also the budgeting over the next 3-6-12 months. Can we preserve all the staff? Is cash-flow okay?

Fewer lawyers, fewer files, fewer chargeable hours, and clients putting cases on "stop"

PRACTICES · PARTNERS · PEOPLE · PROFIT

Overall, nothing, because we have done everything which we believe we can do. However, that is to include either moving to 80% working or to a salary cut, and we need to get that decision right.

Considering further staff changes

We have plenty of work now but the reduced availability and the increased cost of acquisition of new work will cause a flat spot at some point in the future. We are therefore hugely focused at the moment on the marketing side of things.

We can cope for a few weeks but after that we'll be having cash problems – fast-forward a few weeks and the shortened pipeline will take its toll.

We fear that Defendants could now drag their feet in order to get our clients to settle for less.

We fear the impact on other firms which could slow everything down and thus affect our cash. April was meant to be a very good month for us, but little has happened so far and salaries are due on Friday.

What keeps me awake at night? Being an old bloke with a weak bladder!

Anything else you'd like to add about how your business – or the legal sector at large - is faring right now?

There is a lot more camaraderie between firms than before with only the odd firm behaving in a less collaborative manner.

It is "business as usual". We are using the fact that we are quieter on the phones and on file-openings to catch up with work and to move cases forward.

It is simply a question of how long the Lockdown continues. If there is some unlocking post-May 7th and the business can move towards some normality during May, that's one thing but if it goes on substantially longer then we will have to seriously start cutting costs now in order to survive in the future. The current cash position is fine as we are living off cases onboarded in the past, but we need to keep sight of future income streams so lack of new work now equals problems in the future.

We have invested in IT and moved to paperless working so we've wanted to use this period to raise our profile as part of our 3 year vision whilst competitors were struggling to facilitate working remotely – that's been hugely successful with our most successful spell of PR we've ever had.

March is not our year-end but we had another strong month so we hit the Lockdown on the crest of a wave – it is frustrating to see our progress stalled but then again it means we enter it in strong health.

We are worried about many individuals coping with juggling home schooling / adult dependants / mental health or physical health issues / loneliness with work.

Since Lockdown started, I've been doing daily emails to staff – sometimes about business, sometimes about mental health, sometimes just to say thank you. They have gone down really well.

We are seeing some commercial/commercial transactions coming through. We are also receiving a good number of enquiries but those are not leading to paying instructions.

We are seeing a significant reduction in the need for secretarial support, which may well pave the way for the future. What we need to identify is whether the reduction in chargeable hours is because some members of the teams are screening their own time so as not to charge for typing time.

While the remote working is going well, we are currently refining our systems for monitoring productivity and workloads.

From a business perspective we will probably do 75-80% less in fees in April compared to pre-lockdown. There has been a downturn in some work/clients waiting etc. but it is also difficult to gauge how much is lost to fee-earners not actually being there as a result of furloughing ie. bums on seats. That said, another difficult exercise is to consider whether or not any further furloughing is appropriate. For us, I don't think so. I think we have performed as well as we can, work-flow is good and we have the right balance of people doing the work available. This has also brought performance issues into focus, resulting in dismissals.

PRACTICES · PARTNERS · PEOPLE · PROFIT

I am pleased that we are all embracing technology and I for one am enjoying working from home. The legal sector needed this change.

We have all got to know each other a lot better – now that we aren't all working together in an office!

“LAW FIRMS IN LOCKDOWN” – Q & A WITH SUE CARTER, UK HEAD OF LEGAL SECTOR, CLYDESDALE & YORKSHIRE BANK GROUP

MY QUESTION	SUE'S RESPONSE
<p>Prior to the Lockdown, how do you feel the bank viewed the legal sector?</p>	<p>Clydesdale & Yorkshire Bank has a strong understanding of the sector, and the challenges and opportunities they were facing. We remain dedicated to the sector and our specialist Relationship Managers have extensive experience and knowledge. It remains a growth sector for us ie one we wish to do more business in.</p>
<p>How does it view it now that we are 3-4 weeks into the Lockdown?</p>	<p>Our customers tell us our sector experts add real value to their business. We continue to offer practical advice and assistance and are offering a range of options to support customers through these challenging times, including support from the UK Government's Coronavirus Business Interruption Loan Scheme (CBILs)</p>
<p>Have your existing law firm clients been on the phone to you?</p>	<p>Yes, they have. There have been some early requests for Capital Repayment Holidays on Loans and/or asset finance agreements, overdraft extensions and increases, and some requests for assistance under CBILS. Other firms just want to know what other firms are doing and whether their approach is right, or whether there is something else they should be considering.</p>

PRACTICES · PARTNERS · PEOPLE · PROFIT

<p>Have you been on the phone to them?</p>	<p>Yes, offering reassurance to them in these difficult times. Sharing our experience from what we are seeing across the country has been well received. We have for example shared your weekly Lockdown Reports with all our firms, which have been well received.</p>
<p>Is it only existing clients that you are working with right now, or are you open for business as far as new firms are concerned?</p>	<p>Whilst our immediate focus has to be supporting and advising our existing customers, we have remained engaged with others we know but who are not our customers yet by sharing intel on how firms are coping in these ever-evolving times. For those firms that are not customers, and are wanting assistance under CBILS, we are recommending they speak to their existing bank in the first instance to see whether and how they can support them.</p>
<p>Have you been able to support firms yet? If so, how?</p>	<p>Our business experts can support with a package of options to reduce the impact of coronavirus on their business, including the UK Government's Coronavirus Business Interruption Loan Scheme (CBILS), overdraft and loan facility increases/extensions and capital repayment holidays for loans &/or asset finance agreements.</p>
<p>Do the Government schemes mean that commercial realities get over-ridden, or do firms still have to be a good risk before you lend to them?</p>	<p>The proposed borrower must evidence that they have a 'viable business' ie they must show in their borrowing proposal that were it not for the current pandemic, we would not have identified the customer as being in or approaching financial difficulty, or in another high-risk group.</p>
<p>What view do you take of law firms that have large debtor books?</p>	<p>That would depend on the make-up of their debtors. Typical questions we would ask are: What's the age of the debtors; Are the debts considered collectable (in the current climate); What is the trend of Debtor days? Is there any over reliance on (i) A particular client (or clients), (ii) Any particular sectors or (iii) any geographical location.; What is their approach to Credit Control including Bad Debt?</p>

PRACTICES · PARTNERS · PEOPLE · PROFIT

	<p>We would be encouraging them to focus on their WIP & Debtors with a view to turning these into cash at the earliest possible opportunity and reduce lockup days.</p>
<p>Should firms borrow cut, or grow their way through this?</p>	<p>For some, it might be a blend of all of these things. For those firms who have seen a rapid loss of revenue and therefore disruption of cashflow as a result of COVID 19, an early injection of cash (whether that be borrowed, or funded by partners) may be the right way ahead. Growth, without cash to fund growth, would be very difficult in the current environment as we are not yet sure when or how lockdown will be relaxed. Whatever decisions are taken, it has to be right for the firm's longevity. Many firms are in survival mode and therefore are making swathing cuts. Some have made modest cuts and borrowed to see them through the next 12 months or so. A word of warning though – any DEFERRED payments (ie tax, VAT, rent, loan repayments) will have to be paid at some point so don't lose sight of that.</p>
<p>If you were a law firm, what would you do now?</p>	<p>I'd be brave (and quick) with your decisions and stand by them, but remain flexible enough to change and adapt to any given situation. Law firms can (and do) fail not because of a lack of profit but because they run out of cash pretty quickly. I would be focussing on one thing - and that is CASH.</p>