2015
WHAT CLIENTS WANT
Perceptions of legal affairs & legal advisors amongst SME decision-makers
“My challenge is in knowing how much and what to flag for legal advice, due to sheer volume of issues we face”

SME decision-maker
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It’s been a challenging half decade for law firms advising Small and Medium-sized Enterprises (SMEs). For some, the situation has eased as the economic outlook has improved, but those that have survived have emerged with a new focus – on building long-term, sustainable business models that deliver consistent growth.

Recent studies into the financial health of law firms indicate that where top line revenue growth has occurred, bottom line profit has increased at a similar rate. What isn’t growing however, is profit per fee-earner. Law firms who increase profit per fee earner will achieve the profit growth without the need to expand or recruit.

We have seen new entrants to the market and established larger firms drive profitability by reviewing how and where they handle matters. That may involve near-shoring, off-shoring and making use of technology, legally-trained staff and non-lawyers to deliver elements of complex matters in a time- and cost-effective way for their clients.

But, how can smaller firms, with fewer resources and less scale, respond? Firstly, by constantly asking whether the work they are handling in-house is a USP in the eyes of the client. If not, then, as long as risk can be managed effectively, firms should find the most cost and time effective way of delivering it.

Thomson Reuters has conducted this research with decision-makers in SMEs to provide some insight – and quantitative evidence – into what clients want from their legal advisors.

Our research shows that there is untapped demand for legal services across the SME sector. It also shows that where an SME has already engaged with a law firm, they are generally happy with the quality of service and level of client care they receive.

As always, there are areas for improvement. Particularly around communication and understanding the commercial needs of the client.

Some of the most innovative small law firms have already made client communication and collaboration a key priority. They are using technology to communicate with clients in a secure way and collaborate on data gathering, drafting and document review.

Different firms employ different tactics, but the greatest impact tends to come from using technology effectively – to improve drafting and document assembly, conduct legal research, facilitate client collaboration, manage matters and manage documents.

There is huge potential for small and mid-sized law firms to win more, repeat business from the SME sector. So long as firms are able to develop an ongoing ‘trusted advisor’ relationship with clients.
Methodology & Sample

We surveyed 622 decision-makers within Small & Medium Sized Enterprises (SMEs) to discover their views on managing legal affairs, to find out:

- where they go for help
- how often; and
- in which areas of practice

The survey was conducted online in Summer 2015.

- The majority of our respondents (508) represent small businesses (with up to 50 employees).
- 112 respondents represent medium-sized businesses (between 50-249 employees).

Respondents represent a wide range of industry sectors (figure 1.0). The most common are: IT & Telecoms, Finance & Accounting, Retail, and Media/Marketing/Advertising.

Executive Summary

There is untapped potential for law firms to win business from SMEs, if they can demonstrate exemplary client service and become a ‘trusted advisor’.

Our research shows that SMEs who use legal service providers value the advice they receive, yet there is a significant market of SMEs who are not engaging with external law firms at all – and who could benefit from doing so.

- Half of respondents surveyed had not sought legal advice in the last 12 months. With a significant proportion of these coming from businesses with more than £10 million in annual turnover, these businesses may be sitting on significant legal risk.
- SMEs that have used an external legal advisor in the last 12 months are generally satisfied with the service they have received. 86% reported that legal advisors performed well for ‘quality of advice’ – the factor most commonly cited as influencing the decision to instruct or retain a legal advisor.
- When we asked respondents to name their biggest frustrations or challenge in working with external legal advisors, 51% reported no frustrations. The most common was communication, followed by cost and speed of service.
- Small law firms that can act as a ‘trusted advisor’ to SMEs, offer better client service and show true understanding of clients’ needs, will be best placed to take advantage of a relatively untapped SME market.
61% of decision-makers surveyed said that managing legal affairs was important or somewhat important to running their business. The larger the business, the more likely they were to rate it as important.

- 87% of medium-sized companies (50-249 employees) said it was important or very important; compared to 56% of small companies.
- Almost three quarters of companies with turnover of £1 million or more rated managing of legal affairs as somewhat or very important.

### Importance of managing legal issues: by number of employees

**Figure 2.0**

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>Important</th>
<th>Not Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>50 – 249 employees</td>
<td>87%</td>
<td>11%</td>
</tr>
<tr>
<td>1 – 50 employees</td>
<td>56%</td>
<td>41%</td>
</tr>
</tbody>
</table>

### Importance of managing legal issues: by annual turnover

**Figure 2.1**

<table>
<thead>
<tr>
<th>Annual Turnover</th>
<th>Important</th>
<th>Not Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>£10 million or more (NET)</td>
<td>79%</td>
<td>19%</td>
</tr>
<tr>
<td>£1 million – £9.9 million (NET)</td>
<td>73%</td>
<td>24%</td>
</tr>
<tr>
<td>Less than £1 million (NET)</td>
<td>54%</td>
<td>44%</td>
</tr>
</tbody>
</table>
Important of managing legal issue: by sector

Figure 2.2

<table>
<thead>
<tr>
<th>Sector</th>
<th>Net: Important</th>
<th>Net: Not important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance &amp; Accounting</td>
<td>73%</td>
<td>27%</td>
</tr>
<tr>
<td>Other</td>
<td>74%</td>
<td>24%</td>
</tr>
<tr>
<td>Media/Marketing/advertising/PR &amp; Sales</td>
<td>52%</td>
<td>45%</td>
</tr>
<tr>
<td>IT &amp; Telecom</td>
<td>63%</td>
<td>32%</td>
</tr>
<tr>
<td>Retail</td>
<td>44%</td>
<td>53%</td>
</tr>
<tr>
<td>Construction</td>
<td>61%</td>
<td>35%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>59%</td>
<td>36%</td>
</tr>
</tbody>
</table>

Below shows the importance of managing legal affairs by sector (sectors where the un-weighted base sample is more than 50 responses).

- Highly regulated industries like finance and accounting put a higher emphasis on managing legal affairs.
- SME decision-makers in the retail sector put the least emphasis on managing legal affairs.

Ease of managing legal affairs

We asked respondents how easy they find managing legal affairs – where ‘easy’ means quickly and efficiently, while complying with the law.

- 42% of our respondents said it was easy or fairly easy
- One third said it was neither easy nor difficult
- Only 16% of our SME respondents said that managing legal affairs was difficult

Figure 2.3

<table>
<thead>
<tr>
<th>Company Size</th>
<th>Net: Difficult</th>
<th>Net: Easy</th>
<th>Net: Neither easy nor difficult</th>
</tr>
</thead>
<tbody>
<tr>
<td>£10 million or more (NET)</td>
<td>13%</td>
<td>50%</td>
<td>27%</td>
</tr>
<tr>
<td>£1 million – £9.9 million (NET)</td>
<td>16%</td>
<td>43%</td>
<td>35%</td>
</tr>
<tr>
<td>Less than £1 million (NET)</td>
<td>17%</td>
<td>40%</td>
<td>37%</td>
</tr>
</tbody>
</table>

(Doesn’t include ‘don’t know’ responses)

When you look at the results by size of company, (Figure 2.3) you see a more nuanced story. There is a correlation between size (by annual turnover) and perceived ease of managing legal affairs, with smaller companies more likely to report finding it difficult.
Most common legal activities

We asked SMEs what legal activities they deal with on a regular basis (Figure 2.4).

• Tax was the most commonly reported legal issue, mentioned by 36% of respondents.
• Almost a third of respondents also mentioned: company filings, hiring employees and drafting customer/supplier contracts.
• 24% of respondents said their business doesn’t deal with any of these issues of the regular basis, suggesting, perhaps, a lack of engagement with legal affairs or even, a lack of awareness of risks and issues.

Figure 2.4

- Not applicable: 24%
- Don't know: 57%
- Other: 2%
- Dealing with data protection: 24%
- Dealing with tax issues: 36%
- Health and safety issues: 30%
- Company filings: 31%
- Settling a dispute: 13%
- Brand/IP protection: 12%
- Debt recovery: 19%
- Hiring employees: 30%
- Company formation issues: 9%
- Draft another document: 25%
- Draft standard T&Cs: 27%
- Draft a customer/supplier contract: 30%
When you look at the results by company size, tax is less of an issue for medium-sized companies, who are more likely to mention hiring employees, drafting customer/supplier and other contracts.

**Figure 2.5**

<table>
<thead>
<tr>
<th></th>
<th>Small companies (1 – 50 employees)</th>
<th>Medium companies (50 – 249 employees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not applicable</td>
<td>28%</td>
<td>8%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Dealing with data protection</td>
<td>20%</td>
<td>39%</td>
</tr>
<tr>
<td>Dealing with tax issues</td>
<td>35%</td>
<td>41%</td>
</tr>
<tr>
<td>Health and safety issues</td>
<td>25%</td>
<td>54%</td>
</tr>
<tr>
<td>Company filings</td>
<td>28%</td>
<td>41%</td>
</tr>
<tr>
<td>Settling a dispute</td>
<td>10%</td>
<td>25%</td>
</tr>
<tr>
<td>Brand/ IP protection</td>
<td>10%</td>
<td>21%</td>
</tr>
<tr>
<td>Debt recovery</td>
<td>15%</td>
<td>35%</td>
</tr>
<tr>
<td>Hiring employees</td>
<td>24%</td>
<td>58%</td>
</tr>
<tr>
<td>Company formation issues</td>
<td>7%</td>
<td>16%</td>
</tr>
<tr>
<td>Draft another document</td>
<td>20%</td>
<td>48%</td>
</tr>
<tr>
<td>Draft standard T&amp;Cs</td>
<td>24%</td>
<td>38%</td>
</tr>
<tr>
<td>Draft a customer/ supplier contract</td>
<td>26%</td>
<td>48%</td>
</tr>
</tbody>
</table>
Perhaps surprisingly, more than half of our respondents had not sought legal advice in the last 12 months (since June 2014) – either online or through a solicitor. Only 8% sought legal advice more than 5 times in the last year.

• Of the 50% of our sample that had not sought legal help of any kind, more than half (57%) reported annual turnover of more than £1 million. One third (32%) reported annual turnover of more than £10 million. Since these businesses are significant in terms of size, we might ask: how are they currently dealing with legal issues? Could they be sitting on significant legal risk?

• 245 respondents reported that they had sought legal help in the last 12 months. The two areas in which they were most likely to seek help were employment law and general commercial, followed by tax, property and pensions.

How many times has your business sought legal help in the last 12 months – either online or via a solicitor?

In which areas of law and business has your company sought professional legal help/advice in the last 12 months?
Complex vs. routine issues

Where a legal issue was complex, respondents were more likely to seek external help from a solicitor for. Routine issues here are defined as common low-risk activities such as drafting contracts, hiring staff and debt recovery.

Online self-help and internet search was the most common first port of call for legal help, for routine and complex issues.

- Almost a third of respondents self-serve on the internet (through free or subscription sources) for routine legal issues.
- 18% self-serve on the internet (through free or subscription sources) for more complex legal issues.

SMEs who had sought legal help from a solicitor, were most likely to do so via a retainer/on-going contract with a law firm. However, 65% of respondents reported that they did not have a retainer with a law firm/solicitor. Could law firms be doing more to develop and sustain relationships with SME clients?
Deciding where to go

We asked respondents what primarily drives or would drive their decision on where to go for legal help (Figure 3.3).

- Respondents most frequently cited ‘confidence in the source’s accuracy’ and the ‘level of risk associated’ as primary drivers.
- Only 10% of respondents mentioned cost as a driver of decision-making. SME decision-makers might then be willing to pay a premium for quality advice which enables them to carry out their business with confidence.

Figure 3.3

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Don’t know</td>
<td>10%</td>
</tr>
<tr>
<td>None of these</td>
<td>11%</td>
</tr>
<tr>
<td>Level of risk/seriousness of issue</td>
<td>25%</td>
</tr>
<tr>
<td>Confidence in source’s accuracy</td>
<td>27%</td>
</tr>
<tr>
<td>Convenience/ease of getting an answer</td>
<td>13%</td>
</tr>
<tr>
<td>Speed of getting an answer</td>
<td>4%</td>
</tr>
<tr>
<td>Low cost</td>
<td>10%</td>
</tr>
</tbody>
</table>
We also asked those who had used solicitors or barristers in the last 12 months, what drives their decisions to instruct or retain a legal advisor.

- Of the 231 SME decision makers who had used a solicitor or barrister, 87% rated quality advice as very important, while 11% rated it fairly important. It was the most popular answer by some margin.
- Good customer service, communication/proactivity, approachability of the solicitor and transparency (of cost and process) were also rated highly, with 95-97% of respondents rating these factors as fairly or very important.

Figure 3.4
Our research showed that most SME decision makers are happy with the service they receive from external advisors.

- 86% who had used a barrister or solicitor in the last 12 months reported that those advisors performed very well or fairly well for quality of advice – the factor most commonly cited as influencing the decision to instruct or retain a legal advisor.

- When we asked respondents to name their biggest frustrations or challenges in working with external legal advisors, just over half (51%) reported no frustrations. Comments from satisfied customers include: “The lawyers we have used for years are EXCELLENT and worth every penny”.

![Figure 4.0](image-url)
While overall feedback is positive, when we asked respondents open questions about their biggest challenges in working with external legal advisors, some clear themes emerged. The top three reported frustrations were:

- Communication (style and proactivity of it) **26%**
- Cost **25%**
- Speed of service **20%**

**Figure 4.1**
Opportunities for law firms advising SMEs

We also asked respondents what the primary thing a solicitor/barrister could do better to meet their needs and differentiate themselves from competitors. In line with the top three frustrations, the top 3 suggestions here were around:

- Communication (style and proactivity of it) 21%
- Cost 18%
- Speed of service 18%

What is the primary thing a solicitor/barrister could do better to meet your needs and differentiate itself?

Figure 5.0
When we look at the comments from respondents in more detail, we can identify 5 opportunity areas for law firms serving SMEs.

1. Communication

The top frustration felt by 26% SME decision-makers when using external legal advisors, was communication – the lack of it, the style of it (unpractical / legalistic) and general concerns around accessibility of the lawyer.

When asked to name their biggest frustration, comments included:

- Overuse of jargon.
- Communication – us understanding legal language – them understanding the business issues.
- Access and availability.
- Length of time between communications.
- Length of time to get a response, ambiguity, lack of definitive answer.
- Communication regarding process, timelines and criticality.
- The jargon – so that we have to really work to understand what are often quite simple matters.
- No clarity in answers – yes but... no but... Never giving a definitive answer to a question, writing a book on the subject and still not coming to a conclusion...

When asked what legal advisors could do to better meet their needs, communication and accessibility also featured heavily. Something as simple as providing a direct dial number or outlining timelines clearly at the start of a project might vastly improve the client experience.

Suggestions from respondents included:

- Be more human and understand modern businesses a bit better.
- Be more human; reply more quickly.
- Provide direct dial number.
- Speak simple English.
- Don’t hide behind legal jargon, be transparent and offer the advice needed. Provide an effective and friendly, simple service.
- Give us pragmatic advice as well as the legal justification.
- Provide more information on processes, so we know what to flag as issues a bit more clearly.
- Be more accessible.
- Be easier to contact.
- Be brief and definitive.
- Give recommendations – not advice.
2. Cost: value, certainty and transparency

When asked to name their biggest frustrations, cost was mentioned in one quarter of all responses, second only to communication.

While many respondents simply refer to costs being too high; this might also point to a communication issue, says Chris Jeffery: “In our experience, clients are less likely to focus on cost or experience cost frustration, when the supplier succeeds at communicating the value of what is being delivered.”

Complaints around cost may also hide a number of other concerns such as lack of certainty and transparency, as well as billing models.

When asked about their biggest frustration in dealing with outside counsel, comments from respondents included:

- Added extras.
- Charging for everything.
- Lack of clarity on costs.
- Hidden costs and a feeling that the process is prolonged for more money.
- Added extras.
- Uncertainty over level of fees to be charged, beyond knowing that they would be outrageous.

When asked what legal advisors could do to better meet their needs, suggestions included:

- Make charges clear.
- Lower cost.
- Provide fixed costs.
- Fixed cost.
- Transparency.
- Good communication of charges i.e actual cost rather than a simple statement of an hourly rate.
- Keep costs down and work to early resolution.

A few respondents also expressed a wish for pricing to be outcome-based:

- The biggest issue is the feeling that, win or lose, the lawyer always wins.

Issues around transparency of process and cost are common in law firms serving SMEs, says Director, Small & Medium Law Firms at Thomson Reuters Legal UK & Ireland, Chris Jeffery. “The most successful firms will have clear ways of handling matters, for example using matter management systems, which makes it easier to communicate the process and manage client expectations.”

3. Speed of delivery

Speed of delivery was cited as the biggest frustration by 20% of respondents – making it the third most common frustration. Comments from respondents included:

- Time taken to brief lawyer and to get them to understand our business activities and needs.
- Elapsed time is unbelievable.

While these comments relate to delivery time, again they may also hint at communication issues – since communication of timescales and transparency may ease frustrations around speed of delivery.
4. **Understanding the business and the sector**

10% of respondents cited understanding of the client’s business or industry sector as their biggest frustration. Alongside requests for clearer, more pragmatic advice, in plain English, respondents also suggested that external legal advisors could do more to understand them.

**Suggestions included:**

*Undertake a familiarisation course to know basic industry terminology and operating philosophy*

*Convince us they understand our business, keep us fully updated.*

5. **‘Trusted advisor’ approach**

Evident in the many comments from respondents is what might be characterised as a wish for a ‘trusted advisor’ approach. Or, simply better client service and a greater appreciation of the needs of the client.

**As one respondent noted:**

*When approaching a legal advisor, you recognise that you have an issue that requires legal redress to achieve an outcome. As a business you see this as a priority, however, the solicitor sees this as another one of many cases that their business takes on and so the frustration tends to come from them not seeing your matter with the same level of anxiety as you do.*

**Several other respondents expressed difficulty in knowing when to call for legal help:**

*My challenge is in knowing how much and what to flag for legal advice, due to sheer volume of issues we face.*

Taking a ‘trusted advisor’ approach would allow a law firm to advise and consult in regular, informal ways (for example, on how to spot when a legal issue needs escalating), all the time developing the relationship so that when the client faces more serious legal issues or has a significant brief, they are more likely to win the business.

The traditional project-and-practice-based approach taken by many small law firms can be a hindrance to this. As one respondent noted:

*The biggest frustration is different advisors in the same firm dealing with different “things”: e.g. one specialises in property, another in employment, another contracts.*

While another respondent commented that legal advisors should give...

*...more proactive advice rather than being issue-driven.*

While we have highlighted the ‘trusted advisor approach’ as a separate opportunity; law firms that can successfully master the other four, (communication, transparency of process or, speed of delivery and understanding the client’s business) will be well on their ways to becoming trusted advisors.

What’s more, firms who can successfully develop an on-going, rather than issue-based relationship with their clients, will be best placed to take advantage of a relatively untapped SME market.
More time to focus on clients, less time written off, risks mitigated, costs saved, faster research, more efficient ways of working, better advice.

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