

# How Law Firms Can Compete in the Middle Market in the UK

Looking across many European jurisdictions, similar trends are apparent in the way national markets are segmenting.

At the top end of many markets a small and decreasing number of firms are winning an increasing share of the highest value work. In this part of the market the leading UK and US international firms are particularly strong, having developed a **powerful position**, sometimes by means of merger and sometimes through organic growth; alongside them are the leading national firms.

Clearly the international reach of the UK and US firms is a particular competitive strength on that work that requires a multi-jurisdictional capability but so too is their founding, based on a common law approach. Their strength however goes deeper than this and most are also noted for their capability to assemble quickly large teams that work together effectively, their overall strength in breadth and depth and the commerciality of their approach: clients see these firms delivering quite simply a materially more valuable service and while their fees are higher, this is considered a price worth paying for matters of the highest strategic, competitive, financial or reputational importance.

For certain matters there are also niche players in many markets who, within their areas of focus, are generally able to compete with the leading firms and may also compete for certain mid-value work also within their specialisms.

At the opposite end of the market, it is increasingly possible to identify firms that are focused on particular types of lower value work (eg. volume insurance defence matters, routine real estate work, and the like). They too are building capabilities, in the main based on a 'process oriented' approach to delivering **legal services**, that makes them highly competitive for certain types of work, not only on the basis of fees but also in terms of factors such as responsiveness and overall service delivery.

**The competitive strength of these firms at both the top and lower value segments of the market is considerable** and in certain jurisdictions the leading firms in these segments have in effect created 'barriers to entry' by performing at a level that makes it virtually impossible for other firms not already competing effectively in that segment to match their performance and hence become a member of the leading group.

The segmentation at the top and lower value 'ends' of the market has led to even higher levels of competition in the mid-value segment of the market and in most jurisdictions the trends indicate that considerable rationalisation of firms will occur here; this rationalisation is likely to become increasingly evident over the next two to four years with a markedly reduced number of firms competing in this sector within five years or so.

In most jurisdictions there are likely to be two groups of firms emerging from this rationalisation: those competing in the upper mid-market and those that are mainstream mid-market firms. Currently in many jurisdictions there are a relatively larger number of firms competing in the mid-market and these are not in general that clearly differentiated from one another.

There is, however, **already a clear group emerging in some jurisdictions seeking to compete just below the leading group of firms**, focused on capturing an increasing share of the highest value work - both transactional and non-transactional that does not require the unique capabilities and reputation of the leading group. In some markets such as the UK there are as many as 30 firms competing to succeed in the upper mid-market and it is realistic to assume that, say, only a third or so of these will succeed in this sector in the medium-term. That there will not be the level of upper-mid value work to support the aspirations of such a

number of firms is one reason that they will not all succeed. A second reason is that, as in any competitive market, some providers will develop ways of better meeting the expectations of clients than others and as this becomes recognised by the market will lead to those firms winning an increasing share of the upper-mid value work at the expense of others.

Below the upper-mid market is the mainstream mid-market and this at present is comprised of a great number of relatively undifferentiated firms in most markets. Some such firms are relatively focused in terms of providing a limited range of mid-value services (such as IP or employment) while others offer a much broader range of corporate, commercial, litigation, tax, real estate, banking and finance services.

Again, over time, this part of the market is likely to split into a group of 'winners' and a group of 'also rans' with the former group developing approaches to meeting the needs and expectations of clients that are recognised by the market as superior.

Some of the winners in this segment of the market will have a geographically restricted reach, perhaps servicing predominantly a local regional client base from a single office location. Others will have a national, or possibly even multi-jurisdictional capability, servicing clients over a much wider geographic area.

The competitive pressure that the firms in the mid-market will face will be intense, driven by the very sophisticated approaches adopted by clients in their purchasing of services.

One dimension of the competition will be on price: clients are increasingly confident of the fees they should pay for particular services based in part on the perceived value of that service to their business and in part on the 'market going rates' being offered by competing firms vying for their instructions.

This price competition will force firms to redesign, and potentially in a radical way, the approach they take to producing and delivering services: if market forces dictate that a particular service will command a fee of, say, EUR10,000 then firms must develop ways to manufacture and supply that service for EUR7,000 if they are to achieve the desired margin of, say, 30%.

This requires a change in mindset and the development of new skills in many firms or the high likelihood of the loss of clients and / or erosion of margins and hence profitability. As in the manufacturing sector of the economy there will be an increasing focus on managing the 'costs of manufacture' and this will result in the need for a fundamental re-examination of the underlying business model, modus operandi and cost base of law firms.

A second dimension of the competition will be around the extent to which firms genuinely understand and meet the expectations of their clients. In the mid-market those firms that are perceived as strong technically but providing little if any commerciality in the way they provide services are already finding their market position slipping. Even those firms of this ilk that meet clients' timing and budgetary expectations, are responsive and accurate in what they provide and are highly accessible will find themselves under more and more pressure as they will be servicing clients only on a par with other firms.

The challenge for firms wishing to be among the winners in terms of meeting client expectations will revolve around their perceived success in developing a range of higher level capabilities and characteristics including:

- being highly business oriented
- developing truly commercial solutions
- being flexible and anticipatory

- providing genuine insights into issues
- extraordinary service capabilities
- seamless teamwork
- innovation

Each client's expectations in terms of such capabilities and characteristics will vary and also change over time; hence there is a need for firms who wish to succeed in this market sector to be fanatical about understanding their clients' needs and expectations and building client loyalty by seeking to go beyond the 'expected' if not on every instruction at least on a regular basis.

A third dimension of the competition will concern the extent to which clients perceive their advisers to be committed to their business success. Rightly professional advisers need to maintain an independent objectivity; at the same time, however, clients will expect a genuine dedication to service delivery - going the extra mile as a matter of routine.

This requires firms to develop and maintain extraordinary high levels of motivation and morale amongst both their lawyers and support staff to ensure that clients do receive the level of commitment they expect. As a legal director in a large corporate explained "I want my advisers to be as committed to my company's success as I am - that way we all benefit".

Over the next few years the segmentation that has been occurring in certain segments of the market will become more and more apparent in the mid-market, with a limited number of firms in each of the upper mid-market and mainstream mid-market emerging as winners, attracting the proportion of better clients and work they desire and managing this in a way that delivers competitive levels of profitability.

For those firms that are unable to meet the market's expectations as effectively, the future is less attractive, with some practices being squeezed into less attractive positions, others being 'absorbed' and a third group perhaps failing altogether.

In overall terms the outlook and prospects remain promising but achieving success in the future will require a level of competitiveness higher and broader than required for success in the past.

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[\*How to Hire a Legal Recruiter for Your Law Firm: How Law Firms Recruit Attorneys Using Legal Recruiters\*](#)