

Report from the *Legal Services Laboratory*

New business models are becoming a reality for UK law firms.

By Chris Bull

The scheduled introduction in October this year of non-lawyer ownership of Alternative Business Structures (ABS) by the UK's Legal Services Board has attracted comment and debate in legal markets worldwide. Although there is currently some uncertainty about the exact date when the Solicitors Regulatory Authority (SRA) will be able to begin ABS licensing, there is clear commitment for it to happen this year.

While external ownership is headline-grabbing, it is only one example of evolving business models for legal services businesses being used in the UK; which is clearly playing the role of the global legal industry's "laboratory" today.

There have been 500 expressions of interest in ABS applications, which Edge International anticipates will yield several hundred actual applications when initial submission are accepted next month. We expect to see several forms of ABS emerge in the first wave of applications, including:

- **vertical integration:** large corporate users of volume law firm services typically in financial services, integrating a "law firm" into their group structure to reduce their legal spend and enhance margin;
- **retail legal services:** large retail or B2C businesses adding consumer legal products to their service offerings, bringing the necessary qualified legal capability inside the group (the reforms

were regularly dubbed “Tesco Law” when first announced in anticipation of this);

- **consolidators:** following the (not always successful) example of accounting and real estate markets, an external investor would back a management team (perhaps the lead Partners in a “nucleus” law firm) in rapidly undertaking a series of acquisitions of law firms in order to create a scaled legal brand; and
- **invest-to-grow model:** a law firm takes external funding, probably in return for a minority stake in its equity, in order to undertake the significant investment it requires to achieve its growth strategy (large-scale IT investment; introduction of new senior lawyers and team hires).

Whilst the introduction of ABS is dominating the headlines, we are also seeing other innovations in law firm business models. A number of law firms are determined to compete head-to-head with new entrants to the market by reshaping their firms to be leaner, fitter and more focused.

In the most intense battlegrounds of small and medium sized firms and volume legal services, some firms are now spinning out focused limited companies or limited liability partnerships that can compete in this space without the constraints of the traditional partnership.

A good recent example is Cardiff-headquartered firm Hugh James, which has recently spun out Involegal, billed as a “high quality provider of volume outsourced legal services.” Other UK firms are actively reviewing conversion from Partnership to Limited Company, in the wake of the widespread adoption of Limited Liability Partnership (LLP) as the default structure for UK law firms over the last 10 years.

We will report on further ABS developments in futures issues of the Edge International Communique.

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