

# Turnover is not profit

In this article we review the Managing Partner survey results from sole practitioners and from two to four solicitor firms, many of whom will be either sole owner firms or more typically a combination of Partners and employed solicitors. These two groups make up approximately 75% of the firms in the country.

## Sole Practitioners - Cost base

Sole practitioners are experiencing some pressure on cost base, but not at the same rate as larger practices. There are marked differences, as would be expected, between Dublin and the regions. 56% of Dublin firms report an increase in costs, primarily due to salary pressures and property costs such as rent, rates etc which together account for two-thirds of most firms cost base. Sole practitioners outside of Dublin are reporting some cost increases, but they are typically in the 2% to 5% bracket compared with 10% to 15% increases in Dublin.

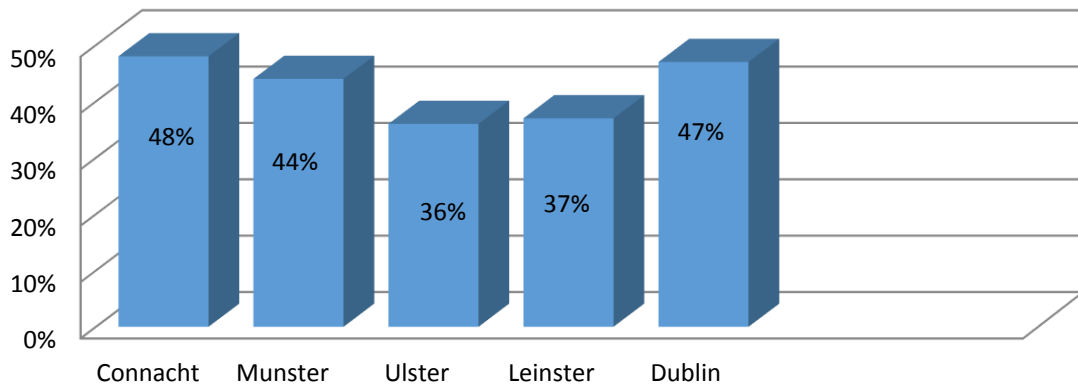
## Sole Practitioners - Fee income

Despite an overall improvement in fee income for sole practitioners, the results show more volatility than in any other size of firm. Of those surveyed, 45% of respondents report an increase of more than 10% in fee income from the previous year, a further 16% show an increase of between 1% and 10%, 19% show no change and 20% show a decrease in the past 12 months.

The table below indicates that Connacht and Dublin have the highest percentage of firms reporting 10% plus increase in turnover in the past 12 months. While there is little doubt that the average sole practitioner has experienced more difficult trading conditions west of the Shannon, and is therefore starting from a lower point, the extent of the recovery is both encouraging and necessary given that overheads are rising.

Of concern must be the fact that despite the generally positive economic conditions, 20% experienced a decrease in fee income in 2015. Two to four solicitor firms experienced a similar level of reduction in fee income (a total of 16%), the larger firms have been much more resilient in 2015. The fortunes of the sole practitioner firm are entirely dependent on the owner, therefore it is to be expected that we are seeing more volatility and less stability in the results. Factors at play may include the stage in the professional life cycle a sole practitioner is at, market changes in the practice areas in which the individual operates and the level of competition in the locality.

**Percentage of sole practitioners within the regions that experienced a 10% plus increase in fee income in 2015**



## Looking Forward

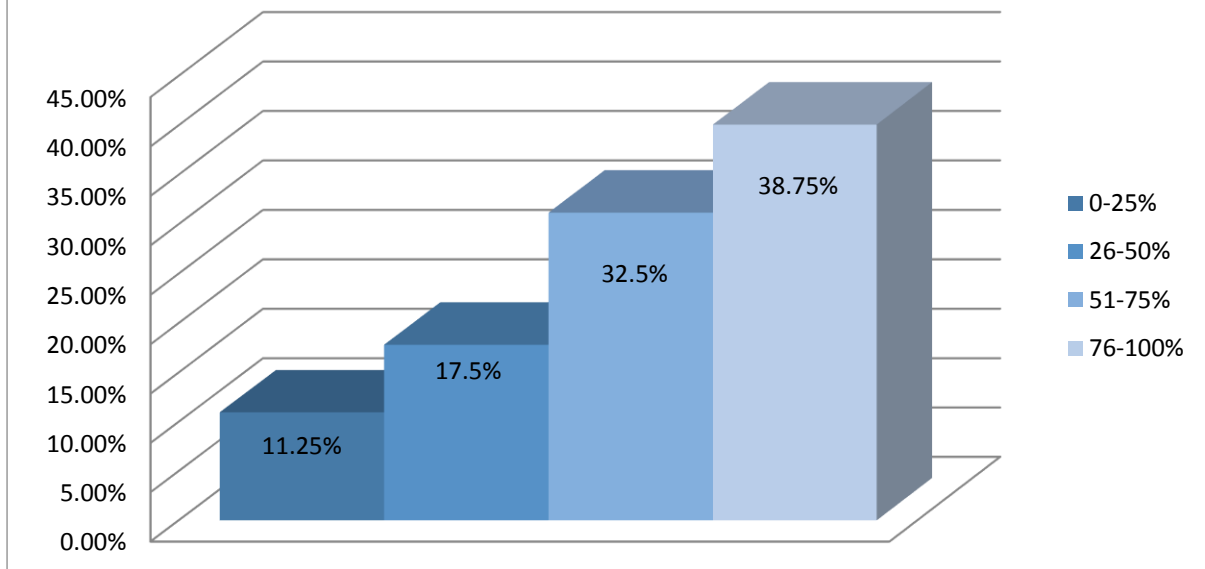
65% of sole practitioners are expecting some growth in fee income in 2016, with 26% of respondents expecting no change and 9% forecasting a decrease. The pattern across the country shows similar expectations in different geographical regions.

The turmoil in financial markets in early 2016, Government uncertainty, a possible Brexit, the extent and effects of which are not yet determined, coupled with the fall in the volume of residential conveyancing may pose a threat to this optimism.

## Core Practice Areas

Sole practitioners continue to be highly dependent upon the core practice areas of PI litigation, conveyancing and probate, practice areas displaying the highest dependence across the different firm sizes in this survey.

### What percentage of the firm's total income is generated from the traditional practice areas - PI Litigation, Conveyancing, and Probate?



Given that residential conveyancing is reported elsewhere as the largest growth area amongst these three practice areas, and that the majority of practitioners believe they are carrying this service at break-even or a loss, this indicates that sole practitioners are seeing higher activity levels but that higher activity is not necessarily translating into improved profits.

“Higher activity is not necessarily translating into improved profits. “

However, sole practitioners as a group see residential conveyancing as less unprofitable than any of the other firm size, this is a correct interpretation as sole practitioners generally work off a lower and more flexible cost base than larger firms and therefore are able to deliver the service at a lower cost and still make a profit at fee levels that larger firms cannot.

## Future Shape – Sole Practitioners

One third of sole practitioners report that it is likely they will recruit additional fee earners or additional support staff during the coming year. Recent experiences outlined in the previous article show that finding staff is increasingly difficult.

Sole practitioners appear to be content working on their own with 80% looking to grow organically. This is an interesting conclusion, particularly given that 80% of sole practitioners also recommended to any newly qualified solicitor that they should not become a sole practitioner as a career choice. Only 3% reported an appetite for merging with another practice. So while the vast majority of sole practitioners will continue on as sole practitioners, they do not recommend that status as a career path to others.

In summary the picture for sole practitioners is more positive, but also more mixed than for other groups. While most are experiencing growth, are staffing up and moving forward we do have a significant minority for whom the picture is not as positive.

## Two to Four Solicitor Practices – Fee Income

The typical two to four solicitor firm consists of one or two Partners and one to two employed solicitors, it is therefore a mix of owners and employees.

The results of the survey for this group are similar to the sole practitioners, except that there has been a lower increase in fee income and a smaller decrease (less volatility). Again this is to be expected as the sole practitioner model of practice is more volatile as more dependent upon one individual.

The fee income increase experienced within this group in the past twelve months is strong, with 40% experiencing a 10% plus increase in fee income.

Expectation for the coming 12 months is also high, 31% expecting an increase of 10% plus in fee income, 39% an increase between 1% and 10%, 23% saying no change and only 7% forecasting a decrease.

In next month's article when we look at larger firms we will see these trends confirmed with larger firms moving ahead in a stronger fashion and very few firms experiencing a decrease.

## High Reliance – Two to Four Solicitor Practices

The two to four solicitor firms show a similar high reliance on the three traditional practice areas of PI litigation, conveyancing and probate, with 50% of two to four solicitor firms reporting that 75% plus of their fee income comes within these areas. A high number of sole practitioner firms are specialist firms, in discreet areas such as employment law, commercial work, criminal law and other niche areas, this explains why the two to four solicitor firms have a higher reliance on the traditional areas.

## The Future

This size of firm had to adapt quickly in the slowdown with forced downsizing of costs and most discretionary spending being eliminated or severely curtailed. Looking at plans within two to four solicitor firms they are clearly planning for investment. Increased recruitment, investment in marketing and IT together with an appetite for a merger all point to significant re-engineering.

Challenges still exist with firms in this bracket being less flexible in terms of part-time flexible hours, and other benefits compared to larger firms. This is understandable given the high dependence upon a small number of people but as employment markets turn, employers will be forced to reconsider this position.

The barriers for growth in this sector mirror the market, in that the available work is not sufficiently profitable, there is not enough time to create the head space for business development and there is a lack of work in some locations and/or with the practitioners' area of expertise. We see the most

successful firms of this size being those that have identified one or two practice areas in which they excel and gain a reputation as 'go to' firms, the other practice areas are support but not the main pillars of the practice.

The survey results suggest that the improvement in fee income two to four solicitor firms is visible, with expectation of further increases in 2016. Overheads are rising, cashflow is constrained further by necessary investments in the future of the practice. Challenges also exist because of the reliance on core practice areas affected by how the wider economy performs in the coming months.

The overall findings in the survey for sole practitioners and two to four solicitor firms is that they have experienced a reasonable level of growth in fee income in the past 12 months and expect more in the coming 12 months, overheads are rising and while there has been some welcome improvement in profit levels, often from a very low base, practitioners often feel that they are running faster to stand still. Improvements in profits have not yet translated into improvements in cashflow.

In next month's article we review the responses to the survey from mid-size and larger firms.