

SHREWD SIDETRACKS?

This year the UK 200 has begun tracking the trend for law firms to launch non-law consultancies. Right now they might be small, but their potential may be huge

Are law firm consultancy businesses worth the bother? Or to put it another way, are they generating enough revenue to make setting them up worthwhile? Certainly the UK market has seen a proliferation of law firm-linked consultancies in recent years, with a myriad of models targeting a range of sectors. Research by *The Lawyer* for this year's UK 200 confirms that a significant number of law firms are now offering non-legal consultancy services, either provided in-house off the back of hires or via taking a stake in an existing business or by setting up a partnership with an external consultancy.

For the first time, this year's UK 200 survey has attempted to assess the size of this market. The annual survey included a question which, in contrast to the highly detailed nature of those relating to traditional law firms, simply asked firms to tell us if they operated a consultancy or not.

Twenty-three per cent of this year's UK 200 firms that responded to the question (144 firms in total) confirmed they had at least one consultancy. Hogan Lovells alone operates four.

The responses to the UK 200 show that the biggest proportion (38 per cent) of firms with consultancies are those with a turnover of £200m or more. With 16 firms answering the question in this bracket, that means six are now running some kind of associated consultancy.

At the other end of the top 100 ranking, only 13 per cent of firms (five of 39) in the £22m to £50m bracket reported having launched a consultancy.

The trend line seems clear: the larger a firm's turnover, the more likely it is to operate an associated consultancy. And this makes sense, as the number one reason cited by most firms for launching these consultancies is that they allow for the provision of a wider range of integrated services to clients (see below). The bigger the firm, the deeper the bench of skills and services.

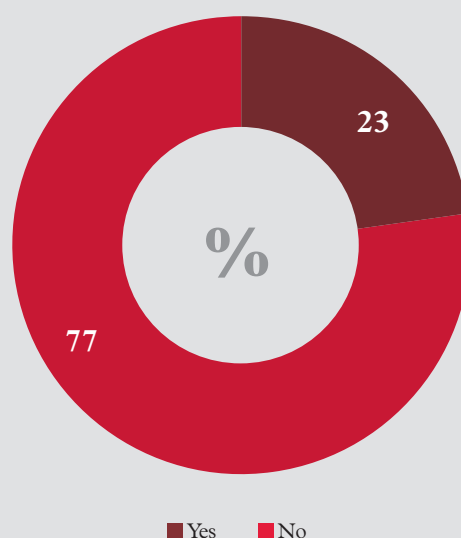
That said, 23 per cent of the Independents that answered the question (64 firms) said they did have a consultancy, suggesting that a significant minority of firms (15 respondents) in *The Lawyer*'s second 100 ranking are actively seeking ways of broadening their range of services to clients and differentiating their practices in the UK legal market's most crowded battleground.

From the smallest beginnings

For this year's report we did not ask firms to provide details about revenue derived from these consultancies, although several did offer this information during interviews. Likewise, we

“ Law firms' consulting arms tend to be non-core and relatively tiny in terms of revenue, but a significant number of this year's top 200 firms now operate some sort of service, and the range is growing and surprising

Does your firm operate any non-legal services consultancies? (144 respondents)



did not ask for headcount, although again some firms did offer this information.

And in those interviews with firms that operate one or more consultancies a relatively consistent picture has emerged. The level of revenue these additional arms are generating suggests that this market remains in its infancy, at best. Rivals from the Big Four accountants or the likes of McKinsey, PA Consulting and Accenture are unlikely to be overly concerned as of now.

"It's pretty tough going," admits Fieldfisher managing partner Michael Chissick. "We're not giving up the day job of legal services just yet."

Indeed, indications are that the majority of these businesses currently measure their revenue in the hundreds of thousands rather than millions, with the hoped-for volume and turnover simply not there, at least not yet. In short, most of these embryonic consultancies currently resemble little more than a nice add on.

For the moment at least, law firms' consulting arms tend to be small, non-core and relatively tiny in terms of revenue generation. But while it might be early days, *The Lawyer's* research does confirm that a significant number of this year's top 200 firms now operate some sort of consultancy offering services and advice in areas other than law. And the range is both growing and surprising.

Services offered by firms include HR, PR and marketing, data protection, regulatory and government issues and technology, notably cyber security. And new entrants to this apparently burgeoning market are popping up all the time.

Among the most recent is Pinsent Masons' minority stake in diversity and inclusion consulting firm Brooke Graham this summer, while the firm also recently took a stake in Yuzu, an in-house-focused New Law business launched by former Colt general counsel Robin Saphra (for the full list of consultancies in this year's UK 200, see page 37).

38%

OF UK 200 FIRMS
WITH A TURNOVER
OF £200M+ HAVE A
CONSULTANCY



13%

OF UK 200 FIRMS
IN THE £22M-50M
REVENUE BRACKET
HAVE A CONSULTANCY

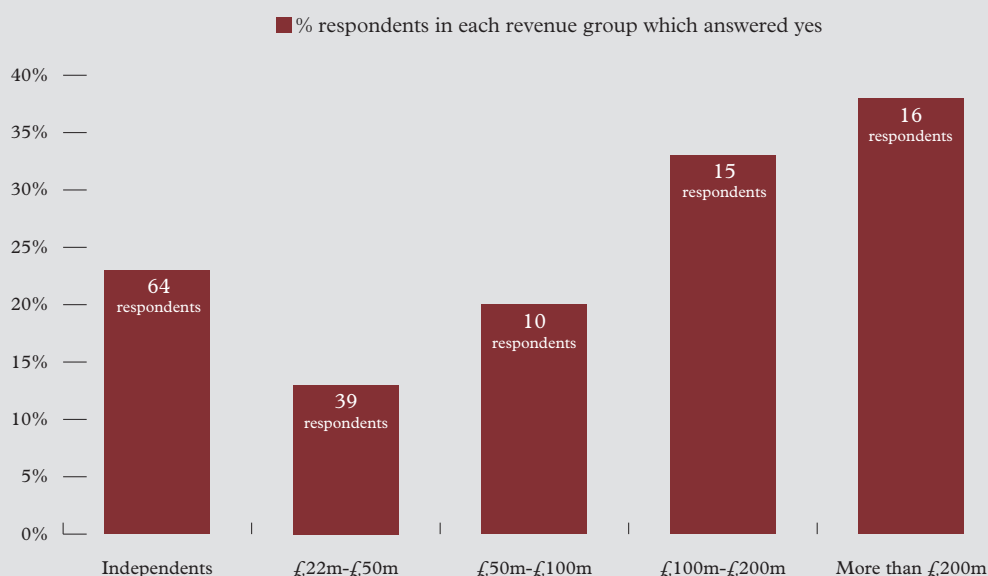


The idea behind these consultancies is simple. They offer law firms the ability to provide a range of integrated and related services that provide clients, in theory at least, with a one-stop shop. They are designed to provide an alternative source of income and, ultimately, create competition with other independent advisers for the advisory fees on a range of non-legal services matters.

As RPC's director of brand and talent Clint Evans points out, there is currently a multitude of business models out there with no one size that fits all. He argues that the market boils down to two areas: consultancies that advise on big business change and those that advise on continuous business improvement.

Where Evans thinks law firms might score is in areas where they have a unique grasp on a particular market, or understand the nuances of how lawyers work. At the heart of RPC

Does your firm operate any non-legal services consultancies?



Consulting is its proprietary software, Tyche, sitting alongside an actuarial consultancy.

“Risk management is possibly best looked at from the perspective of lawyers,” adds Evans. “Ours is a separate offering to insurance clients from legal but it sits nicely in a law firm.”

The big question he believes is whether or not law firms are genuinely reversing some of the Big Four traffic.

“It only takes a small business adjustment for the Big Four to take quite a lot of work from law firms,” says Evans. “It’s a lot harder for law firms to make a dent in the Big Four.”

That said, Evans insists that the scale of RPC’s ambition is significant. RPC Consulting launched just two years ago but now has a staff of around 70 and a revenue understood to be several million, possibly as much as £10m. Evans believes that in time it could represent around 10 per cent of RPC’s overall business.

“This will not be a sideshow,” he adds.

Similarly, Fieldfisher’s Chissick recognises the need to develop something that competes with the big consultancies, but concedes his firm so far is “miles away”.

“We’re not competing head-on,” he admits. “For us, it’s primarily still an add-on to legal. It’s early days. I’d say it’s not yet an outstanding success but it’s also by no means a disaster. Certainly, clients do like the integrated offering. It removes a lot of argy bargy.”

Complementary services

The fact that Hogan Lovells has launched four separate consultancies over the past couple of years suggests that a worthwhile market is out there and that the big law firms are taking it seriously. The firm now runs a cybersecurity business; a strategic communications consulting business; a transfer pricing business; and a regulatory financial services consulting business, the most recent to launch following the firm’s hire of PwC director Steve Murphy to spearhead the group at the start of July.

Murphy, speaking to *The Lawyer* at the tail end of August, said his big mission now was to “resurrect my network”.

Murphy, who has worked for three financial companies (EY and KPMG as well as Barclays), says he bought into the idea partly due to the recognition that clients like to deal with as few points of contact as possible.

“They’re getting legal advice from Hogan Lovells, the hard black and white facts about what they need from a legislation perspective, whereas we can help turn the business into a compliant operation that meets the rules of, say, the FCA. And we’re sat next to our legal colleagues to make sure it’s all a joined-up approach.

And while PwC now has a £60m legal business in the UK, in the context of a business the size of PwC this is tiny. Murphy insists this is another advantage.

“The ability of that legal practice to touch the consulting side is also very small,” he argues. “I can vouch for the fact that I’ve joined a significantly big law firm but it doesn’t feel like being at a place the size of PwC. It feels more joined-up. PwC is now so big the partner structure is a pyramid itself; it’s putting controls in place which means that even as a partner you don’t have much



Risk management is possibly best looked at from the perspective of lawyers. Ours is a separate offering to insurance clients from legal but it sits nicely in a law firm”

Clint Evans, RPC

autonomy. Here you’re trusted more.”

Murphy adds that part of the reason for his move was that the time was just right.

“At my stage of life, in my early 50s, I could have sat tight for the next few years until retirement, but this was an opportunity to see a big law firm from the inside and experience that,” he says. “Plus their enthusiasm and the commitment they’re putting behind this. They’ve done a lot of research with their clients and believe the model can work. So I’ve got pretty much a blank sheet of paper. It’s like a start-up only within a huge organisation that’s behind you with all that infrastructure and the support network of the legal partners.”

Just what the client ordered

The revenues from Hogan Lovells’ consultancies are funnelled into HL Solutions, the firm’s special vehicle which holds the non-legal services and is owned by Hogan Lovells’ international LLP.

Fabrizio Lolliri, the former France Telecom-Orange group head of transfer pricing (TP), and who now heads Hogan Lovells’ TP consultancy, also argues that it is the integration of legal and non-legal services that really resonates with clients.

“We advise on things like big supply chain projects where companies are changing the way they operate,” says Lolliri. “The structures might work well from a TP point of view but could create legal issues around, say, antitrust. There can be a lack of understanding between lawyers and non-lawyers relating to the risks associated with running a business. Issues can arise because of the disconnect between the advisers, and the need for the lawyers to bring in third parties rather than having it all under one roof. The difficulty is that if you don’t speak the same language, issues might not be spotted right away.”

Lolliri says there is now a team of four “non lawyers” in the UK.

“Hopefully this will be up to around 10 by the end of the

year,” adds Lolliri. “It was hard at the beginning; trying to get our lawyers to understand how things work outside the legal world, getting them to ask questions, getting them to work together, getting them to understand. Since last year it’s started to pick up pace. You do it by spending a lot of time with each other. We’re currently working on two very large supply chain projects, one in the travel sector and another in drinks and beverages. We were in a competitive pitch with the Big Four and won it.”

Pricing and profitability

As with any business, pricing and profitability will be key to the long-term success of these new ventures. *The Lawyer*’s research suggests that so far at many of the consultancies, rates are set to match those of a firm’s lawyers and partners. But as with most things, there doesn’t appear to be a one-size-fits-all approach, even within the same firm.

Murphy says that from a pricing perspective, his consultancy can charge 50 per cent or less of Big Four rates but has costed it in a way that will allow the growing business not only to represent clients among Hogan Lovells traditional base of major banks, insurers and wealth managers but also those a tier down in terms of size such as newer banks, building societies and IFA networks.

In contrast Lolliri says that the mix of disciplines means that it can be possible to add a premium in some cases.

“If you’re just penning a deal then generally you’re charging time,” says Lolliri. “To be able to say you’re the one who helped generate X million of synergies means you can sometimes also slap on a premium.”

Eduardo Ustaran, who heads Hogan Lovells’ seven-strong (in terms of core members) cyber security consultancy, says his group is not driven by revenue.

“We’re driven by a need our clients have that we need to serve,” he insists. “Our approach, our philosophy, is more that of being business advisers, the ‘how’ you do something. To add value as consultants. Plus the area in which we practice is well suited to this area. Clients don’t want to know the rates, they want to know the budget. They want certainty.”

Hogan Lovells’ ‘Cybersecurity Solutions’, which launched in April last year and which Ustaran heads, includes advising on the types of security measures businesses need to put in place to protect themselves against hackers, ransomware and so on, although the largest chunk of his practice is traditional legal services.

Certainly, Ustaran’s is the hottest of hot areas right now, with major data hacks and ransomware attacks such as Petya and WannaCry affecting the likes of DLA Piper, the NHS, TNT Express, Rosneft, Merck and AP Moller-Maersk. In some cases, even entire countries, notably Ukraine, have been hit.

“It may be that we need to grow because the need for these services itself is growing,” Ustaran admits. “It’s a logical evolution for us and it’s true that it’s partly a reactive move

The day of the Condor

There is a wide and growing variety of service offerings and structures now operating in the UK legal market. For example, last year Ashurst partnered with alternative legal resource and technology business Axiom to provide up-to-date banking documentation. The move had some of the hallmarks of Allen & Overy’s earlier link-up with Deloitte to form MarginMatrix, an automated document production product in the over-the-counter derivatives market.

In a similar move, at the start of 2017 a Fieldfisher team led by former Ashurst partner Chris Georgiou launched a service providing high-volume, automated bank documentation. Known as Condor Alternative Legal Solutions, Condor is the brain-child of derivatives partner Luke Whitmore and utilises resources both in India and Belfast to produce the documentation.

While Condor is initially focusing on the derivatives and securities financing markets, future plans include expanding its range of services beyond financial services and to offer it to clients across all sectors of the firm.

Fieldfisher managing partner Michael Chissick says that in contrast to the so far slow start made by Fieldfisher Consulting, the Condor business has “exploded”, winning a string of new mandates.

“It wouldn’t surprise me if this will be a huge part of our business in a few years,” adds Chissick.

“It wouldn’t surprise me if Condor will soon be a huge part of our business”

Michael Chissick



as consultants themselves come into the legal services world. But the lines are blurring. And clients have accepted that.

Client benefits

Eversheds Sutherland's international managing partner Keith Froud echoes Ustaran's point about the importance of clients in the emerging law firm/consultancy equation. While Froud says the Legal Services Act 2011 was partly the catalyst for his firm setting up ES Consulting, a bigger driver was the belief that it could be a way to enhance client relationships while also, naturally, picking up additional income on matters.

"It actually started as a general approach to working with our clients and then we focused it around some specifics," says Froud. "We analysed some of the legal departments we worked with, looking at how they structured their teams and how they approached external legal support. We felt we were acquiring a huge amount of insight, initially around consultancy services to in-house legal teams and how they interact with their own business. So it's the ability to provide a holistic service, how to put the advice into operation for the client. But it has to link to what we can offer and what the client needs. You don't design something that you think is great but the clients don't need."

Froud admits that there are of course competitors in all of these consultancy areas, conceding that as a law firm Eversheds Sutherland is less familiar with that market. But then, there are some specific potential advantages in offering consultancy services from a law firm.

"As lawyers we can bring legal privilege," points out Froud, "and clients are alive to this."

But primarily, as he admits, it's the effectiveness of the offering that is the sales pitch.

"It obviously has to be high quality so this might mean recruiting external talent," adds Froud. "Our consultancy team of around 40 is a mix of lawyers and consultants who've joined us. It is a drop in the ocean compared to the Big Four or other large consultancy firms and we have to be realistic about that. But we've found that not only can you develop a business that is substantial and profitable but that it is also one that links in with other parts of the business. This is the key point. That's where you combine the two and go to market together. You create wider opportunities."

Froud highlights a recent matter where his firm's financial services regulatory experts were working with the firm's ES consulting team and where he says from day one the client ["an institution with lots of impressive firms on its panel"] saw the benefits.

"The client asked for a capability statement showing our regulatory expertise," recalls Froud. "We put it together and thought it looked good. But then we talked about our consulting arm and it turned out to be a great differentiator. We know it was because they said it was."

"It then led to other work streams from that. If we hadn't had consulting we'd have had to rely on working with a third-party consultant. Now, we do that anyway, as does our consulting team, but we might not have won that work because the client might have thought it's not as efficient, or as a best result we might have had a smaller part."

Law firms and their consultancies

Firm	Non-legal consultancies
Addleshaw Goddard	The Client Development Centre; AG Consulting
ASB Law	ASB Consult
Ashfords	HSC; P & IR
Ashtons Legal	Ashtons People Solutions; Ashtons Franchise Consulting
Bates Wells Braithwaite	Advisory & Impact; Compliance; OnBoard (Charity Governance)
Bird & Bird	Baseline; Questro; Cyberbox
Blake Morgan	Blake Morgan HR Consultancy Service
Bott & Co	Paul Rosenblatt
Brachers	Kent HR Consultancy; Brachers Wealth Management Company
Capsticks	Capsticks HR Advisory
DAC Beachcroft	The People Pool
DWF	Connected Services; dwf 3sixty; dwf ventures
Eversheds Sutherland	ES Consulting; ES Agile; ES Ignite
FBC Manby Bowdler	FBC Manby Bowdler HR Services
Fieldfisher	Fieldfisher Consulting
Gateley	Gateley Hamer; Gateley Capitus; Entrust
Hogan Lovells	Cyber Risk Services; Strategic Communications Initiative; Engage (LawTech); HL Solutions
Kemp Little	Kemp Little Consulting
Lanyon Bowdler	Ogee Marketing
Ledingham Chalmers	Employer Led (HR offering)
Lewis Silkin	Lewis Silkin Corporate Finance Advisory
Mishcon de Reya	Mayfair Private; Mishcon Discover; Mishcon Private
Morton Fraser	Financial Services Advisory
Nelsons	Nelsons Independent Financial Advisors; HR Consultancy Services
Paris Smith	Line Manager; HR Training
Pinsent Masons	Brooke Graham; Yuzu
RPC	RPC Consulting
Wiggin	INCOPRO
Withers	Withers Consulting Group
Wright Hassall	Data Protection

Froud confirms that the revenue generated by ES Consulting is "getting into the double digits" in terms of millions. A ball-park estimate puts it at somewhere around £10m to £15m. In five years' time?

"I don't think we or anybody else are about to go completely berserk and say that £10m will be £100m," admits Froud, "but we see increased client demand and opportunities in a range of different markets. A growing number of clients are motivated to find different kinds of solutions delivered in different ways and we're reacting to those needs. But any firm has to think carefully that they're investing in an area that is complementary and that it fits as part of their wider offering and skill sets."