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Commercial Awareness Guide

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Oh hey! I'm Sophie.

I'm a solicitor based in London, writing Law With Sophie to offer guidance and support to aspiring solicitors.

I wrote this Commercial Awareness Guide because commercial awareness is one of the key skills that law firms look for in applicants - and yet, what it is (and how you can develop it) feels like a bit of a mystery to so many!

In this guide I'll share what commercial awareness means to me, and some key resources for you to use.

Hopefully the guide will give you a basic understanding and act as a decent springboard for you to begin to form your own ideas on commercial awareness!

I really hope you find this guide useful!

Sophie x

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So – commercial awareness. What is it?

Put simply, being commercially aware means having an understanding of the environment in which law firms and their clients operate.

To me, this basic definition can then be split into two elements:

One

Understanding law firms' clients - both the sectors they operate in, and their specific businesses.

Two

Understanding how law firms operate successfully as commercial enterprises.

Part One

Understanding law firms' clients

QUOTE:

"Understanding clients' organisations and the markets they operate in enables lawyers to provide quality advice that helps the client achieve their aims."

LawCareers.Net

Lawyers don't advise clients in a vacuum

Lawyers need to be able to analyse legal issues in the context of their clients' industries.

How to start developing this skill? Firstly, it's all about identifying your firms of interest and their typical client bases.

Once you know the sort of clients the firms advise, you can then understand the sort of sectors these clients operate in.

The next step is to start developing an appreciation of the typical issues that businesses in those sectors face.

Read on for how, and a worked example.

Okay, but how do I learn about sector issues?

By following industry developments closely.

My advice here is to keep it simple: dedicate a small amount of time each day, pick a few key sector-specific issues, and track the developments (more on how, later, and see the Appendix for some great resources).

Hopefully this won't be too big a departure from your usual day-to-day, as commercial lawyers should be interested in the business world, anyway!

It's also important to note that building commercial awareness is an ongoing practise - it's a mindset, not a 'skill' you can acquire quickly. And it continues for the rest of your career (sorry!).

So keeping abreast of the news is a good habit to get into, and this guide very much has a long-term view.

Each client has unique issues to be alive to

As lawyers, technical excellence & sound advice are assumed.

Our clients *actually* come to us to (1) spot/help with a legal issue, and (2) come up with a **commercially workable** solution to it which works for their specific business.

There's little point in crafting some beautiful, technically superb drafting if the underlying premise doesn't work in practice for the client.

This is where the importance of building **close client relationships** also comes in - so that you thoroughly understand the strengths and weaknesses of the business, and what the client wants to achieve from a given matter/deal. (Also essential for taking **accurate instructions!**)

The skills on this slide obviously come with time and increased knowledge! But interviewers will want to see that you're starting to develop them.

See the next slides for how to apply your knowledge to clients, and a worked example.

Applying sector knowledge and understanding clients' issues – a framework:

01. Identify key clients of the firms, and the sectors they operate in

02. Pick a couple of these sectors - ones that interest you

03. Research key issues in these sectors (see the Appendix)

04. What effects are these issues having in each sector?

05. How are these effects impacting clients' operations?

06. How might law firms need to advise, as a result?

The framework in more detail

01

Identifying clients & their sectors

Draw up a loose list of some of the key clients of your chosen firms. (The resources I mention in my [law firm research guide](#) might be a useful starting point.)

Speaking with people who work at each firm about the types of matters they work on & the clients they work with will be invaluable for coming up with original ideas for this - instead of trotting out the same examples from the firms' websites as other applicants!

02

Picking sectors of interest

Now it's time to draw up a list of the sectors these clients operate in, then refine the list to those sectors you have a **genuine interest** in.

Why? There's zero point in keeping up-to-date with issues in the insurance sector, for example, just because the firm acts for lots of insurers, if it's of no interest to you! Your motivation will soon dwindle. (And maybe that firm's not for you...!)

03

Researching sector issues

You should now have a list of some sectors which your fave firms' clients operate in, that you're also passionate about. Now it's time to build up some knowledge!

Aim to spend at least 10 minutes a day utilising some of the resources in the **Appendix** to soak up information. Make a note of issues relating to your chosen sectors as you go - be it ongoing news stories, or new legislation. Add developments as time goes on using **my commercial awareness tracker**. As I said, this is a **long-term game!**

The framework in more detail

04

Identifying effects of sector issues

On a periodic basis – and definitely before any interviews you have – aim to draw up brief summaries of the effects of the sector issues you've identified and been tracking.

The trick here isn't to get hung up on perfection, or being an expert on the topic. Research any related concepts you're unfamiliar with, yes. But think of your aim as being able to very simply explain to someone unfamiliar with the topic what the result of the sector development is.

05

The impact on clients' operations

Now it's time to take your knowledge to the next level! - by applying the developments to hypothetical clients.

Try to make this as specific as possible: will they need to change how they do business? How? – using very simple examples, are costs of an item increasing? Is the risk of carrying out a certain activity greater? **PESTLE analysis** is a very useful tool for thinking about the external factors influencing an organisation.

06

Analysing the role law firms play

Finally, it's time to bring everything together and think about what the lawyers might actually need to do!

Can you think of some practice areas related to the issue, and potential topics of legal advice which the clients might require?

Again, perfection won't be expected, but it's great to show your interviewers that you've started to think about these issues!

The framework - a worked example

01.

I work in Restructuring & Insolvency. We frequently advise banks on the enforcement of the security they take when lending. An example bank that we regularly act for is Lloyds.

02.

So, let's take Lloyds as an example client and financial institutions more broadly as an example sector.

03.

A key development in the financial sector has been the introduction of the Corporate Insolvency and Governance Act 2020, which introduced several temporary measures in response to the pandemic (and some permanent ones too).

04.

This act has many effects, but some examples are:
(1) a moratorium has been introduced, protecting debtors from enforcement action
(2) the ability of creditors to issue winding up petitions & statutory demands has been suspended.

05.

This affects financial institutions such as Lloyds by curtailing their ability to bring enforcement action. If borrowers under loans they lend are defaulting, their options are more limited.

06.

Law firms are reacting by advising lenders on contingency planning where borrowers are in default - looking ahead to when more enforcement options are available - as well as on restructuring the debt in the interim.

Not as bad as you thought, right?!

Through using my framework and the commercial awareness tracker, you should now have a nice bank of applied examples to use in your applications and interviews. Great work!

Part Two

Understanding law firms as businesses

QUOTE:

"Commercially aware candidates appreciate that the law firms they are applying to are commercial enterprises. Whichever area of law you decide to go into, you must demonstrate that you can help to drive your firm's business forward."

LawCareers.Net

Remember – law firms are businesses, too

... and understanding your role in them is an important facet of commercial awareness.

Having this understanding is critical to ensuring you can deliver:

1. The best results to your client
2. In a cost effective way.

To me, this is true 'commerciality'. It's understanding how you can maximise efficiencies and productivity, therefore increasing the profitability of your work. And really 'commercial' junior lawyers also recognise that they can add value by doing so.

The following slide and the financial metrics should give you a basic understanding of how law firms analyse the efficiency and profitability of the delivery of their legal services.

So – how do law firms actually make money?

Revenue is generated by the firms' clients simply paying for the lawyers' time.

A firm can charge for its lawyers' time on an hourly basis (at either the "rack rate", or a discounted rate), or - more commonly - they may agree a fixed fee/fee "cap" with the client.

The firm can only really make a profit if it's able to **provide the advice in a way that incurs less costs to it**, than is actually charged to the client - which, in my experience, can be rare! "Writing off" time (i.e. cancelling time on the matter file which can't be billed to the client) is very common. Clients increasingly want "**more for less**".

So what sort of things is it useful for you to appreciate? To me, it's vital to understand the need to prioritise the provision of **practical, innovative advice**. Can any element of the advice be delegated to a paralegal or apprentice, to reduce the fee incurred for the same piece of work? Can legal technology be used to improve efficiency? And so on.

Keeping an eye on the law firm profitability and efficiency metrics considered in the **next page** is also key.

Classic financial metrics used by law firms

01

Utilisation

This is essentially a measure of a fee earner's busyness (so you want this number to be high!). It's calculated by looking at the percentage of a fee earner's total time that is actually billable to clients.

03

Leverage

This refers to the ratio of partner hours to associate hours recorded to a matter. This is another key indicator of profitability, as partners have higher fees, so the more associate time to a file (i.e. the more 'leveraged'), the better.

02

Realisation

This is a profitability measure. It's the percentage of time recorded to a matter that is actually paid. So, it takes into account things like discounts agreed & write offs of time. It's uncommon for a matter to have 100% realisation.

04

WIP

This refers to 'work in progress', which is time recorded but not yet billed. Law firms bill or write off all their WIP. One key way in which juniors can add value is to keep an eye on the WIP on the file and inform the associate if it is nearing any agreed fixed fee/fee caps.

Further reading

For more info on law firm metrics, I highly recommend this [article](#) as well as this [Youtube video](#) by Shearman & Sterling.

This [article](#) on how law firms operate is also really useful.

Strengthening this sort of commercial awareness

I fully appreciate that it's pretty tricky to understand how law firms operate as businesses from the outside. Here are my recommendations for gaining more insight:

Work at a law firm

This is simply the best way to experience first hand the machinations of how a firm runs as a business. It doesn't have to be a legal role - admin, accounts, marketing etc. will all be great experience. I know from first hand experience, as I worked in marketing at a Magic Circle firm whilst finding a TC, which hugely improved my applications.

Life experiences

Working and volunteering are fantastic ways of understanding how organisations operate. What you gain from these experiences can be translated, to allow you to think about how they may be relevant to law firms. Working in an office setting, in particular, will stand you in really good stead. But anything counts - part time jobs in hospitality, society roles, whatever!

Ask insiders

I know it can be really tough getting any sort of role in the current climate, so the next best thing is to simply ask the people you interact with at law firms. Let them know you're really interested in learning more about how the firm operates as a business, ask some interesting questions, and I'm sure they'll be more than happy to share what their thoughts are!

So – that's it.

My two pence on commercial awareness! I really hope you found this guide useful, and I would welcome any feedback or suggestions!

Appendix

Useful resources for building knowledge

Useful resources

01

Books

Sometimes, the old school is the best school. I don't think there can be many law applicants who *haven't* read one of **Christopher Stoakes'** books (my 2011 edition of "*All you need to know about the City*" is still sat on my shelf!) These are particularly good for teaching you about market operators. If you don't know your debt from your equity, [start here](#).

If you're interested in legal tech, I would also really recommend [Richard Susskind's](#) pre-eminent publications.

02

Watson's Daily (£)

By far and away the most popular resource with my followers! Peter Watson gets up at 4am every day to summarise the news into a simple, distilled format.

Membership is required and this is a paid resource (ranging from £3.99 per month to £9.99 per month). You can however get a short free trial to see if it's for you.

And the short daily podcast (see opposite) is free!

03

Podcasts

Podcasts are a fantastic resource for absorbing information, and can almost be done passively whilst doing something else. Some @lawwithsophie community favourites are:

- The Financial Times News Briefing podcast
- Watson's Daily podcast
- The Commercial Awareness Podcast
- Trainee Talks by the Corporate Law Academy

Useful resources

04

News updates

For time poor aspiring lawyers, quick summaries of the news are an absolute godsend! In addition to Watson's Daily (above), some great examples are:

- Finimize (£)
- Economist Espresso (£)
- LinkedIn daily news
- New York Times morning newsletter
- Morning Wrap
- Girlboss Daily

05

Broadsheets

If you do have a little more time, sometimes you can't beat a proper news outlet.

The broadsheets can be relied on for quality journalism which has been well-researched.

- The Times (£)
- The Guardian
- The Telegraph (£)
- BBC Business

06

Websites/Apps

Some other great resources recommended by my community on @lawwithsophie are:

- The Corporate Law Academy - Commercial awareness tab
- The Business Update
- Little Law - Reports
- ComAware app
- The Commercial Law Academy by Jake Schogger (£)
- Google alerts for topics you're following