

# Briefing

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## SMARTER LEGAL BUSINESS MANAGEMENT

**STAND AND DELIVER**  
The facilities function at Mills & Reeve on handling a move to hotdesking

**HIRE POWERS**  
Top firms tell us whether they're ready to recruit for themselves

**CLOUD AND PROUD**  
Clients are turning firms around to the business case for cloud computing



## Team players

*Cornelius Grossmann, global head of law at EY, on why law firms can't beat the Big Four when it comes to the collaborative pitch*

## INDUSTRY ANALYSIS



# Practise your profitability

Richard Hill, regional account manager EMEA at DW Reporting, offers some practical pointers for turning up profit with technology

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rofitability is the primary measure of any successful business. With greater scrutiny of revenue, costs and other metrics, today's firm looks at

profitability in more ways than ever before – client, partner and firm-wide profitability, to name but a few of the possible dimensions.

But at the root of all profitability measures is matter profitability and how much money a firm makes (or doesn't) on a case-by-case basis. For a firm to be profitable and successful it needs to manage profitability at this lowest level – the matter. In other, simpler, words: look after the pennies and the pounds will look after themselves.

## The value of experience?

So how does a fee earner ensure their matters are

profitable? Traditionally, lawyers have used their experience to price matters, but there are several flaws to this approach.

First, assumptions made historically may no longer be true. Over time, fee earner rates change, delivery times (should) get more efficient and other elements or requirements in the delivery of a matter may now be different.

Second, without a detailed review of how a matter was delivered – what was done well or badly, unexpected costs that arose, and so on – a fee earner may inadvertently come to an incorrect price point and institutionalise poor working practices, leading to cost inefficiencies and ultimately a lower profit margin.

While an experience-based approach was acceptable a few years back, today's world is



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different – and clients' expectations have changed. In a climate of lower revenues, tightening margins and increasingly demanding clients, firms need to be more focused on profitability. They should have complete visibility into profitability at matter level, so that both strategic and tactical adjustments can be made on a timely and regular basis.

### Deals with data

A number of law firms now understand that the 'golden', age-old measure (and often the base for bonus remuneration) of chargeable hours 'utilisation' is no longer the be-all-and-end-all. Although important, it's a contributing factor alongside revenue, realisation – and profitability.

As a result, there have been significant developments in the structure of law firm matter pricing, including the appearance of dedicated pricing managers at large international law firms to assist in the pricing and profitability of large, complex matters.

But the real shift is that business intelligence, AI and contextual analytics technologies are at long last able to assist fee earners and management teams with correctly pricing matters of all sizes and complexities.

There are now solutions that provide firms with the capability to effectively interrogate, profile and model their historical matters and create robust templates of how best to deliver legal services at the right price point and profit margin in future. And they can continuously track matters against forecast budgets, proactively identifying potential areas of overspend or other unexpected activity.

These new capabilities also give firms the ability to manage multiple budget versions on a per-matter basis and fine-tune these as more information is established, managing customer expectations throughout.

From a business perspective, what does this mean? Improved firm profitability, for sure – but also greater sensitivity to costs and more awareness of how profitability is impacted with each and every matter.

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### Not for everyone

Another factor is the correct utilisation and leverage of a firm's fee earners. With the help of pricing tools, smart firms are moving away from a 'bums on seats' approach to work. And they're more focused on finding matters that add value to the business.

By incorporating matter pricing practices and technologies into the day-to-day running of the business, firms can get the fee-earning team to become more commercial in its approach. Indeed, firms are now using pricing solutions to evaluate whether they should bid for new clients or work before spending significant time and effort on panels and pitches.

Last, and by no means least, better pricing solutions and proactively tracking matter budgets leads to better client management. Fee earners can have more effective business conversations with clients about the delivery of services – the associated costs and various options against budget limitations. Moreover, tracking matter budgets in real time gives fee earners the ability to have more constructive conversations with clients regarding potential overruns before that work is delivered – as opposed to a situation where work is delivered over budget and the difference written off.

In an increasingly competitive and complex market, maintaining profitability should be a mainstay requirement for both fee earners and management. It depends on accurate pricing and cost-effective delivery – and the smart firms are now turning to technology to give them the competitive advantage. ▀