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Briefing

A NEW ERA FOR LAW FIRM GROWTH

MARCH 2015

Feature

Getting ahead

Law firm finance on where the future growth will come from and exactly how to get there

Industry views

Cashflow questions

Industry insight on the information needed to power up your profits

Growing gains

Norton Rose Fulbright COO Mark Whitley on winning brand power through project working and prioritising innovation

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Bigger but better

Letter from the editor

As the great and the good gathered for the Global Law Summit – marking 800 years since the sealing of Magna Carta – at the end of February, a report from TheCityUK revealed that in 2013 firms in the UK had enjoyed their strongest growth in six years.

Forecasts are that this trend will continue, but firms are also growing differently – not just up, but also out. The report finds the UK has tightened its grip as the leading international centre for legal services. However, UK firms are increasingly expanding their own horizons, whether seeking a slice of tasty new revenues from emerging markets or outsourcing functions, and indeed legal work, to cook up creative new recipes for cost control and client value. Even firms not embarking on any foreign adventures are exploring many more avenues to optimise their models.

That's the backdrop to this edition of **Briefing**, in which we speak to leaders at **Withers**, **Parabis Law**, **Shoosmiths**, **DWF**, **Brabners**, **Stewarts Law** and **Kingsley Napley**, as well as **PwC** about how legal business is achieving growth with profitability.

Our main interviewee, **Mark Whitley at Norton Rose Fulbright**, tells us how his firm has differentiated its way into claiming one of the very top global legal brands of the future.

Plus, there's a truly bumper industry voices section including an interview with **Econocom's** Chris Labrey on alternative financing for projects and industry analysis from **eBillingHub**. Please do enjoy!

Richard Brent, editor, Briefing
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Interview: Mark Whitley, Norton Rose Fulbright

Chief operating officer at Norton Rose Fulbright, Mark Whitley, outlines the benefits of a verein structure for expanding horizons – creating cross-border opportunities and inspiring innovation

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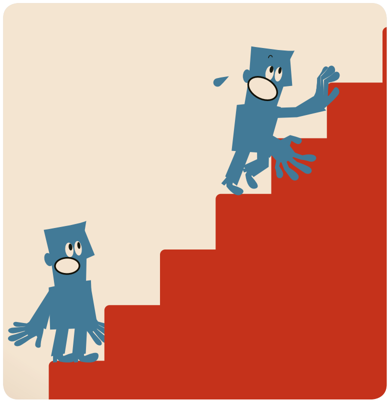
Feature: Getting ahead



From closer analysis of how business model impacts profits, to deeper partnering within practice areas, legal finance and operations heads tell us how they are adjusting for new growth

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All interview photography this issue: Jonathan Goldberg
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Going up

Norton Rose Fulbright weighs in as one of the top three legal brands in the world. Chief operating officer Mark Whitley explains the difference a verein makes, and much more

Words: Richard Brent
Photography: Jonathan Goldberg

In the latest global law firm brand index put out by Acritas (September 2014), one organisation was singled out for a "meteoric rise" in brand recognition following a string of major mergers.

Norton Rose Fulbright has leapt from 15th place in the rankings in 2010 to third place today, bagging the bronze position below giants Baker & McKenzie and Clifford Chance – and cheekily leapfrogging two magic circle firms in the process. And in one of the top jobs in this surging firm is chief operating officer Mark Whitley – just one year inside legal after spending six years reducing operating costs and cycle times, refining processes and building buy-in to transformation at BT Operate.

The Norton Rose Fulbright mergers have, of course, been mergers with a difference. The firm is one of a clutch of top legal businesses to adopt the Swiss verein structure as it goes for huge global scale – simplifying management in so much as the constituent parts can maintain financial independence (a typical sticking point, and potential stumbling block, in many a traditional merger).

It's a path that the giants of accountancy, now setting themselves up as viable ABS competitors to the largest law firms, have trodden before. Limiting their liability, businesses with ambitious international plans are perhaps able to take confidently large strides with a degree of caution.

But both the brand analysts, and unsurprisingly Norton Rose Fulbright itself, maintain that becoming an international verein is also a true differentiator in the eyes of the multinational clients it serves and sees as future business.

"Our business structure under the verein model has enabled us to go to market and meet our clients' needs, wherever they are, as one entity," says Whitley. "We've a capability to work together that we simply wouldn't have without the global connection. If we have a good relationship with a client in one country, we can build that out across the other countries.

"We may also work for the same client across multiple jurisdictions. For example, in the USA we may historically have been focused on litigation [whereas] in the UK we may have focused on banking. Having greater international capability means that we might well move to do both types of law for the same client in the same jurisdiction. We can make our client offering richer with a deeper understanding of their business requirements."

Activity like this grows revenue. "We're growing clients by geography, and sharing information about them generates more referrals for working together in new ways, as local trends and regulations change."

But the practice's biggest differentiating focus is not just to offer clients 'anything, anywhere', he explains – greater global reach into markets intersects with a disciplined focus on opportunities that align with a sector strategy. "The fact our brand recognition is increasing flows from our enhanced presence and servicing client needs in a more flexible, responsive way." But, he says, it's also testimony to the fact that the 'sector-first' strategy is working.

The practice has 'headlights' – comprising energy, infrastructure, mining and commodities, transport, life science and healthcare, technology and innovation, and financial institutions. It's those key sectors that pull the five member firms together, says Whitley.

"They're the areas where we know we're strong, where we identify our main future market opportunities, and which we will therefore market into."

"For example, we have one of the world's leading shipping practices and have used that platform to grow into other key regions that are linked, including New York."

In turn, the sectors make the case for future international moves to further shore up strategic advantage. This time last year, for example, the practice opened its first office in Brazil (Rio de Janeiro), complementing and consolidating a presence in the capitals of Venezuela and Columbia. It also brought in a new hire to head up the Rio office – whose background hardly shrouds the perceived regional opportunity in secrecy. Andrew Haynes was previously assistant general counsel, global corporate (covering all M&A legal work) for BP, and before that was deputy general counsel for BG Group (formerly British Gas, and one of the largest foreign investors in Brazil). South and Latin America are attractive as prospects across a number of sectors – but it's those headlights of energy and infrastructure that the business has firmly in its sights.

Price points

Delivering against its strategy and rapid growth in terms of service and profitability obviously led Norton Rose Fulbright to what we like to call the '**Briefing** way' – appointing key leaders with valuable commercial experience gained from outside the sector. Whitley arrived in February 2014 from BT, where he was managing director of service delivery and created a Lean programme that improved customer service and satisfaction while streamlining costs by over 20%.

"The focus for me is increasing interrogation of profitability – and how we move information we have available to view via systems around to really influence decisions," he says. "We've made some steps forward, but it's an area where there's still significant opportunity to be mined, and we'll need to continue to invest to ensure we're using our data to generate insight that will help us better meet client needs."

Client needs, certainly, but the availability of this information is naturally also key to making pricing decisions for the purposes of meeting the firm's own needs. Adopting the verein model might shelter the firm from some financial management headaches, but it doesn't necessarily grant immunity to the winds blowing through the profession at large.

Last year's annual law firm benchmarking survey run by PwC found that as firms regrouped, and in some cases readjusted their models post-recession, pricing and profitability have risen to the very top of the management priority pile for 2015.

The number of firms saying profitability was their highest priority had "increased significantly" since the previous year's poll. Three-quarters of firms highlighted it, and every one of the top 10 picked it out as a priority for their finance functions. Like many, Norton Rose Fulbright now has a dedicated pricing function (and a head of pricing, which is a far rarer thing in UK legal) on top of its practices, and Whitley says he will be further investing in both that and the infrastructure of legal project management this year.

"Our ability to price according to value to our clients, and as delivery of law gets more complex, is critical. We need to carefully plan how we deliver a transaction to meet both the client's needs on price and our own need in terms of making a profit."

There's a virtuous circle in pricing, he explains, which needs to be designed using legal project management methods.

"The better we become at understanding our clients' real needs, the more effectively and creatively we can plan our matters. And the better we get at legal project management, delivering matters according to plan in terms of scope, time and cost, the more effectively we can price the next one."

The verein model can play a useful part in that process, he says, as no one firm in the arrangement has more power than others, and indeed offices can support one another by recommending process or resourcing changes that will impact strategy, client priorities and profit.

"Often we won't need to plan everything we do completely from scratch," says Whitley. "We have a client relationship programme, and every client can expect to benefit from the collective knowledge of the whole practice. We can take some examples of best practice that have been established in one region and build on them in another. This can serve to accelerate the pace of improvement."

Improving habits

An appetite and methodology for continuous improvement of processes is a key quality that Whitley has brought to bear on his first role in legal. For example, alongside and connected to creating more bespoke pricing, a particular focus of his is forecasting future demand.

"Our ability to forward plan around peaks and troughs in work with more precision will improve our utilisation," he says. "We may or may not need to use solutions such as agency resources in the future, for example, but manpower planning – resource management and skilling techniques – to improve mid- to long-term utilisation and effectiveness is a thing other service industries have been doing for years."

And, once again, the connectedness of the global model has relevance for the future Whitley is visualising. "Can we, perhaps, move certain work between different offices, or around the globe, to make it more effective relative to the degree of specialisation that's required? Scale helps. The more specialised the work, the harder it is to manage utilisation, but the planning of that as opposed to just day to day operational management is a speciality in itself."

Whitley is also midway through a highly ambitious-sounding project to map business service processes across the verein with a view to identifying a range of re-engineering opportunities.

"This is about defining and understanding value and ensuring we see our fee earners and partners as effective customers of our support in business services. Do we understand what they really need to be able to develop more business? We want to continuously improve the extent to which we can meet that need."

That's on top of taking best practice from across the network to perform more effectively at a lower cost, while hopefully improving the internal services.

"For example, issues such as department planning, appraisal and remuneration processes can seem bureaucratic and burdensome – but they're not," he says. "They're there to make the workforce more engaged in the running of the business, and my observation is that they're disproportionately important in partnerships."

Ideas people

An increasingly common piece of the management arsenal in other industries is a recognition that continuous improvement ideas can come from all ranks of a business – not just the owners or senior management (and indeed, that productivity can correlate with such empowerment). Many companies have channels for making suggestions that might improve either business performance or working life that reach from the bottom of the business to the very top, alongside a commitment that ideas which 'work' will be rolled out, championed and monitored.

In line with such a trend, the business has created an 'innovation forum', the goal for which is to harness and drive ideas – and encourage an atmosphere that embraces, rather than dismisses, process change.

"One thing I'm keen on is an approach that tries to pilot and trial more," says Whitley. "Law firms have historically tended to the risk-averse – but in some cases I think business needs to start small-scale and then take a view as to whether an initiative works. The forum is an opportunity for us to discuss and take ideas from lawyers and partners with a view to seeing if they could work, and therefore gaining the benefit that much quicker than following the typical process of analysis and production of a business case."

It's chaired by one of the "more innovative partners", he says, with active engagement from a head of practice as well as representatives of each business service function to drive the collaborative mindset that helps unleash internal innovation from the shackles of hierarchy.

"If we get good ideas, we believe we can trial them and then debate whether they work – rather than simply accepting that something works in theory and signing it off."

And although not introduced by Whitley himself, he says the thinking behind the forum is a good cultural fit with his view of how firms ought to be enthusiastically approaching a new market where supply is outstripping demand, forcing big decisions.

"We are now at a point where the overall industry may not grow massively, and so the challenge is to win in that environment. But disruption surely enables us to win. If the clients were all happy and didn't want change, and the suppliers weren't challenged, trying to build profitability would be a big challenge. A world where clients want change ought to be an opportunity."

"Clearly the accounting firms have deep pockets – but why wouldn't I have the confidence I could compete, perhaps by moving into an adjacent area and providing more strategic advice?

"If we could work differently to offer clients more cost-effective legal advice in some areas, why wouldn't we do that, rather than losing them to new players entirely? Or if other providers can use technology or paralegals, for hypothetically a quarter of the price, why wouldn't we be looking at that ourselves anyway?"

The innovation forum's ditching of a meticulously scrutinised business case is a move dangerously close to verging on the bold – and indeed, Whitley remains tight-lipped about any concrete examples that have emerged. But it could unlock the next light bulb moment that keeps the business's swelling brand in the headlines, and clients in its headlights, for many years to come. ●

Getting ahead

The evidence points to ambitious law firms growing again – if they know what's good for them. Richard Brent asks finance heads and other law firm leaders what matters to their financial health and future profits

UK law firms have emerged from recession, perhaps licking their wounds and blinking somewhat sensitively as they adjust to their surroundings, but not entirely blinded by the sun rising to greet them.

The headline from the latest incarnation of the annual PwC benchmarking survey is that law firms are, indeed, growing again. Eight in 10 firms in the survey increased UK fee income in 2014 (up from 63% in 2013) – with 70% achieving growth over and above inflation (up from 43%). And alongside the usual caveats of 'no room for complacency' and 'learning the hard-won lessons of the worst downturn of the past half-century', signs are also that firms are managing to translate their plied trade into profit. All animals are not equal. Competition and austerity squeezes have meant margins for top 26-50 firms are the worst on record (more on which later) – and a quarter of all firms outside the top 10 hit no more than 20%. But all other bandings saw a modest improvement.

Notwithstanding factors such as significant consolidation in the last two years, and a shuffling up of the mid-tier pack (so previous top performers are now more spread out), the conclusion is that firms are committing themselves to cost-effectiveness and giving careful consideration to their financial strategies.

Spread betting

High on the agenda for those doing international business, of course, is deciding where their revenues will actually come from. Emerging markets, requiring investment in infrastructure to support growing prosperity, remain an attractive prospect after the West-heavy crash – and such firms are continually considering the best routes to tap into such opportunities.

Withers, for example, entered into a formal law agreement with Singapore firm KhattarWong in February – the closest local regulations allow to a full merger – following a launch in Australia in late 2014 and in Singapore itself in 2012. Managing director Margaret Robertson says the move is part of a long-term vision to split the firm's global revenue into thirds (a third from Asia, a third from the USA and the rest provided by Europe).

"At present more than 50% of our revenue comes from Europe and around 30% from the US, so it's a significant shift," says Robertson. "We see a lot of growth in private capital and privately held business in Asia and Singapore is very much a hub for the region.

"As it's a less mature market there's more scope for growth, particularly in the minerals and manufacturing sectors, and as it has become easier to do business there's much greater need for cross-border advice.

"A lot of people with that growing wealth want to live in Sydney – or perhaps send their children to school in Sydney – so that became our next natural move."

In the case of KhattarWong, all 26 partners will become partners of Withers. "Regulations state Withers can only have up to a third of KhattarWong's shares or profits, but nonetheless they are all becoming partners in the firm," says Robertson. "Singapore advice will still have to be provided through the Singapore firm, but our interests will be aligned and they will be working with us just as closely as all our other partners do."

Margins for error?

The strategic move is a good example of a key point to come out of PwC's survey for these firms focused on rejigging their global gearing – that, despite the obvious attraction of less mature markets, international profit margins can prove a drag on UK figures. PwC suggests firms will want to carefully consider the efficiency of the international business models they adopt to minimise any dilution effect.

The fundamental problem is differing staff-cost to fee income ratios (which, for example, average 62% for top 10 firms in AsiaPac, vs 39% in the UK) – attributed to both different reward arrangements and often significantly higher utilisation in the UK. Top 10 firms, for example, achieve average UK utilisation of 1,559 chargeable hours (for lawyers with one to five years PQE) – which may be up to 26% higher than output from international offices.

"This isn't to say, of course, that some firms don't have highly profitable international operations," says PwC partner Kate Wolstenholme, who co-authors the report. "But firms need to have a very clear strategy for where they are going and why, and be clear in their minds what success looks like. Often the rationale we hear is clients expect the firm to be there – but you have to plan and set an expectation either of your local profitability, or the loss you are prepared to tolerate because it's justified by some other return elsewhere in the network.

"As global profit-sharing can be an emotive topic, that also means you can talk to UK partners in detail about why investing in new areas is worthwhile."

Plus, once in place, firms will also want to keep an eye on models in terms of factors such as equity partner numbers in new territories.

"If you have either a higher proportion of junior partners or fewer partners, you don't need to make as much profit to cover your partner take. So one thing to watch out for is risk in the model in terms of leverage," explains Wolstenholme. "The higher the leverage of fee earners to partner, the more you have to question whether that partner really has time to supervise the workload, and whether the model can work." In some geographies, she says, firms may need to introduce more fixed-share or salaried partners to address the balance.

A degree of cost control is also increasingly being wielded through a 'hub approach' to international expansion – such as driving traffic through Singapore in south-east Asia, she says. "Clearly you can lose some back-office economies of scale with smaller, standalone operations, and we do see firms trying to consolidate some of their support functions within a region."

Shapes and sizes

Optimising the financial efficiency of models and processes is naturally also high on the agenda for firms looking for profitable growth in the UK.

A few, of course, have done so by seizing the opportunities suddenly available through the Legal Services Act. Parabis Law, for example, is slap bang in the middle of the set of firms who seem to be most vulnerable – but its strategy definitely serves to set it apart. It became the first alternative business structure to be backed by private equity back in 2012 – and as recently as December secured a further £13m investment from private equity house Duke Street to continue along the path, including establishing joint ventures with partners in other industries. In October it was named legal industry pioneer at the FT Innovative Lawyers awards.

"When you have investors there's a real premium on certain types of profit," says the firm's commercial director, Tim Roberts. "We've done a lot of substantial outsourcing-type deals, and in such cases it isn't just about the profit inherent in each deal. The longevity of the arrangement attracts a multiple effect to the business."

Roberts distinguishes between margin and his focus on "strategic margin". "In many law firms a relationship partner might bring in a bit more work, and obviously that is a contribution, but there's no real long-term benefit," he says.

And making profit for investors, rather than stripping it out in annual remuneration, requires financial management changes to match.

"Classically, a law firm might have a budget set up by a number of offices or report its numbers with reference to key clients," says Roberts. "Ours is more service line-oriented. There'll be a practice head or senior partner role responsible for strategy, but they're supported by operating directors that are obviously responsible for profit and loss in the entity. Then, further up the structure, which is wider than just law in our group, you

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have service line directors on an operations board.

"I think a number of law firms are moving in the direction of that more corporate structure. Clients are wanting more transparency around value for money, and that puts more pressure on the idea of personal profit and loss."

Natalie Griffin, chief operating officer of commercial services at DWF, essentially outlines her role in change and efficiency thus: "Can we get from A to D without having to go through B and C? Just because we've always done something a certain way doesn't mean we have to do it that way moving forward."

The philosophy has been thrust to the fore at DWF owing to its growth through multiple mergers in recent years. In July last year it reported a modest 2% increase in revenue, but a 23% increase in net profit.

"We've had to harmonise five firms, all used to doing things in slightly different ways with different systems and processes," says Griffin.

"Doing that you need to think about the impact of change on everybody, stepping back to look at the business as a whole. It's important to be open-minded, and to pick the right processes and structure – rather than saying this is how DWF does things so it's how everybody's got to do it."

Reporting for duty

Griffin says DWF has a track record of recruiting people from a range of backgrounds to drive this openness to alternatives. She is a management accountant herself (previous roles include Barclays and Jaguar Land Rover). But another of her lessons is that while growth and process change might be complex, the accompanying financial gains must be demystified from being a perceived dark art to drive the desired results.

"People can find it all a bit cloak and dagger, not really understanding, and it's important to break down any barriers like that quickly. I'm a facilitator as well as someone who engineers change – and I need to get people to participate fully."

And that means not over-engineering things for those on the ground by layering on lots of theory, but simply and clearly linking deliverables to their benefits, she says.

Roberts agrees: "Law firms are sometimes reticent to share financial information. But it's no good asking people to achieve something and not explaining why. You're going to get a better response if they are informed about what their contribution means."

"Clients are wanting more transparency around value for money, and that puts more pressure on the idea of personal profit and loss."

Tim Roberts, commercial director, Parabis Law

Griffin is a "great believer in transparency of information". "All our financial information is now automatically produced and refreshed overnight rather than waiting for so many days after month end. People have to understand how you're measuring the firm's success, as well as their success personally – and the

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availability of that information becomes more and more important as a firm such as ours grows."

Chris Stanton, Shoosmiths' finance director, says KPIs can only go so far. "We try not to overcook things with KPIs too much, keeping the number relatively low. It's about being as clear and specific as possible in terms of priorities. Otherwise they can prove more of a hindrance than a help.

"It's important to be clear with everyone about what to concentrate on, but also to ensure things aren't seen as just a current fad. Processes and targets ought to be embedded in people's thought patterns, rather than blowing in the wind of a management that keeps chopping and changing its mind."

But a KPI more firms could certainly benefit from is a better way to assess the financial effect of how well they are developing their people, he says. "There isn't a great deal of visibility on that. The best you probably have is yearly appraisals and churn rate, which is quite a crude level of metrics."

Virtuous circle?

Nevertheless, it was the supposedly simple metrics – around lockup management to streamline cashflow – that emerged from PwC's survey as one of the biggest threats to profitability for all law firms looking to grow again.

"It needs to be a constant, especially if firms are getting larger and business levels are rising," says Stanton. "It's too easy to lose focus because you're so busy servicing the client. You can forget you have to service your own firm as well."

PwC's Wolstenholme: "Lock-up days are still significantly longer than in many other businesses, and it can be a cultural problem. It's quite easy for fee earners to say it's just the nature of the business, but you can add structure around it and manage more rigorously. There's scope for firms to be more disciplined, from initial scoping with clients through to agreeing billing schedules upfront and putting more thought into defining the milestones that will trigger payments."

"Lock-up days are still significantly longer than in many other businesses, and it can be a cultural problem. It's quite easy for fee earners to say it's just the nature of the business, but you can add structure around it and manage more rigorously."

Kate Wolstenholme, partner, PwC

Perhaps a partial solution to this lies in another rather more positive trend – increased "business partnering", with business services having closer ties to individual practice groups.

"We're seeing some finance departments, in particular, wanting to be much more involved in really driving profitability, rather than just reporting historic numbers," she explains.

At Kingsley Napley, each practice area has a named finance partner – and the finance director holds WIP meetings with partners and senior associates on a monthly basis.

"That has improved performance considerably," says managing partner Linda Woolley. "It's about maintaining good discipline in working capital management – and he's also able to provide support around issues like changing the billing pattern or any conversations they might be having with clients."

A hard copy of a full set of management accounts is also circulated to partners monthly, leading to further catch-ups covering practice area contribution, debt levels, utilisation and case management. Utilisation figures are also published weekly.

Appetite for partnering is an approach that might rub up against some other financially strategic choices though. "If you outsource or offshore support functions you have to work harder to maintain the connectivity," says Wolstenholme. "I know one firm chose not to go down that route because they so liked having support teams down the corridor."

At Stewarts Law, which has set out its stall to be the leading litigation-only law firm, profit per equity partner broke the symbolic £1m barrier in 2013. Longstanding managing partner John Cahill puts the firm's growth down to a strategy of determined differentiation, stressing points of uniqueness within practice groups, but also a set of strict profitability and cashflow criteria for any new business to pass through.

He recently assembled a blueprint for consumption by all practices, clearly outlining the key strengths to be stressed in business development activity – whether that's a conflict-free position for financial sector cartels or the fact the firm is unique in handling aviation fatal accident claims.

All work taken on, however, also has to produce a high net profit – the first of his five profitability 'filters'.

"That may sound obvious, but there are many law firm departments that don't address it," he says.

The second is to achieve high realisation rates. There are firms that will have a headline rate of, say, £500 an hour, but only recover 80%, he points out. The third, he says, rather unusually, is that each department's overall income must generally fund its own equity partners. The fourth is a process of reviewing and enforcing fixed value thresholds for any new business wins – work that will otherwise be turned away. And the fifth is to ensure a balance of contingent and non-contingent work.

"That's about planning cashflow, because it's all very well doing fantastic work but if you aren't paid for it for three or four years you'll go bust," he says simply.

"There's no partner at the firm with the authority to accept instructions on a new matter immediately. We have stringent file opening procedures, and a new case analyst who's empowered to go back to a partner if, for example, they haven't identified the required value up front."

Janet Pickavance, chief executive at Brabners, says her firm "always operates well within our overdraft facility". "If you're bumping along your overdraft limit everyday you only need a small blip in cash collection and you're in trouble. Our payment of distributions is always governed by cashflow, rather than an LLP agreement."

"People have to understand how you're measuring the firm's success – as well as their success personally."

Natalie Griffin, chief operating officer, commercial services, DWF

Fixing price

Cahill's requirements of practices sound fairly straightforward – and perhaps they are, in fact, a rather neatly distilled version of the work many other firms say they're wrestling with around pricing their own

increasingly complex workloads, often disaggregated into supply chains of activity and involving more parties prior to completion. As clients wield ever-greater power in a buyer's market, firms are experimenting with new pricing functions and formulas to ensure achieving value for their clients isn't ultimately at the expense of their long-term profit.

PwC, indeed, is clear that many firms ought to be being "braver" in this area to underpin sustainable growth in a shifting market.

"We've seen some larger firms dropping their prices to compete with some mid-tier firms, some cannibalisation of work down the chain if you like, and that puts pressure on pricing across the patch," says Wolstenholme.

"But firms need to understand it isn't always about putting in the lowest bid for work. They need to know how, and when, to value price. If something is commodity, with a less urgent timeframe, the client can shop around – but if you're providing a premium service, and time's of the essence, you may be able to value price better.

"We're already seeing more peer challenge brought into pricing decisions – reviewing and benchmarking internally to ensure prices are appropriate."

Parabis's Roberts: "In our market you can get very badly hurt by pricing incorrectly. Clients increasingly want fixed fees instead of hourly rates, and that can be quite a blunt instrument, especially if the work is quite variable, affecting the amount of time it might take.

"The future of payment might be to be more outcomes-focused. If I can collaborate through technology to achieve something in a more timely way to benefit a client, why wouldn't my remuneration reflect that? Or an ABS might be in a joint venture with a retailer, where an agreed outcome is lots of happy customers, as demonstrated by feedback scores."

Shoosmiths has introduced various tools to help partners understand how profitable a piece of work is likely to be to help them quote, says Stanton. But the challenge isn't just about analysis of matters, he says. "We've also introduced soft skills training on negotiation with clients about fees. Partners can find it difficult to turn the negotiation skills they use on behalf of their clients on to the clients without being seen as confrontational," says Stanton.

"There's always the risk that what the client wants, the client simply gets."

Brabners has run fee negotiation sessions at a partner conference, says Pickavance. "We've also worked with external consultants on re-engineering transactions to a lower price model."

"Partners can find it difficult to turn negotiation skills they use on behalf of their clients on to the clients."

Chris Stanton, finance director, Shoosmiths

Again, even if they shun employing dedicated pricing professionals to help them improve, perhaps closer collaboration between finance support and individual practice heads could help partners with both

pricing and pitching.

For DWF's Griffin, however, it's another area with the potential for introducing a certain amount of inefficient backseat driving. The pricing tool she has developed simply sits on the intranet for any partner to interrogate the profitability of a fixed fee job at any time.

"Every partner has been trained in using it, and again I think you want to avoid over-engineering by forcing everyone to go through another department every time they just want to send a quote out," she says.

In sum while the business model in growth mode needs to be informed by ever-closer analysis of its numbers (with due consideration to a market where the dust's yet to settle), lawyers themselves need numbers they can understand in nigh on an instant.

Like many other businesses, law firms say they've learned from their boom-time mistakes – and now hope the productivity of financially savvier fee earners, who nonetheless appreciate the importance of adherence to due process, will push them deeper back into the black. ●

ON THE MONEY: REMUNERATION

Remuneration is a major post-recession management topic in the business world at large, and specifically greater ability to reward based on results (and risk). Some law firms have also experimented with introducing greater variability into pay, and the traditional lockstep increasingly appears to be under pressure from productivity.

Kingsley Napley has been down a path of gradually modifying its lockstep for full equity partners. Points now account for 65% of budgeted profit, and the rest is allocated on pure merit following an appraisal.

"It will reflect fulfilling responsibilities, quality of performance, and the performance of the practice area," says managing partner Linda Woolley. "Our remuneration committee of four equity partners makes written, reasoned recommendations to all full equity partners, so it's a very transparent process. A summary of objectives and outcomes are circulated to all equity partners.

Partners can now earn some £150,000 more or less than on a pure points system.

"It's also subjective. We don't run a balanced scorecard. Things like billing and debt collection targets are considered, but only as one factor," Woolley says.

The new system is designed to be better at flexibly recognising overall contribution than is otherwise possible on a lockstep plus division of a small fixed bonus – especially with a number of plateau partners. Woolley cites the labyrinthine litigation surrounding phone hacking, for example, where workload and impact on the firm's profile were exceptional and could be recognised with significant merit awards.

"It's very important to recognise and retain top talent in a highly competitive market," she says.

At Stewarts Law, managing partner John Cahill awards four equity partner points to profitability and four to business development activity, but then two to what he calls "good citizenship" – incentivising sharing of opportunities and actively supporting other practice areas. You need to score highly in all three areas to climb to the top rung of the lockstep.

"There will be increased focus on reward following results, but I also firmly believe that shouldn't be at the expense of a collegiate culture to create any bunker mentality," he says.

Group Head of Finance
London

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Holman Fenwick Willan LLP is a dynamic, international law firm with a reputation for excellence and an impressive list of global clients. With over 475 lawyers worldwide based in 11 countries, they are highly respected for the advice they give on the legal issues which businesses face in relation to all aspects of international commerce.

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Please contact Jessica Hill at Totum if you would like to find out more, jessica.hill@totumpartners.com, or please call 020 7332 6326.

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INDUSTRY ANALYSIS INDEX

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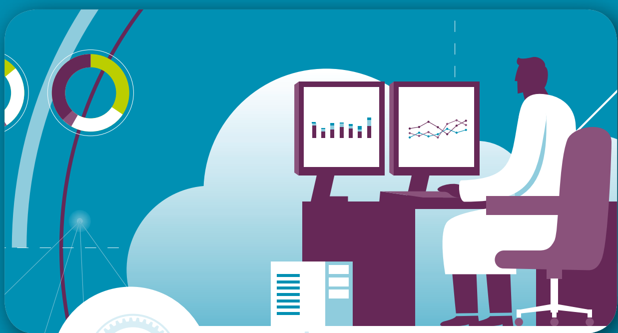
Rolling with IT



Briefing Industry Interview

Rolling with IT

Large technology projects are notorious for running rife with unknown quantities. Law firms ought to consider alternative finance models to ensure their strategy isn't badly stung, suggests Econocom's Chris Labrey

All firms will face the need for a system upgrade at some point in the near future. But how do you make financing new IT more viable to the business?

Investing large amounts of capital in an unpredictable new IT project budget can be an unattractive prospect to a firm's leadership, and its partners. A big spend can choke up cashflow and significantly reduce flexibility. And if, after that, the new rollout is delayed, a firm can be caught paying double – both for the legacy IT and its replacement before it's even ready.

The move from old to new systems can be twice as harsh on the firm's wallet. With 15 years' experience in asset finance, it's what country manager at Econocom in the UK, Chris Labrey, calls the "double whammy" of new system rollouts. Firms are in a quandary, facing expensive overlapping costs before the new system gets the green light. "They see the business value over the next 10-12 years, but it can be a big financial burden today," says Labrey.

There are, however, solutions to the IT conundrum. Alternative routes to financing new IT may free up a firm's leadership, make the business more agile, and build competitiveness in a gritty market.

Typically the cost of software maintenance is around 20% of the licence fee per year, explains Labrey. "Firms will be paying for support on the existing system, while also having to pay for the deployment of another system, that isn't yet live or generating any business benefit."

Big-ticket system changeovers, such as a new PMS, can be troublesome to finance efficiently for other reasons too, says Labrey. It isn't only software costs that are the issue. "I've seen some systems take up to two years to be installed. During that time the software vendor, integrators and consultants are all invoicing the firm."

"A typical PMS project is about 50% software and 50% services," says Labrey. "And occasionally even a 60/40 bias towards services, depending on the level of integration and data conversion needed. On top of this could be additional hardware investment to make the new system operational."

Then factor in the cost of some external consultancy to wire the system into the business's processes, as well as training – and it's clear legal businesses have a raft of barriers to thinking more competitively about their tech.

The "critical path" running precariously through a new system's rollout can mean any element of it might cause delays too, says Labrey. Sometimes this will stretch to even three times the planned duration. "Firms don't want to be cash-negative for a £500,000 or £1m investment while not getting any benefit," he says.

But one route around the chaos is warehousing the new system's costs with a trusted finance partner. Sitting between the firm and its suppliers, a well-crafted finance solution means the finance partner takes the onus of supplier invoicing on behalf of the firm, freeing it substantially, says Labrey.

Partner payment

Creating a financial warehousing facility, paying incoming invoices on the firm's behalf, removes the financial admin from the project. Then, after an agreed period has elapsed, the finance partner can crystallise the project's costs into a lease. This has the effect of vastly improving the firm's cashflow and pleases the partners, who have delayed paying for a product until it is live.

The post-tax benefits of leasing can also mean savings of anywhere between 3% and 10% over the equivalent cash purchase, says Labrey. "Leasing is cheaper than cash because for partners paying 45% tax, the rentals are 100% tax-deductible."

From the partnership perspective, says Labrey, why should a partner have to pay out their share of £1m in a single year, for something that's planned across five to 10 years of business value. "If the partner's going to leave, he or she won't get the benefit of that cash investment. Firms need to match the cost of technology investment with the business benefit."

"Leasing can offer a fairer distribution of the acquisition costs across the partnership," he says. Meanwhile, the business world as a whole is also moving toward a consumption-based model. "People want to pay for something as they use it, legal businesses included. That includes any technology investment."

Alternative financing is making businesses think innovatively about new technology – and for partners, because it means taking less cash out of the business in one go, change becomes more financially viable. Many partners resent investing in IT, as they don't always appreciate the value it brings, says Labrey. "Why take that financial hit all at once? Firms can spread that cost of that big investment over five years meaning the business preserves its cashflow. That reduces the resistance to these projects."

Residual value of technology assets at the end of a lease is another cashflow plus. The firm ends up only paying back 90% or even 80% in the case of new tablets, says Labrey. "There are no benefits to ownership of an IT asset. There are only responsibilities. Assets should be financially managed outside of the firm, meaning the IT team and its leadership can focus on the core business."

Asset inventory

As well as making savings, firms can keep their IT estate up to date with a better handle on what tech is actually in the business. "With a powerful asset management system, firms can get a snapshot of how many laptops, desktops or tablets they have, which is a particularly powerful tool if they're international or have multiple offices nationally."

One reason for firms to take a wider view on technology, says Labrey, may be to solve the problems of post-M&A legacy systems. "There can be a patchwork quilt of disparate IT systems within the same firm. It makes complete sense to drive efficiencies and improve financial hygiene to have one application across the whole business."

A new PMS that operates across the firm solves inefficiencies, such as conflicting data coming from multiple sources. "If you want to control your processes better, then getting everything upgraded into a single system makes sense."

Some software and hardware platforms are also beginning to show their age, says Labrey, which is driving change. "The big data requirements of today's business world means that some technology just isn't up to it. We're seeing significant hardware and software investment that reflects that need."

New competitors and agile firms are entering the next era of legal technology, says Labrey, enabling more flexibility and remote working through cloud-based services. For firms resisting that shift to higher-tech systems, the competition may get too hot.

"The laptop and tablet markets are growing, while desktop is seeing a drop." That's a sign of firms increasingly willing to modernise – and getting the right solution, customised to their firm. The finer details of asset finance will become vital to maximising their value.

"Firms can move forward faster when partners are more willing to invest at the level required, rather than holding off to avoid the financial hit."

Chris Labrey, UK country manager, Econocom

"Investment is more appealing to firms when it's easier to digest," says Labrey. "Firms can move forward faster when partners are more willing to invest at the level required, rather than holding off to avoid the financial hit." And alternative routes to a brighter, more digitised future may be the solution to get them there.

Briefing Industry Analysis

Bird's eye billing

E-billing can offer clients cost transparency and improves cashflow, but it could also provide firms with insight into their wider financial health, says Paula Montgomery at eBillingHub

It probably goes without saying that in order to run a successful business, it's important to have as much data as possible on how day-to-day activities are performing.

Having real-time data makes it possible to zero in on and correct procedures and practices that are inefficient, which ultimately helps firms enhance their bottom line while also keeping client satisfaction rates as high as possible.

Billing is at the heart of any business – it affects customer relations, cashflow and the bottom line. In response to rising client demands in an increasingly competitive landscape, the legal industry has seen tremendous electronic billing (e-billing) growth throughout the past decade.

LSN's recent research into legal technology (Legal IT Landscapes 2015) questioned IT and some other business services roles in the UK top 100, and their answers on the drive towards e-billing were telling – 60% of top 100 respondents said clients are asking them to move to an e-billing set-up for their firm's invoicing, and 25% said that an e-billing solution, internal or external, was something their firm is likely to buy in the next 12-24 months. So, clients want firms to adopt this technology, and for a variety of reasons.

However, although a key benefit of implementing such technology is to deliver a faster and more efficient work-to-cash cycle, many firms have discovered that the e-billing benefits touted by their clients can be elusive. But for firms that have not achieved the hoped-for faster invoice approval processes and shorter bill payment times, technology has been developed to help make these anticipated outcomes a reality that's easier to find.

Pinpointing performance

Progressive firms are recognising how crucial it is to track and analyse their e-billing performance, and are investing in the most leading-edge technology available in order to gain a critical competitive advantage. The competitive advantage isn't coming from being able to e-bill – it's because the e-billing technology is creating vital management information they can use.

By leveraging the tools they need to stay on top of this component of their firms' financial health, they are able to view their e-billing data in the most meaningful ways, and therefore to close in on the most valuable aspects of the business.

With a bird's eye view of overall firm performance and a narrower focus on that of individual lawyers and individual billers, e-billing firms can leverage in-depth data analyses to achieve truly holistic insights into their billing performance, revealing any hidden trends. Armed with such invaluable e-billing data, these firms' administrators can then take the actions necessary to build on specific strengths and improve on weaknesses that they could not identify previously.

For example, drilling down to the performance details of each solo lawyer and biller can help firm administrators assess how each individual is affecting the firm's cashflow, and whether that impact is positive or negative. This pinpoints who in the firm has the most efficient practices and, at the other end of the spectrum, indicates whose efforts should be evaluated for improvement. Administrators can make more meaningful decisions that boost their profits even further.

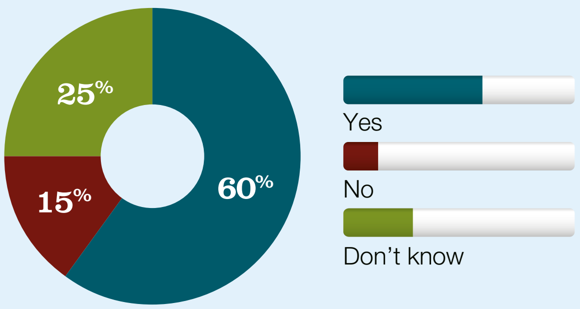
The management information created delivers critical levels of insight, which also allow administrators to benchmark rejection rates and their maximum billing potential for each individual client. These metrics can be used to ensure that e-billing firms never leave any money on the table – which helps administrators determine whether or not the firm is taking action on potential profits or losing out on those that other firms are capturing instead.

Time travelling

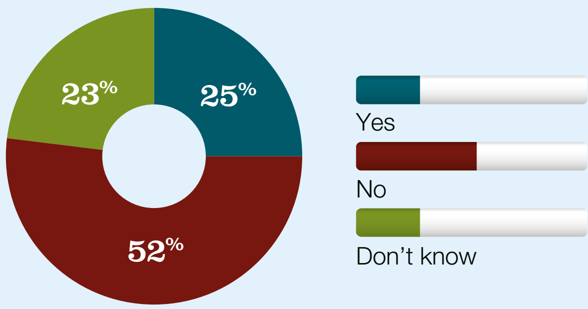
Cutting-edge visualisation of the entirety of a firm's e-billing data is now possible with the eBillingHub key performance indicator dashboard, an advanced add-on capability from the market leader in e-billing.
The new, highly configurable and intuitive dashboard in eBillingHub allows firm administrators to measure performance in ways never before possible – taking billing insights to a whole new level, such as holistic views of data displayed at monthly, quarterly, and annual multi-time dimension intervals. With comprehensive grouping and filtering capabilities, the dashboard provides the flexibility they need to fully explore eBillingHub and manipulate data in the most meaningful ways.

E-BILLING

Are any of your firm's clients asking to move to an e-billing set-up for your firm's invoicing?



Is an e-billing solution, internal or external, something your firm is likely to buy in the next 12-24 months?



Source: Legal IT Landscapes 2015, LSN

The dashboard increases the power and flexibility of eBillingHub, equipping clients with instant access to crucial billing information in easily viewed graphic reports that can be customised to meet specific needs. Firm administrators can leverage the dashboard to instantly identify and analyse the exact billing information needed in the form they want, providing a deeper, customised understanding of their firm's billing performance. These real-time views into the most intricate details of current billing data can be retrieved by navigating easy-to-understand radial menus, including roll-up for big picture or drill-down for details.

The KPI dashboard pre-seeded library makes it easy to quickly set up and create the indicators that the firm uses the most by building out custom data views.

Configurable metrics are available to monitor ageing accounts receivable, collection status, billing progress, and more, with the ability to filter and group KPIs providing maximum flexibility as users explore their firm's e-billing data. Custom KPIs can be easily saved as favourites, while report templates being used by other eBillingHub clients can be accessed and shared on the workspace.

Accessible through traditional and mobile platforms, the KPI dashboard benefits clients with the anytime, anywhere access they need to track and monitor crucial billing events as they unfold. Triggers and alerts can be set to notify users as soon as certain thresholds are hit, keeping clients constantly abreast of any potential e-billing issues.

The highly configurable and intuitively intelligent KPI dashboard is designed to enhance the already robust capabilities of eBillingHub. The introduction of this advanced functionality follows the release of eBillingHub Intelligence, which is a free, powerful benchmarking tool previously introduced to extract the data from the £10.4bn of electronic bills that eBillingHub processes each year.

Powered by Peer Monitor, a leading digital benchmarking programme for the legal industry, eBillingHub Intelligence makes it easy to identify where efficiencies and accuracies can be gained. Because eBillingHub Intelligence is automatically included in the standard eBillingHub subscription, all clients can leverage the additional insight to maximise profits.

Briefing Industry Analysis

Pricing promise

The pricing expert is fast becoming a top recruitment priority for law firms, says Jessica Hill, head of the financial division at Totum

There was a time when law firm life was comparatively easy. The hourly rate dictated every aspect of legal business. Lawyers made their careers off the back of it and clients toed the line. Firms set the rules of engagement, and secured phenomenal growth propelled by year-on-year record profits.

It's little surprise then that clients started pushing back against this clear imbalance of power. But it would be the ever-stronger need to drive shareholder value in the face of fast-globalising competition, and intensified by the impact of global recession, that would accelerate the change. Now the buyer holds the reins. Nowhere is this clearer than in how clients are driving law firm pricing.

No surprises

"Clients are looking to ensure they are getting maximum value for their legal spend. They are seeking budget certainty wherever possible, and they want clear visibility of the status of their work by external providers with a no-surprises working relationship,'" says Darran Stevenson, head of commercial analysis at Berwin Leighton Paisner.

These demands are no greater than corporates have long had to deliver for their own clients. But it's arguably more challenging for law firms, as they must quickly shift from what has long been an internal focus on the needs of the legal business to an external one, in which the client and their perception of commercial value comes first.

"Before pricing a piece of work, put yourself in your client's shoes, and ask yourself – honestly – where you get the value. It's likely to lie in a combination of factors, whether in saving the client time and money, 'just' managing overflow or, alternatively, getting a business-critical job done," says Laurence Kaye, digital media partner at Shoosmiths. “The value may also be personal to the client, such as building an in-house lawyer’s reputation within his or her organisation. Then rank all these value points and build the pricing model from there.”

Pricing professionally

Not that it stops there, of course. Pricing models underpin the whole business. Making them work in a way that will secure profit while satisfying clients has strategic and operational implications that impact everything from highest-level decisions around maintaining and building market share to agreeing day-to-day staffing needs. For most, it’s also one that remains work in progress.

“Pricing needs to be flexible with differing techniques adopted for appropriate packages of work,” says Stevenson. “To remain competitive firms will have to adapt the way services are provided and challenge their thinking around resources and delivery models deployed. Pricing specialists working closely with process improvement, project management and business development specialists will play a key role in supporting this change within the sector.”

As recruiters, we’ve seen this shift in action. We noticed the trend developing in 2013, when more firms started seeking support to appoint dedicated pricing professionals. Each role was slightly different depending on the nature of the business, but common themes soon emerged, including a requirement for strength in financial modelling, excellent project management skills, commercial astuteness with excellent analytical skills (qualitative and quantitative), and a good understanding of pricing theory and its implementation. We don’t see the trend in any way abating as 2015 speeds on. If anything we see the pricing expert fast becoming a norm of legal business.

Looking out

But as firms compete to win talent, the search is getting broader for more specific skillsets. “Today’s management professionals are bringing some well-honed skills and experience gained from outside the legal sector with them, particularly from the outsourcing industry, where margins tend to be thin,” says David Thomas, head of legal service delivery at BLP. “Today’s professionals are increasingly adept at financial modelling, performing trend analysis and taking advantage of opportunities to generate incremental fee income using established project management techniques as they go.”

> *“Pricing models underpin the business. Making them work in a way that will secure profit while satisfying clients has strategic and operational implications.”*
>
> Jessica Hill, head of finance division, Totum

For some years after publication of Richard Susskind’s The Future of Law in 1996, there was talk of how law firms would need to radically change to survive. But the years that followed were largely business as usual. Now (and in the wake of the collapse of several major law firms), we can truly say that the world has changed. At Totum we are privileged to be in a position to continue to help law firms source the expertise they need to manage processes in an ongoing age of transformation.

Briefing Industry Interview

Appreciating value

Andrea Delay, new head of professional services at Barclays, says law firms need to invest in getting closer to their clients in 2015

We often hear how the recession ushered in a new era for the UK's top law firms. They had said listening to clients was at their strategic core before, but now they needed to revisit their relationships and prove the value.

Andrea Delay, head of professional services at Barclays, argues this is the single most important factor that will distinguish future market winners. "Prior to the recession it was really all about top-line growth, but since then we've seen far more emphasis on finding operational efficiencies, cost control and cash management." And behind that drive to better working practices are, she says, the clients. "Clients are looking for value, but that doesn't just mean offering the lowest rates. What's really driving growth is firms' deeper understanding of clients."

She draws comparison with retail – leading the way, she says, in understanding customers by profiling and segmenting based on spending patterns and personal preferences. This creates compelling offers and customer loyalty to brand. Other sectors are following fast in the footsteps – and Delay says the most innovative in legal are doing likewise, whether that's sharing real-time information online or the use of secondees into or across their clients' business to build understanding.

Invest to impress

And yet the structures and systems that will cut long-term costs also require investment – whether in the technology to give clients more power to control and scope matters, or the talent to project manage and price more complex resourcing and supply chains. Firms that don't invest risk being left behind.

"Most law firms are certainly borrowing to invest in relevant people, premises and IT – and Barclays is lending," Delay says.

But the bank believes that around a third of firms aren't borrowing, preferring to operate with a minimum of headroom. "As others in the market innovate, delaying investment could present a risk," she warns.

One issue is likely to be the full distribution model of partner remuneration. "It can be a challenge to convince partners to forego the rewards of immediate cash for the sake of investment in the future," says Delay.

A strategic head start

When trying to secure bank funding, Barclays is keen to understand the firm's strategy for growth. "We'd expect to see evidence of a three-year view in business planning," says Delay. "We would expect there to be a focus on predicted margins and profit by each business area, but we also look closely at a firm's target clients and strategy for growth."

One weakness and risk that can emerge on closer inspection is poor succession planning. That too may be a result of current partners putting this year's profits ahead of the firm's future. But potential lenders want to see evidence of this planning – identifying key talent and future leaders and attempting to retain them.

Succession planning also covers the boardroom – an important check on all of a firm's activity, whether that's spending and growth plans or compliance risks. In recent years, more firms have been investing in non-executive directors to join the ranks of senior management and partners who may have been with the firm for decades. "It's very important to have a diverse boardroom, not just in terms of gender, but to bring together a range of backgrounds and experiences," says Delay. "Board members must feel able to debate controversial issues and challenge."

Firms in which these best practice pillars aren't well grounded will need to invest – or face falling behind as new entrants join the race. Any business hoping to attract an injection of private equity would equally need to convince potential investors of a strong strategy.

"We see increased competition from non-law firms and multidisciplinary practices, particularly the accountancy firms," Delay concludes. "They are businesses with the sort of supply chains that can service the combination of legal and financial advice."

And like the weekly shoppers, clients are attracted to the idea of a 'one-stop shop' destination for the spectrum of business needs. Some firms are matching that level of convenience, but staying close to clients and providing a compelling value proposition is key.

Briefing Industry Interview

Getting the message

A joined-up approach to unified communications is a clear efficiency win for law firms, especially if they have eyes on expansion, says G3 Comms CEO Tony Parish

The global financial crisis solidified a reshaping of investment flows, and legal businesses with international strategies are inevitably considering how best to tap into areas of the world where growth is strong. Whether this involves new offices, expanding a footprint or working closely with a local presence, operational considerations are many – but a top item on the to-do list will always be communications.

A law firm with expansive ambition needs an infrastructure it can rely on that's cost-effective – as it must potentially facilitate team working across many countries to work on a project together, with no seams visible to the client.

"One problem is that firms can spend a lot of time trying to replicate what they already have in their home office," says Tony Parish, CEO of G3 Comms.

"When you move to a new location there's a tendency to find someone local to replicate what you're used to, but that's always going to be reinventing the wheel." G3 is a member of the Unified Communications Alliance, launched in 2013 to streamline multinational deployment of unified communications, and Parish's focus on thinking 'beyond local' reflects this overarching focus on global consistency in comms.

Cost-saving opportunities can easily be missed by not thinking globally, he says – such as one office not realising that calls can go over the corporate network for free. And although you'd hope they'd be well covered in a legal business, there are legal implications to some comms decisions – extending calls to other jurisdictions but missing a compulsory local carrier, for example.

Inconsistent service level agreements can also introduce inefficiencies and risks, says Parish. "When a partner flies from London to Hong Kong for that important, first new client meeting, they could log on to a different user experience." And that, in turn, can impact the client relationship. "It may just be a training issue, but if someone isn't sure how to access calls from somewhere, that's a delay and an interruption to a consistent experience."

Whether overseas or at home, strategic growth also needs to be steady and secure – with the flexibility to adapt quickly if necessary. Comms can be – and G3 is – hosted in the cloud, replacing both capital investment and energy-hungry ongoing operational costs with a pay-per-use monthly fee that covers automatic system updates.

Making presence felt

Working in broader teams – whether across continents or the UK – is also driving more interest in the potential of unified comms. The adoption rate of Microsoft Lync in legal is testament to that – and a more complex, multi-platform comms system needs careful surveillance and rapid troubleshooting in real time.

G3's monitoring tool integrated in its 4D Managed Services is the only one Microsoft recommends for Lync, says Parish, allowing those in the basement to "see the voice performance of every single extension on the network, and track any quality issue in real time". At the same time, 'dependency trees' map all of a firm's network interdependencies to identify the knock-on impact of any loss of performance on other areas.

Well-managed unified comms doesn't just reduce inefficiency and risk though – it also empowers people to be more productive. "In both cases it boils down to faster and slicker client contact," says Parish. "If lawyers can capture and analyse the time they spend communicating with clients more effectively, that's more money on the bottom line."

A new generation of lawyers has been using instant messaging instead of the phone for years, and they are the reason why unified comms will one day be the norm in legal business. And, as firms expand and further break apart the process of delivery, collaboration on documents and management of availability will become a benefit and a must-have.

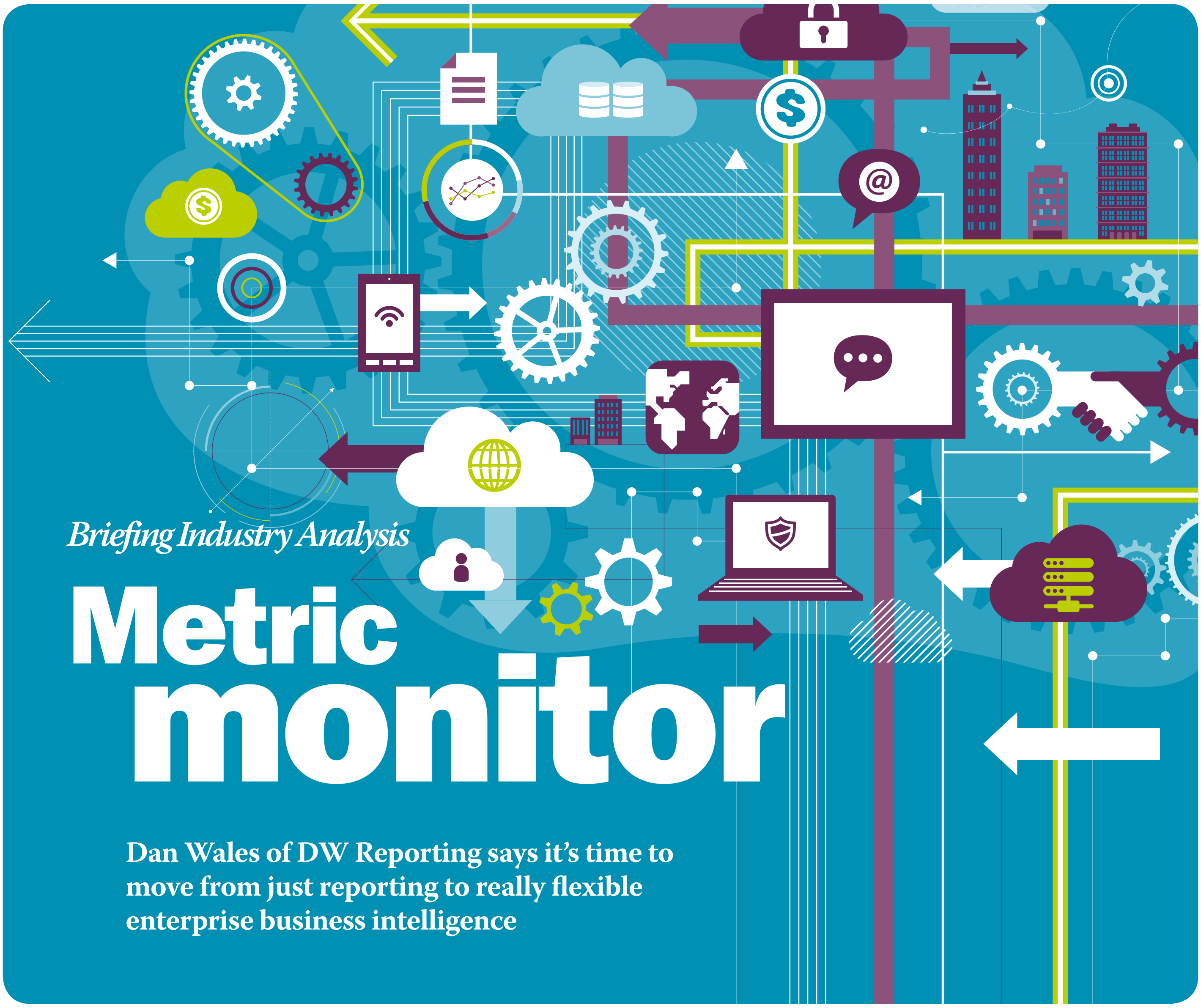
Parish says more firms are using presence functionality and 'persistent chat'-style meetings to collaborate and manage time more effectively as part of a much wider network of contributors on ongoing, evolving projects. With Lync federation, unified comms options can even be extended to clients.

"When we started, there wasn't the same ability to track and archive those kinds of communications, but people are much more likely to use it happily now that it comes with an audit trail," explains Parish.

Perhaps the most innovative future is where all of these trends collide, and comms knowledge is leveraged to create new modes of working. "We've recently developed an iPad app for when a partner is roaming abroad and it's too expensive," says Parish. "They can set up a new call that calls their phone back, because the incoming charges are less expensive.

"With presence, that can also incorporate a conferencing agenda – the roaming partner has half a dozen people on the phone, all of whom can see who has joined and who hasn't, all from their iPad or iPhone."

Now extend that idea to the client – that's cost effectiveness that also creates a consistent, high-quality experience, and comms is at the core of the creation of that value.



Briefing Industry Analysis

Metric monitor

Dan Wales of DW Reporting says it's time to move from just reporting to really flexible enterprise business intelligence

Many think the last six years in the legal industry has been tough. A global recession, more competition for smaller client legal budgets, a push back on fees and the billable hour model have all contributed to greater scrutiny on costs and profitability inside legal business.

But this situation presents an opportunity to fundamentally change and improve the way they market, manage and deliver their portfolio of legal services. Some firms, of course, have already started to embrace this opportunity. To do this, however, they need robust and coherent business information to make strategic decisions with confidence.

This kind of step change in how law firms might monitor, maintain and change all aspects of their organisation places far greater emphasis on the use of effective business intelligence to underpin the management of a law firm and, more importantly, drive behavioural and business change.

In the past, business reporting was mainly managed by the finance teams and focussed on the core financial metrics of a law firm. Now, business intelligence requirements in a firm have expanded and can be categorised into three broad and overlapping tenets: financial, customer and operational business information.

Developing the detail

Today's financial BI is still the 'traditional' view, focusing on budgeting and planning alongside financial reporting on revenue, profitability, WIP, utilisation and so on. But the potential timeliness, delivery, type of recipients and way this data is consumed have fundamentally changed.

Gone are the days where partners will peruse a 50-page report produced two weeks after month end. Individuals at all levels now want access to succinct and timely information on the key metrics of the business, tailored to their business role, throughout the month so they proactively act upon them as required.

In response to the economic shifts around us, there is also an increasing trend for law firms wanting to focus on customer-specific metrics as part of their business intelligence portfolio. Law firm business development, marketing and management teams now want more detailed information on the work they have undertaken for their clients, their interactions and interrelationships, the veracity of the current relationship, potential upsell and cross-sell opportunities, response and ROI on marketing activities and campaigns and so on.

This has given rise to the new area of 'customer' BI that focuses on the revenue and operational objectives related to new business and existing customer retention.

But there are challenges in delivering coherent customer information, as this frequently requires aggregation of data from more than a firm's practice management system. To tackle this, firms are looking to data governance and master data management strategies, as well as bringing in marketing operation teams to work alongside legal specialists in these areas – to improve data quality and integrity and provide robust business information in many different views/perspectives, as required by the different business units.

The last tenet, another that's relatively new to legal, is the use of BI platforms to produce more timely and succinct information related to delivery of legal services – in other words, 'operational' business intelligence.

New business revenue strategies are vital, but of equal importance is ensuring that newly won business is delivered at optimal cost and quality. Law firms now want information metrics on all aspects of their service delivery model, and regulatory requirements such as Precedent H have created extra pressure for firms to analyse previous matters to identify costs and resourcing more accurately, and to maintain a proactive control of the costs incurred for each project phase.

Obviously, there are also clear overlaps between these three tenets, and a good example is performance management. Law firms should want, and increasingly do want, to measure more than billing and utilisation by fee earners. Metrics such as recovery, team management and cross-sell activities have become important performance metrics that firm management wants to measure and align to remuneration.

So, how do law firms build BI platforms that cater for, and embrace, these more rigorous BI information requirements? Today, any successful BI initiative requires three elements: a robust and flexible architecture, effective and integrated business data management, and a partner with legal domain experience who can assist in all the tenets of a law firm's business intelligence requirements.

It cannot be understated how vital experience is in the success of implementing a new enterprise BI platform in a law firm. A common theme of many past (and often unsuccessful) BI initiatives is the lack of in-depth legal domain experience on the supplier's side. A law firm is a very different animal to a corporate organisation, and the success of a new BI solution in a firm is not just about how powerful and flexible a new dashboard technology is – it is about the correct delivery and visualisation of accurate, timely and relevant information to the right individuals to achieve positive behavioural and business change.

BI does not have to be a big, proprietary system, either. There have been some significant developments with data integration and BI dashboard/reporting software, most notably the recent updates from Microsoft to its Business Intelligence Design Studio (BIDS). This update has made Microsoft comparable to all other propriety BI software vendors in terms of features, functionality and ease of use.

As BIDS is included as part of SQL Server, it is often a software the firm already has access to via the Microsoft Enterprise licence agreement. Most firms can achieve their BI goals without the need for any significant investment in new dashboard and reporting platforms.

This is good news, because while firms' BI requirements are now more complex, a combination of working with the right consultants and cheaper (or already purchased) software can now deliver against these requirements cost-effectively – and in a matter of days and weeks, not months and years.

Briefing Industry Interview

Sharing in success

Law firms must learn to share relationship capital as well as legal knowledge to build commercial brands that will thrive, says Thomson Reuters Legal's Rob Martin

Collaboration seems set to be the future of work in many jobs – but there aren't many professions more historically entrenched in the cult of personality than law. Partners have long jealously shielded clients from others' prying eyes – as they (understandably) hope those happy customers will follow obediently should they move on.

It's easy to say that law firms need to learn to share – but in reality it's a cultural revolution that requires this possessiveness to be prised open with some force.

Rob Martin, director of software solutions at Thomson Reuters Legal, says firms should leverage some of what they've learned from applying knowledge management to legal services delivery to make a business case that collaboration can reward the business at the bottom line. "They've introduced systems, knowledge managers and professional support lawyers to create a much more firm-wide view of capabilities – but it's mostly activity around materials," he says. "I don't think many firms are doing that so well when it comes to managing client relationships. They need a business development function that operates effectively outside the confines of the practice group, providing a 360-degree view of any client's business needs."

As with so many things, of course, changing behaviour is tied up with appealing to self-interest – demonstrating that collaboration can increase not just efficiency but also business wins, and therefore revenue. Firms are fighting harder for international clients. But they'll only win that business if lawyers that are often not in the same office alert one another to opportunities as they come up – and in good time.

"This is a huge aspect of how firms will now successfully grow," says Martin. "They need to expand and deepen relationships with key clients, growing horizontally across practice groups by analysing their needs across multiple areas. By contrast, if things are highly segmented, the entire relationship can also break down quicker if circumstances should suddenly change."

But the desired behaviours need to be incentivised, to stop fee earners feeling that they're losing out in adopting a bigger-picture, joined-up view of their client.

"With pressure to reduce, fix and cap fees in the current climate, a firm may decide to discount one particular service, because the benefit will be repaid elsewhere," says Martin. "But you can only do that if a partnership is operating more like a commercial entity and seeing client value in totality. No partner will willingly discount work if the measure of the practice's performance is simply its own margin."

Another aspect of appealing to the client in a more 'total' way is by offering more than legal products for problems – in essence, providing proactive advice akin to consultancy. As other businesses look to benefit from a liberalised market by branching out into legal, some law firms have already sought to hit back somewhat with other forms of business advice to cement their relationships. But most could be doing a lot more.

"It's about seeing what clients might need to do for their businesses in the longer term, anticipating future regulatory changes or growth obstacles and noticing what's happening at competitors," Martin explains.

As well as spreading out the client relationship across its practices – making it more the firm's than any individual's – a firm-wide business development function ought to pull in multiple sources to provide a platform for such advice.

"Firms need to be offering insights from social media, competitor websites and many other resources, making it specifically relevant," says Martin. "That shows they understand the pressures on the business in the context of its market challenges." But as with client relationships, he says, too many marketing processes still hinge on individuals' contacts, links and knowledge.

"When other organisations build sales campaigns, they are building awareness over time – that they've grown into a go-to business in a particular space. Their products and services are the reason their own clients are doing well, which reinforces that position.

"New providers coming in to try to cherry-pick the most profitable legal services may come from precisely such a commercial background," he cautions.

Knowledge management might have already sown some seeds of sharing to bring wide networks of resources to firm-wide fruition, but BD now needs to take that mentality into relationship management, not only to provide maximum value for clients, but also to extract maximum benefit from them.

Briefing Industry Analysis

Financial gains

Forward-thinking finance departments can make new and integrated pools of data a competitive differentiator, says Bo Yancey from Wilson Legal

As we enter the second quarter of 2015 the major challenges facing law firms remain familiar and consistent. Viewed from a high level, it's all about serving clients. However, such a simple sentence belies the complexities underlying this objective, and the varying strategies and tactics that firms are employing to accomplish that.

To better serve clients, and to attract more, many firms are looking to expand their presence globally, and we're seeing brisk merger activity that's going well beyond what's come before in both size of law firm and scale of regions served (the recent Dentons/ Dacheng merger being at the forefront, but far from the only, example of this). Whether or not these sorts of 'mega-mergers' end up being profitable, it's clear such new alliances are occurring in order to serve clients and industries across the world. There are always significant cultural and financial hurdles to deal with, but the goal of successfully entering new markets with scale and sufficient talent is the driver.

Of course, mergers are not the only way to achieve (non-organic) growth, and lateral movement of individual rainmakers, as well as groups of lawyers, remains brisk too. As some firms decline and others improve, lawyers can still vote with their feet on the direction of their firms, and those with books of business that are robust, or perceived as robust, can often take their talents elsewhere with relative ease.

Alongside growth, firms are also focusing on efficiency, with the goal of improved profitability through better decision support, partner education in matters such as legal project management, outsourced support services, and the relocation of back office staff to less expensive locales. Many firms are now looking at non-traditional ways of organising themselves (for law firms), and in some respects the law firm of tomorrow may look dramatically different to that of today, or certainly that of pre-2008.

Information in arms

When looking at client service, it's more than just a need to be viewed as a good, responsive service provider that's driving these various growth and profit initiatives. Regulatory reform, of course, is forcing firms to think about and deliver cost certainty in litigation cases. And clients themselves are demanding cost certainty, if not reduced total cost. The days of normal, annual rate increases that can easily be passed on to all clients are long behind us. With dependable rate hikes, the easiest way to maintain and grow margin, no longer able to be counted upon, firms must look at different ways to manage their bottom line. When facing that reality in combination with the above-mentioned regulatory reforms and fierce competition from rival firms in a strong lateral market, finance departments have more than enough challenges to keep them busy for the foreseeable future.

So how do finance departments differentiate themselves, and contribute positively to the overall health of their firms? Aside from the traditional functions of accounting, capital management and financial reporting, finance can play a role in driving outcomes by helping develop and deliver the right information, at the right time, on scalable platforms.

In a world where the lines between the practice and business of law are blurring, and where big data and the promise of technology have arrived, information management and delivery of this information in a clear, understandable and actionable format can be a key differentiator of success. Most firms are thinking hard about client and timekeeper profitability, and some are thinking about how to incorporate that information in compensation systems. These are absolutely critical steps as the requirement of predictable cost communication begins to intersect with the firm necessity of maintaining profit margins. However, this is only one step within a broader necessity of arming lawyers across the globe with financial information that's up to date, relevant, accurate and easily understandable at multiple levels.

A key challenge for finance departments will be to provide their firms with a system that can deliver this information. The trick is to use a design that can integrate with other systems and accept different sources of information to generate a complete picture of clients and matters from both the business and the practice perspective. As firms quickly need to analyse and model the impact of lost lawyers, new lawyers, or entire firms, the profitability of large matters and clients, or the performance to goal of a specific department or metric, finance must be in a position to deliver this kind of information efficiently. As firms deploy new strategies and adapt existing ones, finance must determine how various components are contributing to overall firm goals to staff appropriately. The good news is the tools for better delivery of information exist today. The challenge lies in the design, integration and deployment of those tools in ways that are consistent with firm strategy, toward the end goals of client service, growth and profitability.

Briefing Industry Analysis

Playing cash up

Sound financial hygiene is just as important as law cautiously returns to life as a growth sector, says Steven Dobson from LexisNexis Enterprise Solutions

The Law Society has predicted the UK legal services sector will grow by 4.9% in terms of real turnover in 2015, almost touching pre-recession levels.

And this upbeat sentiment is reflected in the attitude of law firms too. There has been a gear change – employment has picked up, business volume is increasing, and a large majority of firms are looking to grow their practices.

But even in a growth market, there's no room for complacency – good financial management will be crucial to how well firms are now able to take advantage of the opportunities growth presents. An enterprise resource planning (ERP)-led approach to business management will prove valuable.

Operating liquidity, for example, is as important in a buoyant economy as in a recessionary one. Firms with access to cash are able to respond to new market opportunities ahead of their competitors. Professional services firms face a relatively fixed set of monthly cash outgoings against a high percentage of their cost base (salaries, premises and professional indemnity). The opportunity to improve the cash cycle through outflows is therefore limited, and so attention turns to inflow. This is where a business management approach really differentiates itself. Lockup is the greatest cash management challenge faced by firms. It's imperative that invoices are raised at the earliest contractual opportunity so that collections can commence in a timely manner. Exposing the right information in the right format and at the right time empowers fee earners to manage their own lockup through role profiles and dashboards. It also gives finance a view of performance by team to benchmark and champion change.

Using a business management approach firms optimise their cash cycle and free up cash to allow the organisation to make critical investments. Such systems automate processes across purchase orders, client matters and customer and supplier invoices to offer accurate cashflow projections.

Dynamic delivery

Budgeting and financial planning has typically been an annual process for law firms. But in the current business environment financial planning must be an ongoing and dynamic process so that firms can take timely, corrective action to capitalise on market developments.

Business management systems provide powerful integration between finance and HR, enabling firms to align budgets, goals and forecasts with the skills and resources available. Firms can create rules for how the organisation must operate based on its business model. Departmental and functional budgeting, performance management and compensation-linked plans can all also be developed to empower employees control their portion of business.

But rationalising technologies is also fast becoming a business imperative for financial management. Multiple proprietary systems make it impossible to consolidate data and gain visibility of organisational performance. This problem is exacerbated when firms have offices in multiple geographies. A disparate technology environment is posing a huge productivity challenge.

A unified business management system, supported by streamlined data repositories, offers real-time access to information and a single view of all financial elements of operations – sales, inventory, working capital, resourcing, compliance and profitability. They also provide business intelligence to help firms stand out from the competition.

Total cost of ownership is often overlooked when appraising IT solutions. Over time, a firm builds up a complex IT architecture of bespoke integrations between disparate systems. In examining IT strategy, finance teams need to challenge all costs associated with maintaining systems, not just supplier costs. There are significant opportunities for savings, such as staffing and licensing, which deliver a return on investment even before a system's wider benefits are outlined.

Meanwhile, pressure on billing rates and pricing continues as demand for fixed fees increases. Firms must charge fees that are accurately based on the expected duration of tasks, the level of personnel best suited to them, a combination of fee models to maximise budgets, discounts offered, and outsourcing costs. The onus is on finance to provide teams with accurate information so that work is appropriately managed. Business management systems provide processes for cost and profitability analysis, and to align fee structures with revenue goals. They also enable firms to offer the transparency their clients mandate.

"In the current business environment, financial planning must be an ongoing and dynamic process so that firms can take timely, corrective action."

Steven Dobson, head of business services, LexisNexis Enterprise Solutions