

Briefing

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INDUSTRY ANALYSIS ENTERPRISE RESOURCE PLANNING

From practice management to ERP

Firm-wide enterprise resource planning IT will be indispensable for the successful firms of the future, says Tim Cheadle, general manager for LexisNexis Enterprise Solutions

These are challenging times for law firms. New regulation, increased M&A activity, new business structures and the shift to the alternative fee arrangement model are all unleashing rapid changes in the legal sector.

Against this backdrop, demonstrating good financial management, business practice and compliance is paramount. To make life even more complicated, the tough economic climate is leading to a number of law firm mergers with overseas partners, which means strong multi-lingual, multi-jurisdictional and multi-currency support is essential.

As a result, law firms need systems that will help them operate as profitable, commercial entities – not just legal businesses.

Practice management systems are inadequate

Technology will continue to play a vital part in law firm

operations, but traditional practice and case management systems will become inadequate as the industry develops. Being 'good at law' is a given – firms must also become good at collaboration, project and risk management, and financial planning.

Practice management systems (PMSs) are currently designed to manage case, client and time records, billing, schedules, appointments, case deadlines and client files. They also facilitate and help enforce legal sector-related compliance, such as with document retention policies and courts' electronic filing systems. But this isn't enough.

Enterprise resource planning (ERP) systems integrate internal and external management information across all business functions, facilitating a seamless flow of information within the boundaries of the firm while managing connections to outside stakeholders – in a single integrated environment.

It's my view that law firms

must transition to ERP systems – because they are much wider in scope, encompassing business, financial and practice management functionality, underpinned by workflow.

Creating resource efficiency

Law firms should be properly managing their resources to a fairly granular level to reduce costs, maximise expertise, deliver client satisfaction and cost-effectively comply with the raft of legislations across geographies.

ERP systems automate resource management by combining time, billing, financial and human resource management into a single solution. This ensures that, for every type of legal work, the right level of skills and people are assigned to the job, resulting in cost-effective delivery of a superior service.

Crucially, with ERP, firms

are also able to undertake skills analysis for their entire workforce to forecast the need for new skills or development of existing ones in preparation for new business, or growth and expansion plans. Such information can also be very useful for firms looking to expand their current offering, as it helps to mine the knowledge that already exists in a firm that might not be apparent.

The need for skills analysis is heightened even more during merger and acquisitions, because the newly merged entity doesn't necessarily know the skill set the respective organisations contain. This level of analysis will also help deliver compliance with the new outcome-focused regulation, because a greater understanding of the business can be had, and greater level of detail.

PMSs may help with all the above, but they will fall short of delivering on both the detail and scope required to make

the systems all encompassing, transparent and effective.

Pricing and AFAs

In austere times, the hourly billing model is giving way to alternative fee arrangements, such as fixed and capped fees, success fees and tiered discounts.

This shift towards value-based pricing poses a huge challenge to law firms – they must predict costs and determine the correct level and type of staffing to create profitable outcomes for themselves while they deliver high-quality legal services to clients.

To estimate pricing, firms need to be able to take into account disparate factors from across the business. And, increasingly, in-house counsel are expecting law firms to take a project management-led approach to legal matter management.

PMSs can't fully offer these capabilities, because the provision to draw out business intelligence and provide analytics is limited. ERP systems, however, provide the ability to pull up various types of work/task/phase codes, look at the corresponding hours, fix a price to that type of work and, with a large enough population, prepare a probability curve, which, over time, will be valuable to organisations.

Operational efficiency and profitability

With such stringent pricing in play, operational efficiency

and a tight grip on firms' financial position will become supremely important. But law firms often don't have visibility of their liabilities beyond the kernel of legal work, because they lack streamlined processes for expense and overall financial management.

PMSs are primarily focused on client- and matter-related expenses, but ERP systems automate both matter and non-matter related expenses.

pressure to reduce costs. Both of those drivers mean clients now expect law firms to be completely transparent with regard to the investments or costs incurred on their behalf.

Managing processes outside the firm

ERP systems provide the ability to manage and communicate with all external

firms using ERP systems will confidently be able to adapt their organisations to deal with the changes taking place in the sector, secure in the knowledge that these systems can scale to meet future requirements too.

LexisNexis will launch an ERP-based law firm management system in 2012 – and I've outlined above why we believe ERP is the way forward. ERP systems facilitate

“To estimate pricing, firms need to be able to take into account disparate factors from across the business. PMSs can't fully offer this – ERP systems can.”



For example, a purchase order can be raised, forwarded to the head of department for authorisation, ordered, matched, receipted and paid – without the need for paper-based processes. This also provides increased visibility of cashflow compared to the traditional approach of logging a liability only when an invoice is received.

There's also growing pressure to outsource work to external legal service business, partly due to a growing

stakeholders, including suppliers and clients, as a matter of course – it's what the concept was designed for: manage the supply chain of a business.

An ERP approach ultimately gives law firms the power to determine the exact cost of doing business, which in turn highlights areas where costs could be lowered to maximise profitability. International firms can also gain through ERP systems' support for local currencies and legal requirements. Fundamentally,

resource efficiency, creative pricing options, end-to-end expense and financial management, integrated business environment, and supply chain management – all of which deliver business efficiency, greater client satisfaction, competitive advantage and, ultimately, higher profits.

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