



# Leverage Technology to Meet Private Equity Investment Criteria

For many law firms today, securing external investment is a business strategy, but to realise it, it is important that they position themselves as attractive investment targets. Individual private equity firms have their own criteria for selecting law firms to invest in, but it is reasonable to assume that most investors will look for scale, growth potential and quality of earnings of the law firm in question, prior to making an investment decision. Technology can enable law firms to meet these criteria. Here, Fraser Mayfield, Product Director at LexisNexis Enterprise Solutions tells us more.

## Achieving scale

Automating and streamlining business processes delivers efficiencies and facilitates a joined-up approach to business across the organisation, which in turn provides the capability to easily scale operations in response to market demand.

Technology in the form of business management systems enable law firms to simultaneously operate across multiple disciplines, borders and legal and non-legal business environments. For instance, organisations can register financial transactions, manage relationships between subsidiaries and

the parent organisations, administer internal cost accounting and enforce accounting policies and rules seamlessly across the business operation.

Law firms' ability to scale can often be restrained by the availability of resources, both human and physical. Business management systems in particular facilitate human resource and commercial management, supporting growth and allowing firms to create expansion plans based on accurate strategic analysis.

## Visibility of growth potential

Investors are looking for law firms that have potential to grow organically, or expand into new markets, geographies and lines of business. Leveraging business intelligence can provide evidence of growth potential by reporting on all levels of the business – i.e. industry sectors, types of work, practice areas, or clients/matters. Law firms who invest in systems that are able to provide this insight will be ideally placed to demonstrate their growth potential to external investors.

## Evaluation of quality of earnings

Investors want to assess the future potential of firms' assets, the majority of which are intangible – things like intellectual and human capital, brand, strength of client relationships and client satisfaction. This again can be drawn from the business intelligence functionality provided by business management systems.

Law firms can evaluate and value these typically unquantifiable assets in

a tangible manner by breaking down transactional information. For example, finance managers/partners/lawyers can assess the billing rates that clients are on, which clients pay the highest rates, which ones are offered discounted rates the most and for which activities and matters, for which customers the firm has had to write-off billing and for what reasons, who are the most profitable, who are the outliers, who pose the most risk, and much more.

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This kind of management information analysis is essential – it helps ensure overall client satisfaction and provides visibility into areas where risk must be reduced, relationships strengthened, and where new opportunities lie.

## Investors want to see top-notch business management

"Every day you walk into the office you're looking to make a profit" – famously said by investor James Cann in the context of the traditional view that a law firm is a service business where profitability is a dirty word. His sentiment sums it up – private equity

firms are looking to invest capital and strategic expertise into law firms that have potential to grow, and whose value in the market can be raised in order to earn a high return on investment.

Underpinning the firm with next generation technology provides compelling evidence of the organisation's ability to achieve its own and its investor's strategic business goals. Enterprise-class financial and business management systems are extensively used by mainstream corporations as platforms from which to execute strategy and conduct business operation. Private equity investors are already conversant with them and see them as critical tools for fool-proof business management – firms that utilise these systems will likely provide private equity investors confidence in their business. **LM**



Fraser Mayfield

