Briefing

A NEW ERA FOR LAW FIRM GROWTH

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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.

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Steven Dobson, head of business services, LexisNexis Enterprise Solutions

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