

Briefing

PRICING AND PROFITABILITY

SEPTEMBER 2013

*THAT'LL BE
500 QUID
AN HOUR.
I HAVE NO
IDEA WHY...*

Interview

Kevin Doolan

Eversheds' head of client relations outlines a better way of doing BD

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From value pricing to project working and beyond. Say hello to the new BD

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Industry Analysis

The future is creative



Stu Gooderham, business development manager for LexisNexis Enterprise Solutions, connects the dots between creative pricing solutions, project management and management information

Law firms now need to fight for new business as the legal services ecosystem adjusts to a business landscape balanced more in favour of the client.

Corporate clients today are more powerful than ever – they hold the purse strings and are exercising their right to get maximum value. There's also plenty of evidence that companies are overhauling their relationships with firms. AIG's announcement earlier this year that it was considering a reverse auction for its non-disease PI work is a stark example.

This represents a huge change in the way that firms have secured business – the cushy, stable and safe legal profession is a thing of the past. A change in mindset is now essential.

In such an environment, prudence demands an intricate understanding of the cost of producing legal work to create the capability to develop creative pricing to ensure profitability.

But anecdotal evidence suggests that, while some firms are actively exploring new pricing proposals away from hourly billing, for most the importance of developing value-based pricing models to appease clients has yet to sink in.

Steeped in the cultural mindset of many firms is the view that law is an art, a creative process that cannot be industrialised. But the reality is that the majority of legal work is in some way repetitive, and automating those processes can reduce the cost of production, allowing the lawyers to focus on the unique aspects of the cases they handle.

Process management will be fundamental

Law firms today need to offer a range of alternative fee arrangements – conditional fees,

fixed fees, capped fees, blended/combo rates and so on. Fees charged must therefore be accurately based on expected duration of tasks, the level of personnel best suited to matters, the combination of fee models to maximise budgets, discounts offered, outsourcing costs and so on. This requires a pricing structure that best meets the needs of customers and optimises the organisation's resources to deliver services profitably in a way that mainstream enterprises do.

Legal process management (LPM), a discipline that applies project management skills to legal matters, offers such a best-practice framework. It encompasses scoping, planning, devising profitable permutations and combinations of varied pricing schemes – in addition to supporting execution, monitoring, management and completion of legal matters.

Harnessing business intelligence to stay ahead of the curve

Over time, a project management approach delivers an understanding of which types of pricing are more profitable than others, which areas the organisational processes need to be fine-tuned and where new methods need to be devised. This information will give firms the power to conduct more forward-looking price analysis, stay ahead of the curve of evolving pricing models, and identify new types of costs and upcoming business trends to stay competitive. To customers it offers complete transparency on pricing – an area of historic contention between law firms and clients.

For example, media law firm Wiggin adopted a business intelligence (BI) strategy in 2006 to take the necessary measures to ensure profitability and poise the firm to take advantage of new opportunities. Wiggin spent a lot of time understanding the

variables around margins and profitability, and identifying the working practices that needed to be updated.

For example, the firm hadn't thought about proactively and collaboratively managing margins through the matter planning and fee negotiation stages of client on-boarding – sharing profitability information with the client and agreeing a commercially sustainable fixed margin. This process of introspection highlighted the need for a structured and commercially-led approach to business management. There was a strong case for a BI strategy, and Lexis Redwood became Wiggin's tool of choice.

No longer a 'nice to adopt'

With discerning clients actively questioning law firms' fees in the face of tight budgets, developing innovative and yet profitable pricing requires the complete understanding of service delivery processes and the cost of service production – down to the bone.

Only then can firms make informed critical decisions whether to undercut in auction situations, for example, or let go of truly unprofitable business deals.

They must then have processes in place to ensure that the work secured is delivered to plan and within budget, making modifications and improvements along the way to meet the service and profitability goals. LPM and BI strategies make this possible. They are no longer 'nice to adopt' doctrines – they are an absolute must for survival and financial stability.

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