

Emerging Approaches to Law Firm Profitability



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Contents

Executive summary.....	vii
About the authors.....	xi
Chapter 1: Law firm economics 101 – understanding the business of law.....	1
<i>By Stuart J T Dodds, co-founder and principal of Positive Pricing</i>	
Making money.....	1
The basics of law firm profitability.....	2
Watching the revenue line.....	3
Challenging the status quo – part one.....	5
Profitability: a meaningful measure?.....	7
Challenging the status quo – part two.....	8
Conclusion.....	9
Chapter 2: Accounts receivable, billable hours, and collections: the end game or a starting point for success?	11
<i>By Ariela Tannenbaum, CEO of Advanced of Financial Analytics and principal at Edge International</i>	
The budget.....	13
The regular financial review.....	13
Look back or look ahead? Differentiate between lagging and leading indicators	14
Understand and optimize pricing.....	15
Beware of “analysis paralysis”.....	16
Change is hard, but it’s worth it.....	16
Chapter 3: Better, faster, cheaper – why clients expect law firms to know about process improvement	19
<i>By Hélène Russell, founder of TheKnowledgeBusiness</i>	
What is process design and improvement?.....	20
Where to start with your first process-related project.....	21

Improvement cycles.....	26
Conclusion.....	27
Appendix 1 – Further reading.....	28
Appendix 2 – Process map of making a cup of tea.....	29
Appendix 3 – Process improvement methodologies.....	30
Appendix 4 – Fishbone/Ishikawa diagram.....	31
Chapter 4: Fully loaded or not?.....	33
<i>By Peter Lane Secor, director of strategic pricing and project management at Pepper Hamilton LLP</i>	
Statement structures.....	33
Cash vs accrual.....	34
Standard cost vs actual costs.....	34
The cost-only method.....	35
Fully loaded method.....	36
Conclusion.....	37
Chapter 5: Developing and defending a profitability model.....	39
<i>By Paige D. Keith, chief financial officer at Hawkins Parnell Thackston & Young, LLP</i>	
Include partners in the development of profitability models.....	40
Use a case study for the initial roll out.....	42
Indoctrinate partnership regularly and consistently.....	43
Acknowledge limitations of the model.....	45
Conclusion.....	45
Chapter 6: In favor of a client- and product-focused profitability analysis.....	47
<i>By Thomas W. Van Der Moere, chief financial officer at Neal, Gerber & Eisenberg LLP</i>	
Client and product profitability – developing a methodology.....	48
Client and product profitability analysis.....	51
Considerations for developing a profitability methodology for clients and products.....	52
Measurement period basis.....	53
Partner compensation.....	54
Reconciliation of the profitability model to the general ledger.....	54
Product designations.....	55

Cost rates (standard vs full).....	56
Case study.....	57
Response to case study.....	60
Design of the profitability model.....	61
Profitability analysis.....	63
Conclusion.....	65
Chapter 7: Better business plans – a blueprint for strategy realization...	67
<i>By David Parnell, columnist and founder and principal of True North</i>	
<i>Partner Management</i>	
Firm-wide strategy.....	68
Practice summary.....	70
Practice focus.....	71
Lawyer performance.....	72
Sector overview and opportunities.....	73
Current clients.....	74
An ungraded client list with descriptions.....	76
Target clients.....	77
Marketing strategy and practice development.....	78
Prospecting and client development.....	79
Synergies with other practices.....	81
Required resources.....	84
Discussion and analysis.....	85
Conclusion.....	86
Chapter 8: Insourcing and its commercial attractiveness in boosting profitability.....	89
Insourcing is on the rise.....	89
There are significant potential cost savings from insourcing.....	90
Busting misconceptions about insourcing.....	91
How insourcing works in practice.....	92
Key considerations.....	93
Chapter 9: A model to gauge and understand fee-earners' performance.....	95
<i>By Rupert Hawke, managing director of UK firm Cartwright King</i>	
An illustrative approach.....	95
Applying the Boston Matrix to fee-earner performance.....	96
Costing a fee-earner.....	96
Using the Boston Matrix in practice.....	99
Summary.....	100

Chapter 10: A data scientist’s perspective on law firm profitability 101
By Zev J. Eigen, founder and chief science officer of Syndio Solutions

- Introduction 101
- The fastest of fast horses: improving collaboration with relational data 102
- The new car: closing the gender pay gap with SaaS 107
- Conclusion 109

Chapter 11: Combining newlaw and established law to create profitable business strategies 111
By Katherine Thomas, consultant and former co-founder and director of Vario for Pinsent Masons

- Client first 111
- Blended workforce..... 112
- Document automation..... 113
- Data analytics..... 114
- Appropriate fee arrangements 115

Executive summary

The legal profession, like so many other fields, has continued to reel from the deep-reaching and significant impact of the 2008 financial crisis. In the years following the crash, a general downward turn in the demand for legal services compelled firms to tighten their belts, make tough decisions, and come up with innovative strategies in order to survive. One of these was an increased focus on profitability and different means of managing and improving it, a relatively new development for the legal industry. However, in recent years there have been small but positive signs of improvement, manifested in a gradual pick-up in client engagement, as global economies continue to slowly but steadily recover from the crash. It is definitely a better time to be a lawyer, as latent demand begins to manifest in parallel with growing client confidence in a stabilizing market, fast-paced disruptive technological innovations, and significant changes in laws and regulations.

However, this does not mean that firms can afford to be complacent. The legal landscape continues to be in flux, and improvement is slow. Increased revenue and client demand does not come to firms that do not proactively seek it, nor is it achieved by those who are not applying innovative and cutting-edge techniques and strategies to the management of their firm. Of course, delivering the best service to clients should always be a top priority; however, there should also be an emphasis on running the firm like a business, which includes intensive scrutiny of expenditure and coming up with new and inventive ways to generate profit. Managing and growing a firm's profitability should not just be an exercise for difficult economic periods, but instead must be a priority at all times. Rather than being perceived as an irksome bolt-on, it is necessary to see it as a great opportunity in these times of increased business.

Existing and persistent cultural norms amongst lawyers, however, means that the reform of current business practices does not always come naturally. Nor is it necessarily easy to find the right practical advice that can carry a firm through the transition. *Emerging Approaches to Law Firm Profitability* aims to be the ideal tool to assist with implementation,

providing essential guidance for those seeking new means of maximizing their firm's capacity. Featuring advice and reflections from a wide variety of contributors, ranging from business and finance professionals to thought leaders and consultants, this book offers in-depth, intensive insight into the challenges generated by today's dynamic and hyper-competitive legal landscape. Most importantly, *Emerging Approaches to Law Firm Profitability* moves past the identification of these obstacles and supplies original, innovative ways of tackling them. Expert guidance is complemented by compelling case studies and effective real-world examples, supplying principles that can be applied to firms of any size or capacity.

It can be said that many of those working in law firms don't fully understand what drives their firm's revenue and how their everyday actions can have either a positive or negative impact. In chapter 1, Stuart Dodds of Positive Pricing seeks to provide a strong foundation on which to build and understand what really drives "the business of law". Themes covered include getting the basics right, the power of small changes, and challenging the status quo.

Taking into consideration the growing level of complexity and sophistication in the legal field, the days in which law firms operated in a profit paradise and could afford to eschew deep financial analysis are fading fast. In chapter 2, CEO of Advanced Financial Analytics and principal at Edge International, Ariela Tannenbaum, provides an overview of the methods by which firms can take a step forward and adopt a clear and concise financial lens, unlocking the management insight necessary to enhance performance. This insightful chapter will discuss topics such as the practice of disciplined financial review, attorneys' productivity measurements, and pricing optimization.

It is not enough to simply attempt to reform the way in which a law firm sees itself in order to boost profitability; an in-depth transformation of its mechanics and operational practices must also be performed. In chapter 3, Hélène Russell – author, trainer and consultant in knowledge management – highlights why continuous process improvement is no longer a "nice-to-have" and is in fact "table stakes" for many law firm clients. Strategic process design and improvement is defined, along with how it applies to law firms, and practical advice regarding where firms can start with their own process improvement pilot.

When it comes to optimizing profitability, the model used to measure it matters. In chapter 4, Peter Lane Secor – director of strategic pricing and project management at Pepper Hamilton LLP – undertakes a review of both fully loaded and cost-only profit methodologies, examining

their pros and cons and delving into their relationship with partnership acceptance and its impact. This comprehensive analysis is designed to assist with a decision as to which method is best suited for a firm's culture.

Partners and firm directors and officers rely on profitability reports to make major decisions. As highlighted by the previous chapter, a proposed model is often subject to various criticisms, and the ability to gain acceptance ultimately determines its validity and the ability to use said model in those decisions. In chapter 5, Paige Keith – chief financial officer at Hawkins Parnell Thackston & Young LLP – examines proven tactics to design a profitability model that will stand up to cross-examination and provide a strong foundation for a successful profitability rollout.

Companies consistently face challenges and opportunities to enhance their business models and provide value to their customers, workforce, and owners. Not surprisingly, law firms are no different. Chapter 6, by Thomas W. Van Der Moere, chief financial officer at Neal, Gerber & Eisenburg, focuses on a firm's opportunity to scrutinize existing and potential business using client and product profitability analysis, shifting the focus away from billable hours and time-measured revenue and providing the insight that will allow a firm to direct its resources to areas where return can be maximized.

In a 2017 survey on law firm strategic planning (conducted by David J. Parnell and Patrick J. McKenna), it was found that – despite the perceived importance of law firm strategy and the heavy amounts of resources devoted to its creation – only 3.2 percent of responding firms implemented “almost all to all” of their strategy. While the need to develop a firmwide strategy is embraced by most firms, putting it into action is another matter altogether. Mobilizing boots on the ground requires highly detailed, individualized business plans that help the individual partner to truly understand their markets, resources, motivations, and place in the overall map. In chapter 7, David J. Parnell – columnist and founder and principal of True North Partner Management – will break down the partner-level business plan into its individual components, discuss them, and provide examples to help the reader better understand how this fits into the bigger picture.

In contrast to popular opinion, Srinivas Vadali – principal management consultant at PA Consulting – and Manish Khandelwal – IT transformation expert – state that it is insourcing, rather than outsourcing, that has been on the rise in recent years. As organizations become more agile and focused on their customer, insourcing enables them to re-balance their

supply chains and keep critical skills in-house. In chapter 8, Srinivas and Manish offer their unique perspective and discuss practical steps on how companies can insource more services to boost profitability.

Traditionally, fee-earners have been measured on income and little else. However, in chapter 9, Rupert Hawke – managing director at UK firm Cartwright King – explains that it is important to understand why employees perform well as part of the larger, firm-wide revenue-generating strategy. A detailed model targeting the intersection between profitability and performance is delineated by Rupert, a helpful tool that will allow managers and fee-earners alike to see in simple form where performance is above or below expectation, why this might be, and what can be done to tackle it.

In the current climate, law firms are frequently encouraged to utilize innovative, technological solutions as a means of boosting profitability; in fact, factors such as the buzz at legaltech conferences mean that introducing technologies like AI and data analytics software is now seen as critical to a firm's success. However, in a saturated tech market which exists in a state of constant flux, it is often difficult for firm management to know where and how to begin. In chapter 10, Zev J. Eigen – founder and chief science officer of Syndio Solutions – offers his expertise as a data scientist to supply two readily available forms of innovation, which embrace the possibilities technology brings and provide creative and original ways of reframing profitability.

To conclude, chapter 11 – written by Katherine Thomas, consultant and former co-founder and director of Vario for Pinsent Masons – looks ahead to the future and explores the ways in which alternative approaches can support profitability and create a sustainable future for law firms. From flexible talent management to digital delivery, from automation to appropriate fee arrangements, Katherine looks at the opportunities that “newlaw” thinking presents. By combining the benefits of established law and newlaw, it is possible for firms to adapt to meet client needs profitably and more effectively.

About the authors

Stuart J T Dodds is co-founder and Principal of Positive Pricing, which provides pricing and legal project management strategy and implementation advice to the world's leading law firms. He was previously Baker McKenzie's director of global pricing and legal project management; prior to joining the firm, Stuart conducted a similar role at Linklaters, having previously worked as a management consultant for 17 years. He is an accredited Certified Pricing Professional (CPP), Accredited Legal Pricing Professional (ALPP), sits on a number of industry-related advisory bodies, and is a Fellow of the College of Law Practice Management.

Zev J. Eigen is the founder and chief science officer of Syndio, and a data scientist focused on AI and machine learning applications in HR, labor and employment law, and legal services broadly. He was honored as one of the *Financial Times*' 10 most innovative lawyers in 2016, as a FastCase50 Innovator of 2016, and as one of "40 Under 40 Rising Legal Stars" by the *National Law Journal*. He is frequently quoted in the media as an expert on big data solutions, predictive analytics and machine learning, especially as applied to HR and legal services and products.

Rupert Hawke is the managing director of the UK's Cartwright King Solicitors, having originally joined the firm as finance director in 2007. Holder of a business degree and a qualified management accountant, Rupert spent much of his career working for a large multi-national organisation before applying his wide-ranging experience and business acumen to the legal sector. He has overseen significant expansion at Cartwright King, which now has 19 offices nationwide, that he has contributed to with his development of management information systems and grasp of the modern business environment. Rupert is also the author of many articles advising on management within the legal sector.

Paige Keith is a business executive with extensive experience leading financial and accounting operations of law firms, including planning,

reporting, billing, tax compliance, and accounts payable. Before becoming a chief financial officer at Hawkins Parnell Thackston & Young LLP, she spent 15 years in various management roles responsible for developing and implementing strategic initiatives. She has also overseen client relations and the delivery of legal services, emphasizing the design and integration of consumer-centric business models and technology. Paige studied at Southern Methodist University in Dallas, Texas, where she earned an MBA from the Cox School of Business and a BS in mechanical engineering with biomedical specialization.

Manish Khandelwal has an extensive range of management expertise and practical experience covering IT outsourcing, offshoring, procurement and business transformation. He has led various multi-million pound outsourcing and IT enabled change programs helping clients achieve the most from their sourcing and IT transformation initiatives. His areas of expertise include end-to-end management of outsourcing programs, procurement life-cycle management, contract management, supplier selection and management, change management, stakeholder management and relationship management. He has worked in delivery and pre-sales, led supplier sales teams and has a strong techno-commercial understanding of the offshoring business.

David J. Parnell is an author, speaker, *Forbes* and *American Lawyer Media* columnist, and the founder and principal of True North Partner Management, a partner-level legal search and placement firm. Along with his experience in private placement, he has previously worked in-house with the likes of Intel, Xircom, and DreamWorks SKG. Complimenting his *Forbes* and *ALM* columns, his work can also be found in publications such as *The American Lawyer*, *Huffington Post*, *Venture Capital Post*, *Fox News Magazine*, *Lawyerist*, *Law360*, *Bloomberg*, *Australasian Lawyer*, *NBC News*, *The Global Legal Post*, *Business Insider*, and *NZ Lawyer*, among others.

Hélène Russell of TheKnowledgeBusiness is a lawyer and specialist in knowledge management. After working in clinical negligence litigation defense work for eight years, followed by two years in an in-house KM team, she has been self-employed since 2008. Hélène specializes in distilling complex academic thought leadership and cross-boundary theories into practical tools to improve the efficiency and profitability of real-life law firms. As well as being an author of two practical textbooks, she also teaches open and in-house courses in knowledge management and offers coaching, mentoring, and advice.

Peter Lane Secor is the director of strategic pricing and project management with Pepper Hamilton LLP. Mr. Secor concentrates on legal project management, with focuses of improving efficiencies through shared management responsibilities, strengthening communication and making value transparent. Servicing law firms for almost 20 years, he has developed accurate methods for pricing, budgeting, forecasting, performance management analysis, and conveying client/matter profitability. These competencies enable him to design and manage creative fee arrangements which bring value to both Pepper and its clients. He has provided presentations for TVPi, ALA, LMA, ILTA, ABA, Law Vision, Buying Legal, ARK, Aderant and other organizations on both national and regional levels.

Ariela Tannenbaum is the CEO of Advanced Financial Analytics, a consultancy firm focusing on enhancing law firms' profitability, and principal at Edge International. She has over 25 years of top tier leadership experience working with global Fortune 500 companies, instilling the financial intelligence and discipline used by the most successful organizations in the world to drive performance at law firms. Prior to establishing Advanced Financial Analytics, Ms. Tannenbaum served as executive vice president of finance at one for the largest companies in the world and global head of finance of its \$2 trillion investment management subsidiary for over 14 years.

Katherine Thomas helps legal service providers across the world grow, adapt and increase profitability with her company Katherine Thomas Consulting. With a reputation for strategic thinking combined with a large dose of pragmatism, she advises on strategy, sales, client development and the launch of new products and services. Now a consultant, speaker and coach, she previously established and led the well-known UK newlaw business Vario, a legal services provider with an emphasis on flexibility, for commercial law firm Pinsent Masons. As a result, she has a deep understanding of how alternative approaches to legal services delivery can increase competitiveness.

Srinivas Vadali is a seasoned consultant and C-suite advisor with more than 17 years of experience in shaping strategy and delivering major change and transformation programs. He has expertise in commercial services, sourcing, business case/financial management, transition and location strategy. The focus of Sriniv's work is to help clients improve the value delivered by their business services arrangements, establishing

in-house and outsourced shared services and using technology to drive organizational change and improvement in business performance. His client base over the last 17 years has included wide range of financial services institutions, including a premier stock exchange, commercial insurance, retail and core banking.

Thomas Van Der Moere is the chief financial officer at Neal, Gerber & Eisenberg LLP, a Chicago-based law firm with over 140 lawyers, where he oversees the financial operations of the firm including the areas of accounting, treasury management, planning/analytics/business intelligence, practice economics and strategic pricing, financial systems, and new business acceptance and risk management. Tom has expertise in professional service firm administrative and financial management, performance and compensation analysis, financial and operational analysis and modeling, strategic planning, process development and re-engineering, firm/project profitability and risk management, and business intelligence. He also has significant financial experience with public and private companies in professional services, energy, and manufacturing industries. Tom has an MBA from the University of Chicago Booth School of Business and an MS in Accounting and Business Management from the University of Tulsa.