

Briefing

AGILITY AND BUSINESS MANAGEMENT

SEPTEMBER 2012

Interview

Christina Blacklaws

Co-operative Legal Services' newest director on how the new entrants will work, and what you can learn from them

Feature

The future's bright. But is it yours?

How law firms are changing to become better financially managed, and better run

Industry views

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What you can learn from the businesses that are about to shake up the legal industry

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\$ 199,649,32

FEE BUDGET \$147,649
SCOPED CHANGE \$0
TOTAL FEE BUDGET \$147,649
DISBURSABLES \$2,200
NON-FEE BUDGET \$150,000
TOTAL \$199,649

BUDGETED MARGIN



Budgeted Profit \$35,082

Budgeted Costs \$112,575

ACTUAL MARGIN



0%

Item	Actual	Budget	Variance
Travel	100,000	100,000	0
Utilities	150,000	150,000	0
Printing	200,000	100,000	100,000
Office Supplies	200,000	200,000	0
Telephone	50,000	50,000	0
Insurance	150,000	150,000	0
Depreciation	200,000	200,000	0
Professional Fees	150,000	150,000	0
Salaries	500,000	500,000	0
Health Insurance	200,000	200,000	0
Retirement	200,000	200,000	0
Other	200,000	200,000	0
Total	2,000,000	1,850,000	150,000

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Burn rate \$15,000/MO

ACTUAL VS. BUDGET

Floors



Hours	Amount
215.65	\$198,325
66.65	\$30,580
23.30	\$134,235
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The shape of things to come?



How should law firms be run to compete with their peers and new entrants to the market? The answer to this question needs two issues of Briefing.

In this issue, we talk to the newest unit head at **Co-operative Legal Services** to find out how big business new entrants want to change the market, and why consumers will prefer giving them their money. We also interview law firm leaders from **Optima, Parabis,**

Shoosmiths and **Charles Russell** about how to turn the traditional law firm into a different kind of business – financially better run, better managed and more agile.

In our industry analysis section, **Briefing** talks to **Thomson Reuters Elite** and **Econocom** about how to achieve better financial management in tomorrow’s firm, and how to fund IT like big business does, to create more flexibility. There’s also advice on driving up profitability and how IT underpins this drive.

In the next issue we analyse this further, looking at how law firms can become more capable businesses – through workflows and turning manual work into processes. Enjoy.

Rupert White, editor of Briefing

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Interview: Christina Blacklaws Co-operative Legal Services



If you could start a new £150m firm, what would it look like? Rupert White talks to CLS’s newest chief about what you can learn from the new entrants about making a better legal business

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Feature: The future’s bright. But does it belong to you?



Rachel Davies talks to legal services leaders from top 100 firms about how legal service providers can become better managed financially and more competitive to do battle in the age of ABSs

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Briefing jobs



Management roles in finance and accounting on the **Briefing** jobs page – pass it along (or perhaps not...)

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TURN OVER TO FIND OUT WHAT ELSE IS IN THIS MONTH’S ISSUE

Industry analysis index

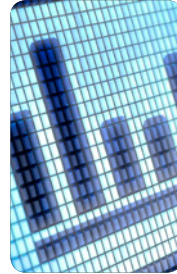
In Briefing we bring you relevant industry analysis from some of the legal sector's leading voices.

This month: **Briefing** interviews industry voices from **Thomson Reuters Elite** and **Econocom** about how law firms may need to reformat the way they do business to become more agile and competitive. We also have expert views from **Barclays Corporate Banking** and **LexisNexis** on why making the transition from working like a partnership to like a company is vital for law firm profitability, and why IT has to underpin all plans to become a better-run legal business.

This month's interview with **Christina Blacklaws of CLS** was transcribed by:



Financial management 2.0



Briefing talks to Justin Farmer, director at **Thomson Reuters Elite**, about what firms can learn from business about creating next-generation firms

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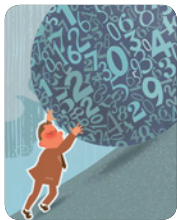
Lease your potential



Chris Labrey of **Econocom** talks to **Briefing** about why law firms must change the way they finance their IT to become more agile

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Driving up profitability



Tom Wood, corporate director at **Barclays Corporate Banking**, talks about how firms can create more profitability

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Change, by the numbers



Fraser Mayfield of **LexisNexis** outlines why firm-wide IT underpins good financial management

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The Briefing Interview

And the secret ingredient is...

If you could start a £150m law firm from scratch, what would it look like? How would it work, if it didn't need to be owned or run by lawyers? And why should law firms be afraid of it? Rupert White talks to **Christina Blacklaws of Co-operative Legal Services** about what law firms can learn from the new entrants



The biggest threat of the ABS might not be what you think it is.

If you started a £150-200m legal business today, you would probably create it in the image of a big company – wholly focused on finding out what your customers want and investing in precisely the products, systems and people required to provide it. You might do lots of market research, and keep doing it; trying out services, testing them, killing the failures and building new teams around the successes. You'd work out where you can create a new sale from your customers at every turn. You'd invest heavily in technology to make sure your work was as efficiently done as possible. And you'd be reactive to your market needs – if they change, you change. Fast.

In a word, it would be agile. This probably doesn't describe your law firm. If it does, if it really does, write in. The question is: should it? And is it enough? Law firms, especially consumer-facing firms, now need to be more than great law firms – they need to be much better businesses, and they might also need a mission, a reason to be. Certain annoying youths in tight trousers might call it 'brand personality'.

That's why this month we've interviewed Co-operative Legal Services' newest director: Christina Blacklaws, head of CLS's new family law division.

The Co-op's spun-off legal business, CLS, is part of the Co-operative group of companies. Until its ABS moment arrived in March it was only able to offer legal services to its members – but with over seven million members, that was a big market. In 2006 CLS started offering personal injury work, then moved in to probate and wills. Most recently it moved into employment and conveyancing work, and operates a free legal advice line to members and holders of Co-operative Insurance policies.

It was a £25m-plus legal business before it even became an ABS.

To put CLS in perspective, that puts it just beneath Bristows in the Lawyer's top 100, in 87th place. And it's only just woken up.

Blacklaws was a partner at the 200-headcount TV Edwards firm until becoming full-time at CLS quite recently. She's a director of CLS and is responsible for the new family law business there. And it's her experience on both sides of the fence that **Briefing** wanted. What can law firms learn from the inside of the big new entrants? What will they do? How will they do it? And what can law firms do to compete?

Blacklaws has spent the last 10 months assessing the market, creating services, carrying out pilots, bonding the new legal business unit with the rest of the Co-operative group and readying the launch of her division. But, in reality, she heads up a brand new division of a business that's about to become one of the largest providers of legal services in Britain, and a emblem of the new (entrant) world order.

Brand power is key

At the heart of the issue isn't just efficiency, or cross-selling, or better business sense.

The Co-op is a member organisation, but it's also a mutual, which marks it out. But the brand power is much more than that, says Blacklaws. The Co-op's brand is heavily embedded with ethical metadata, which is part of making it, she says, a "trusted brand". "In the legal services market, that puts us I think at a distinct advantage. Trusted brand status in many ways can be a proxy for the recommendations of friend or family," she says – and that, of course, is where most consumer smaller-scale legal work comes from.

“People think of us through the lens of food, but of course we do banking, insurance, pharmacy, travel, life planning... We are the country’s largest farmer and we bury one in four people in the UK. And we have a retail outlet in every single UK postcode.”

This is a position that’s genuinely threatening to any consumer-focused law firm in the land. It’s only been made more threatening by the recent deal to sell more than 600 Lloyds bank branches to the Co-op, just as the Co-op rolls out plans to offer legal services through its bank branches and banking through its food stores.

Blacklaws says the Co-op and companies like it don’t represent the threat law firms think they do.

“The concern that’s been raised is that ABSs will diminish quality, and there will be a loss of integrity and professionalism because of ABS. But you certainly won’t find that in the Co-op, because we in legal services cannot possibly afford to bring any brand damage to the entirety of the Co-operative Group.

“It is vital that we get our services completely right. That is why we undertook the consumer research that we did and why, for example, in family law we have spent nearly a year developing, building, designing what we hope we will be... absolutely best practice with an utterly consumer focus.”

But CLS is at a huge advantage compared to other legal businesses looking for the ‘basic’ legal work, and Blacklaws is first to admit it. “It is a huge advantage that we have been

supported to do [all this work up front] in a way that couldn’t happen in private practice, because there isn’t the wherewithal for most firms to be able to push that amount of resource into development.”



“We will communicate with our customers as frequently as they would like us to, and we will have standardised the delivery of high-quality services across the country.”

Listening to the consumer

As several **Briefing** interviewees have said, one thing the new entrants bring to the mix is their focus on asking the market what it wants, and tailoring services around that.

CLS and the new family unit has done “a huge amount” of customer research, says Blacklaws, and it can afford to do this – and it feels the value of it – because it’s a £14bn turnover business with the cash to do it.

To do the kinds of work CLS will deliver

to the public from now on – generally the commoditised work – it also needs technology that turns legal work into workflows and can automate or process-manage as much of it as possible. And this is what it's done.

“We have heavily invested in IT systems, which will support the work of all of our fee earners and underpin everything that we will be doing,” says Blacklaws. Though IT is at a “fairly basic level” in the world of family law, she says she's working with IT suppliers “to build systems to enable our lawyers to have everything at their fingertips, and to automate the routine drudgery”. The customer, however, “won't see that”.

“They will have a personal relationship with their own lawyer and the automation will enhance the customer service, because it is the automation which allows us to ensure that cases run through as quickly as they can. But we will communicate with our customers as frequently as they would like, and we will have standardised the delivery of high-quality services across the country.

“We have spent a long time working this out in terms of cost base – and everything that we do [in family] will be fixed fee. We have 86 services, which are broken down into baby steps so that customers only buy what they want to buy, and we think it will work with that cost base. Quality is more important than making a lot of money out of this.”

Quality over commercialism

That phrase – ‘quality is more important than making a lot of money out of this’ – is one of the keys to the biggest threat that businesses

like the Co-op represent.

The Co-op does some things, Blacklaws says, because this “is about a whole range of social goals as well as making a profit for the business, which is then put back into the business. It has a fundamental different character in some ways to other business models.”

The Co-op's ambition is not purely around the commercial, she says. “It's also about the social good, it's about access to justice, and

“We have heavily invested in IT, which will support the work of all our fee earners and underpin everything we will be doing.”

these are the fundamental principles which will guide our commercial decisions as we grow and expand.”

Not only does the Co-op have the pockets to fund a big venture into legal, it doesn't care if a particular work area is always profitable – as long as it's in line with the vision. But it needs to make sure the whole business makes money to preserve its capability to carry out the vision.

This kind of business thinking (it's still a business strategy, just one born from a social mission), combined with the ability to connect disparate business elements such as finance, legal, insurance and so on, has some fascinating knock-on effects.

For example, the family legal business's client base is “the squeezed middle”, says Blacklaws, who can't get legal aid but can't afford legal representation. And even while CLS can offer

them good value at fixed rates, they might still need some help. So the Co-op might end up funding or co-funding their representation – third-party funders don't want to touch most family law work, but the Co-op could. Blacklaws says nothing is yet decided, but she's "in active negotiation with colleagues in the banking arm of the business to see if there are ways that we can help people".

None of this zeal means CLS is run any less like a business. It's more like a business than many law firms. And its plans are wide-reaching, and involve an aim for market dominance.

"We are hugely ambitious," says Blacklaws. "We have a three- and five-year planning cycle, and our plans are to have a number of regional hubs, starting with London at the end of the summer." In the end, CLS wants to employ 3,000 people.

Now, a legal business with 3,000 headcount cannot be anything but a multi-hundred-million-pound business that will become a giant in the market. Blacklaws says she "can't say what our financial targets are, but we have huge ambition to be one of the leading providers of business consumer legal services, if not the leading provider".

The key to the family law section's strategy – and it's a reflection of CLS as a whole – is agility. Because CLS can set up a business division, even the whole consumer-facing business, from scratch, it can allow the market to decide what it should do, how and why. It can tailor its resourcing to its work from the start, which should mean lower costs of production and more efficiency.

Blacklaws says the family unit is hiring people who can "pretty much do anything that is required of them" at the beginning, but

"as we grow and develop we will finesse that model, and the guiding principle will be 'Is it in the customer's best interests and meet our quality standards?', [after which] of course a piece of work should be undertaken by the lowest-cost competent person to do it."

Vitally, she says that CLS will wait to see what type of family work it can attract before choosing which staffing strategy to take: "If it is complicated and difficult work, we have people

"We have huge ambition to be one of the leading providers of business consumer legal services, if not the leading provider."

who have the requisite skills and experience. If the work we are attracting is much more at the more routine end, we will recruit many more people who can deal with routine work."

Focusing on customer service

Any large-scale, multi-business new entrant – whether it's a brand like the Co-op or Saga, Which? or the AA, Tesco or Boots (those last two haven't said anything about the legal market, of course) – brings with it huge business acumen, clear brand identity and a rigorous focus on the customer.

"We will provide services in ways that meet customers' needs, and we are undertaking a whole range of pilots at the moment to make sure that we get that right," says Blacklaws. "We are not making any assumptions about

how customers want their legal services to be delivered.”

This is why analysing what new entrants do and how they do it is just as useful to big, corporate law firms as it is to consumer-facing firms – those capabilities are important for any law firm, and a common element to hang this on is customer data. A real reason to fear the Co-op is the enormous amount of customer information it possesses. Combined with its customer base across its businesses, it has a huge opportunity to cross-sell.

It already does this across insurance and banking, for example, and Blacklaws also outlined to **Briefing** a pilot programme of referring banking customers who are splitting up with spouses to CLS’s free legal advice service. Though this is currently just for Co-op ‘members’, and Blacklaws was at pains to call it a ‘cross-offer’, it obviously represents exactly the kind of opportunity the group has to cross-sell legal services to all customers, in a variety of ways.

Whatever you call it, if a customer has a need that you can identify, and that need is not being met, you should be cross-selling to them. This is just an example of how powerful the cross-sell possibilities can be in a multi-propositional group business that creates or buys a legal business.

But it’s also an example of how much law firms can learn from consumer businesses. Because law firms are collections of individuals, they have to be bullied into thinking of the business as a whole – but for companies like the Co-op, the reasons for making more money for the group are manifold.

And though this ‘group power’ is an example of how hard it will be to compete with a

business like the Co-op, it’s also an example of how the new entrants might not be the market destroyers firms fear.

Blacklaws says the CLS family unit will be creating a legal market, not trying to own one – because its target client base doesn’t buy legal services. There’s no reason to suppose this might not also be good for other law firms, provided they can adapt to exploit it and the

“We will provide services in ways that meet customers’ needs. We are not making any assumptions about how customers want their legal services to be delivered.”

potential growth in all legal markets once new entrants raise the profile of legal services with their multi-million-pound marketing budgets.

ABSs and the ‘war for talent’

One so far unexplored downside of the new entrants is in the ‘war for talent’. Blacklaws says the family unit was “inundated by applicants” – which might be just an indication of the state of family law, but it’s also, she says, because “many people who aspire to be solicitors no longer aspire to their well-trodden traditional career routes” and because CLS “can offer our staff members security and all of the perks that come from being part of a large, well-run organisation, plus really well-honed

career paths which allow people to move in to management or to become some super solicitor at expert level”.

Will the CLSs of the future steal some of the best legal talent, talent that wants more security of tenure and better conditions? Possibly, if you can't create the positions they want to work in, and the ways in which they'd like to work.

They may end up with your legal talent just because they have better or at least different employment reputations – going on maternity leave and get managed out as a result is much harder to imagine in a company like the Co-op than a big law firm, for example.

But CLS and businesses like it might well end up with some of the best management talent, too. In big business, IT directors, BD leaders and so on are much more respected, in general, than they are in legal. So why wouldn't a high-flying IT chief or HR director who's not feeling the love at your firm choose instead to work for the Co-op or Tesco, rather than just another law firm?

This is another way in which the new entrants are creating new markets – they're expanding the employment options for legal workers, and that can't be a bad thing.

Opportunities for some...

Fundamentally, Blacklaws doesn't see CLS as being a threat as much as it is an encouragement towards a better-run, more client-focused legal market. It's a cattle-prod kind of encouragement to some firms, for sure, but she says legal must change to become

completely focused on what the customer wants – not what law firms want.

“It's our intention to expand the legal services market, so in that sense we are not necessarily after [law firms'] lunch. But we are, I hope, going to be delivering very effective legal services. We will want to resolve problems at the earliest stage, which will be easy to deal with on the other side of the cases. All that

Why wouldn't a high-flying IT chief or HR director who's not feeling the love at your firm choose instead to work for the Co-op or Tesco, rather than just another law firm?

should assist with efficiencies [on both sides].

“And people will be able to look at what we and the other ABSs are doing and take from that what works for them. There's a learning opportunity [for firms]. And not everybody will want to buy their legal services from CLS.” So it's not all bad news.

Unless your firm doesn't change. “Any law firm which has committed itself to being consumer-focused and really builds its services around the consumer and offers quality work will have a future. I think,” says Blacklaws.

“Every law firm needs, as we do, to concentrate on providing real quality consumer customer service. Then they deserve to be around. I apply exactly the same criteria to CLS. If we can't meet that excellence of quality, then we don't deserve to survive.” ●

Feature

The future's bright. But is it yours?

We investigate if time is up for the traditional law firm. Rachel Davies talks to legal services leaders from top 100 firms Optima, Parabis, Shoosmiths and Charles Russell about how firms can become more competitive and profitable to compete with new entrants and ABSs.

No one knows what the future of legal services will look like, but the traditional partnership model will be confronted by competition from ABSs that won't be structured like traditional firms and whose financial management will be very good.

Alongside the current tough economic conditions, this means law firms will need to operate much more efficiently, and become more agile and better financially run to compete.

Some firms are finding opportunities for growth in the changes wrought by the Legal Services Act – but many of them know that being run more like a business, whatever that might mean when applied, is the only way they will build the capability and secure the investment to truly compete.

External funding for expansion

Parabis, owner of several legal brands, is set to become the first ABS with private equity backing after securing its ABS licence and massive cash injection from private equity firm Duke Street. Parabis' CEO, Tim Oliver, says the firm saw private equity as the way to address a 'glass ceiling on borrowing' from banks to help the firm expand. "We see this as our opportunity to be cutting-edge in how our services are delivered," he says.

Duke Street will have an equal stake in Parabis to the equity partners (a small team of 11 anyway, according to the Lawyer), but Oliver says the strategy-setting powers will continue to rest with his team. The amount of investment is, in law firm terms, enormous – a sum of up to £50m is available, say sources

close to the deal – but Parabis is a more attractive prospect than most: it had a head start in converting to ABS because it's been run as closely as possible like a corporate for years, and has a very small ownership for its revenue.

Oliver says Parabis will spend the money on enabling the volume work to be automated and handled by cheaper staff, and on mergers.



"We see this as our opportunity to be cutting-edge in terms of how our services are delivered."

Tim Oliver, CEO of Parabis

The priority is to upgrade the firm's case management system and to integrate it with the firm's new accounts packages, he says. Other tactics for achieving Parabis's strategy goals to become more competitive include growing its South African office to provide a cheaper cost base for work.

SRA restrictions on the ABS licence mean that at the SA office Parabis must not increase the proportion of non-legally qualified fee

earners to legally qualified fee earners from the existing ratio of 34:1, or change the type of work done without the SRA's prior approval, which superficially seems like a throttle on Parabis's growth – but Oliver says these restrictions won't affect his plans for growth, as the firm intends only to do "quasi-claims handling work" in South Africa.

Adapting to attract investors

If firms identify external investment as their best option for growth, warns Mark Dembovsky, chief executive of Howard Kennedy, they need to consider the potential problems that come with it – such as investor expectations.

"I'm not convinced that external investors fully understand how life is different investing in a partnership than it is investing in some other industry," he says. The corporate approach taken by a private equity company may conflict with the ways of a typical law firm partnership, he says, making it harder to reach a clear business strategy.

To solve this problem, says Emma Holt, managing partner at Pannone, firms may need to reformat their leadership structures and understand fully what their market offering is, to assess whether they're even attractive to private equity, let alone if they want it. Pannone is certainly rigged to be more attractive to external investment. It's introduced a formal management board and differential profit sharing, and Holt says that "in the absence of changes like that, external investment would be a big shock to firms".

More competitive pricing is vital to thrive in the modern legal market, as well

Will ABSs force law firms to be better businesses?

Many firms are taking steps to increase efficiency or adapt their business models because of ABSs. Mark Dembovsky, CEO at Howard Kennedy, says firms should be focusing on efficiency regardless of the influx of ABSs. He doesn't feel pressured by the ABS regime – "but that doesn't mean we're not watching it".

Andy Staite, COO of Charles Russell says that the ABS regime is "acting as a catalyst to the legal industry, and it's forcing firms like us to have a hard look at ourselves to see how we can do things and serve our clients better, and to make sure that we continue to serve our clients."

Mark Buxton, FD at Optima Legal, agrees it's a 'watch and be ready' time, but says ABSs will inevitably bring great change. "The impact of ABSs is something we have to keep a very close watch on. All we know is that the environment we're working in will change."

Tim Oliver, CEO of Parabis, warns that the weaker players will find it difficult to compete with other commercial organisations. So there's plenty of dissent among those who might ostensibly agree about ABSs.

Chris Stanton, FD at Shoosmiths, sums up the threat well: "There will be a pull towards the Co-ops of this world rather than Joe Bloggs round the corner. They've got that kind of brand power. It will make for uncomfortable times for some firms – high street firms particularly – if they have no differentiation in terms of the work they're doing."

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Focusing on pricing will be a central element to Howard Kennedy's 'financial efficiency', says Dembovsky – but to deliver on these goals, he warns, any firm "will need to understand their cost base and what goes into doing a particular piece of work".

Mark Buxton, FD at Optima Legal, agrees with Dembovsky on that. Optima is one of a new breed of law firm that's structured more like a 'normal company' (more on which later).

"Pricing is very important, and it's essential that the finance function has an input into that. Many of our clients are in the financial services and lending sector and they've got a lot of pressure on their cost bases, which leads to pressure on our pricing. This pressure on fees drives us to become more productive, use technology better and become more efficient from a cost perspective."

Andrew Staite, COO at Charles Russell, says his firm is experimenting with having a 'cap and collar' pricing arrangement to offer more client value – if the client thinks the firm's done a very good job, with added value, there'll be a premium on the bill. If the reverse is true, the clients will be entitled to a discount.

It's a good thing for everyone involved if market pressures focus law firms more on doing business more efficiently, says Holt at Pannone, and it's a great opportunity to increase profitability.

But, she says, clients must know what they're getting for their money: "it's very important that there is clear transparency over

pricing and flexible solutions for clients as far as possible."

Prioritising financial hygiene

Better financial management remains the central plank of any strategy that involves



"It's very important that there is clear transparency over pricing and flexible solutions for clients, as far as possible."

Emma Holt, managing partner at Pannone

rejigging pricing, resourcing or funding.

Howard Kennedy is paying incredibly close attention to all the different aspects of financial hygiene, says Dembovsky, such as work in progress management and debtor management. The firm manages its financial hygiene from the top down, he explains, through actively incentivising good financial practice and giving it high priority in strategic terms. "In each of [the firm's regular] meetings

I've introduced a programme of financial hygiene. I've got teams of people throughout the firm working on it, looking at how you financially incentivise those who comply and pick your ways of dealing with people who don't," he says. There will be challenges to implementing such a strategy, he says, but good business sense should win out. "The initiative has resonated with people. You can deal with the naysayers, because the majority understand the commercial realities of why it makes sense to do this."

Holt's team over at Pannone has developed fee earners' awareness of financial management after reviewing the efficiency of back office and legal process to find improvement. Those efficiencies are both very important to the firm at large, and so they should be as important to fee earners as they are to the FD, she says. Both Pannone's FD and head of BD also now have formal board roles and, she says, the firm has benefitted from their influence. "Our new FD, who joined from outside the legal sector, has been very effective in terms of helping us to educate our people further on the question of commerciality."

Making fee earners finance-savvy

The bean counters at Shoosmiths are also focused on building firm-wide financial awareness. Chris Stanton, Shoosmiths' FD, says the firm tries to run "like a corporate would" in one key respect, by ensuring that financial management isn't seen as purely a function of the finance department. All legal advisers at Shoosmiths must ensure that their matters are financially organised as well as possible, he says – because firms that do can offer clients a more attractive and flexible pricing package while maintaining profitability.

Behind the scenes: Why Pannone is doing other businesses' legal work

If you can't beat 'em...

Emma Holt, Pannone's managing partner, has grabbed at the upside to the increased competition in the market.

In response to seeing commoditised work becoming more competitive, Pannone established a new division – Affinity Solutions. It's a separate division that provides white label legal volume work for retailers and insurers.

Holt says the move didn't come from feeling pressured. "We thought, 'we know how to do this work very well, so we'll compete'. We saw that all the efficiencies that the new entrants could achieve, we could achieve, too."

Affinity covers many different types of work in addition to personal injury, such as employment, commercial disputes and conveyancing, as well as wills and probate. "What we've learnt from the Affinity [client] market is the importance of customer satisfaction," says Holt.

Different management structures can also help firms achieve these goals. Optima, for example, is a limited company with four shareholders, and is funded by Capita. This means that were it to become an ABS, getting external funding would be relatively straightforward, says Buxton – and it means the firm has sufficient capital to invest in areas of strategic focus, such as developing its case management system.

Optima's CMS is workflow-driven, which, Buxton explains, "pushes work to the right level of people" and creates efficiency and

consistency across the whole firm.

But, however it gets done, making fee earners take more responsibility for financial matters works wonders for efficiency and profitability. Dembovsky at Howard Kennedy is leading several initiatives to make lawyers more accountable and educate them about financial management, he says. “They’ve not really seen themselves as a business, [but] having to deal with pricing up-front, doing the work, billing and collecting is all part of being a lawyer these days.”

Incentivising commercial thinking

This drive to embed commercial thinking in the fee earning and business services sides of legal is a big change, but an essential one. At Charles Russell, lawyers are rewarded for their awareness of the firm as a whole and crucially, the commercial aspects of the business. The firm operates KPI-based bonuses linked to generating financial returns, referring work to other parts of the business and even for raising their profile or that of the firm by ‘PR’, such as writing articles or delivering lectures.

As another example, Optima’s senior lawyers all have to produce a monthly report including financials for the board, which requires them to understand the financial performance, forecasts and projections for their areas. They also sign off the pricing for their areas of the business. “There’s a better understanding of the financial position within product areas at that level now than there was four years ago,” says Optima’s FD, “and that is an on-going requirement of the people we hire in those roles.”

This level of understanding will become centrally important to being competitive and better run. Successful firms of the future will be the ones who are not afraid to adapt

Is business intelligence the answer?

Well, that depends on the question...

Investment in business intelligence is a major way in which firms are increasing their efficiency and competitiveness. And law firm leaders understand its power.

“The more business intelligence we have, the greater knowledge we have of our market, our client base, the type of work we do and of our competitors – all of this is necessary to run an effective business”.

Mark Dembovsky, CEO, Howard Kennedy

“Business intelligence is a good thing, it is not just the information that matters – it’s what you do with it and what it causes you to challenge”.

Chris Stanton, FD, Shoosmiths

“[BI] gives us a better ability to drill down into the firm’s financial and operational management information and we are starting to roll that out across the business.”

Mark Buxton, FD at Optima Legal on using QlikView

their business models, and to consider all options in terms of external investment. To be truly competitive, firms must ensure that everyone in the business is involved in financial management, to create a firm-wide commercial awareness. Offering greater pricing flexibility and added value to clients will be essential in a market where they will increasingly be able to pick and choose. But this has to be done profitably, working with the numbers, not in spite of them. ●

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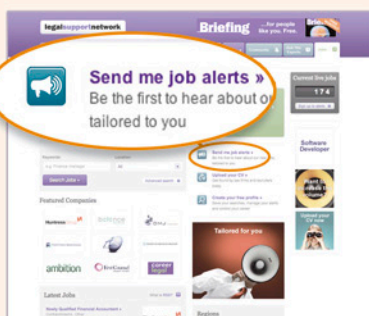
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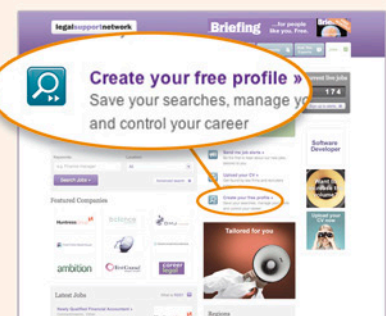
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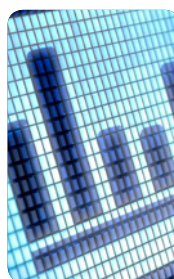


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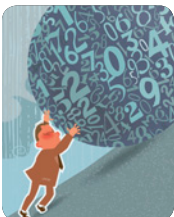
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Fraser Mayfield of **LexisNexis** outlines why firm-wide IT underpins good financial management

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Briefing Industry Interview

Financial management 2.0

Briefing asks Justin Farmer, director of product management for Thomson Reuters Elite, what law firms can learn from the business world about creating a next-generation legal business

What could law firms be doing to make themselves more competitive and agile? You'd think that an IT company man like Justin Farmer might say "technology", and leave it at that. But, he says, the big challenges lie in reformatting how law firms see what they do.

Farmer's opinion is that project management best practices, combined with great legal work, can be a great client offering. Doing this might also make it easier to take an analytic view of a firm's cost base, because projects are a more complete way to view legal work. This doesn't apply to all kinds of legal work, he says, "but legal customers are demanding more transparency, not only in finances but also around the actual legal work, and the work that comes out of each step of the engagement."

Law firms are still moving towards management models used by non-legal industries, but treating legal work like projects

can help them learn lessons from the business world, says Farmer – such as the cost-accounting methodology that goes into proper project management that ensures that a project is successful for the client and the firm.

Of course, there's a technology side to this – you need IT systems that can deliver legal work in this 'joined-up' way. But project management thinking is central to the concept of being able to predict and control your legal costs, explains Farmer. "And that's an effective way to develop business. It's certainly music to clients' ears."

But how about other, more basic issues around how law firms operate that stop them being agile and competitive?

Farmer says one route to a better-run law firm might be to apply more constraints in containing costs and management cash flows. This could be done by something as simple as enforcing expense budgets and applying

constraints in spending. “Adhering to a true budget is extremely important, because it makes you control your cash flow and use your financial data.”

How to start? Farmer points to standard project management questions and having the tools that can answer those questions, such as ‘what is your cash position,’ and ‘what is your predicted cash flow forecast?’ “That’s something we at Elite can also help firms with: doing a better job in improving the financial reporting process. Focusing on that is key to planning for cash flow fluctuations.”

Beyond that, he says, firms need to look more carefully, one might say more critically, at clients that drive a lot of work in the firm – but not a lot of profit. “That decision is a very difficult one, but you have to be determined that if the relationship is not profitable, what does it cost you? What kind of returns are you not getting, based on that relationship? Do we fire this client or do we not?”

“That’s a very hard decision, and it’s difficult to get through, but in running a law firm as a business sometimes you have to make those hard decisions.”

Getting a firm-wide view of finances

How can law firms make those hard decisions? Much like Chris Labrey at Econocom outlines on [page 25](#), management needs to look, for example, at how long it takes to get paid, if they do at all sometimes, as much as whether a client is profitable overall – and decide whether they want to continue carrying that client.

“If you reduce debtor days, you’re going to generate more realisation on the work you are

performing. That gives you more cash, which gives you more cash to invest in the business.”

Farmer and his colleagues at Thomson Reuters are working hard, he says, to pull together all the software solutions the company now has (3E, Enterprise, MatterSphere, LawSoft, eBillingHub, Engage, and so on) to create an enterprise business management solution that will give a fuller insight into how a firm could be better run.

“Legal customers are demanding more transparency, not only in finances but also around the actual legal work.”

Justin Farmer, director of product management,
Thomson Reuters Elite

“The leap is to get a holistic view and understand not just where you are today and what your relationship with your customers is today, but what that looks like in the future. Predictability is the key, because then you can start to make decisions that help direct or redirect the firm to be in a better position in the future.

“When I talk to my customers in legal, they don’t just want a return on investment – they need to do more with less.”

Perhaps we should send a copy of **Briefing** to Number 11, Downing Street...

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Thomson Reuters Elite
www.elite.com



Briefing Industry Interview

Lease your potential

Briefing talks to Chris Labrey of Econocom about why law firms must change the way they finance their IT to become more agile

The way that law firms pay for their technology is holding them back. That's the view of Chris Labrey, lead man for Econocom in the UK. Relatively new to the UK legal market, Econocom leases IT – something law firms don't do much of. But why not? Big business does this all the time, because it's much more cost-effective to do and it helps with cash flow.

So what are law firms not getting? "I think where they're going wrong is in their understanding of cash management," explains Labrey. "Outside legal, cash management is king. Law firms have some known pressures on cash flow – twice-yearly tax payments and professional indemnity insurance payments in October, for example, but the biggest cash flow issue facing law firms is debtor days, which can be anywhere between 100 and 180 days.

"In 'normal' business, invoices are settled within 30 to 60 days. We did some research

with our top two legal clients and found that their average was 120 days. This leads to a lot of pressure on cash balances, which can prevent law firms from investing in the technology, for example, they desperately need as the market becomes more competitive."

Investing in new technology, whether it's a pilot project to find out if iPads will help a firm be more capable out of the office or it's for new business servers, is especially tough to justify if a business buys everything up front. Most businesses don't – they often lease their IT. This means they can be free of 'old' technology far sooner than 'IT buyers', who often hang onto kit for four or even five years.

"Historically law firms don't lease because they thought that leasing was for companies that don't have a strong balance sheet or aren't performing well," says Labrey, "but our best clients are customers with a secure balance sheet."

A lot of firms are now reacting to the changes being wrought by the Legal Services Act by embracing new technologies, says Labrey – but even those that are investing probably aren't investing in the most intelligent way, he says.

“Many law firms ‘sweat’ IT assets until they're beyond their useful life. But many of our clients in the corporate sector will adopt a very aggressive approach to refreshing their IT, especially in the back office. PCs are typically replaced at three years, laptops at two years, servers at four or five years. “Law firms may think they have the IT for the job, but it's a job they were doing a few years ago,” says Labrey.

The main ‘why’ of leasing IT is almost absurdly obvious for partnerships like law firms: rentals are fully tax deductible, and for 50% tax payers (ie most partners) this means a low exposure on tax returns. Leasing also stops a firm paying in one year for IT that returns on the investment over several years. “If you're paying £1m up-front for an asset that's going to return savings over five years, it's illogical to pay cash for that sort of investment,” explains Labrey.

Law firms can learn something from why the world of big business keeps its IT for a much shorter period, Labrey says. Today's practice and case management systems, says Labrey, “are as up-to-date as the rest of the private sector”. This means they're resource-heavy, and the cash required to invest in them can run into the millions.

This issue of **Briefing** is about agility as much as finance management – but how can the latter help with the former? Here's an example: both Thomson Reuters and Aderant this year announced not only yet more power in their legal IT solutions, but also a move

towards universal access via tablet computers.

Leasing IT with an outside provider can help firms by giving the confidence to experiment, and removing the fear of being stuck with equipment no longer useful. Say a firm wants to roll out 300 iPads – that's a £200,000 cheque to write on a device you probably won't want to be using in three years' time. Plus they need support.

“iPads should be treated almost like a mobile

“Fundamentally, businesses have to be able to choose and change strategies,” says Labrey, “and they shouldn't be financially strapped to IT that doesn't allow them to change lanes.”

phone contract,” explains Labrey. “You should be able to rent a supported iPad.” As if by magic, that's a service Econocom is to launch just weeks after this **Briefing** is published.

Fundamentally, businesses have to be able to choose and change strategies, says Labrey, and they shouldn't be financially strapped to IT that doesn't allow them to switch lanes.

Whether it's being tied to old servers, or needing to try out Apple's latest mobile marvel, law firms have to start seeing their IT as a flexible cost that they can control – not a capital cost that controls them.

Learn more about how
Econocom helps finance IT
www.econocom.com/uk





Industry analysis

Driving up profitability

Competitiveness and profitability go hand in hand with financial management, says Tom Wood, corporate director at Barclays Corporate Banking

As the economy remains in the grips of a drawn-out recession, the pressure is on. The challenges for any business are to stay focused and streamlined, and to drive profitability from every source. But how should law firms be doing that?

Firms that meet these challenges, and strike the right balance between efficiency and keeping clients happy, will be the ones that are successful in the years to come. But there are many ways to improve profitability through efficient working practices, and each firm will undoubtedly face its own unique set of challenges.

One answer is outsourcing. Some law firms have been outsourcing certain business processes for years now – due diligence and document production are some of the most common. The aim of doing this is to drive down costs while maintaining a consistent service. Perhaps because of their positive

experience of this, mid-tier firms are now beginning to outsource lower-value legal work to smaller or specialist law firms, leaving their partners to focus on larger fee-earning opportunities.

Automation is also now top of the agenda in many firms, particularly for removing some of the most time-consuming administrative tasks, such as compliance and conflicts. This frees up fee-earners' time, but also helps firms satisfy increasing regulatory obligations more easily. And the smaller the firm, the more keenly the regulatory burden is felt – mid-tier firms face the same requirements but have far less resource with which to tackle it, so anything that relieves this pressure must be good.

Efficient and profitable business depends on understanding your clients and the true value that you derive from each relationship.

Good IT systems that generate robust management information are central to

that understanding. A firm's largest clients are not always the most profitable, and the right management information can help to distil your view of where 'true value' lies. Better systems also lead to improved client communication and service, which should help to identify opportunities and extract more profitability from existing clients.

Once you know which clients are profitable, the next stage is to focus on the right practice areas. Many firms don't truly understand where they make their money and where their strengths lie. This may result in cutting off less profitable areas of work, or dissolving relationships that aren't working well. Failing to address this can ultimately be damaging to the firm's brand.

For mid-tier firms that aren't full-service global players, there is an even greater need to focus on what they do best.

Some have decided to broaden their offering with international expansion, but they also recognise the need to develop niche specialisms. Doing more of what you're renowned for, and gaining a reputation for being best in class, is a good way to optimise profitability.

Streamlining financial management

But firms must, while choosing from the options above, maintain an approach of efficient and effective financial management.

Regular billing and cash flow management are critical to any firm's profitability, which explains why many finance teams have prioritised the streamlining of collection processes. Collections can involve motivating fee-earners to focus on timely billing or, in larger firms, having a centralised team to

manage the firm's billings. Firms of all sizes are increasingly outsourcing the credit collection process entirely.

Similarly, those firms that can incentivise the client to pay more quickly will develop a more efficient conversion of work to cash – and therefore profit. Alternative fee arrangements are becoming commonplace, but firms should consider the real cost of discounts: a 5% discount to receive cash 60 days early can

“Better systems also lead to improved client communication and service, which should help to identify opportunities and extract more profitability from existing clients.”

equate to a 30% increase in the cost of funds.

Legal firms could learn from the management consultancy and accountancy industries, by thinking more like a corporate and leveraging ideas to channel efficiencies. Twinned with good, insightful management information, firms can really 'know' their clients and understand exactly how their own businesses operate most profitably.

Firms that heed business lessons such as these are most likely to succeed. The landscape will remain challenging for the foreseeable future – only the fittest will weather the storm.

Find out more about
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www.barclays.com/corporatebanking



Industry analysis

Change, by the numbers

Strong financial management underpins future success for law firms, says Fraser Mayfield, product director for LexisNexis Enterprise Solutions – but IT has to be behind that management

Though the number of alternative business structures created can still be counted on two hands with fingers to spare, nearly 200 applications to the SRA had been made by the end of March this year. The ABS structure will change the legal market radically.

According to research by City firm Fox Williams, four in 10 law firms are now changing their management strategy, and over 60% are changing their partnership structures.

Law firms are exploring all avenues of funding. They are looking at direct investment as well as models ranging from private equity, stock market flotation and foreign stock market ownership, and the new structures – ABSs, multi-disciplinary practices (MDPs) and partial ownership – will allow this to happen.

But to operate profitably within these structures, the highest level of business acumen and expertise is required.

Making the transition from working like a partnership-led business to that of a publicly listed company is vital – whether a firm wants to float or not. And regardless of the ownership model, law firms will continue to be regulated by the SRA – but legal businesses that operate beyond that scope will also end up being regulated by regulators of other sectors, such as the Financial Services Authority. This will create increasingly complex compliance needs, and the need for relevant automation.

IT underpins financial management

Adopting financial management technology provides the platform to simultaneously operate across multiple disciplines, business environments and borders. Such systems let organisations register financial transactions, manage relationships between subsidiaries

and the parent organisation, including partial ownership structures, and administer internal cost accounting and enforce accounting policies and rules across the business.

Legal businesses will face many business challenges depending on their structures. The reporting complexity will increase if there is private equity ownership or shareholder involvement in the firm. Therefore, the finance management system they adopt must go beyond the traditional legal sector specific practice management systems to meet the reporting needs of complex business structures.

Financial management systems can automate reporting to produce practical management information based on organisations' unique business needs. Such systems offer the flexibility to create and modify their KPIs as the market changes without the need for IT to get involved.

BI systems can drive profits

Demonstrating profitability to a law firm's new owners or business partners will be critical. Adopting new business structures and securing funding for growth is the first step, but after that the businesses must be profitably managed.

The rise of fixed and capped-fee pricing models means that accurately predicting the cost and determining the right level of staffing, while ensuring high quality customer service, is now central to ensuring law firms' profitability.

And profitability is no longer the sole responsibility of finance teams, which means business intelligence systems will become almost imperative – BI systems whose output can be consumed for informed decision-making at all levels.

BI systems facilitate timely reporting to the finance team and firm management in several ways including automatic alerts, analytical reports and dashboard disclosure. They help assess business performance, map it back to business goals, and report to management giving actionable information. Modern financial management systems provide real-time information, but often fall short on analytics, which is key to accurate business insight,

“In today’s post-ABS world, law firms will need a financial management platform that works seamlessly across the business spectrum.”

especially as stakeholders navigate organisations through economic uncertainty.

In today's post-ABS world, law firms need a financial management platform that works seamlessly across the business spectrum and easily scales across jurisdictions. That's the level of capability in our Microsoft Dynamics AX 2012 enterprise resource planning system, combined with the Redwood business intelligence solution.

Strong financial management will underpin law firms' business success – and robust, flexible, future-proof technology will provide the platform upon which to execute good financial management.

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