

The Business of Law



Manage alternative fee models throughout your firm and exceed client expectations with robust planning software.

Law firms have engaged in creative approaches to pricing for years although industry standards have yet to be defined. Whether your firm elects to use fee discounting, flat rates or incentivized payments, one thing is certain: you cannot conduct true financial forecasting without robust planning software.

Software tools in the legal sector help firms analyze what-if scenarios related to budgeting and forecasting—including revenue and profit forecasts per partner or associate, as well as in total. Using this futuristic look at matter pricing that affects the bottom line, law firm finance departments can help control the financial outcomes of matters with or without alternative fee arrangements.

Financial and fee-planning applications make it possible to create various models, compare scenarios side-by-side with data plugged in and manipulate other variables such as staffing requirements based on client requests.

Transcend Costly Manual Methods

Without the benefit of financial and fee planning applications, partners have traditionally resorted to quick calculations and improvised ideas that may not live up to profit objectives. Attempting to adjust an arrangement after it has started takes valuable time and requires sensitive financial discussions with all parties. To avoid that situation, it's critical to reach an appropriate fee agreement that satisfies all parties before starting work.

Firms that are able to improve the bottom line with true profit numbers are those investing in financial and fee planning software. These tools provide all respective cost rates (both direct and indirect) and derive more accurate profitability and revenue figures.

Gain Control and Insight

In addition, financial and fee planning applications make it possible to manage all existing fee arrangements throughout a firm. The software helps your law firm take control of all matters, regardless of pricing. Firms that deploy planning software are able to:

- Run side-by-side comparisons
- Analyze actual data next to revenue projections
- Adjust deals that are not meeting financial objectives to parameters more in line with the firm's revenue goals

If your firm places a planning application at the forefront of matter pricing, you can align the matter budget or forecast with firm profit-and-loss goals. Even when you take this approach to create the "perfect plan," the firm truly benefits only if you use your plan to manage the matter.

Grow Your Firm's Profitability

By creating a reasonable plan, tracking to that plan and managing matters effectively, you can increase profitability for the firm and increase partner compensation.

- First, your firm is better able to educate its lawyers on the value of accurate financial data when you give them access to data-driven, analytic tools in a robust planning application.
- The application needs to be able to track actual performance versus planned performance. This tracking then drives accountability, and the lawyers responsible for matter management can make necessary adjustments to get their matters back on track.
- The ability to make adjustments on the spot drives higher profitability, enhances partner compensation and reduces risk firm-wide.

Exceed Client Expectations

Law firm clients want certainty around costs and an understanding of legal spending up front. With the goal of managing and mitigating that risk at every touch point throughout the law firm, everyone in management must take responsibility for reducing pricing pressures—and reducing the number of unprofitable arrangements in all practice areas.

A driving dynamic in the legal market has shifted client expectations over the past few years. Previously, lawyers could demand certain prices because there was an overabundance of demand for legal services, but now clients have greater leverage since there is an overabundance of legal talent.

In order to thrive in this new paradigm, lawyers and firms can use state-of-the-art technology and software tools to maximize value. With education, law firm personnel, lawyers, finance and practice directors can adjust variables and alter planning models to reach and increase financial goals beyond an hourly rate model.

When communicating with clients about new financial models, you can use planning software to deliver myriad pricing variations. For clients interested in controlling fees, this provides an opportunity for enhanced communication. These models can include blended rates, fixed fees, reward-based arrangements or other arrangements. You can compare and contrast each model against the other to optimize performance and projected value to the firm.

Go for a Win-Win

In everyday practice, law firms can now offer three to four pricing options to clients. If the law firm has used planning software and staffed and priced each option appropriately, the firm is not concerned about which option the client chooses. The client then has the power to select whichever arrangement is most comfortable and meets the objective of cost certainty.

This becomes a true “win-win” situation. Furthermore, when a client is no longer concerned about price certainty, a lawyer can spend more time on value-added activities such as relationship building, cross-selling and other business development activities. It is much easier to convince a satisfied client to do more work with you than to land a brand-new client.

Redwood Analytics provides a variety of products and services to help increase profitability in your law firm. To request additional information, go to: www.lexisnexis.com/business-of-law.

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