

Briefing

PRICING AND PROFITABILITY

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Interview

Kevin Doolan

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

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Industry Analysis

Profits before pitches

Profitability has to be placed at the heart of BD's thinking – and that can be done more easily than you think, says Dan Wales, legal business manager for BIPB

Business development is crucial to the success of many law firms. But at what stage of a campaign is profitability measured? Is it even considered?

Profitability is the ultimate key performance indicator (KPI), and it should be the focus of management and partners alike. It's the first figure looked at when analysing a profit and loss statement, alongside the age-old driver of revenue. Yet, for many, even if profitability modules are in place it is a measure often looked at after the event.

The Dickensian idea of lawyers profiting where all others fail is truly dead. We have seen the legal industry change dramatically since 2008, and the subject of profitability is often daily news – profits are dropping, firms are closing and mergers abound. The industry has changed, probably for good, and clients are now in the driving seat, demanding more for less. Law firms are struggling to adapt.

Profitability should not be an afterthought, an adjunct to the business development process. Profitability analysis should begin with

BD and be a working KPI throughout the life of a transaction. It should be a key factor on the critical path of every project. To make this possible, data needs to be made available and presented in meaningful form to appropriate personnel, and data-driven discovery needs to be embraced.

Pitches are key elements to winning new business, but at what stage of a pitch has the potential revenue forecast been analysed and assessed for profitability? More often than not, it hasn't. The lure of income and utilisation often supersedes it.

Many of you will find your biggest clients (in terms of revenue) are not your most profitable. In fact, if you dig into the profitability of a client base further, it's entirely possible that the margins are so minimal you might (rightly) question why retention is so important for some clients. Is it the client brand that you want to keep? Or is it about keeping bottoms on seats?

Pricing is about information

Pricing is becoming a talking point in the industry, but pricing projects 'on the back of a cigarette packet' is still very much the way lawyers operate.

While many firms are looking for alternative billing methodologies, the traditional method of 'billable hours times rate = billed value' still underpins many profitability calculations, along with hourly salaried and overhead cost rates.

Pricing as a distinct concept goes beyond just an estimate of work, but it has to be based on the collation of quality data. If you can collate the information retained in the firm's practice and customer relationship management systems and human resources databases – to name just a few key sources

– and then extract and build that into a pricing tool, initial data-driven discovery can contribute significantly to empowering an individual or team to make effective business decisions on pitching and prospect selection, and ones that align with internal strategy and overall client objectives.

Think of this: a comprehensive pricing dashboard, an estimate of work, an intuitive user interface, business intelligence (BI), effective data-driven decision making. This powerful information system is already with us – a handful of firms have adopted such dashboards and tools, underpinned with the mindset that no new matters are created unless a pricing estimate, using such tools, has been conducted, analysed and placed on file.

BI plays an enormous part in this. Using a BI tool you can mix the many inputs to get a vital insight into: the firm's position and profitability; worker and financial data held within a PMS; client data and project scope from the CRM, prior transactional knowledge from KM; skills matrices from HR and resource availability from Exchange, for example.

BI, combined with user input, selections, pre-defined calculations and 'what-if' scenarios, results in projects planned around real-time and accurate facts and the best resourcing value for your clients, which should be profitable.

Pricing work in conjunction with BD is only the beginning. Marketing campaigns with profitability targets are just the beginning. A pricing dashboard is just the beginning. The industry has changed and the technology capability has changed with it. Is it not time we changed our methods too?

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