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Executive summary

For the majority of law firms these days there is an internal struggle between longstanding cultural norms and an evolving data-focused business environment, in which firms must be willing to adapt and accept new ways of analyzing their business. Today's hyper-competitive market requires firms to acknowledge and focus on their bottom line, and the impact their standard practices have on it.

Take the example of law firm partner compensation plans. Despite increasing client demands for AFAs, fixed fees, and a renewed emphasis on collaboration and cross-selling, compensation plans simply have not kept pace with the changing legal landscape. Rather they continue to reward yesterday's one-dimensional behaviors. For the most part law firms have yet to actually define their bottom-line, with even the determination of profit margins a relatively new measurement in the industry. This begs the question, how should the modern firm reposition itself to face these challenges?

Many law firms today are wrongly focused on increasing market share, when they should really be paying more attention to what makes them a more profitable business. Market share is irrelevant if you are not profitable. Law firms cannot simply grow their way to prosperity by way of slashing fees to undercut the competition – instead, firms must focus on value creation and increasing a client's willingness to pay for a particular service. The question should be: “What can your firm do better, or more efficiently, and more profitably than anyone else?”

The Mechanics of Law Firm Profitability: People, Process, and Technology is illustrative of the changing scope of matter management in support of client value, practice efficiency, and ultimately law firm profitability. The book examines why a focus on profitability and metrics is reshaping law firm operations and matter management; how to define the bottom line and to distinguish between “good” revenue and “bad”; and how to change the dialogue from “hours and revenue” to “revenue and profit”, while changing the mindset from increasing market share to simply running a profitable business.

Keith Maziarek succinctly remarks in chapter two; “...at the end of the day, every venture is in business to bring in more money than it spends” – and law firms are no exception.

In chapter one Jack Bostelman, president of KM/JD Consulting LLC, and Chris Boyd, senior director of professional services at Wilson Sonsini Goodrich & Rosati LLP, outline how implementing knowledge management projects into a firm can increase profitability, and create more value from work undertaken. Using a base case model that is given to the reader, they show how a firm’s financial figures can be improved with three kinds of Knowledge Management (KM) project – proving that a rethink of a lawyer’s day-to-day practice can have tangible financial benefits.

Chapter two features Keith Maziarek, senior director of client value at Perkins Coie, outlining the weaknesses of using realization figures as the primary method of measuring profitability – and how any focus that is “revenue driven” will lead to sub-optimal business decisions. The chapter then moves on to briefly discuss the relationship between revenue and profits per partner (PPP), and how PPP can affect, and be affected by, the overall profitability of a firm.

Continuing the discussion on PPP, in chapter three Toby Brown, chief practice manager officer at Perkins Coie, explores the issue of how firms should treat partner compensation in relation to profitability – and runs through developing a comprehensive partner compensation system based on “revenue and profit” as opposed to the more current “hours and revenue” basis.

To further develop on the issue of partner compensation in terms of profitability, chapter four features Timothy Corcoran, principal of Corcoran Consulting Group LLC, discussing the complexities of partner compensation; including how firms should measure and reward profitability; keeping compensation plans transparent; and making compensation plans work during partner successions.

In chapter five Anthony Davis and Wendy Chang, partners at Hinshaw & Culbertson LLP, follow on from chapter two’s considerations on “bad revenue”, and how firms are moving away from the “any work is profit” mentality, to explore how a firm can use the client intake process to boost profitability. The chapter brings light to the fact that with proper client management, and the confidence to reject those clients destined to be unprofitable, a firm can make significant improvements to its profits.

Chapter six moves to focus the issue of profitability in relation to the hiring of laterals, with David Parnell, founder and principal of True

North Partner Management, discussing the upfront financial analysis of the acquisition and the nuances surrounding the first year profitability during the process.

In chapter seven, Michael Roster, co-chair of the Association of Corporate Counsel's Value Challenge Steering Committee, outlines how firms should take to viewing their different practice groups as individual, autonomous entities – and redefine the firm itself as a provider of multiple specialist services through the use of “departments” (practice groups) rather than a singular business entity. The chapter leads into explaining how some practice groups can widely differ, and judging them all by the same standards can lead to negative financial impacts. With profitability managed at an individual practice group level a firm can optimize their profits to a finer degree.

However, managing profitability is not an easy task; as Jim Hassett, founder of LegalBizDev, discusses in chapter eight. Through multiple interviews with many senior level partners at law firms, a telling picture is painted showing the obstacles that law firms face in managing their profitability – and where many of them fail. These issues often preventing firms from moving towards a position of profit include effectively controlling the bidding processes and knowing where to count a loss as “acceptable”.

In chapter nine James G. Perkins, chief operating officer and chief compliance officer at Procopio, gives an overview of how the regional firm uses and manages their profitability, how they established and utilize their profitability model, and why the concept of “managing on the edge” is fundamental to firms operating at regional levels.

Finally, the book finishes with a case study from Faegre Baker Daniels which outlines how the firm managed to lay the foundations for sustainable and profitable growth within a niche market by making changes to their core practices and the overall culture of the firm. The case study gives an insider look at a number of methods Faegre Baker Daniels utilized to encourage profitability, including pricing initiatives, process improvement, and knowledge and project management.