

A greater sense of urgency

The next few years are likely to see significant developments in the use of IT in law firms – and its transformation from a back-office function to a central role in the delivery of client service and the profitability of law firms.

Over the past ten years, much of the focus of legal IT has been on the plumbing – delivering effective email systems, document management, document assembly, practice management and client relationship management systems. But until relatively recently, this investment has not been used to its full potential. To date, much IT expenditure has been about ‘automating the quill pen’, that is, enabling lawyers to deliver their product to their clients quicker and cheaper, but without fundamentally changing the way lawyers operate or interact with their clients.

Though change in law firms may traditionally be glacial, it is clear that the rate of change is accelerating for a number of reasons. We have recently had a boom period for legal services, especially in the larger firms. However, if activity returns to more ‘normal’ levels, we can expect client pressure for firms to work more efficiently and to provide greater certainty as to their overall level of charges.

HOW TO REMAIN PROFITABLE

We have seen a slow but steady shift from discounted hourly rates to capped fees to fixed fees. Anecdotal evidence suggests clients are increasingly demanding fixed fees. This is not restricted to so-called commodity work. If this trend continues, it will have a profound effect on law firm economics. Discounted hourly rates and capped fees are essentially cost-plus calculations, so the incentive for law firms to work more efficiently is small. A change



Williams: continuing shift to fixed fees

to fixed pricing, especially if clients start to drive those fixed fees down, is a fundamental change. To remain profitable, firms will have to understand their economics far better and ensure that the routine elements of a transaction are carried out at the lowest possible cost. IT will play a crucial role in providing an efficient and lower-cost model for the delivery of legal services.

Law firms will need a far greater understanding of the profitability of individual practice areas, client relationships, and specific transactions. This will be essential for the effective pricing of fixed-price work. After the event, engagements will be closely analysed to understand the real, as opposed to expected,

profitability of the transaction. Lessons can be learned as to the assumptions needed when quoting a fixed price and how changes to these assumptions are communicated to the client. The change from cost-plus to fixed-price arrangements in other industries, such as construction and defence, will provide some interesting lessons for law firms. IT will play an enabling role in developing and using these financial models. Getting these changes right will be key to the long-term success of a law firm.

KNOW-HOW ON DEMAND

To cope with this level of change, law firms will need to ensure that know-how, training, smart precedents and document assembly technology are available on demand to enable work to be undertaken at a high level but at the lowest possible cost. Such a development is essential to enable the unbundling of a transaction into its constituent parts and the allocation of each part to the lowest-cost provider.

In the longer term, this may well include using lower-cost providers in, for example, India, Australia and South Africa. IT will be pivotal in this re-organisation and the effective project management of a transaction involving lawyers in different locations and time zones.

Many of these developments are already apparent in some parts of the legal market. But a greater sense of urgency and professionalism will be needed for firms to maintain and enhance their competitive position.

Firms that fail to respond on time face an unpleasant cycle of falling profitability, and a following inability to invest in the technology to re-establish their position.
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