FM24: Rethinking Profitability in a Changing Marketplace

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What is profit?

“Profit is the positive gain remaining for a business after all costs have been deducted from total sales. Profit is also referred to as the bottom line, net profit, or earnings.”
**Question #1**

*Profitability is a primary consideration when setting hourly or non-hourly rates.*

**Question #2**

*Profitability is a top factor in awarding compensation.*
Question #3

We measure profit at the timekeeper, matter, client, practice, and office level.

Question #4

Our cost allocation methodology is widely accepted.
Question #5

We allocate resources and investments based on profitability.

What is profit?

- Realization
- Utilization
- Leverage
- Expenses
- Speed of collections
What is profit?

![Diagram showing the calculation of profit]

Net Income = Revenue - Law Firm Expenses

PPP:
- Indirect Overhead
- Direct Overhead
- Timekeepers

Ownership:
- Performance Bonus
- Benefits
- Notional Base
- Indirect Overhead
- Direct Overhead
- Timekeepers

What is profit?

Revenue: Net Income = Law Firm Expenses

Costs: Ownership = ? %
Firm vs. Matter profitability

• Is it possible to have profitable matters in an unprofitable business?

• Is it possible to have a profitable business containing unprofitable matters?

Profit potential is variable

Graphic: The Tilt Institute, © 2018
Why should we care?

@tcorcoran: If we offer or allow discounts or non-hourly pricing, yet we don’t also adjust our service delivery, it’s a mathematical certainty that we will dilute profits.

Profit ≠ Production

@tcorcoran: Hours and rates are important to measuring profits in the same way that measuring fuel efficiency helps you estimate if you’ll arrive to your destination on time.
Where do we start?

@tcorcoran: Shifting lawyers from a production mentality to a profit mentality is primarily a cultural challenge, not a technology problem. (But you will absolutely need technology!)

Common Tech Rollout Fails

- Buy
  - Exclude key stakeholders
  - Budget holder owns decision
  - Bundle > best of breed
  - Price > TCO
- Configure & Pilot
  - Exclude key stakeholders
  - Loudest voice wins
  - Build only in-house
  - Encode current processes
  - Pilot for politics
- Deploy
  - KPI = user access (not adoption)
  - Minimal advance comm
  - Minimal post-rollout comm
  - Minimal end user support
- Train
  - Optional
  - Materials too basic
  - Materials too advanced
  - Theory, not use cases
  - Minimal support for battlefield questions
- Blame
  - Partners are too busy to innovate
  - Too early
  - Too late
  - Poor mgmt. support
  - Poor end user support
Profit Journey: Today

- Most firms early in adoption of profit metrics
- Demand for understanding profitability driven by pricing
- Matter/client level profitability most common

2018 Survey conducted by Corcoran Consulting Group and The Tilt Institute.
Drive topline growth through...
Compensation encourages and rewards behaviors. Performance management evolves.

Control costs and increase efficiency through...

Note: Assumptions may vary

- The assumptions in your model will influence the results
- Different assumptions are necessary for different business objectives
- Stakeholders will promote the assumptions that benefit them!
- Credibility comes from transparency and consistency
Note: Assumptions may vary

• Overhead
• Utilization
• Partner compensation
• Office/dept/industry variability
• Accrual vs. cash basis
• Working vs. Originating

Model the assumptions
Identify common use cases

- Price a matter
- Evaluate office profitability
- Manage a matter
- Evaluate a practice/industry group
- Incorporate profits into partner comp
- Evaluate timekeeper fiscal discipline
- Evaluate associate learning curve
- Assess profitability of a new service line
- Evaluate profitability of a lateral recruit
- Assess profitability of a merger/acquisition

5 Stages of Adoption

Measure
- Have framework
- Elements & measurement in development
- Firm-wide consensus in progress and/or achieved

Motivate
Manage
Master
Monitor
Measure

*Thanks to Madhav Srinivasan of Hunton Andrews Kurth for his insights into the adoption journey!
5 Stages of Adoption

Monitor
- Profit frameworks embedded in financial systems
- Targeted education
- Selective profit metrics accessible and shared with partners

Manage
- Analyze underlying drivers of profit
- Educate partners to improve actions
- Timekeeper best practices training
- Sporadic communication
5 Stages of Adoption

Master
- Proactively address improvement opportunities
- Take action on specific partners/clients
- Calculate margins for AFA quotes
- Intense communication

Motivate
- Incorporate data and matter profits in partner compensation
- Actively remove clients with low profitability
- Devise long-term strategy with profit targets
Example journey: Analysis

Example journey: Results
Avoid common pitfalls

- Too much too fast
- Too much information
- Over-sharing with the wrong people
- Letting the inmates run the asylum
- Build it and they will come
- Idolize a single profit metric

Perfection not necessary
Thank you!

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