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MEASURING FIRM QUALITY WITH CLIENT VALUE INITIATIVES

GC Mid-Atlantic

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June 4, 2014 | 0 Comments

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When it comes to competitive pricing, both clients and law firms are more and more focused on quality. That sounds good, but how can quality best be represented in actual metrics? While quality is a degree of excellence, what makes that degree marketable enough so that customers can swiftly leverage metric “facts” as a guide in the counsel selection process? Furthermore, how can these quality metrics be leveraged to delineate themselves from one another? The goal should be to highlight experience as an actual quality success metric rather than just attractive pricing.

Alternative pricing is here to stay, and so is the focus on discounting and competitive rates. In the pricing world, trends are emerging related to sourcing opportunities, where in some instances pricing bids are made almost too attractive through extreme discounting, resulting in unrealistic bids. Best practice business growth leans toward gaining market share, but this can strain quality and stress relationships. On pricing follow-up discussions with clients or through regular client outreach, we often learn that the time put into doing the work by the winning bidder is actually several times greater than what it would have taken the moderately more expensive firm. What does this all mean? Clients are learning that accepting the lowest bid does not always mean the best result, in terms of cost and quality.

In the case of the fixed fee, the same trend exists. The excessive use of assumptions and scope is included to protect a very aggressive bid. What we have seen is that the winner on the original bid has actually gone over by large percentages, which then reopens the opportunity for other firms to re-engage. This is why clients are looking for more fact-based metric reporting and want to partner with law firms that have the support and experience to accomplish this.

Client value and legal sourcing programs have become more and more prominent in both law firms and in-house. Firms are realizing that the selection of outside counsel involves a holistic evaluation of experience, quality, value and cost-effectiveness. Finding innovative ways to provide value and contain legal costs for clients while focusing on fostering client relationships and producing a high-quality legal product is crucial. For clients, measuring value and quality to help the selection process while achieving savings is a top priority.

Client value and legal sourcing teams composed of dedicated and talented professionals with diverse legal project management experience, strategic pricing backgrounds and strong credentials—including MBAs, J.D.s, chief financial officer experience, PMP and Six Sigma certifications—are growing out of commitment to these principles.

These teams serve as a resource to their business leaders, legal teams and clients throughout the duration of each matter, and offer a number of value-add services aimed at increasing cost-effectiveness and efficiency.

So what do they deliver? Cost predictability, quality improvements, after-matter audits, matter management and success/failure reporting. Measuring success is straightforward in most cases, since it is based on outcome. When it comes to measuring quality, the client value focus on key performance metrics that are created with the clients simplifies reporting on the facts.

Attractive pricing without legal project management and oversight throughout the course of an engagement would not be wise. The LPM function at its core costs the client nothing and is there to assist lawyers with matter management by monitoring the hours it takes to perform certain tasks, the percentage of completion of work in relation to the scope of work and budget, timekeeper staffing levels, and other valuable metrics. The LPM team meets and discusses those metrics with client relationship partners on a weekly basis so that any issues can be addressed proactively and immediate action can be taken to come to appropriate resolutions.

The legal sourcing process is maturing; partnering with clients in helping this evolve is vital. Selecting firms based on price and other miscellaneous data like years of experience, jurisdictions and diversity alone isn't enough. Partner with your legal sourcing teams to work with various client teams to develop specific key performance metrics that matter

most to their business. Further, internal legal project management that supports the matters once procured helps deliver on the value services committed while measuring the key performance metrics.

On the law firm side, pricing and responding to opportunities poses challenges. Lack of industry standards and the absence of historic information can cause growing pains. Further, to assume that there will ever be a legal service industry-wide standard at this point would be a bit of a stretch. But there is a way to face this challenge.

The way to get there is simply vis-à-vis convergence. Clients can and will drive this change. With this approach, clients would create budget templates aligned with client-specific (non-American Bar Association) task codes that would be mandatory for all firms that work on their matters. This would help them report on the quality metrics referenced above.

Clients are also seeing the need for a similar LPM role to support their pricing initiatives and business as well. Joining the client and law firm LPM teams together can only improve performance and outcome. Additionally, on the client side, LPM can help clients when choosing measures that can be benchmarked against other firms.

Client-facing dashboard tools that provide real-time updates on metrics regarding time entry and total legal spend are also being adopted in the industry. Viewabill allows both clients and matter managers to log in and see real-time time-keeper and legal-spend statistics. Viewabill is linked to time and billing systems so that you can see accurate data daily in a portal format that makes matter management more accessible to the legal team.

Increasing efficiency means improving visibility and accountability. This allows law firms to increase client transparency by providing access to numerous billing metrics in real time. At any time, members of the legal department are able to log in and view accruals, billable hours and even work-in-process time entries.

Real-time access to prebill information assures the legal department that law firms are continuously aligned on workflow and priorities. Setting matter-based monthly budgets and having continuous visibility into progress against those budgets allows legal departments to quickly make adjustments to work allocation. Having the ability to flag work-in-process entries provides the opportunity to promptly notify the law firm of potential problem areas, thereby eliminating situations where outside counsel continues down the wrong path. The results have been instrumental in building an open, trusting relationship between in-house and outside counsel.

This provides legal departments with simple, meaningful and actionable transparency during the prebill process, when it's still possible to make proper adjustments. The transparency gained using these methods has quickly created a culture of openness and improved billing practices, which, in turn, has led to better results and lower costs.

Together with other client value-facing tools, developing processes within organizations to get to a place where both client and firm want to be is essential.

The key to creating a successful pricing arrangement is to understand the client's needs. Each client has unique goals and business objectives, and while an alternative pricing arrangement may work well for one client, it may not work well for another.

In the industry, an increasingly large percentage of matters involve alternative fee or value-based pricing arrangements. There are a range of pricing options to meet and hopefully exceed client demands and leverage LPM to ensure they are achieving that value and cost certainty.

While the key performance metrics will help you better assess performance, you also need to identify and assign ownership on how you will measure and report on the success while implementing ways to advance.

As valuable as this information is, there is no substitute for trustworthy relationships and strategy. Client value programs and initiatives are helping to evolve these connections.

Vince Cordo serves as the global director of client value for Reed Smith. He leads the firm's strategy related to the evaluation and implementation of value pricing, alternative fee arrangements and legal project management. He is responsible for organizing teams of professionals to align project management and process improvement with business drivers, while assigning resources, tools and tactics to satisfy both business and client needs. He can be reached at vcordo@reedsmith.com. •