

The “Soft” Drivers of Profitability

By [Michael D. Short](#) on September 30, 2016

One of the many painful lessons learned by the legal industry from the recession is that the key to economic success is a focus on profitability...not just revenue. Far too many firms were focused solely on fees generated with respect to relative *financial* contributions to the partnership and how the resulting profits were divided. Once law firm leaders started to dig into client and matter level profitability analyses, most found that some of their biggest revenue streams were, in fact, very modest contributors to the profit pool and a few were actually siphoning profits out of the profit pool.

Any time a client wants to pay a law firm for services rendered, it's up to the firm to determine if the appropriate level of profit is possible from the work. The key factors in a typical profitability analysis are the traditional “hard” numeric drivers of profits such as realized rates/fixed fees, utilization levels, staffing assignments/leverage, the direct costs associated with each contributing lawyer, cash investments in the matter (e.g., travel, expert witnesses), and some allocation of firmwide overhead. This is an inherently imperfect analysis that is equally invaluable if used correctly.

While this metric-based path through the profitability maze provides the basics for financial success, law firm leaders who are more experienced with these analyses see another set of “soft” drivers of profitability that elevate the value of a profitability analysis IF you know where to find them. These are often overlooked because they are buried in the allocated overhead (referenced above) but can significantly influence profitability at the client and matter levels because they truly define the client's overall experience with the firm...well beyond the legal services rendered. Examples of these softer value-drivers, from the clients' perspectives, include:

- **A consistent client-service team** – High turnover and a parade of new faces makes any client nervous about the services and also concerned with having to pay for internal training time on their files;
- **Great support staff** – Administrative staff play key roles in any client's experience with the firm, including a warm and professional greeting when entering the lobby, a beverage of choice in a predictably well-arranged and supplied meeting room, a quick appearance by the meeting attendees so the client isn't waiting, and efficient document support (editing, formatting, filing, and security). When outside the office, some level of recognition and personal interaction with the legal administrative assistants when on the phone, an acknowledgement of receipt of emails or voice-mails by staff when the lawyers are tied up, and invoices that are prepared to the client's expectations all add value to the experience;
- **Pricing specialists or commensurate analytical skills** – Beyond the ability to produce the aforementioned client and/or matter level profitability reports, clients who want to try a fixed fee arrangement for a matter or a portfolio of services wants both a quick response and a sufficiently detailed supporting analysis that promotes confidence; and/or
- **An accessible and personable leader of the IT organization** – As concerns with leaks and data breaches rise, clients want someone within their law firms who can stay abreast of the issues, adjust systems and procedures accordingly, and quickly assist with IT questions or audits related to cyber-security concerns.

Of course, there are many other examples.

Imagine going to a restaurant where a 5-star chef is offering world-class culinary creations, but the front-desk staff are

cold in their greeting and slow to seat you, the wait staff cannot answer your questions and seem distracted, and the dishes are left on the table long after the courses are over. While the food is great, the overall experience is not commensurate with the food and the service will be the first thing mentioned when telling others about the experience...not the food. This scenario is easily replicated within the legal industry.

Within a law firm, the dollar value of these soft factors is difficult to measure but the importance is easily recognized because these factors can differentiate one competitor from another, as with the restaurant analogy. They can also elevate client work from a one-off legal matter to a dedicated institutional relationship, which increases profitability because such clients –

- Do NOT put work out for bids;
- Refer the firm to others in their industries;
- Are receptive to internal cross-selling efforts due to the trust in the primary point(s) of contact and have an expectation that the same level of service will come from other teams within the firm; and
- Will pay for the services at a slightly higher level – within reason, of course – due to the comfort and familiarity of the relationship versus having to move the files and start over elsewhere.

What does all of this mean for a law firm leader?

- If the economics of the firm are down due to a lack of work and cuts are absolutely necessary – make the cuts in the right places. Administrative staff cuts made to keep idle lawyers in the firm will degrade the overall client experience without addressing the core issue of insufficient work for the lawyers. This path has a high risk of making the situation worse...not better.
- Expenses related to the administrative staff – from compensation levels to training and development – should all be viewed as investments in the overall client experience with expected rates of return. This ROI is very difficult to measure until you ask clients about their overall experiences with the firm. The highly subjective answer then becomes crystal clear.
- The firm’s culture of client service needs to be a part of training and evaluations at all levels and the staff needs to consistently demonstrate a work ethic and a commitment to clients (both internal and external) that goes beyond an “it’s just a job” mentality.

The use of profitability data is an evolutionary process. A focus on the hard drivers of profitability demonstrates concern with the economics of a matter on a short-term basis. The addition of the soft drivers demonstrates a focus on the client relationship on a long-term basis. Look at everything from the client’s perspective and evolve at a faster rate than your competitors.