



# WHAT DOES A CHIEF PRACTICE MANAGEMENT OFFICER DO?

BY JOE DAVIS

## Simply billing time is no longer enough—the market is increasingly requiring firms to respond differently, and the field of practice management is working to facilitate that transition.

**T**oby Brown oversees a variety of functions—including legal project management and lateral partner acquisition—but pricing is at the core of his role. Brown is the Chief Practice Management Officer at Perkins Coie, an Am Law 50 firm with more than 1,100 attorneys. ‘My focus on pricing is really around revenue and margin,’ he says. ‘I do a lot of evangelizing on what profitability is and how to improve profitability in the way we price and deliver our services.’

Brown is part of a growing number of professionals focused on the business of law in order to keep their firms competitive. His transition from the knowledge management field into pricing coincided with the 2008 recession. Prior to that point, he says, law firms had a simple pricing model. ‘Every year firms would raise their rates 6-10%, and demand was always going up, so every year they just made more money.’

Once the recession hit, clients began to push back on fee increases and ask for alternative fee arrangements, forcing

some lawyers and firms to consider the possibility of working under a different business model for the first time. ‘I remember sitting down and doing the really hard math on a matter and client level to determine profitability,’ he recalls. ‘I started talking to a partner about it a couple of days later, and he looked at me like I was from another planet.’

When that partner admitted that the idea of analyzing whether his work was profitable had never crossed his mind, Brown initially thought he must be an anomaly. ‘By the time I got to the third partner, I realized that none of them understood it. Why would they care, when without caring, their incomes are going up dramatically every year? The old joke is they went to law school because they didn’t want to do math.’

While the economy has improved significantly since its 2008 lows, firms looking to stay ahead of the curve are continuing to explore pricing and profitability. ‘Obviously, firms did very well last year,’ Brown says. ‘That kicks the can down the road a little bit on whether



we need to worry about profitability. But even with that, I think it’s on the agenda more and more with leadership and partnership at my firm and at other firms.’

### The basics of pricing

According to Brown, firms can begin working with a practice management team in two ways: being proactive on fee arrangements and reducing costs. He says that instead of waiting for a client to ask ‘are you going to give me a fixed fee?’ firms should be going to clients and saying ‘look, we have an idea here’. For example, a firm could offer to handle all the SEC filings required of a public company at a single fixed fee rather than at an hourly rate. Clients and firms both appreciate the predictability of this kind of arrangement.

The challenge for the firm is to document the scope of the project and figure out how much to charge for that portfolio of work. This is where Brown and his team come into play. ‘We need to manage against that budget number and find ways to be more efficient,’ he says. ‘We really watch and reduce our cost of delivery wherever we can. That will drive our profitability.’

He also points out that these kinds of non-traditional deals may require investments in non-traditional areas like alternative staffing, process improvement and legal project management. ‘You now have the ability, because of the bigger revenue number, to make that kind of investment and then make the investment back. Fixed fees open the door to that.’

### Staffing the pricing role

Brown is asked so frequently about how to start a practice management team that he has a ready-made response. ‘The short



answer is you're going to need a pricing professional and there are two ways to get one. You can build one or you can buy one. If you choose to buy one, I say get out your chequebook, because there aren't many experienced pricing people out there and they command a high price in the market.'

He is quick to point out that physical location should not be an issue. He mentions one US west coast firm that reached out to him for advice about hiring a pricing person, but wanted to have that person sit in their main office. He told them: 'You just took 95 per cent of the qualified candidates off the list because they're not going to move to Palo Alto.' When they asked why not, he said it was because they don't have to. 'I've been a pricing guy for over a decade and I have yet to be based in the main office,' he told them. 'Just suck it up and be very flexible with the candidates.'

Given that there are relatively few individuals with legal pricing experience, Brown believes that 'building' a pricing professional is a valid option. 'I came from knowledge management, some people come from finance, some people come from marketing,' he says. 'I poached my current senior director on the pricing side out of the library. She was a former lawyer, knew numbers, understood the practice and she rocks it!'

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However, putting an attorney in a pricing role is not always the right move. 'If someone has been a lawyer for six, seven, eight-plus years, that can be a negative because they can become dogmatic and narrow-minded in their thinking,' Brown says. 'That said, I actually have a number of lawyers on my team who have come from practicing and there is absolute value in understanding the practice. But even then, they might understand litigation well and know nothing about transactional stuff.'

#### **Tools of the trade**

The market for pricing talent is small but growing, and the same can be said for the software tools for pricing. 'We have a very large portfolio fee deal with one of our clients—it actually covers a lot of practices in a relatively new deal,' Brown says. The partner came to him and said

there had to be a product out there that the firm could use to monitor budgets in real time. 'I said, "well, you would think that is out there. It would make sense for it to be out there. But it isn't".'

Brown's team at Perkins Coie is testing an early version of one pricing/budgeting/monitoring tool that looks promising. They began looking at it in order to replace a different package that was not meeting their needs. 'I told the lawyer this was the first time he had asked for one of these. Why would there be a product if no one has asked for it?'

Brown's team also handles scenario modelling. An attorney can come to Brown and his team with a potential fixed fee engagement, with a certain level of staffing and leverage, and ask whether it will be profitable. 'We need tools to





be able to come back and say “okay if we do take it, at whatever the number is, and we manage it, our margin will be X per cent and if we do it this way, with a slightly different type of pricing, our margin will be a little higher or a little lower”. A lot of people just do it with spreadsheets. When I was deeper into it, that’s what I would end up doing. There are a lot of them coming on the market, and pricing people are really hungry for tools to model things like that.’

### The future of pricing

Recently, the driver for increased profits has been an increase in rates rather than an increase in demand, Brown says. Most sources are reporting that the demand for legal services will remain flat for at least the coming year. ‘I actually think demand is going up, but our current measurements don’t measure what our clients are buying,’ he says. ‘We measure what we are selling to them, which means if somebody else is cutting into our market, like alternative providers and the “big four” and others, we don’t know about it. Our market stats don’t even tell us that.’

Even if law firms have no hard metrics around it yet, the potential impact of the big four accounting firms entering the legal market is being closely watched. ‘You’re always worried about a disruptor coming in,’ Brown says. ‘The big four have really ramped

up in a quiet fashion. They’re coming at us hard, and they already have relationships with our clients.’

Despite the competition, he believes that law firms are not in imminent danger. ‘What will save or prolong this for law firms is the fact that our clients are former “big law” lawyers. They’re not really evaluated around cost savings, so our clients aren’t waiting to embrace a disruptor. That’s a huge risk for them to take. Why would they do it?’

Brown’s data-driven approach does highlight some potential problems in the market. ‘The rich are definitely getting richer. If you look at the top of the Am Law list, there is not a lot of

movement. Once you get below 12 and 13, the number of moves up and down starts to increase. When you get into the Am Law 200, even though they had a decent 2018 compared to the Am Law 100, their decent year was half of what the Am Law 100’s was. So the firms that are downmarket and midsize firms are going to start to have pain, and some of them are already having it. Last year (2018) kicked the can down the road, but that’s where I see cracks in a lot of foundations. I don’t think 2019 is going to be a bad year, but it’s not going to be like 2018.’

Firms that understand these changing market dynamics are looking to patch those cracks and reinforce those foundations with the kind of insight Brown and his team can offer. Simply billing time is no longer enough—the market is increasingly requiring firms to respond differently, and the field of practice management is working to facilitate that transition. ‘It starts to sort of seep into the DNA of the firm,’ he says. ‘I think we’re talking about it a lot more now, and pricing has been the catalyst for that.’

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