

WHAT'S CHANGED IN 3 YEARS?

The 2015 Best Practice Guide
To Cost Recovery & Cost Management

2nd Edition – by Nikec Solutions





BY LAW FIRMS, FOR LAW FIRMS

The first edition of the Best Practice Guide was published in 2011 by Nikec Solutions (formerly Copitrak) as a resource for those looking to implement a cost recovery and management project.

The roundtable session back then uncovered key trends that law firms of varying sizes in the UK noticed within cost recovery and management.

This booklet is the new, updated, 2015 edition of the cost recovery guide. It presents the key changes that the legal sector has incurred in the last three years and includes up-to-date figures and essential knowledge gained during a round table discussion held in 2014 with some UK based law firms.

Law firms that have contributed to this document are as follows:

Appleby, Bond Dickinson, Clifford Chance, Fishburns, Hill Dickinson, Lewis Silkin, Nabarro, Parabis, Simmons & Simmons, Wedlake Bell & Wright Hassall.

2011 - 2014: THE LEGAL SECTOR NEW CONSTRAINTS & CHALLENGES



CLIENT DEMANDS

Clients compare charges through RFPs and drive costs down. They ask for transparency and justifications for fees, yet are quick to say "no".

Is loyalty to the firm fading out?



CHANGING FEE STRUCTURES

Clients negotiate flat fees for services to better anticipate their legal expenses.

More personalised alternatives including rate concessions or multi-year rates are increasingly common.



FROM PARTNERSHIP TO COMMERCIAL BUSINESS MODELS

Alternative business structures allow non-lawyers to manage or have ownership-type interest in a firm.

Focus is on managing P&L and bottom lines, reducing costs, eliminating waste and increasing revenues.



LAW FIRM SIZE

Through mergers and acquisitions, firms are becoming larger and sometimes international.

However staffing levels have decreased and employees are expected to do more with fewer resources.



NEW TRENDS & TECHNOLOGIES

Mobility, BYOD, connected MFPs, cloud... new trends and technologies push firms to be less paper and more digital. It also creates new opportunities to rationalise processes.

Scanning technology is now a high priority to support the increasingly prevalent use of digital matters folders and electronic documents.

Open plan offices, shared MFPs and clients concerns for document integrity lead to a greater focus on secure follow me printing.



RULES & REGULATIONS

Bodies such as the SRA*, the Legal Ombudsman and the recent Jackson reforms are all setting out and enforcing rules on client charges.

Charges are now subject to upfront communications, clear breakdown, and must reflect the work done by phases, tasks and activities for litigation.



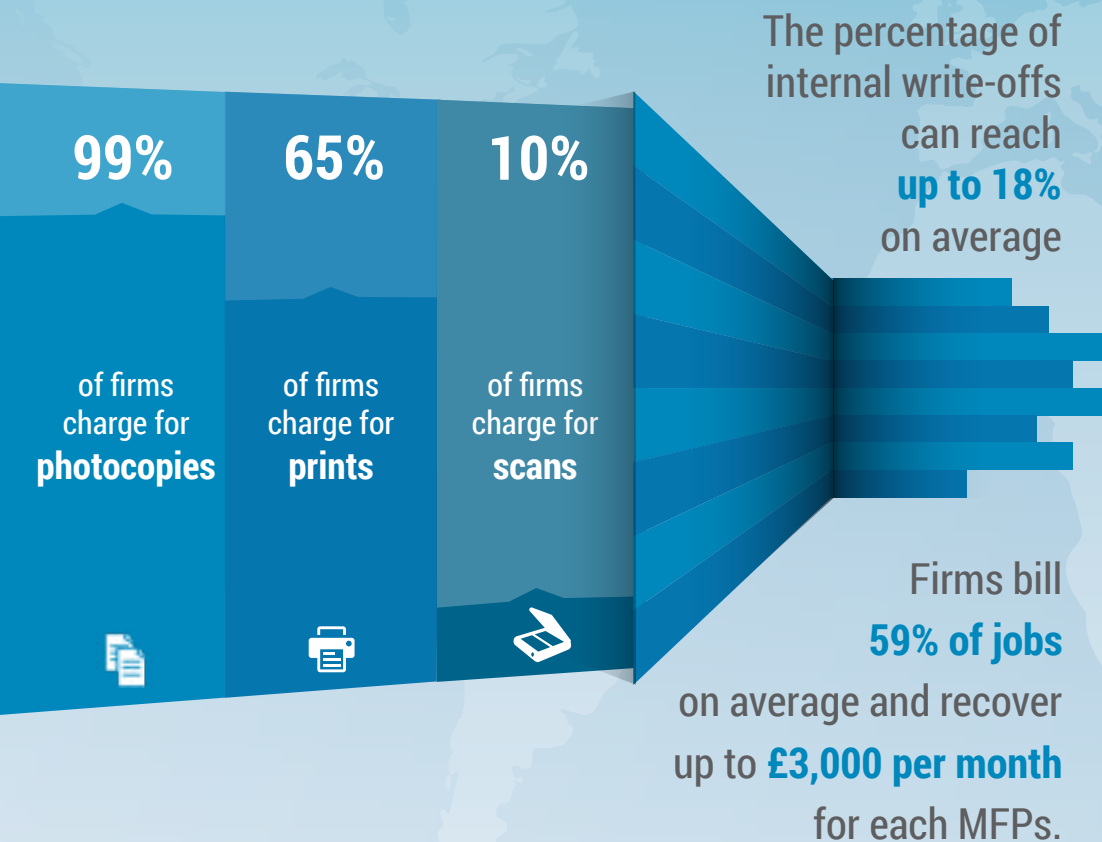
MANAGING PAPER IS KEY

From CSR driven commitments demanded by clients to cost reduction opportunities through outsourcing, managing paper costs is now a challenge that goes beyond the firm's frontier.

Law firms require a clearer way to understand cost in order to make informed decisions on pricing and to justify costs to their clients

*SRA: Solicitors Regulation Authority (<http://www.sra.org.uk>)

COST RECOVERY PRACTICES WITHIN FIRMS TODAY



Source: Nikec Solutions law firms clients internal survey & ILTA survey.

COST RECOVERY PRACTICES WITHIN FIRMS TODAY

RECHARGE RATES PER PAGE

Copies are recharged at an average of **19.9p for B&W** and **63.8p for colour**

The number of photocopies is **1/5 of the number of prints.**

On average, **30%** of prints and copies are **in B&W**, **70% in colour.**

Prints are recharged at an average of **18.3p for Black & White** and **60.04p for colour**

Source: Nikec Solutions law firms clients internal survey & ILTA survey.



THE INTERNAL POLICY FOR COST RECOVERY & MANAGEMENT

Best practice starts with getting the policy right, getting the fee-earners comfortable with the technology, and the management team addressing their requirements.

PROVIDE GUIDELINES

A fully documented policy helps formalise and enforce the strategy. It ensures fee earners charge their clients consistently. This should be enforced with the support of the firm's management teams.

The implications if policies are not followed should be clarified.

GAIN FEE EARNERS' BUY-IN

They need to understand why they are recovering costs to actually use the system. Be open and rational with your approach. Explain the benefits for them and the firm. Prepare for contradictory debates.

MAKE SURE NEEDS ARE MET

The type of legal work being conducted has implications on the recovery rate. Therefore the pricing structure for each department may be different (for instance the pricing structure for an insurance client may not be the same for a corporate or litigation client).

What's changed in 3 years?

As per 2011, it was agreed that a policy was required to act as a guide to what to charge for and what could be written off. This would provide consistency in the way fee earners charged their clients and help ensure compliancy with the SRA regulations.

One way to enforce this would be to incorporate it into their employees' contracts.



TOP DOWN APPROACH

The 'top-down' approach is the most powerful asset when convincing the rest of the firm

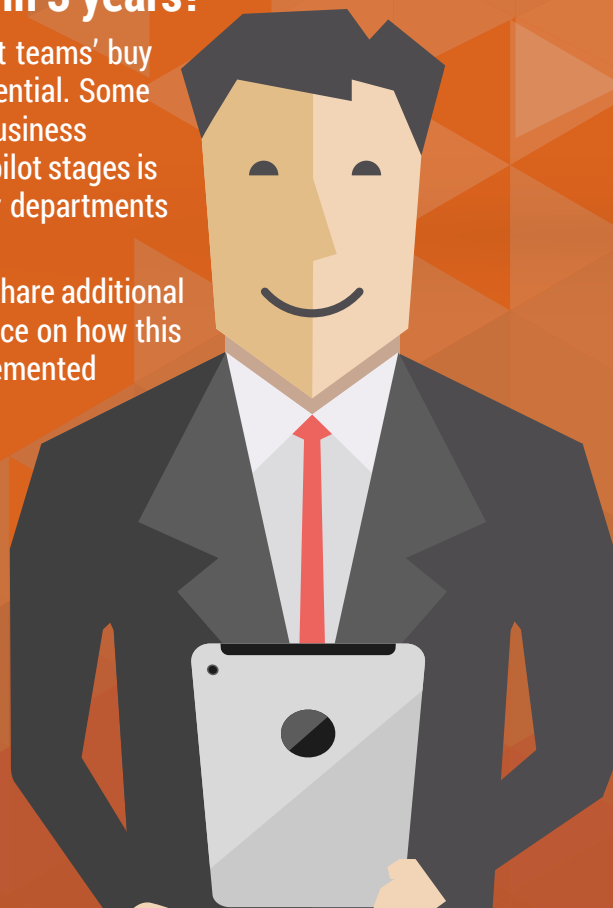
The management of a cost recovery strategy needs to have partnership buy in.

Every person involved in the discussion agreed that a 'top-down' approach is the most powerful asset when convincing the rest of the firm that the process of capturing these costs is for the greater good of the partnership's profitability

What's changed in 3 years?

Having the management teams' buy in is still very much essential. Some suggested finding key business areas to get involved in pilot stages is a great way to get other departments to buy in and follow.

Using your suppliers to share additional knowledge and experience on how this system had been implemented elsewhere was also highlighted.





EXTERNAL COMMUNICATION

Put a communication strategy in place with the fee earners. They should have the means to defend their position and convince the clients that it is a mutually beneficial move.

- 1 Identify the benefits that the system will have for the clients while adopting their point of view, e.g. they need to manage their own cost, you will help them.
- 2 Set a strong communication framework. Regulation demands that clients receive clear and accurate information on the services provided and all associated costs.
- 3 Without understanding costs, negotiations of contracts between partners or fee earners and clients will become difficult.

What's changed in 3 years?

Communications to clients has become much more significant in recent times.

This is because the SRA expects firms to be much more transparent with their breakdown of charges to clients.

They stipulate that all costs are clearly communicated and if costs are expected to increase clients must be notified beforehand so that there are no surprises when it comes to the final bill.

Clients also expect high and accurate levels of communications so they can manage their own costs.



FOLLOW CULTURAL CHANGES



As new technologies and strategies are introduced, cultural changes take place and a degree of leadership is required. Being proactive to prominent trends will justify the initiative even more.

Show clients that you share their concerns and are committed to providing the highest levels of service.

CSR and carbon footprint reduction

It is not only about reducing paper and replacing individual printers anymore. Environment concerns now translates in firm wide strategies.

Heightened print security

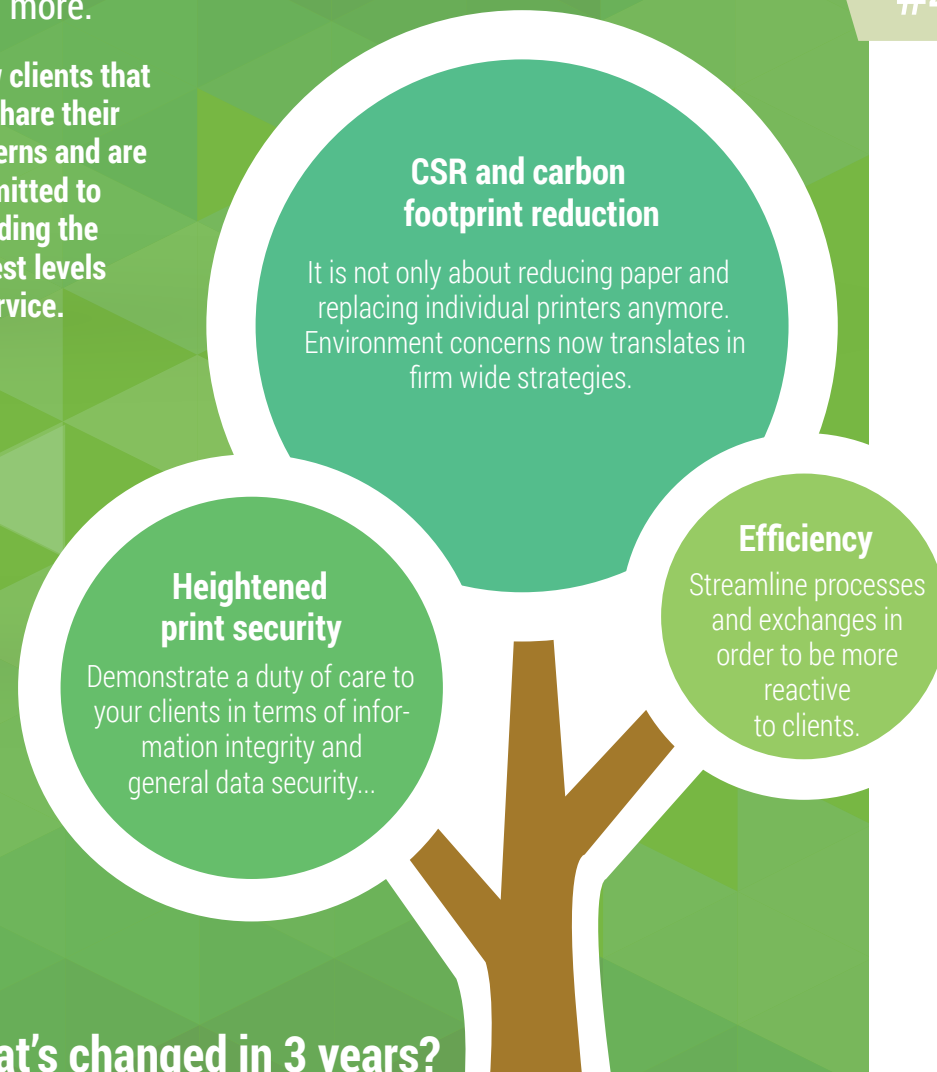
Demonstrate a duty of care to your clients in terms of information integrity and general data security...

Efficiency

Streamline processes and exchanges in order to be more reactive to clients.

What's changed in 3 years?

Since 2011 many firms have or are actually implementing strategies to replace local printers. Firms are also thinking about their CSR strategies as they recognise that they need to meet their clients green requirements mainly through the use of secure printing.





WHAT TO CHARGE FOR?

Copying & Printing are generally accepted. Many charge printing only beyond a certain threshold, after 5 pages for example.

Scanning: it can be hard for clients to understand what they are actually paying for. The price should be minimal but can be justified by the time spent scanning and additional technologies that facilitate the document transfer (e.g.: scan to a file sharing platform).

Phone calls: a limited number of firms are charging for local phone calls as these costs have fallen dramatically. However international calls are still being recharged.

Other disbursements: taxis, meals etc... as usually practiced in professional services firms.

What's changed in 3 years?

The general consensus was that chargeback for printing has become fairly widespread now although the debate about whether to charge for scanning still remains intact. Some believe that clients would struggle to understand scan charges and what it is that they are paying for.

What about cost of storing electronic documents? Some firms provide extranets for clients to access their documents but do not believe that they can charge for this. Instead they offer this service as a 'value add' to their clients.



COST MONITORING MORE THAN COST RECOVERY

In the past firms were predominantly looking to recover costs. The focus has now shifted to capturing and monitoring costs to manage them thoroughly.

To be transparent with your clients, you need to be transparent with yourself.

Understanding your own cost structure is now paramount, not only to analyse the contribution of disbursements to your profitability, but also to be able to justify any cost to a client.

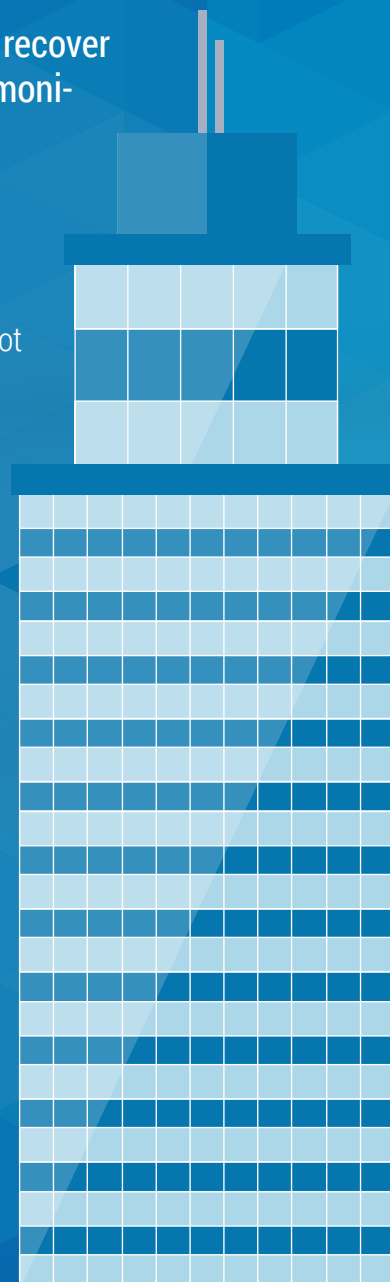
Making cost capture easy is a priority. For this, you need a solid, reliable management tool that captures costs at the point of entry and that connects to the PMS or billing system to put onto the client's bill.

With this clarity in information you can make informed decisions on investments, optimise your internal processes and set the right pricing structure.

What's changed in 3 years?

In 2011 there was a debate as to whether cost recovery was evolving into cost management.

When discussed this time, it was agreed that it was about monitoring costs in order to make better decisions when it came to managing costs – more so now than ever before. This brought the discussion back to adhering to the SRA rules by providing a breakdown of costs - 'how do you justify a cost to a client if you do not have the means to do so?' Cost recovery and management tool are therefore being increasingly considered to help judge, breakdown, monitor and justify cost.



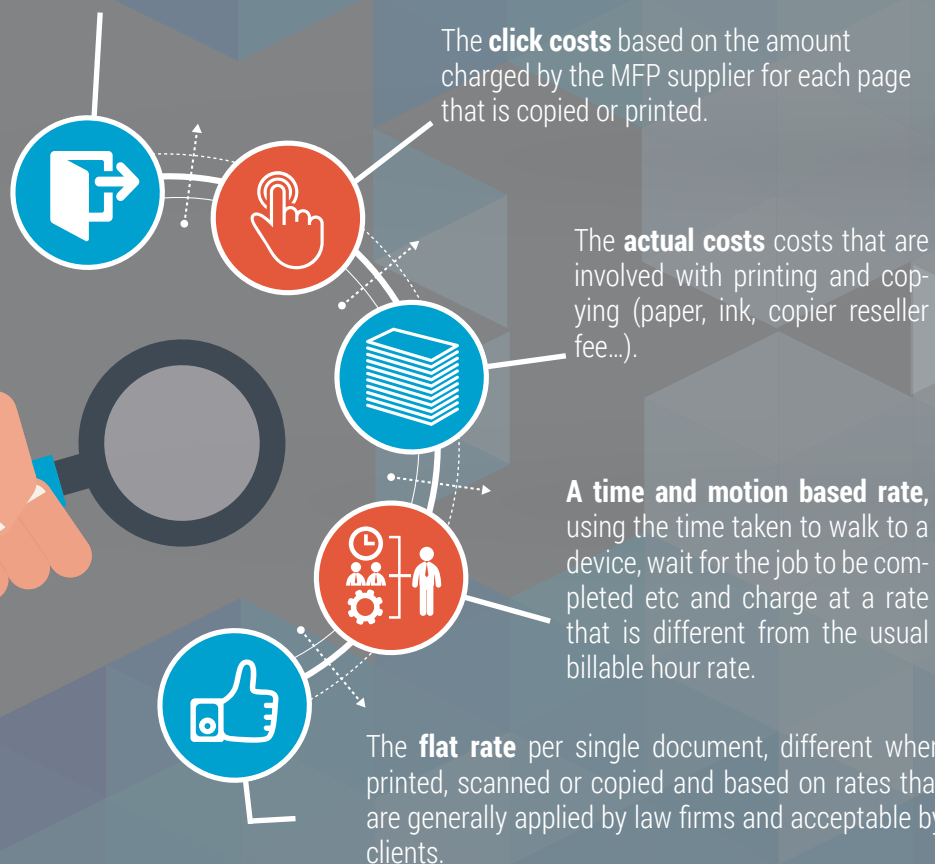


PRICING STRUCTURES

HOW TO CALCULATE THE COST OF A PIECE OF PAPER

There is no right or wrong way of calculating the cost of copy, print or other disbursements. Select a method that everyone in your firm can understand and adopt:

Cost of job when outsourced: charging clients the same prices for photocopying or printing as a local high street copy shop would charge.



What's changed in 3 years?

With the Jackson reforms in place this will place an increased focus on early stage budgeting of legal costs and therefore firms will need to get to grips with pricing by looking at cost structures closely.

NO LONGER ALL ABOUT CHARGEBACK?



Law firms need to know their costs!

Law firms need a cost management tool where they can analyse the contribution of disbursements to their profitability, however, there is a move away from the traditional chargeback mentality of old.

The cost recovery model is no longer about chargeback to make a profit, but to make sure you recover the actual costs incurred whilst working on a particular matter/case.

It seems that the attendees of our roundtable agreed that the perception of **using cost recovery tools** to make a profit have long gone.

What's changed in 3 years?

In this competitive environment, yes law firms need to understand their costs not only for charging back and recovering costs, but also for control and pricing purposes. As firms need to be more transparent with their costs to their clients, cost recovery and monitoring tools are now acting as a mechanism to ensure that their costs are broken down and monitored accurately.

With the Jackson reforms, many feel that more investment will be needed to make budget, time and cost planning easy and as accurate as possible.





CLIENTS SAYS 'NO'

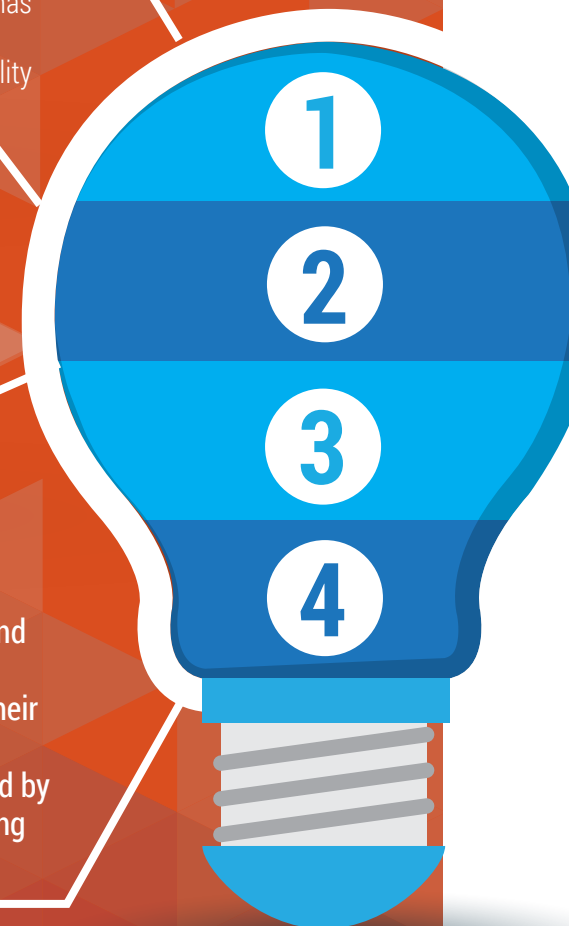
Ultimately, the recovery strategy is driven by the clients and how much your firm can justify the costs by demonstrating, using examples and statistics that your service is worth paying for. The value of transparency is more present today than it ever was. Yet the partners managing this relationship have to maintain that the contract must remain profitable.

Accuracy of costs by monitoring all of them has enhanced the validity of these charges being passed to the client and improved the credibility and reputation of the partner/firm.

For example, you are far better off charging for copy and print transactions at a more realistic 12p* per page, than only charging for copy at an inflated rate of 40p* per page.

What's changed in 3 years?

It is the clients that are in a position to demand what they want from their law firm now. They demand a better price and service as competition increases. Firms are having to understand and manage their own costs in order to provide cutthroat pricing. With clients also being protected by the legal ombudsman, they are in a strong position.



SRA SAYS 'NO'

The policy from the SRA is that a law firm is not allowed to make a profit out of charging back for disbursements. Using a management tool to demonstrate that there is no profit being made, but a recouping of the costs that have been incurred is incredibly powerful.

What's changed in 3 years?

The SRA stipulates that clear and accurate information is given to clients with the appropriate level of detail. They must state whether disbursements and VAT are included in the quoted sum.

This means charges cannot be pitched at unrealistically low levels, advertising 'sundries' or 'catch all' amounts without providing details about the purpose of the charges and charging for disbursements when these should be overheads. Clients should be warned in advance if initial costs are likely to change.



WHY DID WE CREATE THIS DOCUMENT?

We created this document because, not only have we been the leaders in the cost recovery and management space for many years, we are often asked by our clients for best practice advice. So rather than baffle them with statistics and percentages, or our sales spun words of wisdom, we gathered a group of law firms together to create a best practice guide for law firms, by law firms. Whilst our knowledge in this area is unmatched in the industry at times you would rather hear what your peers have to say than us.

A bit about us

As Copitrak (and recently Equitrac) distributor for over 17 years in UK, EMEA and APAC, and now a Nuance Silver level partner, Nikec Solutions is helping over 350 clients to maximise recharge rates, control costs and boost business profitability.

Nikec Solutions is a global provider of software solutions designed to increase business efficiency, improve workflow and bottom lines and drive the less paper office initiatives. The company's portfolio includes solutions for cost recovery, email print management, document collaboration, file sharing, electronic binder and messaging intelligence.

Copitrak is a reference solution in cost recovery & cost management. Used by over 50% of the top legal firms in the UK, Copitrak allows clients to effortlessly improve cost control and maximise recharge rates. The Nuance cost recovery solutions (Copitrak & Equitrac) have a combined UK market share of over 80%.

For more information, please visit www.nikecsolutions.com or contact us at info@nikecsolutions.com



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