



Redwood Business Intelligence Case Study

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If there's one thing that the current economic climate should tell us it is that the days of managing to top line income growth have been left behind. Given that high margins are more difficult to achieve and maintain, firms need to actively manage profit in new and innovative ways in order to avoid running in the red. In many respects the economic downturn has accelerated a move that has been happening for many of the better run firms for a number of years now, and it isn't just "expenditure control."

Recognition that the lists produced that track the top law firms based on income size does not necessarily equate to the best managed or most successful firms is starting to hit home. The problem from a technical perspective however is that the practice management systems used by the majority of law firms tend to track the old favourites of chargeable activity, billings, recovery rates, debtors and WIP; all very useful financial indicators in their own right, but unfortunately is not what is absolutely fundamental to businesses because it is generally very difficult, if not impossible, to attribute specific costs (direct or indirect) to particular clients, matters or individuals through use of these PMS.

Whilst a number of the very large firms may have teams of analysts able to develop bespoke solutions to the problem of profit calculation and attribution, for the majority of us the result is either that those with relevant knowledge and expertise can try to cobble together a profitability model from the data produced. Unfortunately this tends not to be readily available, accurate, or reliable and hence does not inform the business or the decisions that that business needs to make and the issue is subsequently just ignored.

Wiggin is a boutique media firm providing a highly specialist service to a particular sector. We focus purely on the media sector and as a result for a number of years have determined success not by growth or size of income generated, but by margin and PEP, as well as success in winning and retaining the top clients in the sector.

We had been measuring profitability through a self-generated (back of fag packet) model which developed a culture amongst the partnership that recognised the key drivers of profitability that bought into profitability as a key business indicator of performance. Unfortunately our cobbled systems required massive effort from the finance team to prepare and therefore were often too late to assist in making critical business decisions. We were also subject to potential human error and relied heavily on a number of assumptions looking at expansion, practice area development, under-performing clients, pitch estimates, or reward. While serving a purpose, they were not sufficiently robust or available to maximise their benefit.

It is with this background therefore that we undertook a review of the market to see what products were available to assist in solving our issue. What became quickly obvious is that this subject, now given the natty title of Business Intelligence, was at the time in it's relative infancy in the UK, but equally was a band wagon being jumped on by many who had yet to actually develop the full blown tools, knowledge, or understanding. The key for us was to find a partner organisation who could not only provide the tool and track record, but could build on our understanding to date and develop that understanding to a level such that managing the business and it's profitability became a part of our everyday processes.

I guess the first question should be what exactly is BI and why is it important? BI is certainly a current buzzword, but is misunderstood by many. To me, it's more than just better informed decision making and more accurate and timely reporting. It provides true analytics by enabling innovative thinking about how to run and measure the business of a professional services organisation. It's about challenging the traditional financial model and their limited performance indicators through new ways of analysing data which ultimately leads to an easier and more informed decision making process. Finally, it also provides the ability to quickly communicate this information to the right people at the right level across the firm.

During our initial review of the market we looked at a number of BI products. Our spec was quite simple; we wanted an intelligent system that didn't require input from IT to make it work. We wanted a system that worked in parallel with our innovative ideas about how the firm should be managed and also enabled and encouraged us to explore further. We also needed the ability to get up and running quickly to reap the rewards immediately.

Early in our search (2006) we were introduced to the Redwood product. We quickly recognised that the product(s) were both sophisticated, used extensively in the US, and most importantly mirrored our understanding of profitability and how it should be used in actively managing a law firm. The "buy-it" decision was therefore a relatively easy one for the partnership to take and we quickly moved on to implementation.

Redwood is a product based on a data warehouse that utilizes several data capturing modules. These modules: profitability, billing & collection, business development, and diversity, are made up of various data cubes that help law firm finance and marketing teams, and those with management responsibility, use business intelligence to understand how the firm is performing from several perspectives. Redwood has also developed a dashboard that can provide an interface between the system, the finance team, and the fee earners/management. We chose as a stage 1 to adopt the profitability and billing & collection cubes with restricted access in order that we could learn how best to manage the information and control it's output. Stage 2 would involve rolling out the dashboard allowing greater access to the system and the information it provides for all those across the firm.

The implementation process itself was a relatively painless one. There is work required around the chart of accounts and how/where specific costs should be allocated. There are also decisions to be made on the best model to adopt regarding allocation of overheads and the treatment of partner costs. As you might expect, the level of detail is high as it has to create the necessary confidence in the output. However, the time required is relatively short given the scope of the project.

Equally, the technical requirements for running the system are straightforward. The backend to the Redwood system is SQL based, and Wiggins runs this on a VMware virtual server system. For resilience and continuity, SQL and IIS\ASP services are clustered (using VMware), and, as well as the usual system\data backups, the virtual disks are replicated in real time to another site allowing disaster recovery to be activated in a minimal time-frame.

The initial headaches were limited to reconciliation of our data back to the firm's P&L, and issues around work periods. Our financial year being 1 May through 30 April differs from the US model and was named differently in our PMS. The key is to develop confidence in the output which takes some time and effort.

The proof of any system is of course in the eating. In this respect we have seen immediate and encouraging benefits. The billing & collection cube enables us to look at debtors not just on an aged basis but allows us to measure the consistency of payments made by individual clients and allocates a relevancy to that client. Relevancy is calculated on the payment history of each client. For example, if a client always pays their bills after 40 days that client will have a high relevancy; however, if their payment history is variable they will have a low relevancy. This information assists us in managing the firm's cash flow more accurately. It also prioritises the efforts of our credit control team and ultimately improves the collection speed by making us focus on major clients with low relevancy. The result is a debtor turnaround period now 40+ days better than pre Redwood days. Of course, not all this improvement can be down to the product, other factors have played their part, but the system and the information it provides has been critical in the push for improvement. Obviously in the current climate a focus on cash in through the door is vital.

Other uses of the product and their success are based on the profitability cube, which for us, was the key driver in the introduction of a true BI system. In this respect they fall into four key categories:

- **Pitches / RFPs** - we are all too aware of the competitive nature of the market and have many anecdotes about firms pitching “at truly unprofitable levels just to get the work.” Of course you can't stop that, but historically what we as a profession are not good at is actually knowing what is profitable and what is unprofitable. We are now able to model various scenarios that enable us to pitch at the most competitive level and yet remain profitable. Allocating resource in the knowledge of current availability / capacity and knowing the margin for each fee earner informs the decision. Of course, pitches aren't just won on price, and our success rate remains relatively unchanged, but at least we know the likely return on a piece of work if successful.
- **Performance and reward** - how you measure individual fee earner performance is a question that has taxed the profession for as long as most can remember. Traditionally we've resorted to client billings, realisation rates and number of chargeable hours despite a gut feeling that it doesn't quite add up. Our financial systems have only been able to provide this type of information, so we've worked with what is available. We looked at indicators such as gearing to give an indication of bottom line contribution; however, we've not really been able to tell whether partner A working one model is more or less profitable than partner B working another. What we needed was business intelligence. Now we are able to recognise and reward client introductions and individual contribution to the firm's profitability. The system is transparent and encourages appropriate behaviour e.g. cross selling, and enables us to reward those who deserve it appropriately
- **Practice area development** - the Redwood product has helped us determine areas for growth and development. Identification of fee earner capacity and growth trends assists in identifying recruitment requirements. Equally in these difficult times where many firms are losing fee earners, a model based on more than busyness that identifies where profit is being made, would be a valuable one to those making difficult decisions.
- **Client profitability** - whilst unlike some, we don't have the luxury in the current market to lose clients (even unprofitable ones can provide cash flow), we are in a position with Redwood to better understand individual client and matter profitability subject to where that particular client is in the client lifecycle and the key variables that impact that profitability. As a result we are able to make informed decisions on rates, discounts, and matter staffing. This is particularly valuable when looking at possible client secondment opportunities, as well as when targeting new clients.

There is also an embryonic market shift away from the “chargeable hour” model towards value billing. Clients, working with tighter legal budgets, require greater flexibility from their suppliers, and more innovation in how they bill. Whilst this is in my view a very important change, and one that will be preoccupying many of us over the next decade, it serves to highlight the building need for sophisticated models that can assist those difficult business/financial decisions.

Our use of the information to date has been very much controlled through the finance team; our reasoning being that we want to release information that will be of use and understood by the end user rather than swamping them. We also want the information release to run in parallel with developments in partnership understanding of business and profitability drivers, so that the information is complementary. We therefore tend to run reports on a bespoke individual requirement basis, for example, when looking at individual practice area performance and discussing the key messages with small groups of partners. We do however anticipate acceleration in the rate of output of information and will soon be looking to implement stage 2 of the project.

The all too obvious messages that we have taken away from this project are:

- Find a partner organisation that thinks like you do and that you will enjoy working with;
- You can get sophisticated, good fit, solutions out of a box;
- If considering BI, it is critical that roll out is carried out in conjunction with appropriate education around the issue of profitability;
- Walk before you run - start the release of information slowly;
- Spend time developing confidence in the numbers generated;
- It's good, and interesting, to challenge conventional management thinking and the way of looking at law firm dynamics.

Whilst just scratching the surface of what can be done and what is available, the business benefits of the system roll out are obvious to all across the firm. We are better informed and understand our business and how it works far better than before. BI for us has therefore achieved its objective and we will continue to develop it further.