

# BUSINESS FORECASTING MODEL

## **The Problem.**

In 2010 the UK government introduced civil cost reforms for low value road traffic accident claims via an internet based web portal service. The impact of this has been to drive down fees for low value RTA cases and has resulted in a fall in profitability for PI claims law firms. Further government proposals to reduce the portal fees combined with plans to include employers liability and public liability cases is now causing serious concern. Many solicitors are predicting significant cuts in profitability.

These changes are also affecting the fundamental way that the claims market operates so that the impact of strategic decisions can no longer be understood through experience alone.

## **The Strategic Questions.**

Holleth Analytical Solutions were recruited to answer the following questions:

1. What is the future revenue stream for my law firm?
2. What is the likely value of the current Work in Progress I own?
3. What happens to the value of these if:
  - I change my current portfolio of cases.
  - I introduce new case types.
  - I change the amount I spend on marketing.
  - The fee structure changes again.

## **The Solution.**

Many of the parameters that describe claims cases, such as case length, case fees and processing route, are highly variable. Initial analysis showed that this variation could have an impact on revenue estimates and should therefore be included in the modelling process. In particular, there were concerns that using average parameter values could lead to incorrect estimates of revenue.

Consequently the model developed was constructed to take into account the levels of variability and uncertainty experienced in the real process.

**Holleth Analytical Solutions Ltd,**

Holleth Cottage, Cockerham Road, Bay Horse, Lancaster, LA2 0HD

t: +44 (0) 1524 792944, m: +44 (0) 7866 911370

[www.holleth.co.uk](http://www.holleth.co.uk)

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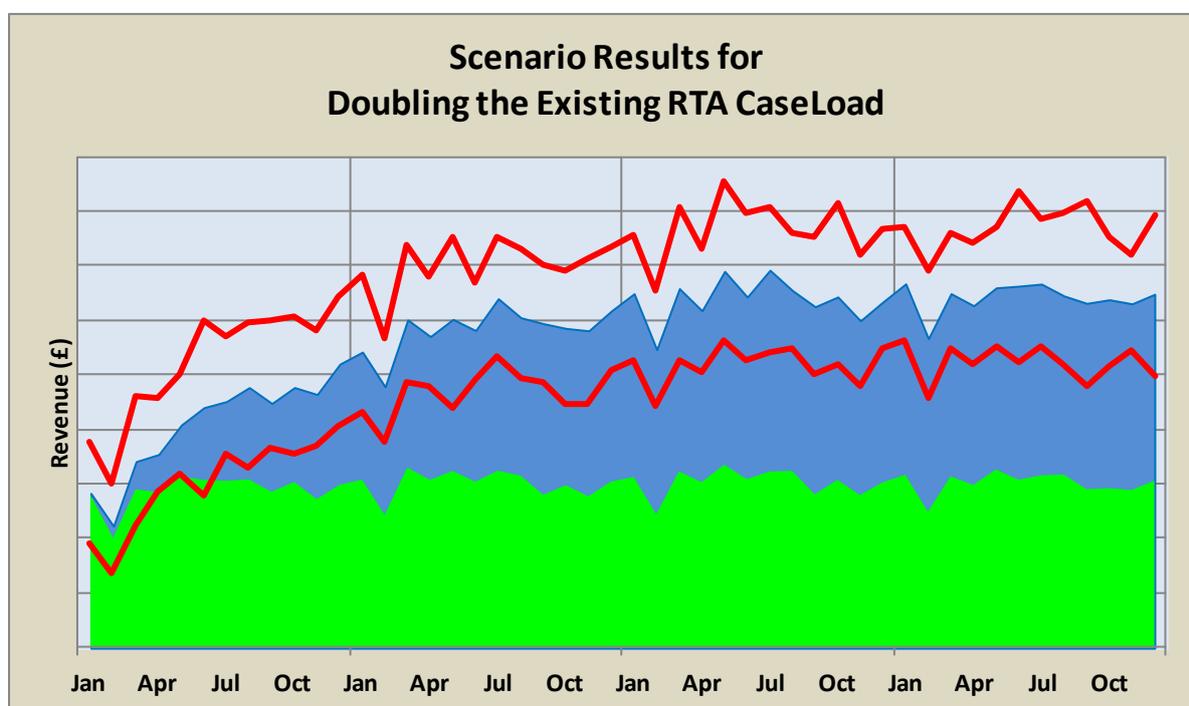
As the model was intended for client use a dedicated user screen was designed so that input parameters could be changed using a simple and friendly format.

Building a highly detailed model also allowed the separate and combined analysis of factors such as; individual case types, cases settled in the portal, cases exiting the portal and many more.

## The Results.

In the example shown, the model is being used to forecast the revenue for the theoretical scenario where the caseload doubles. The impact of this is shown in blue on the chart below and can be compared with the do nothing scenario which is shown in green. The red lines show the amount of variance in estimating any single months revenue.

The model also demonstrates the lag between the point at which the caseload is increased and the revenue being realised. In this case it can be seen that it may take up to 2 years to realise the full revenue generated through doubling the RTA caseload today. However, doubling the caseload incurs upfront staffing, marketing and disbursements costs that will have a negative impact on short term cash flow and profitability.



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