

Using Management Reporting to Analyze Productivity & Profitability

Tips for Measuring and Maximizing Productivity, Profitability and Expense Recovery Using your Billing and Accounting System

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Productivity

You've hired a great team of lawyers. Your partners are great mentors and are experts in their area of law; the young associates in your office are hard-working and show potential. That's a good start, but it doesn't pay the rent. So, how can you tell if people are being productive?

First, set expectations for everyone. Partners, Associates, and support staff should know if they are going to be evaluated based on their billable hours. If you have an expectation for your staff, you should share it with them!

Second, require that people track their time for EVERYTHING they do, including non-billable/administrative tasks.

How can you tell if someone is productive?

First, you have to know what it costs to employ the individual. What is their annual salary, what are the costs to the firm to provide benefits, what is this employee's share of the overhead, etc. Once you know that, you can use reports that typically come standard with most law firm specific time, billing and accounting programs to compare the cost of employing someone with their productivity.

Be careful not to limit your analysis to "billable hour value" vs. "cost to employ." Many employees contribute to firms in ways that are difficult to place a dollar value on.

For example, perhaps your second year association spent the entire summer helping the partner write a book about particular area of Ohio law. Chances are the time involved in the research and writing took away from their billable hours for a few months. A simple productivity report will not necessarily explain the reduction in billable hours. This is exactly why firms should require all employees to track their non-billable time as well.

Analyzing Staff Productivity

If your staff is required to enter both billable and non-billable time, you have a decent way to see how they spend their day. If, in an 8 hour day with a lunch break and various other small breaks, they cannot account for 5-6 hours of time (billable or non-billable) then you have reason to investigate how they spend their time during the day.

You might also realize that an associate is billing 5-6 hours per day, plus attending after hours association meetings, attending CLEs, working on writing materials for the CLE

presentations that the managing partner gives, helping write the content for the firm newsletter or website, and also perhaps doing pro-bono work. When the attorney is reviewed, it will be nice to have the data regarding the way his or her time is spent.

Perhaps the firm has a monthly requirement for associates as it pertains to marketing efforts. The associate needs to be able to track that time in the billing program so he or she can get credit for meeting the goal. You might also find that associates are not billing for things that they SHOULD be billing for. Or, perhaps they are doing work that could easily be done by a non-billable support staff member, opening them up to do more billable work.

Again, it's about the data. Without the data, you leave yourself powerless to make important business decisions about your firm, your staff, and your firm's future. And if your time, billing and accounting program doesn't provide these reports – it's time to get a program that does.

Here is a sample report from PCLaw that shows a time summary for each lawyer, the value of the time, as well as the value of all the non-billable time they tracked:

Time Summary					
Oct 7/2009					
Brown, Campos and Marshall					
Time Summary					
From Jan 1/2009					
Categories/Fee Credit Lawyer	Value	% (Value)	Hours (Hr)	% (Hrs)	Rate/Hr
*** Billable ***					
BW - Billable Work					
Marilyn C. Campos	8075.90	20.88	31.60	14.11	255.57
Robert S. Brown	18139.06	46.89	94.65	42.26	191.64
Victor C. Marshall	12469.04	32.23	97.70	43.63	127.63
Total:	38684.00	100.00	223.95	100.00	172.73
*** Non-Billable ***					
NBW - Non-Billable Work					
Marilyn C. Campos	525.00	100.00	3.50	100.00	150.00
Total:	525.00	100.00	3.50	100.00	150.00
*** Summary by Task Code ***					
	Value	% (Value)	Hours (Hr)	% (Hrs)	Rate/Hr
*** Billable ***					
Billable Work	38684.00	98.66	223.95	98.46	172.73
Total Billable:	38684.00	98.66	223.95	98.46	172.73
*** Non-Billable ***					
Non-Billable Work	525.00	1.34	3.50	1.54	150.00
Total Non-billable:	525.00	1.34	3.50	1.54	150.00
*** Summary by Working Lawyer ***					
	Value	% (Value)	Hours (Hr)	% (Hrs)	Rate/Hr
MCC - Marilyn C. Campos	8600.90	21.94	35.10	15.43	245.04
RSE - Robert S. Brown	18139.06	46.26	94.65	41.61	191.64
VCM - Victor C. Marshall	12469.04	31.80	97.70	42.95	127.63
Firm Total:	39209.00	100.00	227.45	100.00	172.39

Non-billable time: What is it really costing you?

The question often comes up, should I capture my time for non-billable events, like conducting performance reviews, reviewing pre-bills, attending CLE, etc.? Absolutely, yes. Your support staff should track their time for non-billable, administrative tasks as well. Without this information, how can you really analyze your staffing needs?

Consider this. You pay a legal secretary \$45,000.00 per year, plus benefits, vacation, etc. He typically bills his time at \$75.00 per hour. On average, he is entering about 15-20 billable hours each week. At 20 hours per week, 50 weeks out of the year, he is billing about \$75,000 per year. At first glance, he's covering his salary and so you figure he is profitable. But, could he be MORE profitable? You can only answer this question by looking at the time he spends on administrative tasks that cannot be billed to a client.

After reviewing his non-billable time for a month, you realize that he spends 1 hour every morning making coffee, sorting the mail, and delivering the mail to each staff member. Each afternoon, he covers the phones so the receptionist can go to lunch. At the end of the day, he spends another 30 minutes preparing all the mail to go out. He prints reports for the staff meeting, and also spends about 1 hour per day entering attorney time into the billing system. So, every day, he spends at least 3.5 hours doing work that cannot be billed to a client.

So, what is the lost fee opportunity?

Non-Billable hours spent	Hourly rate	Daily Cost	Weekly Cost	Annual Cost (50 weeks)
3.5	\$75.00	\$262.50	\$1,312.50	\$65,625.00

What can these numbers tell you? That you should hire a law clerk or office assistant for 20 hours per week to do these things. You can pay them \$15.00 per hour, part time, and have an estimated yearly expense of about \$15,000. Now, your paralegal can increase their profitability by \$65,000 per year, and you net about \$50,000.00 extra dollars. Now, without tracking the non-billable time and running this essential report, how could you make this staffing decision?

Profitability

How do you determine whether you are making money? Do you assume that if there is money in the bank, and you can make payroll, that you are making money? That might not be true. You might be maintaining a level of revenue that enables you to keep your doors open, but whether or not you are being profitable is a completely different question.

How can you tell if the firm is profitable?

Even flat fee and contingency attorneys should track the time they are spending on matters. You can never tell whether you are making money if you don't know how much time you actually put into a case.

Consider a simple estate plan that you charge a flat fee of \$600 to prepare. The plan includes a simple will and all ancillary documents for each the husband and wife. You have based that fee on your hourly rate of \$200. You've "questimated" that it takes you about 3 hours to prepare these plans, and that is how you determined your flat fee.

What you invest

- You realize that you typically meet with the client for about 1.5 hours as you discuss their plans, goals, needs, assets. You talk about the differences between

a power of attorney for health care and a living will, you discuss organ donation, etc. They have lots of questions about what they should do when they have children, etc.

(1.5 hours x \$200/hour = \$300)

- Next, you meet with your paralegal and review the meeting notes. You delegate the task of drafting the documents to him or her, and ask that a paper file get opened, both paper and within your Case Management/Billing Program. Let's say this internal meeting lasts 15 minutes.
(.25 x \$200/hour = \$50) and (.25 x \$75/hour –paralegal = \$18.75)
- Your paralegal returns to his desk and begins drafting the documents. 2 simple Wills, 2 Health Care Powers of Attorney, 2 Financial Powers of Attorney, 2 Living Wills, and 2 Organ Donation Forms. He has to call the client a few times to clarify information, including the spelling of the beneficiary names, phone numbers for the health care power of attorney, etc. By the time the drafts are printed out and returned to the Attorney, about 2 hours have been invested.
(2 x \$75/hour = \$150)
- The drafts are returned to you for review. You spend approximately 30 minutes reviewing the drafts. You make changes and return them to your paralegal. You dictate a letter to the client to be sent with the drafts.
(.5 x \$200/hour = \$100)
- Your paralegal makes the changes, finalizes the letter, and returns it all to you for signature. You sign the letter and return it to your paralegal for mailing. This takes you about 15 minutes.
(.25 x \$200/hour = \$50.00) + \$2.50 postage.
- The client calls with a few questions/changes, and to schedule a time to come in and sign the documents. You make a note of the changes, schedule the appointment, and forward all this to your paralegal.
(.25 x \$200/hour = \$50.00)
- Your paralegal makes the final changes, and then prints them in final form for your signing. He also prepares a binder for the client for safekeeping and organization of their documents.
(.5 x \$75/hour = \$37.50) + \$5.00 for the binder.
- The final meeting with client occurs. The originals are signed, and your secretary makes copies of the signed documents for the file.
(1 x \$200/hour = \$200)

Now, let's add up the actual value of the time and resources you invested in this case:

HOURS	RATE	TOTAL
1.5	\$200.00	\$300.00
.25	\$200.00	\$50.00
.25	\$75.00	\$18.75
2	\$75.00	\$150.00
.5	\$200.00	\$100.00
.25	\$200.00	\$50.00
.25	\$200.00	\$50.00
.5	\$75.00	\$37.50
1	\$200.00	\$200.00
Postage	\$2.50	\$2.50
Binder	\$5.00	\$5.00
Total Cost to Prepare Basic Estate Plan		\$963.75

In this case, the flat fee grossly misrepresents the actual value of the work performed, by \$363.75.

How many simple estate plans do you prepare each year? How many have you made money on? How many have you lost money on?

Here's an example of what you may be losing:

Plans per Year	Loss Per Plan	Total yearly Loss
10	\$363.75	\$3,637.50
20	\$363.75	\$7,275.00
30	\$363.75	\$10,912.50
40	\$363.75	\$14,550.00
50	\$363.75	\$18,187.50
100	\$363.75	\$36,375.00
200	\$363.75	\$72,750.00

Many law firm specific Time, Billing and Account programs have standard reports that can help you make this important analysis before you lose this money.

Here is a sample report from PCLaw that shows a summary of each type of law, the value of the time entered, as well as the true billable rate for each attorney within each type of law:

Oct 12/2009	Brown, Campos and Marshall		Billing by Lawyer		Page 1	
	From Jan 1/2009					
Categories/Fee Credit Lawyer	Billed	Hours(Hr)	Rate/Hr	Rcvd	Rcvd(%)	
bank - Bankruptcy						
RSB - Robert S. Brown	4500.00	25.60	175.78	4500.00	100.00	
Total:	4500.00	25.60	175.78	4500.00	100.00	
CIV - Civil						
MCC - Marilyn C. Campos	1388.63	8.80	157.80	510.78	36.78	
RSB - Robert S. Brown	3555.00	13.30	267.29	1442.00	40.56	
VCM - Victor C. Marshall	2564.87	9.90	259.08	1247.18	48.63	
Total:	7508.50	32.00	234.64	3199.96	42.62	
corp - General Corporate						
RSB - Robert S. Brown	720.00	3.50	205.71	650.00	90.28	
VCM - Victor C. Marshall	2227.50	8.00	278.44	1115.00	50.06	
Total:	2947.50	11.50	256.30	1765.00	59.88	
CRI - Criminal						
MCC - Marilyn C. Campos	2500.00	1.00	2500.00	1000.00	40.00	
RSB - Robert S. Brown	736.36	4.00	184.09	286.36	38.89	
VCM - Victor C. Marshall	763.64	4.50	169.70	463.64	60.71	
Total:	4000.00	9.50	421.05	1750.00	43.75	
DUI - Driving Under the Influence						
RSB - Robert S. Brown	140.00	1.00	140.00	0.00	0.00	
VCM - Victor C. Marshall	330.00	6.00	55.00	0.00	0.00	
Total:	470.00	7.00	67.14	0.00	0.00	
est - Wills/Estates/Trusts						
MCC - Marilyn C. Campos	1989.06	10.80	184.17	0.00	0.00	
RSB - Robert S. Brown	1538.13	10.50	146.49	508.88	33.08	
VCM - Victor C. Marshall	2141.81	14.90	143.75	841.12	39.27	
Total:	5669.00	36.20	156.60	1350.00	23.81	
JUV - Juvenile						

You can gather valuable information from this report. Let's use Bankruptcy as an example. You charge a flat fee of \$2,250.00 to represent someone in a bankruptcy. Robert S. Brown's hourly rate is \$225.00 per hour, so you've estimated that it takes the billable attorney about 10 hours to complete the bankruptcy. So far this year, you've billed \$4,500.00 under the Bankruptcy area of law (2 cases). As you can see from the report, Robert has logged 25.6 hours within this type of law. So, you are *technically* taking a loss on these types of cases. You can see from the Rate/Hr. column that Robert's actual rate calculates out to \$175 per hour. That's a loss of \$50.00 per hour from his normal hourly rate. However, the next column indicates that you have a 100% collection rate in this area of law, so this might not be a bad area of law for you to continue practicing. Which leads us to our next section, Recovery.

Recovery

Collecting your fees

Reports in these legal specific programs can take it even further...and add "collections" to the report. So, you charged the client \$600. The value of the work was actually \$963.75. And the client hasn't paid you for 6 months. So, you really lost on that one.

You might even notice a trend – the new associate seems to be bring in a ton of new business with these simple estate plans...she's averaging 10 per month. But, she has a 50% collection rate. Perhaps this will open your eyes to the fact that this associate could use some help qualifying clients, preparing retainer letters, and talking to clients about payment. Every bit of data can provide you with insight to your firm that you didn't have before.

Having a ton of clients doesn't make your law firm successful. Further, if you have any compensation arrangements with partners or associates that provide bonuses based on billable hours, do you really want to payout bonuses on fees you haven't yet collected from the client?

You need a report that shows a comparison between the fees billed, and what has actually been collected. So, in the report below, you can see that Robert S. Brown has billed \$15,756.06; however, the firm has only collected \$9,882.74. There is a \$6,186.02 accounts receivable balance for his work, meaning the firm has only collected approximately 62% of the fees Mr. Brown has billed.

Collection Summary

Oct 7/2009

Brown, Campos and Marshall

Collection Summary

From Jan 1/2009

Month	Hrs	Net Billed			Cash In			Payment Used			A/R
		Fees	Disb+Tax	Total	Retainers	Receipts	Total	Fees	Disb+Tax	Total	Balance
RSB - Robert S. Brown											
Aug 09	83.25	15756.06	312.70	16068.76	0.00	9882.74	9882.74	9839.24	43.50	9882.74	6186.02
Tot:	83.25	15756.06	312.70	16068.76	0.00	9882.74	9882.74	9839.24	43.50	9882.74	6186.02

Summary by Fee Credit Lawyer

Lawyer

RSB	83.25	15756.06	312.70	16068.76	0.00	9882.74	9882.74	9839.24	43.50	9882.74	6186.02
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REPORT SELECTIONS - Collection Summary

Layout Template: Default

Requested by: ADMIN

Finished: Wednesday, October 07, 2009 at 01:52:34 PM

Lawyer: Robert S. Brown

Date Range: From Jan 1/2009

Firm Totals Only: No

Summary by Fee Credit Lawyer: Yes

Summarize by Client Intr. Lawyer: No

Ver: 9.31d

Summarize by Resp. Lawyer: No

Summarize by Matter Intr. Lawyer: No

If he is entitled to a "bonus" of 10% of what he bills, should the firm pay him 10% of \$15,756.06, or \$9,882.74.? If they pay him 10% of \$15,756.06, he gets a check for \$1,575...and if they never collect the remaining \$6,186...he earned close to \$600.00 on fees that the firm never collected. Is that what the firm intended to do when they set up his bonus structure?

Recovering your expenses

Many firms do not use a fully integrated Time, Billing and Accounting Program. That means that a check is written from one program (Quickboks, Quicken, Peachtree) for a client expense and then someone has to manually take the details of that expense (a filing fee, for example) and enter it into a separate billing system. This is redundant and provides the perfect atmosphere for mistakes.

What happens realistically is that many advanced client costs never find their way to a client's bill and therefore the firm inadvertently absorbs the costs. Long distance phone calls, copy charges, courier expenses, etc. These costs add up, and they are rightfully the responsibility of the client. Failure to recover these costs makes it more expensive to run your practice.

The best way to insure that a client cost is properly assigned to a matter is to use a fully integrated Time, Billing and Accounting program. In such programs, at the time you write the check, you are prompted to indicate what MATTER the cost should be assigned to.

General Check

Brown, Campos and Marshall Acct 1 Gen Bank Acct 1 Check 00001

Paid Three Hundred Thirty Eight 00/100

To Cuyahoga County Clerk of Courts Date 10/12/2009 Amount 338.00

Explanation Spell...

Order Checks
Forms & Supplies

Matter	Expl. Code	Explanation	Amount	G/L Account
			338.00	

You can allocate the total to different matters, as shown here:

General Check

Brown, Campos and Marshall Acct 1 Gen Bank Acct 1 Check 00001

Paid Three Hundred Thirty Eight 00/100

To Cuyahoga County Clerk of Courts Date 10/12/2009 Amount 338.00

Explanation Spell...

Order Checks
Forms & Supplies

Matter	Expl. Code	Explanation	Amount	G/L Account	Description
05-1236.011	ff	Filing Fee	200.00	5560	Client Advances
06-1233.039	ff	Filing Fee	138.00	5560	Client Advances

Conclusion

Using a Legal Specific Time, Billing and Accounting program that enables you to track information (billable and non-billable time, time on flat fee matters) and that provides you with quality reports so that you can actually analyze the data will help improve your firm's bottom line. Further, your ability to immediately allocate costs advanced to the appropriate matter will increase the percentage of costs that you recover, further improving your firm's bottom line. Like it or not, the practice of law is a business; and it is important to have the proper tools in place to analyze the success of that business.