EXECUTIVE SUMMARY

From reduced profits to the need for fewer attorneys, law firm partners and chief financial officers are well aware of the implications of continued economic conditions for their firm. But before taking drastic measures, such as layoffs and salary cuts, every law firm should look at strategies that can help relieve some pressure on firm profit margins. There are 6 Profit Points of every law firm that, in these days of shrinking client demand and growing firm expenses, should be integral to any strategy. If you want ideas for increasing firm profitability, this is a must read.
Introduction

Most law firms typically focus on revenues as a measure of the firm’s financial health. But there is a growing trend among law firms large and small to analyze profitability in order to measure their business effectiveness. That is because profitability really is a better way to gauge your firm’s financial position.

It is not surprising that revenues get all the attention. In most areas of the country, law firms are ranked by revenues, therefore, attorneys concentrate on increasing revenues. However, when you rely just on revenues to define how your firm is performing, it is easy to overlook important data—or what we will call Profit Points—that can and do significantly impact the bottom line.

“...profitability really is a better way to gauge your firm’s financial position.”

The better you understand the 6 Profit Points, the more you can help your firm reach its profit goals.

1 Profit Point — Client Records: Centralizing is essential

Client records management is no longer a matter of filing documents in a few folders in a file cabinet. In today’s digital age, law firms utilize:

- E-mails
- Electronic calendars
- Electronic documents, spreadsheets, etc.
- Timekeeping software
- Numerous other computer programs

That is not to mention the traditional paper documents and faxes that are still used. In addition, lawyers in the same or separate offices often work together on a client case, resulting in multiple records in different locations.

Managing all these records—even for one case—is time-consuming and labor intensive. A good deal of such record-keeping is non-billable time. Inaccurate records and missing data can mean billable time is overlooked or under-billed. And all that affects profitability.

“Client records management is no longer a matter of filing documents in a few folders...”
Centralizing client records is essential to reducing the time spent on client record-keeping. Centralized, computerized records:

- Places everything in one easily accessible location.
- Speeds up every related process, from tracing a document trail to viewing timelines of interactions and conversations.
- Reduces the need to locate a physical file.

**2 Profit Point — Billing: Better management is key.**

This one seems easy enough. Capturing more billable time means increased profitability. What more is there to know? In reality, for any law firm, managing and capturing more billable time will lead to higher profitability.

That is because variations in billing practices, especially in large firms with many partners and attorneys, inevitably results in inaccurate rates, lost billable hours, and late billing. Here’s an example.

Let’s say an attorney, a partner in a firm, works on a simple case for a client:

1. The firm’s standard rate is $180 an hour.
2. The attorney has agreed to handle the case for $150 an hour.
3. He works 10 hours which at the standard rate would net $1,800.
4. However, at the reduced rate, the net is only $1,500.

Now the attorney gets busy with his other cases, and he is slow to bill the client:

5. When he finally gets around to billing, he discounts the bill $200 because he is so late in sending the invoice.
6. When the client receives the bill, they point out a discrepancy, and the attorney knocks off another $150 off the bill.

Total net on the case is $1,150—that’s just $115 an hour compared to the standard rate of $180 an hour. That comes right out of the bottom line.
That may be a simple example, but it points to the importance of better billing management. Unbilled time and other charges cost money, as working capital is needed to cover related expenses. Unbilled time can also accrue to higher levels than perceived if not recorded properly. Without accurate records, a firm can never really have a clear picture of who is billing what, where errors may be taking place, and how to correct any problems.

“Unbilled time and other charges cost money...”

Available billing software can help simplify and create a more uniform billing process firm-wide. Such a system allows the firm to better track the amount of time actually billed and collected on cases, and make adjustments or corrections where necessary.

3 Profit Point — Timekeeping: Time truly is money.

We touched on timekeeping in discussing billings because the two disciplines are obviously intricately related. While accurate timekeeping is essential to accurate billing, it is not on the top of the list of priorities for an attorney on any case. Timekeeping is—no pun intended—time consuming, and that time is better spent on billable work.

- Making timekeeping a painless and easier task increases the likelihood of it being performed by staff members.
- That increases billable hours.
- When timekeeping is performed systematically, increased profitability will naturally follow.

Again, software is available specifically for law firms that can make timekeeping a painless task. These systems result in greater accuracy and thus, more time billed. Furthermore, just as better management of billable hours leads to better profitability, software can help law firms better manage time.

“Software is available specifically for law firms that can make timekeeping a painless task.”

4 Profit Point — Partner and Staff Productivity: How to work smarter.

Of course, the Profit Points covered so far all relate to productivity in a law firm. Better time management results in higher productivity which translates into higher profitability. We also want to look at productivity as it relates to interactions among partners and staff members. Simply put: work smarter, not harder.
“Productivity for a law firm means reducing wasted time by simplifying the business tasks...”

Specialized legal software programs enable law firms to do just that.

- Data such as schedules, contacts, and other information for partners and staff to share is in one, easily accessible program.
- When staff members don’t have to work as hard in gathering information, finding data, and correlating case details, productivity goes up.
- Partners have the information they need faster, speeding their response to the client.

We must not confuse activity with productivity. Activities such as tracking down a paper file, looking for client contact information, or coordinating schedules among staff members all waste time. Productivity for a law firm means reducing wasted time by simplifying the business tasks of a firm so more time is spent on the practice of law.

5 Profit Point — Marketing and Demographics: Targeting your efforts.

Who makes up the law firm’s client roster? Which clients are the most profitable? How much time is being spent on the least profitable cases? Where are the best prospects for new clients? How do we reach these prospects?

Every law firm should know the answer to these questions. But if accessible client data is not readily available, the answers may be mere guesses. Use of practice management software programs can:

- Put the answers at an attorney’s fingertips, allowing the firm to see the big picture as well as the smallest details.
- Make accumulation of relevant data a painless part of the case creation process.
- Enable data to be viewed and utilized in countless ways to assist the firm with marketing and demographics.

Where are the best prospects for new clients? How do we reach these prospects?

We’ve paired marketing and demographics for this paper because of their connection. Tracking demographics enables a firm to easily spot trends in its client base. For example, is one particular type of client growing faster than the others? Where are the growth areas? Do certain clients have other legal needs that the firm could assist them with?
With a clearer understanding of the firm’s client demographics, marketing efforts to generate new clients or gain more business from the existing client base can be much more targeted.

**6 Profit Point — Firm Financials: Tracking performance.**

Large or small, a law firm should have an annual projected financial plan for revenues and expenses against which performance can be measured. As you might have guessed, such a plan is an important tool in increasing firm profitability. An effective financial plan requires the collection and management of accurate data, from billable hours to collections from clients. And available practice management software makes managing this data easy.

- Better management of firm financials equates to enhanced profitability.
- With accurate data at hand, a firm can continually monitor and track financial performance.
- Partners and associates are kept informed of their billable hours and collections.
- Problems can be quickly identified and corrected.
- Financial reports are easily generated for accounting purposes.

“An effective financial plan requires the collection and management of accurate data...”

**Summary**

A law firm is a business. And like any business, profitability is the best gauge of the firm’s financial position. Available practice management software can help a law firm take control of data and improve in each of the 6 Profit Points, increasing overall efficiency of the firm for greater profitability. Keep in mind, one piece of software can assist you with more than one profit point, which can dramatically improve profitability.
About The ProfitPoint Group

Established in 1985 by Thomas Busch, The ProfitPoint Group, Inc. provides companies with computer consulting/training and technical support for tax and accounting software products. Based in Cumberland, Rhode Island, the company has evolved from a consulting firm servicing Fortune 100 companies for the Dun & Bradstreet/Geac line of financial accounting systems to training and servicing the needs of local client businesses.

The company offers training and custom system implementation services for PCLaw®, Time Matters®, and Billing Matters™ software. Mr. Busch is a Certified Independent Consultant on these products, which are designed for legal, accounting, consulting, engineering, financial, insurance, and other time-critical, information-intensive offices. In addition to sales and setup of these products, The ProfitPoint Group helps ensure that clients can use them to their fullest potential by providing customization and training services.

Tom Busch is a regular columnist for the web-based, internationally written publication Legal IT Professionals.

To learn more, call 401-658-0772 or visit www.theprofitpointgroup.com
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