



The Voice of Experience

Improving Your Law Firm's Bottom Line Part Two

Cynthia Sharp, Esq.

ESTABLISHING BASELINES/SETTING BENCHMARKS

Numerous studies have been completed with respect to desirable benchmarks for larger law firms. Unfortunately, scant detail is available with respect to financial operations of smaller law firms. ALM Legal Intelligence Online recently released a Small Law Firm Economic Survey (for firms with 20 or fewer attorneys) which can be ordered at <http://www.almlegalintelligence.com/r5/home.asp>.

If you have access to your past data, you will at least have a sense of where you stand now. This will give you a beginning baseline against which to assess your firm's future performance and profitability. The first step to any kind of growth is to identify where you presently stand. However, you will gain perspective if you are able to measure your own firm's experience in the context of other similarly situated firms.

CASE STUDY

For purposes of illustration, presume the following:

Jackson Barrister is a practitioner with 1 paralegal and 1 secretary. His take home pay is not shabby; however, he works extremely hard and would like to receive higher compensation for his efforts especially since his three children are all attending expensive colleges.

In 2009, he opened 100 new files.

His gross revenue for 2009 was \$300,000 and expenses were \$140,000. Jackson's revenue is generated solely through his own hourly billings. He billed 1500 hours at an hourly rate of \$250.00. Three hundred (300) hours were written off; therefore, payment was made for 1200 hours of work.

Presume that there is no further room to decrease expenses.

The remainder of this article illustrates the positive effect of Jackson's making small changes based on his awareness of Key Performance Indicators (KPIs).

KEY PERFORMANCE INDICATORS - OPPORTUNITY FOR GROWTH

Running your law business smarter will allow your law firm to increase law firm revenue without working harder.

The following represents a starting point for those who are not yet in the habit of monitoring their business performance. Most attorneys that I know work exceedingly hard. However, many are not compensated at the level that they deserve for their intense labor, pressure and liability exposure. The goal is to become more efficient in converting work into dollars.

The KPIs discussed below are by no means complete and each item will not be relevant to each type of practice. Look at your own practice model and determine what statistics and information are relevant to the profitability of your practice.

None of the following suggestions is earth shattering when considered alone. However, attorneys who regularly and persistently apply these principles will inevitably improve their bottom line!

Effective Billing Rate - In order to arrive at this figure, you will need to know how many hours were spent on the project by partners, associates and paralegals. This will assist you in setting future rates and in ascertaining whether a particular practice area is profitable. For example, a practitioner who handles matters on a flat fee or

even a contingent basis will need to keep track of time spent on these matters to ensure that they are in fact profitable.

Profit/Expense Ratio - This is determined by dividing gross revenue by partner profit. In this case, the profit/expense ratio is 53%. Since there is no room to shave expenses, gross revenue must be increased in order to improve this ratio.

Number of New Matters Open This Year - Consider the effect on revenue of generating just one additional matter (for which he gets paid) per month which produce average revenue of \$3,000 each. An extra \$36,000 per year could come in handy to the hard working attorney. One way to accomplish this objective is to increase the conversion rate.

Conversion Rate - How many of those who consult with you become a client of the firm? If Jackson Barrister conducts 200 initial interviews per year and 100 of those retain his firm, the conversion rate is 50%. A firm's gross revenue figure can be greatly increased by keeping records as to the outcome of each initial consultation and subsequently following up with those who do not immediately retain. This type of chart should be on every attorney's desk and completed after every initial consultation. If Jackson is able to obtain 12 additional clients annually by following up in accordance with the chart, what effect does this have on his profit/expense ratio?

Date	Name	Type of Matter and projected fee	Result (if no retain, why)	Follow up
11/29/10	Jonah Swift	Municipal Court, \$750.00	Retained (paid retainer)	No follow up
12/1/10	Julie Capton	Divorce, \$5,000.00	Wants to consult w/ another attorney	Send letter summarizing interview, call in 2 weeks
12/2/10	Harold and Mildred Cohen	Will, \$1,000.00	Have to talk to their children	Call in 1 week
12/3/10	Gary Wainer	Personal Injury, \$10,000.00	Signed retainer agreement	No follow up
12/4/10	Mary McFadden	Real Estate Litigation	Rejected Case	No follow up

Number of New Matters for Existing Clients - If your clients don't return to you for future representation (and instead seek the services of another firm), you may wish to work on your client relations skills. How often are you in touch with your clients? Do you have a data base? Do you regularly send newsletters and other informational pieces to them?

Collection Realization Rate - This represents the percentage of billed work the firm actually collects. Divide the amount billed to all clients by the amount of those bills collected. Jackson's collection realization rate is 80%. He could definitely use some work in this area.

Billing Realization Rate. The billing realization rate is the percentage of recorded billable time actually billed to clients. If Jackson is able to reduce the number of hours written off from 300 hours to 150 hours, the result is a revenue increase of \$37,500.00.

Billable Hours - What if he billed (and collected the fees) on an additional 5 hours per month in 2010? That would result in additional revenues of \$15,000 per year.

TIPS FOR PROFITABILITY

1. Retainer agreements must ALWAYS be in writing!
2. Enter time electronically - and contemporaneously. Do NOT wait until the end of the day to estimate your time.
3. Revisit your rates. If you haven't increased your fees (whether hourly, flat fee or other) in the past year, you will effectively make less this year than last! According to the Altman Weil 2010 Flash Survey (Law Firms in

- Transition), the median increase in standard hourly billing rates was 3% in 2010. (Note that the 2010 U.S. rate of inflation was contemporaneously reported at 2.2%.) Presume that Jackson raised his rates to \$260 per hour. Based on 1200 hours, this small adjustment would result in an additional \$12,000 in gross revenue.
4. Reduce the amount of your unbilled disbursements.
 5. A law firm is not a lending institution. Paying your client's expenses without expectation of immediate reimbursement is tantamount to an extension of credit. Address this issue up front in your written retainer agreement.
 6. Accept credit cards. Some of your clients love to take advantage of incentive programs (points).
 7. Don't work for clients who won't pay. Require substantial retainers before beginning your work.
 8. Bill for your paralegals and legal assistants. Presume that Jackson's paralegal billed 700 hours at the rate of \$75 per hour (for work currently being performed for clients but not billed). Impact on bottom line: An additional \$52,000 profit.
 9. Implement a marketing plan
 10. Develop the habit of asking clients for referrals.
 11. Identify Referrals received (both from clients and other professionals) and stay in touch with the referral source.

Referral Source	Name of Potential Client	Follow up
Jack Spratt	Joan Jess	Sent thank you letter
Morris Grinch	Andy Corson	Called Morris to thank, got additional information, sent thank you letter
Nancy Davis	Patricia Morgan	Sent thank you letter, invited Nancy to lunch

12. Track Where Your Business is Coming From (non referral business)

Source of Business	Name of Potential Client
yellow pages	Fred Grimsley
ad in local paper	Jean Andrews
Gym	Hortense Mendez
internet search	Marie Kravitz

An attorney who tracks the above information closely and responds accordingly by developing focused strategies will not only increase her awareness, she will also increase her bottom line.

** Part One of this article was published in the August issue of The Mercer County Lawyer newsletter. The author addressed the importance of strong practice management skills and the significant of key performance indicators.*

Any Ideas for Seminars?

Contact the MCBA or the CLE Co-Chairs, Margaret Chipowsky at mchipowsky@mdanj.com, 609-896-2404, Brian Duff at bduff@vestributslaw.com, 609-570-8558 or Roger Mitchell at roger@NJBaristers.com, 609-397-5554. If you wish to be a speaker, let us know that as well.