

Legal Management Services, Inc.

Helping attorneys create financial independence

64 River Mist Lane, Memphis, TN 38103-0892
901.581.5390 cell ■ 901.297.4211 fax
jerry@legalmanagementservices.com

Recession Survival – “A Hard Day’s Night”

By: Jerry Schwartz, President of Legal Management Services, Inc.

In the current economy, firms need to look for ways to improve the bottom line. A recession or a downward economic trend provides us with an opportunity that does not normally exist in our professional lives. There is less work and therefore more idle time. We all know the old saying “an idle mind is the workshop of the devil”. This is the time to utilize that time to our future benefit and to make an investment in your business.

There are four ways you can, not only, improve your current conditions, but also, lay the foundation for a successful and profitable future. This will require an investment in your practice, which may be difficult to do because of lean economic times, however, it is one that will bring rewards now and in the future.

1. MARKETING

Marketing can be defined as the performance of an activity which directs the flow of services from the provider of services to the client in order to satisfy the client's needs and accomplish the objectives of the law office. Many lawyers will argue that the law office has the best lawyers in town and that it always turns out a quality and timely work product and therefore there is no need for a marketing and business development program. Qualified lawyers and a quality and timely work product are expected by the client and do not set the law office apart from other law offices in the area.

Marketing can be divided into two major classifications: retention and origination.

A. Retention

The lawyer must keep informed of the nature of the client's business in order to serve. For many years lawyers solved the problems of their clients when they were called upon. A good marketing and business development program will enable the lawyer to identify potential problems that a client may encounter and provide preventative solutions to these problems by scheduling regular meetings with clients to discuss the business of the client. In addition, a marketing and business development program will encourage the lawyer to maintain the professionalism of the law office in the following ways:

- a. CLE requirements for each lawyer in the office should be strictly enforced to maintain a quality practice
- b. Calendars and dockets are in place to ensure timeliness.
- c. Clients are informed of the status of the matter being handled with copies of correspondence and regular billing.

B. Origination

Finding new clients is more difficult than retaining clients because a relationship must be established. Changes in the law and industry standards provide an opportunity to market to potential clients. Targeting can be accomplished in the following ways:

- a. attendance at industry meetings
- b. having articles published
- c. speaking at seminars
- d. networking at national state and local bar functions for referrals
- e. developing a profile on LinkedIn, Plaxo and Facebook

A contact management system is essential for both retention and origination marketing. Contact management is a system that manages and maintains information on individuals and companies that are your current clients or potential clients. It provides an organized plan of regular communication through the use of telephone calls, e-mails, lunch meetings, social events, etc. A small piece of literature or a brochure and a decent business card are

good to have to hand out as marketing pieces. These printed pieces should direct the client or potential client to a website to learn more about the lawyer's practice and services that are provided by the law office. A very professional website is essential in communications and marketing in today's world.

2. OFFICE PROCEDURES

There are many ways to improve the office; to get ahead of the curve; to be the best; to provide superior client services:

A. Technology assessment

i. Productivity

1. How many have inadequate capacity and speed on office servers?
2. How many computers are running old and outdated operating system programs – Windows 98 or earlier versions and computers and peripherals that are extremely old and slow?
3. How many are not keeping calendars on a PDA and not syncing with a practice management system or automated calendar?

ii. How many do not have adequate disaster recovery plans?

iii. How many are not compliant with software vendor licenses?

Investments in technology improvement will prepare the law office for the recovery and produce higher returns through increased productivity while reducing stress levels and improving client service.

B. Policy Manual

- a. Set up a vacation, personal and sick leave policy. In law firms, staffs take advantage of the firm when there's no policy for personal leave. Law firms need to show staff "where the line is drawn in terms of time taken off." A

policy for vacation, sick and personal leave days will ensure that the firm “gets the maximum amount of time from its people.”

- b. Set holiday schedules and policies for jury duty and bereavement
- c. Set work hours as a policy – availability of staff when needed is important to the lawyer that is providing excellent client services
- d. Set confidentiality, harassment and other office policies. These policies are important to a smooth running office
- e. Define the benefits that are offered by the firm

C. Procedure Manual

- a. Prepare a job description for every staff person in the office and set up a procedures manual that lists every procedure in the office. It makes it easier to shift an employee from one area to another. For example, a secretary in the commercial law department can be temporarily shifted to help the secretaries in the litigation department if the procedures for that job are in writing. A procedures manual with job descriptions also provides a helpful tool when making a hiring decision.
- b. Standardize documents. A standardized document that only requires staff to input names and specifics into fields will save them “all kinds of time,” because they won’t have to type the same document over and over again. One step further would be to use a database and merge documents.
- c. Require lawyers to contemporaneously input their own time into the billing system. This allows the administrative assistants to do more of the client work; captures more time, eliminates questions and improves accuracy.
- d. Update the file room system and destroy old files to eliminate lost files and clutter.

3. **ACCOUNTS RECEIVABLE AND COLLECTIONS**

Accounts receivable reports should be reviewed regularly. If cash flow and profitability are not where they should be; then a collection program for delinquent

accounts may be the missing link. The following schedule will provide a basis for adequate monitoring of accounts receivable balances.

A. Send reminder statements for all invoices more than thirty days old from the billing department without lawyer intervention.

B. A low key and non-confrontational call or e-mail should be made or sent if the statement is not paid within forty-five days. The purpose of the call or e-mail should be to get information and a commitment for payment by a certain date.

C. A mild letter is sent by the office manager or billing clerk at sixty days indicating that payment of the statement has not been received and that the owners are concerned and would like to know of any problems that may exist. The client should be encouraged to communicate with a specific individual other than the primary lawyer.

A follow up should be made with the client every two weeks until payment is made.

D. At ninety or one hundred twenty days and subject to the Code of Professional Obligation a decision should be made by the firm to cease representation, write off the account or send the matter to an outside collection lawyer.

An accounts receivable aged report is an invaluable tool for law offices to monitor the value of the receivables from clients. Historically the older the receivable the less value it will have to the firm. It is extremely important to have a collection policy in force to ensure an adequate cash flow for the firm. The accounts receivable should be monitored every other week to make sure that client balances are not getting too old.

If a past due client eventually pays the statement after considerable effort on the part of the firm, a decision must be made to accept further business from the client. Evaluate each slow paying client on an individual basis. It may be that the firm contributed to the slow pay by not providing information to the client or that the failure to pay on a timely basis was beyond the control of the individual client. If the collection process is handled professionally, the slow pay client may be a more loyal client in the future.

4. REVIEW COSTS

A. Maximize Staff Productivity

The biggest expense area is personnel. Firms can contain costs by maximizing the current staff's productivity. The more the firm gets out of its current staff, the less likely it will have to hire additional staff.

Here are some suggestions:

- a. Use contract labor for big jobs. No pension, FICA, FUTA, SUTA, Workers' Compensation premiums or fringe benefits and it is a good testing ground for future employees. Have the least expensive personnel perform the clerical tasks.
- b. Provide more training. In many situations, firms can avoid hiring additional staff by providing training that increases productivity. An extra \$1,000 spent in training may save the firm a \$30,000 salary and benefits on hiring a new employee to do what the current staff should be doing. For example, the firm may be able to avoid hiring additional staff by training the current staff on how to maximize use of the technology to get documents out faster.
- c. Review benefits plans. Shop the benefits and health insurance market occasionally to make sure the firm is getting the best possible benefits for the dollars. Doing that keeps the firm's insurance agent honest. It ensures that the agent will work harder to get the firm the best deal for the money.
- d. Use brokers to find newest cost saving innovations, higher employee costs, higher deductibles, higher co-pays, Premium Saver Coverage "GAP" or a Defined Contribution Plan.

B. Occupancy Costs

Look for savings in the rental costs.

- a. About a year prior to lease renewal, shop around and compare the firm's rent payment to what it would pay if it moved. The firm may decide to relocate. If not, it can use the numbers as a negotiating tool with the current landlord. Also, when deciding the length of the lease, sign the shortest lease possible,

unless the rate is so ridiculously ideal on a longer lease. That allows the firm to move to another location if the market changes and rental costs dip below what the firm is currently paying.

- b. Develop policies for destruction and closed file retention to reduce office rental costs or charges from outside storage facilities

C. Equipment and Supplies

The firm can also contain costs related to office equipment, computers, and the supplies.

- a. Look at the firm's actual need for a copier, fax and printer maintenance agreement. Does the firm need a maintenance agreement? Would it be less expensive to pay a repairman to come out on a time and materials basis? For example, track how often the copier repairman is called out to provide service. A maintenance agreement may not be necessary if service is needed just once or twice during the year.
- b. Computer maintenance should be done on a managed services agreement, which is a proactive network service for monitoring, management and security to ensure that computer systems are always up and running.
- c. Make computer upgrades at the same time. Making little upgrades here and there will indirectly affect the firm's ability to rotate staff to positions throughout the office. If different sections of the office are running different versions of programs, the firm won't be able to move an employee from one section to the other as easily.
- d. When there's an upgrade in technology, update all users.
- e. Use the same vendor for communications. A single vendor can package everything from the long distance service to the internet service and give the firm a better rate.

- f. Standardize supplies. In many law offices, it's not uncommon for everyone to have his or her own "favorite pen." The lawyers and staff "choose their favorites." That convenience is costly and the firm can save a lot of money by standardizing the supplies.
- g. Recover unused supplies. Hidden away in the desk and closed client files are probably hundreds of unused pens and barely used legal pads that can be recycled. Hold a "pen amnesty day." Go around to every desk in the office and have everyone open their desk drawers and surrender unused supplies. And to find fairly unused legal pads, a great place to look is closed client files. In many instances, lawyers write on one or two pages of a legal pad and then store it away with the client file. Go through every closed client file and look for those pads. Tear the written pieces of paper off and put them in the closed file, and then keep the remaining pad for future use. Find those unused supplies, and the firm may not have to buy some supplies for several months.

D. Limit Lawyer's Expenses

Law firms can also save money by putting a limit on lawyer's professional expenses. Lawyers join many organizations and they have to pay dues for those organizations. Many lawyers are members of so many organizations that there's no way they can fully participate. But, because they aren't paying for it, they join anyway. Set up a budget on how much each lawyer can spend per year on memberships. Once it's exceeded, get the lawyer to pay for it.

Set budgets for each lawyer for three types of expenses: entertainment and marketing, dues, and continuing legal education. Get input from the lawyers on reasonable budgets for those areas. "It doesn't work as well if it comes from the top down." The budgets don't have to be equal for everyone. For example, if there's a new tax law, the tax lawyers will need more money in their budgets to go to tax seminars that cover the new law. Review the budgets annually.

E. Pass on expenses to clients

Another way to recover expenses is to pass on the costs of photocopies, faxes, postage, and other expenses. Many smaller firms don't keep track of those expenses, yet cost recovery can add up to as much as \$3,000 a month. The same is true of staff overtime expenses. Often, overtime is not the result of understaffing but the result of emergency requests from clients. Anytime a client asks the firm to do last-minute work that requires after-hours staffing, charge for the overtime pay. "That's a legitimate charge," though it needs to be specified in the fee agreement.