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Helping attorneys create financial independence

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Back to Basics: Nine Ways to Improve Profitability

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"Just because everything is different doesn't mean anything has changed" - Irene Peter.

We all know that change occurs in our lives every moment of the day and that these changes affect our practice and the income we earn from it. The problem which must be overcome with all the change is to not let it paralyze us and stop us from performing the tasks which make us profitable.

Our basic tasks are to provide a service of value to our clients and to provide for ourselves and our families. These two tasks are not mutually exclusive. They go hand in hand.

We have to remind ourselves of these two basic tasks once in awhile lest we get lost in the changes in the law; the changes in office policies and procedures; the changes that occur in our personal lives; the changes that occur in our community; the changes that occur in our country; the changes that occur on our planet and yes even the changes that occur in the universe. We must force ourselves back to the basics to improve our net profits. The basics of profitability are revenue generation and cost containment. A revenue generation program is made up of the following:

A. An adequate timekeeping system which allows the timekeeper to record billable and non billable time. This shows the timekeeper a list of accomplishments on a daily basis

and allows the timekeeper to compare today's accomplishments to goals for billable and non billable time and shows the total contribution to the firm.

B. Rules to insure that time is recorded contemporaneously. More billable time is recorded and the short periods do not suffer.

C. Review of the time records for the following reasons:

1. Provides for a review of the type of work being performed.
2. Identifies poor work habits.
3. Helps to determine the effective use of personnel.
4. Eliminates the discounting of time by the timekeeper.
5. Billing is easier and more orderly when timekeeping is not left to memory.
6. Higher economic rewards are possible because more time is recorded under a structured timekeeping approach.
7. Profitability by type of case and timekeeper can be determined.
8. Better client services are performed.

It is the responsibility of the timekeeper to record time. Partners should show a good example to the non-partner timekeepers of the firm. It is the duty of the partner to contribute to the success of the firm and one method of contribution is to teach by example. The partners should insure that other timekeepers are trained properly in the timekeeping system and in time entry preparation. It should be clear to all that proper timekeeping habits are a criteria in annual evaluations and have a financial impact on the entire firm.

Contrary to popular opinion, the secretary is not responsible for recording time, but can help by keeping logs of the activities of timekeepers. The logs can track visitors, phone calls, mail and

documents produced. The secretary is responsible for recording the time in the billing system or submitting the time sheets to the proper person on a timely basis and to verify that time was recorded on the proper client account.

Management reports should be prepared and reviewed on a regular basis. The review of the following reports by timekeeper and client and matter is essential to a profitable practice:

Hours worked - current and year to date

Hours billed - current and year to date

Hours written off - current and year to date

Premiums - current and year to date

Discounts - current and year to date

Target or budget - current and year to date

Work in progress - aged

Accounts receivable - aged and write offs

Balance Sheet

Income statement

Report on trust account funds

Cash flow analysis

Cost recovery systems should be reviewed to insure that all charges attributable to a client account are being properly charged. Whether the systems are manual or automated, the data should be reviewed on a monthly basis to insure proper handling.

The sole practitioner or law firm manager should look at costs to insure that proper controls are in place or to determine whether certain expenditures are even needed in the current practice.

Many times invoices are paid without much thought as to whether the lawyer needs the expenditure to operate.

A word of caution is always important in the review of expenses. Cutting costs is the easiest way to increase the profits of the firm and it is the one method that everyone has some familiarity and experience. Many lawyers tend to cut too much or in the wrong places and productivity is drastically affected. Salaries, occupancy costs and insurance premiums make up a large portion of the total expense of a law practice and are expenses which are very difficult to control. Net profits of the law practice are not going to be affected by the number of No.2 lead pencils or paper clips that are purchased. The costs need to be reviewed, but the time spent on revenue generation will be the big payoff for the net profit of the practice.

Do you have an adequate time, billing and accounting system? Do you have cost recovery procedures in effect so client costs are charged to client files? Do you review the reports that are generated? Do you manage the practice? If you can answer yes to these questions, you are not allowing change to paralyze you in attaining an acceptable net profit from your practice. If the answer to any of the questions is no, then it is time to get back to basics.

But if you have answered yes to the questions and profits are not where they should be then a collection program for delinquent accounts may be the missing link to a complete and effective cash flow system for the law office. 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 attorney intervention.

B. A mild letter is sent by the office manager or billing clerk at forty-five 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 attorney.

C. A low key and non-confrontational call should be made if the statement is not paid within sixty days. The purpose of the call should be to get information and a commitment for payment by a certain date. 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 the 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 you have a collection policy which helps to ensure the cash flow of your office and is handled professionally, the slow pay client may be a more loyal client in the future.