

# Organise your firm to grow your profits

*By Richard Hugo-Hamman*

It is a common misconception amongst owners of small law firms that growth is measured by the number of people in the business.

Over the years I have spoken with many partners in small law firms and as soon as the word 'growth' is mentioned, they react, usually with alarm and the statement 'No! I don't want any more partners!' However the meaning of growth is misunderstood. True growth of any business is through an increase in profit.

So what are the options?

From a revenue perspective, simply increasing charge rates to improve the bottom line is not as easy as it sounds.

Rates, whether fixed fee or time based, are controlled by powerful market forces. For most small practices, the affordability of their service constrains pricing rather than the competition. Most ordinary people find it incredibly difficult to pay legal fees, therefore your only real options are to cut costs or improve efficiency.

Staff costs are the biggest expense and really the only variable where structural change can have impact. Your options are to either reduce staff or get existing staff to do more. The only way to achieve either of these objectives is to improve your business's efficiency by using great technology. The rise of self check-ins/check outs at airports and supermarkets provides clear signposts for the future.

People are expensive! To avoid unnecessary staff costs you must automate.

Technology is cheap compared to people. Over supply has made technology cheaper than ever and it is no longer an unnecessary expense but a valuable asset to any business as the primary way to increase efficiency and in turn, profitability.

Reducing staff is of course a contentious topic but it remains true that many small law firms find it difficult to find suitable support staff.

This therefore presents you with only a few options:

1. Give your staff the tools they need to do more work faster;
2. Delegate more work to existing staff so that you can do the high value work;
3. Reduce bookkeeping costs by re-engineering the way you do your matter accounting so you can use part-time bookkeepers;

If you organise your firm by following this plan, I know from having seen success in many firms, that you will see your profits grow without having to employ extra staff.

## **1. Organise your data into a single database**

There is a threshold that needs to be crossed. You need to have a database system everyone trusts. This is the big key to efficiency. Once you have quality data, that can be merged into precedents and forms, the benefits of a great document production system can be achieved. Once crossed, you have a platform for productivity that cannot be achieved in any other way.

So many firms flounder with multiple sources of information, disconnected databases and inaccurate records. This inefficiency usually results from a lack of integration between document management and accounting management. As a result, this eats into your profit and negatively impacts on the way you service your clients.

If you organise all your client and matter information into a single database you get an immediate efficiency hit.

Imagine going to an Electronic Matter for every matter, knowing that all the information contained in the electronic file is true and accurate. All the information you need is in one place.

The beauty of entering information once only and re-using it for multiple matters and document production is that fewer errors are made, there is less staff conflict, clients are impressed by the speed with which you can get things done, and unproductive repetitive work is transformed into high quality legal work and great client service.

## **2. Organise your precedents and matter documents**

For most small law firms, documents produced are evidence of work done. With so many forms and precedents, and government bodies constantly making changes to the documents and rates, it is not possible for a small firm to keep up to date. Therefore, it is important to consider the following aspects when getting your documents organised and in one place:-

- Can every document you need be created using the same standard approach and be saved into a central place?
- Can you incorporate your own precedents into the system?
- Are the forms and associated legal rates kept up to date with government changes?
- Are all commonly used forms and precedents available?
- Are the precedents drafted and maintained by lawyers?
- Are all the forms and precedents automated so they can be generated with maximum efficiency using data from a single database?
- Are all incoming and outgoing documents saved into the matter, so that you do not need to refer to a paper file and can easily work from multiple locations?

If you can answer the above questions in the affirmative, you have organised your documents!

## **3. Organise your communication documents by having them in the matter**

The problem with Outlook is that incoming and outgoing emails are not related to matters and confidential and personal ones are mixed up with matter emails. Many firms have a policy to print emails and put them in the manila file, but almost everyone I speak to tell me that this approach creates immense uncertainty and stress, because it is so difficult for this task to be done diligently. It's also not easy to access someone else's emails. Faxes are paper based and usually on completely separate devices. And the problem with an SMS is that it is on your phone!

Having client information scattered on different devices leads to disorganisation, mistakes, lost productivity and increased practice risks. However, with our software you can organise your communication by working with Outlook so that every piece of written communication, incoming or outgoing, is saved into the matter. This not only makes it easier for you to find everything, but also makes it much easier for small teams to work collaboratively knowing that all communication records are in one place.

Working directly from the matter, all emails, faxes and SMS are automatically profiled and saved into the matter. So miscommunication, misfiling and lost emails are eliminated.

#### **4. Organise your Document Register contents**

It is easy to ignore the value of items held in the Document Register, however I have heard of firms that have been sold where the primary asset for valuation has been the contents of the Document Register.

If it is disorganised, with poor manual records and weak controls on the movement of the documents, then this practice asset will probably have no value. However a well organised Document Register can add real value to your firm as well as saving a lot of unbillable time typically created when clients ask for documents or information that you cannot locate easily. It pays to be efficient. It will impress your clients and build real value into your practice.

#### **5. Be disciplined about time recording**

The evidence is clear that if you are doing time based work, you need to time record. Those lawyers who still don't time record must be making too much money! It takes discipline and determination, but the old methods of 'weighing things up' just don't work anymore. You have a professional duty to make contemporaneous records of what you do for clients and it is a happy convenience that if you record the time as well, and employ a quality approach to making your notes, that information can be used for billing (and justifying bills) as well.

A good time recording system (assuming you have organised your database) allows you to find the correct matter quickly, controls the timer easily (as activity is often interrupted), and also helps you record time for a matter before that matter has been registered in the database. The evidence (confirmed in an American Bar Association survey) is that you should expect an increase in billings of about 30% if you do this. And this is achieved not by over charging anyone, but just by charging every client accurately. For all of us, time is really all we have, and it is the easiest unit of measure for a client to understand. You just need to keep proper records to reap the rewards

#### **6. Produce bills regularly for smaller amounts**

With a bad system, billing is boring. With a good system it can be painless. Don't wait until the end of a matter or the end of the month. Bill as soon as you are entitled to. WIP is valueless unless you have asked the client to pay. So many small firms are in financial disarray because of a reluctance to 'bill the bad news' for fear of damaging personal relationships with long standing clients. I so often hear one partner speaking of the other partner's reluctance to bill their favourite clients – this cannot be afforded by any business with a deliberate intent.

No matter what your costs agreement says, if you leave the bill to the end of the matter, and if you are acting for a person (as opposed to a company), you will tend to discount (the implausible 'but say' syndrome), and then your client is likely to negotiate a further discount, whether directly or just by taking a very long time to pay you. So the mantra should be to bill often and bill small.

By setting realistic expectations in costs agreements and using simple language you can achieve this, not by doing more work, but by working smarter.

Making these adjustments will accelerate your cash flow and reduce your working capital requirements.

#### **7. Collect what you are owed**

If you are busy running a small law firm, being the debt collector can be the most distasteful responsibility you have. Because you are so time poor, you probably leave it to the last minute as well.

What can be done?

- Ask for a deposit whenever appropriate. With a good system this is easy to do. It not only eliminates debt chasing in the matter, but also drags your cash flow forward as you can transfer funds and receive them as soon as you are entitled.
- Warn clients of impending cost blow outs. Good technology will let you know when this is about to happen. It is in the nature of law that unpredictable things with unpredicted costs do occur. Be upfront about it. Preparation and warning is always better than conflict and dispute.
- Stop providing service to clients who have not paid past bills. With a good system you will get alerts about this.
- Use a system that produces useful reports with information relevant for small law firms so that you can quickly and easily chase debt. You need the reports you need, on demand, to help you understand the debtor profile for each client, fee earner and the firm as a whole.

## **8. Act today!**

There are so many reasons to do nothing. Partnership difficulties. The 'I'm a lawyer not a businessman' syndrome. Thoughts of retirement. Being busy. General inertia. The fact that complaining is easier than doing.

However, to grow the profitability of your firm while providing a better service to your clients, you must change something.

The simplest, quickest and easiest action available to you is to organise your practice by introducing the very best software available to you. This will allow you to fine tune the balance between the work you have and the people you have working for you.

The beautiful thing is that you don't need to know anything about business process engineering or change management to get these benefits, all you need to do is implement a single unified system for your firm.