



**Number Two** in the *Making Your Practice Work for You* series from LexisNexis®

## Driving Profitability Forward:

How to get the money-making  
gears moving in the right direction

Loretta Ruppert  
Michael Wasco  
Tyler Chapman





As a law firm stakeholder, you affect your firm's profitability every day, with every move you make.

And probably more importantly, you affect it with every move you don't make; which is actually much better news than you may realize.

Once you understand that you affect your firm's financial picture even by doing nothing, it becomes easier to take positive action instead of sitting back and hoping good things happen.

The five "gears" of law firm profitability, and their movements, are all firmly in your hands. It's merely a matter of fine tuning each one, one at a time, to get them all working smoothly together.

## Why gears?

Think about the movement of gears in a well-oiled machine. While they're all working together toward a common purpose – driving the machine forward or backward – adjacent gears are actually moving in opposite directions.

The same goes with the five primary gears driving law firm profitability. Instead of the individual gears moving independently, they're all *interdependent* with each other. You can't move one gear without affecting the others, sometimes in the most unintended ways.

So it stands to reason that getting every gear moving perfectly in sync with every other is a process of constant adjusting, then analyzing the numbers after each adjustment to understand where to make the next tweak.

Before we get ahead of ourselves, though, let's start at the beginning: defining the five gears.

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## The five gears driving law firm profitability

We're no more interested in turning you into an accountant than you are in being one, so let's keep this simple:

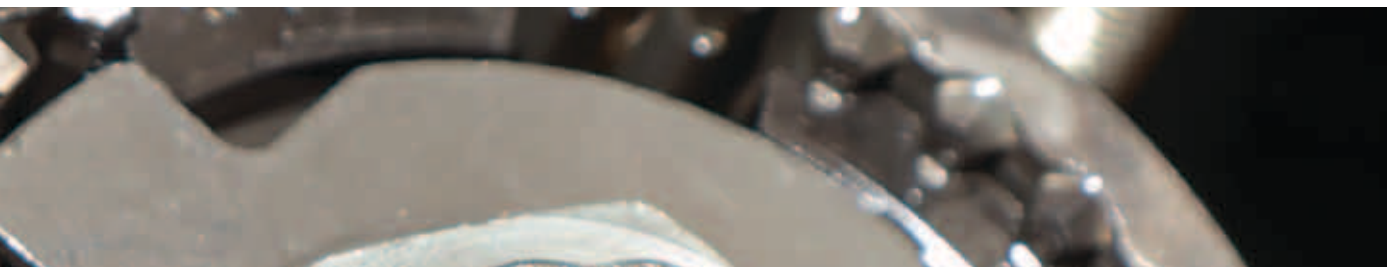
- **Production Value** – The amount of fees timekeepers are expected to bill
- **Utilization** – The actual amount of billable time a timekeeper logs
- **Realization** – How much money your firm is paid compared to how much you bill
- **Leverage** – Matching the right resource to the task
- **Margin** – The difference between the money your firm brings in and the amount you spend

Getting back to the interdependent movements of the five gears, let's look at how a singular focus on cost-cutting to improve margins can affect your total profitability picture with possible unintended consequences.

There are a couple of obvious targets for extreme cost-cutting, either or both of which can easily set into motion the law of unintended consequences:

- 1 Employee layoffs
- 2 Technology cutbacks





## Employee layoffs

With a grim economic outlook in the Great Recession years after 2008, many firms worked fiercely to increase their profit margins by cutting costs. That meant layoffs for thousands of lawyers and cuts to benefit programs.

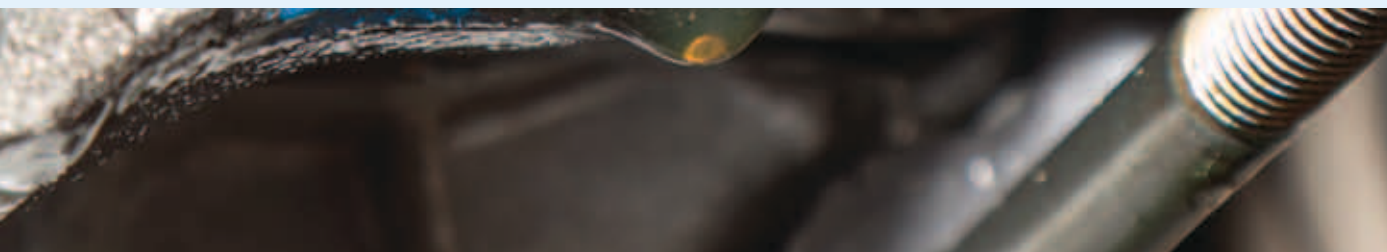
As a result, short-term margins improved.

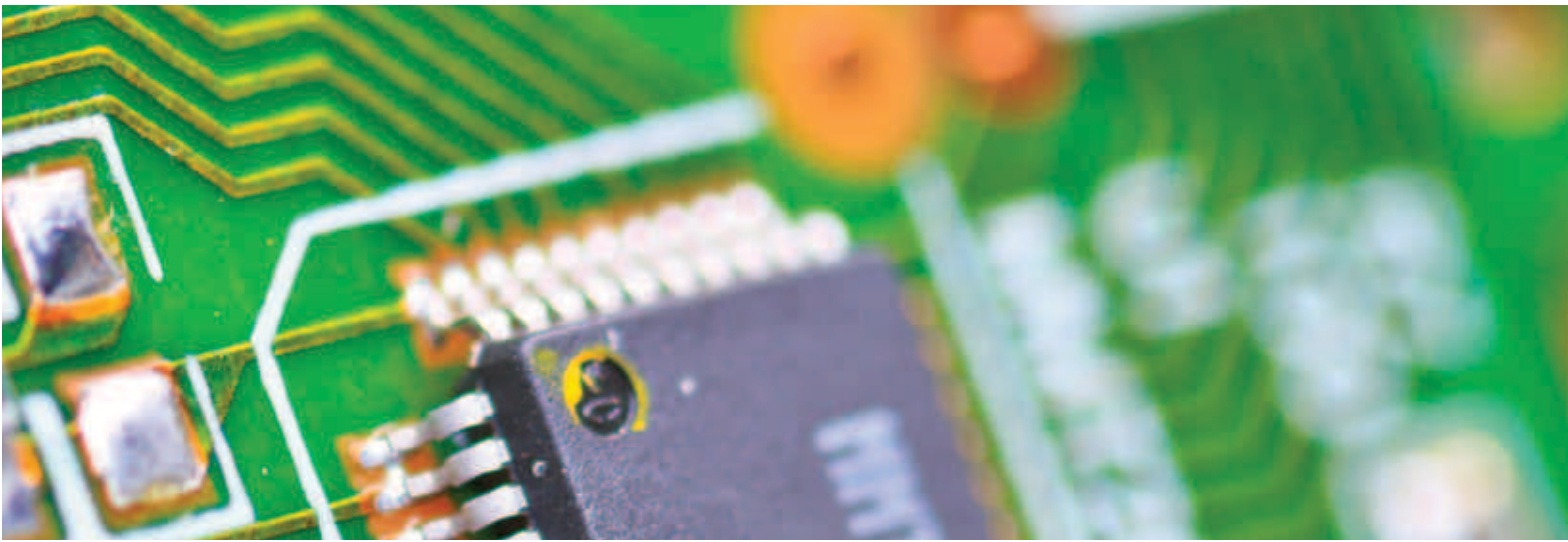
But extreme cost-cutting is a temporary Band-Aid®, one that eventually has to be ripped off. And when it is, it generally reveals more painful challenges for the future.

With a singular focus on cost cutting, both leverage and margins end up taking a hit:

- 1 The combination of layoffs and employees leaving the firm due to cutbacks leaves fewer employees for partners to leverage work from, so less work gets done, decreasing revenue and growth opportunities.
- 2 Lower-level tasks have to be performed by higher-level employees at a higher cost, eventually eating into the profit margin cost-cutting was supposed to increase.

That's a painful result however you look at it. And unfortunately, the effect can be even worse when firms slash costs by delaying technology investments.





## Technology cutbacks

In an ideal world, firms looking to increase profitability in the face of layoffs would balance out the productivity loss by making smarter investments in technology, allowing the remaining employees to get more done in less time.

But in their zeal to cut costs, some firms also brought technology spending to a grinding halt. The result? A one-two productivity hit that made it near-impossible for firms to recover momentum even when the economy started to improve.

Cutting technology budgets only delays expenditures; by no means does it eliminate them. And because of the nature of technology, those delays often result in higher costs in the long term.

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**The moral of the story: Profit margin is important, but it's just one of five gears. If you're betting your firm's profitability entirely on extreme cost-cutting, you'll bring other profitability gears to a grinding halt.**

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Now let's look at the alternative: making small adjustments to individual gears one at a time with a longer-term goal of fine-tuning the entire profitability movement.



# Production value: Creating a billable hours target for each timekeeper

From the time employees begin work at a law firm, they have billable hour targets on their backs. It's how they're expected to carry their weight in the firm and how partners measure the worth of each employee.

But just billing the required number of hours doesn't answer the question of how long a matter will take or how much it will cost to service the client.



Do you ever wonder if  
the amount you're charging  
for a particular matter or case  
is profitable?

How many hours of partner time, associate and paralegal time, and admin time will it take to resolve the matter? What about outside costs and expenses, which should include both the costs incurred to resolve the matter and some portion of the firm's overall costs?

If you consistently estimate all the different factors correctly, you'll net a profit.

If you occasionally get it wrong, accept it and go through the reporting and analytics process to learn why. No one's right all the time. But successful firms learn from their mistakes, make adjustments and move forward.

Less successful firms, on the other hand, may be less particular about tracking the profitability of individual jobs, or even write off losses as the price of doing business, putting revenue on equal footing with profitability.

While it may occasionally make sense to bring in less money on a matter than you send out, as a long-term business strategy, it's a better fit for running a charity.



## Utilization: How much of your employees' time is billable?

Firms don't make money from time their employees don't bill. So unless you're dealing with rainmakers and partners, whose time may be better spent capturing new business, increasing timekeeper utilization can be a prime candidate for increasing profitability.

But what about the non-billable tasks that are essential to firm performance? How can you steal billable time away from those tasks?

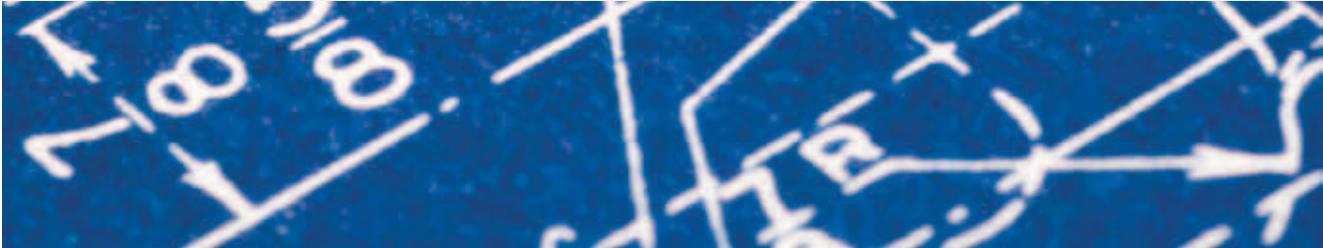
You cannot manage what you can't measure, so you'll need to start by requiring timekeepers to track both billable and unbillable time, which will help you divide non-billable tasks into two categories:

- 1 Non-billable tasks that should be delegated to admin employees
- 2 Non-billable tasks that require some timekeeper involvement

Reducing timekeeper hours from the first category is easy: Require timekeepers to hand off tasks such as making copies or chasing down files to admin staff. This may require a little bit more planning, but it pays off in the long run.

For the second category – non-billable tasks that require timekeeper participation – your goal should be to reduce the time required to complete them.

For instance, you may be able to make a one-time investment in technology that will reduce the time required for non-billable tasks. If so, it's likely to pay off in multiples over the lifetime of that investment.





# Capturing more billable time with practice management software

No one wakes up in the morning looking forward to keeping track of every minute of the day. But timekeeping is just one of many jobs that can be made dramatically easier and more efficient with legal-specific practice management software.

Besides providing multiple ways to capture time – including on the go – look for software that reminds timekeepers of work performed, but not yet billed.

Just as an example, PCLaw® from LexisNexis® has a feature called Time Entry Advisor that helps capture billable time that hasn't yet been recorded.

If employees log phone calls or appointments on their calendars, or save email to a matter, for instance, Time Entry Advisor makes a note of that billable time, then sends out daily reminders of time that hasn't been recorded. From there, it's a simple matter of a few clicks on the timekeeper's part to record the time that would otherwise be lost.

Even at \$150 an hour – a conservative estimate of a law firm's average billed rate across all timekeepers – capturing just thirty more minutes a day can put an additional \$18,750 per year in your firm's bank account.

And that's just the increase in revenue from one timekeeper, so the savings keep multiplying by the number of billable employees you have.

What's more, timekeeping is just one of the many ways the right practice management software can rev up the profitability machine. Let's look at another.

# Better document management through practice management software

Electronic file copies have been around since computers and word processing programs were adopted by law firms in the 1980s.

So why are there still so many paper copies in file cabinets weighing law firms down? Why are there still firms not taking advantage of practice management technology to organize, search and retrieve documents electronically instead of hunting for the printed version?

Two good questions. But unfortunately, no good answers.

In addition to keeping files organized for everyone in the firm to reference when needed, centralizing electronic documents in practice management software helps lawyers be more responsive to their clients.

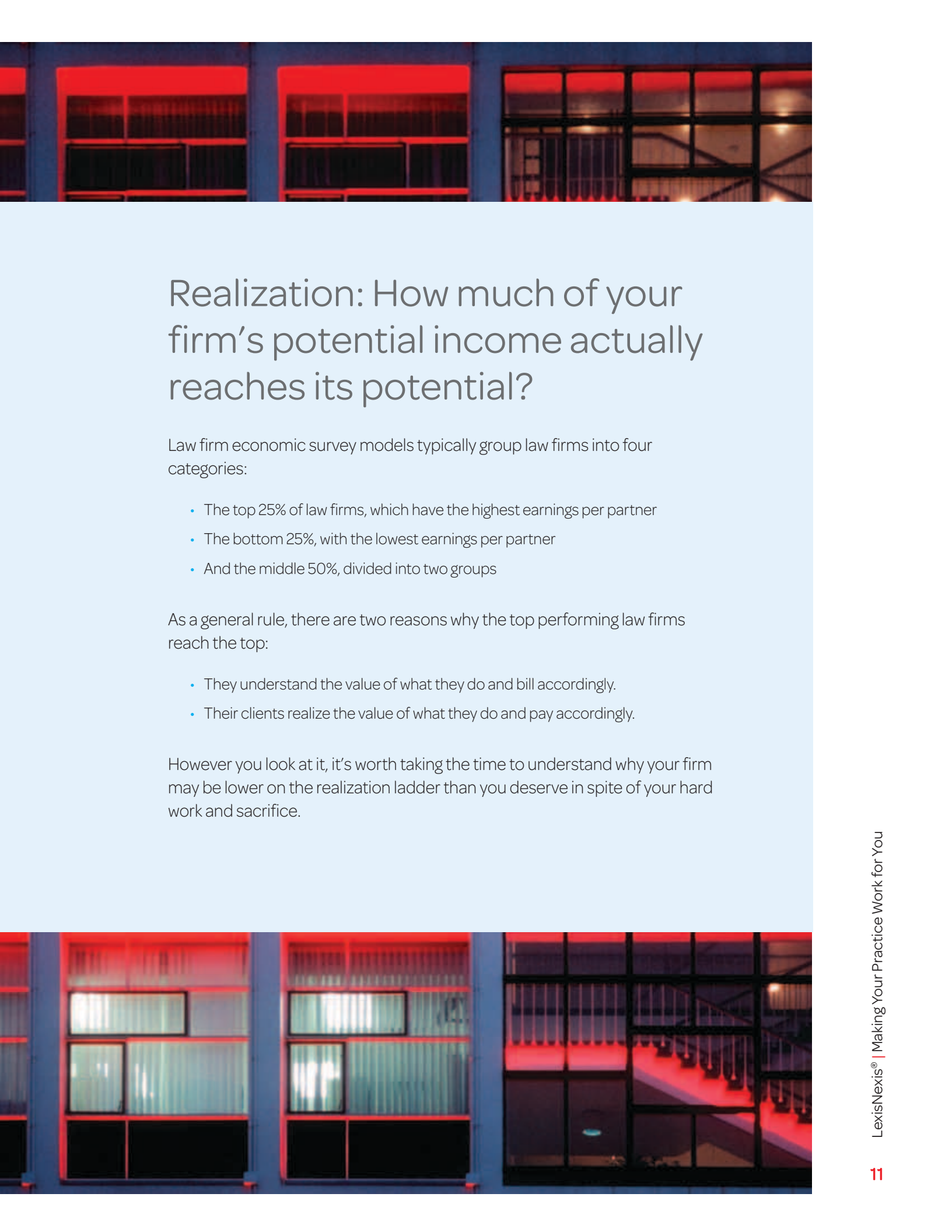
If a client calls with a question about an event six weeks ago – or even six years ago – any employee in your firm can respond on the spot, without the dreaded, “Let me call you back after I pull the file”.

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Having easy access to electronic files also makes timekeepers’ workdays more productive, with less reliance on admin staff – so you can utilize their time more effectively in other ways, or perhaps even get by with fewer admins. Either way, better document management creates another potential bonus to your firm’s bottom line

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If you haven’t checked out practice management or other legal-specific programs lately, making an appointment with a legal technologist can be a giant leap forward in getting the profitability gears greased.



# Realization: How much of your firm's potential income actually reaches its potential?

Law firm economic survey models typically group law firms into four categories:

- The top 25% of law firms, which have the highest earnings per partner
- The bottom 25%, with the lowest earnings per partner
- And the middle 50%, divided into two groups

As a general rule, there are two reasons why the top performing law firms reach the top:

- They understand the value of what they do and bill accordingly.
- Their clients realize the value of what they do and pay accordingly.

However you look at it, it's worth taking the time to understand why your firm may be lower on the realization ladder than you deserve in spite of your hard work and sacrifice.

# Pinpointing what's getting in the way of your firm's realization

There are a number of reasons your firm may not be realizing its potential. Here are just a few:

1 **Poor billing practices** – For some firms, it may be less about the amount of the bill than it is the bill itself. Make sure that every client bill is:

- Written in plain English
- In line with the fee agreement
- Sent in a timely manner (when the matter is still fresh in your client's mind)

In addition, you should always be able to answer client questions about specific invoice items without hesitation. If your billing program doesn't allow you to drill down to answer questions on the spot, it's time to upgrade. Hedging on an immediate response may raise a red flag with your client: If you're unable to answer such a simple question about an invoice, your clients are likely to wonder if you are the right attorney to represent them.

2 **Poor client communications** – Barring regular communication from their lawyers, the best way for clients to get their firm's attention is by holding legal bills hostage. One of the most efficient ways to improve communication is with client portals, which allow clients to access relevant files and messages at their convenience, even when your office is closed. For most clients, getting regular updates through portals is enough to reassure them that their matters are getting the attention they deserve.

3 **Regular credit memos and write-downs** – Understand the value of what you do and bill accordingly. Discounting your firm's work not only creates the expectation of more discounts; it devalues the importance of your work in your clients' minds.

4 **Unrealistic expectations** – Use your experience to realistically assess each client's matter in the beginning, but make sure they understand the difficulty of predicting outcomes. It should go without saying, but it won't: Never promise an outcome, no matter how open and shut the case may seem.





## Leverage: Working for profit vs. profiting from the work of others

There's an old saying that you have to have money to make money. We think it's more true to say that you have to spend money to make money.

Leverage is one of the least-understood profitability gears because it requires just that: spending money on associates, other employees and technology to make more money.

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**The fact is, the most profitable law firms are usually the most highly leveraged: Fewer partners with more associates, and often with a greater emphasis on increasing productivity through technology.**

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Firms with more partners and fewer associates, on the other hand, almost inevitably generate less revenue and have more people taking slices out of that smaller pie.

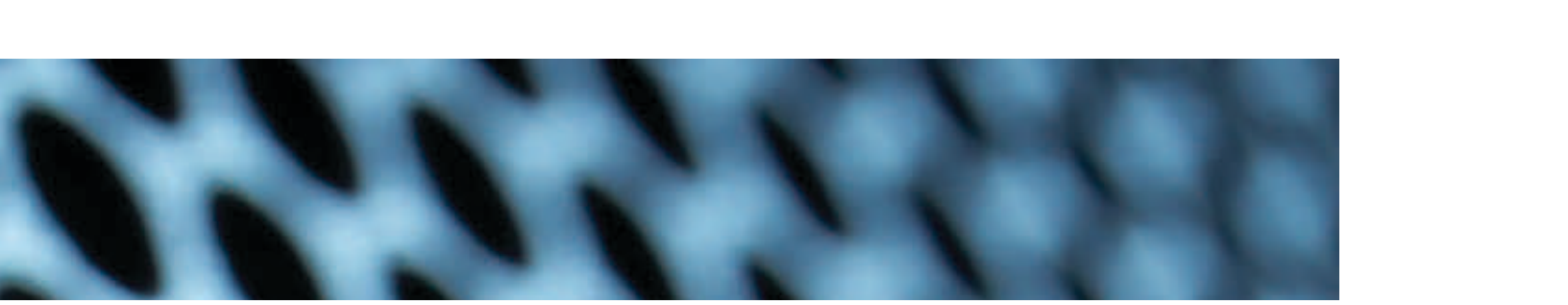


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## And don't forget that technology can also be leveraged

Tom Rowe, J.D., Founder and Managing Partner of OTB Consulting in Cary, NC – which provides legal technology insights to law firms – puts the spotlight on three types of software that he thinks should be at the top of your list for technology investments:

- 1 **Practice management** – We've discussed many of the advantages of practice management software already, but we haven't talked about one of the features that may be packaged with it: document automation. If you haven't yet realized the benefits of document automation, keep reading.
- 2 **Document automation** – Law firms are all about creating documents. But that doesn't mean every document has to be reinvented from scratch every time. Document automation software allows you to create templates for letters and legal documents that you can easily modify and customize for specific clients in seconds. And the beauty of it is, document automation can help increase profitability for almost every type of firm:
  - If you're a high-volume firm with razor-thin margins, document automation can help you lower your rate and bring in more clients.
  - If you're a high-margin firm, document automation can create efficiencies that will almost immediately increase your effective hourly rate.



**3 Legal-specific billing and accounting** – Every firm has billing and accounting software. But not every firm enjoys the benefits of software that’s created specifically to address the special billing and accounting needs of law firms:

- **Trust accounting** – If you or your clients require trust funds, you already understand the difficulty of following every rule to the letter. Legal-specific programs not only have those rules built in to prevent you from inadvertently breaking a rule; they automatically create an audit trail to prove that every rule was followed.

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At its most basic, leverage is about finding the best match of resources to the job. And that doesn’t just mean people.

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- **E-billing compliance** – Legal-specific billing and accounting programs have built-in e-billing compliance checks that pre-screen for client-prohibited time and expense codes automatically, before they reach the client and slow approvals.
- **Reporting and analytics** – There’s a gold mine of data to be gleaned from your time and billing data, but you need advanced reporting and analytics to extract it. Look for fully integrated time and billing and financial management programs. You’ll not only save back-office time re-inputting numbers from one program to the other; you’ll remove the opportunity for human error.





# Juris® Professional Services case study: Leveraging technology to make growth profitable

Sadler Law Firm, LLP in Houston is a prime example of the gains possible from leveraging technology to drive efficiency and profitability.

A few years ago, the firm hit a growth spurt any law firm in the country would be envious of. But because they were ill-equipped to handle such growth, it took a complete reassessment of their processes, systems and software to turn that phenomenal growth into actual profitability gains.

In Sadler's case, it took Juris® Professional Services to turn the firm's situation around.

According to their systems manager at the time, "We engaged the Juris Professional Services team for Juris Project Management, Training and Implementation services to review our procedures and help us upgrade to Juris Suite. Best decision we ever made."


The firm's numbers speak even more enthusiastically.

As a result of their work with Juris Professional Services, Sadler experienced tremendous gains in billable hours, worked hours and monthly average billed fees. And that was just the start.

[Download the entire Sadler Law Firm case study to find out more.](#)







# Lessons learned: Best practices for implementing technology changes from Sadler Law Firm

Here are just a few of the lessons Sadler Law Firm learned from their technology makeover:

- Plan for growth and make necessary technology and process changes when you're small rather than waiting to overhaul processes when you hit a growth spurt. It's much easier and less stressful to make changes before you're forced into them.
- Automate your firm's reporting rather than manually creating reports. Since implementing changes with Juris Suite, Sadler Law Firm has reduced the time it takes to produce one key set of reports from five days to five hours.
- Use integrated practice management software rather than supporting all different systems. It's much more expensive and time-consuming to keep up with multiple programs that don't integrate with each other, some of which may only be favored by a small number of employees anyway.
- Make sure your employees have the proper training to get the most out of the software you have. Create ongoing training sessions to keep employees working at their most productive.

# Profit Margin: High-volume discount store or exclusive specialty boutique?

It may seem counter-intuitive, but your firm can make profitability gains by moving the profit margin gear in either of two opposite directions. Just consider the case of two highly successful companies: Walmart® and Tiffany & Co®.

Walmart has created a successful business model on a low-margin, high-volume strategy; while Tiffany profits from selling exclusive jewelry and accessories at high margins in low volumes.

The key to success is making a decision about which type of business you're going to be, then driving all your efforts in that direction.

In general, being successful with a high-margin strategy requires unwavering attention to detail and service; while following a low-margin strategy requires having the systems and processes in place to get your product out quickly and efficiently, with a minimum of wasted time and effort.


Whichever strategy you're following in your law firm, there are certain ways to reduce expenses without hampering either productivity or client service:

- Use financial software with automated reporting and analytics to look for patterns of excessive spending.
- Get more work from fewer employees with software that helps improve productivity at the support staff and professional levels.
- Establish systems and controls to maximize reimbursement of client expenses.

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# Keys to revving your firm's profitability engine: Picking off the low-hanging fruit first

You've committed yourself to the kind of firm you are (or are working to be). Now let's figure out how to make it profitable.

Going back to Tom Rowe's suggestions for technology investments, there are three obvious ways to make the biggest impact on profitability with the least amount of effort or expense:

- 1 **Document automation** – The potential impact on profitability is high, and the difficulty in getting started is fairly low. If you've already implemented a practice management program, you may already have document automation without even realizing it.
- 2 **Practice management** – Don't allow yourself to feel overwhelmed by the long list of features and capabilities. Start small, then ease your way into learning additional features. Once you get into the rhythm of your software and begin discovering new ways to increase productivity, you'll start to see even greater effects on profitability.
- 3 **Legal – specific financial management** – It's essential to have benchmarks to measure against as you fine-tune profitability gears, and legal-specific financial management has the capabilities you'll need to measure progress. Attaining maximum profitability may seem more like art than science, but the more you rely on reporting and analytics, the more scientific you'll realize the process of driving profitability is.



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a process, not  
a push-button  
implementation.

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## Last words: This is a framework, not a forced march

For every hard and fast rule in this world (or in this paper), there are probably a hundred or more reasons for breaking it. While it might seem easier if we just laid out a 10-step plan for achieving maximum profitability, it wouldn't be honest if we did.

Every law firm is starting at a different point on the profitability scale. And every firm has different goals and pathways for getting where they want to be.

Remember, too, that a change in one gear may have unexpected effects on others in the profitability machine, so don't be discouraged if you hit a snag or two along the way. It's entirely possible to do everything right and still face short-term difficulties in getting the profitability gears all moving together smoothly and in the right direction.

Profitability is a process, not a push-button implementation. Stick with it and you will eventually get all the gears moving together as a well-oiled machine.





### About the authors

#### Loretta Ruppert


Loretta is the Senior Director of Community Management for LexisNexis Law Firm Practice Management in North Carolina. Her background includes a unique mix of experiences: business owner, legal technology consultant, manager of professional services for a CPA firm, subject matter expert in developing back office software, and accountant. Perhaps most relevant, Loretta has experience as a former law firm employee and user of law firm practice management and financial systems. She has a BS in Accounting from North Carolina Wesleyan College.

#### Michael Wasco

Mike is a Certified Public Accountant with Kinol Sharie Leyh & Associates in the greater Pittsburgh area, where he specializes in law firm accounting and taxation. He acts as the firm's Juris manager and provides high-level consulting with law firm management on process and business improvements, firm growth issues, and new personnel training. Mike earned his undergraduate degree in English from Penn State and has a post-baccalaureate certificate in accounting from Robert Morris University in Pittsburgh. He earned his CPA credential in 2000.

#### Tyler Chapman, MSF

Tyler is a Field Consultant for Juris Professional Services at LexisNexis in North Carolina. He has worked in a range of businesses outside of the legal industry as a Financial Analyst and Business Valuation Analyst, and brings previous experience as an accountant and site controller to his work developing financial solutions for law firms around the country. Tyler has a BA from the University of Texas in Liberal Arts and History, and a Master's in Finance from Seattle University.





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#### **LexisNexis® Law Firm Practice Management Solutions**

Juris® is a legal-specific billing, accounting and financial management program that not only helps firms take control of their everyday billing and accounting needs; it can actually help increase profitability by giving practice owners and partners the in-depth insights they need to measure and improve firm operations.

PCLaw® is an all-in-one matter and financial management program for small to mid-size law firms. With the new dashboards in PCLaw 13, you'll get a lawyer's-eye view of what's most important to your practice, your clients and your business, so you can get on top of your entire day over your first cup of coffee.

Time Matters® is an award-winning practice management program that maintains and connects all of your client, case and document data in one instantly searchable database. The latest version is fully integrated with Microsoft® Outlook® and includes Time Entry Advisor, which makes it easy to capture billable time.

LexisNexis Firm Manager® is an easy, secure online practice management software made for solo attorneys and small law firms. From managing your calendar and tasks to accurately capturing time and expenses so you can get paid what you're worth, LexisNexis Firm Manager enables you to be the lawyer you dreamed of being. LexisNexis Firm Manager helps you build a law firm that has value to you and those that count on you.

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