

Grow Your Profits Not Your Headcount

As business confidence and growth have returned to the market, the principals of many small law firms are considering how best to take advantage of the upturn in economic activity.

Unfortunately, this problem is exacerbated by the unwillingness of many law graduates to practice in regional and rural areas, so growth can also be constrained by the lack of suitable people.

Principals of small law firms often equate business growth with headcount. Over the years when I have raised the issue of growth with partners, the most common and immediate response is, "No, I don't want more partners". So it seems to be a common interpretation. But it is a misinterpretation.

Growth should not be measured by the number of partners you have. For example, if BHP were to employ more people we would not consider that as growth but as increased overheads. In fact, the share price would probably drop because of overhead concerns.

Growth should be measured by increases in profit, not additional partners or more staff.

So the challenge for small law firms is to increase capacity without significantly increasing overheads.

The cheapest and most reliable way for you to be more productive is to invest in great technology. You will be able to do much more work with the same number of people. And more work by the same number of people will impact directly to your bottom line.

The older successful legal software solutions proved themselves to be reliable record keeping systems, but by today's standards they require far more people to operate than modern systems do. This results in artificially inflated wage bills with profits being locked up in inefficient systems. You can release these profits for a comparatively small investment.

There has also been another important change in technology in recent years. Earlier generations of legal software were developed to automate and improve systems for back office and support staff, with fee earner benefits being almost treated as afterthoughts - perhaps a timesheet. But today, small law firms are employing a completely new generation of fee-earners who have grown up with 21st Century technology.

Known colloquially as "digital natives", and in educational circles as New Millennium Learners, these new employees have used the Internet, mobile phones and computers all their lives. Graduates have negotiated high school and university with these technologies. And they are capable of and want to do the work themselves.

You will no doubt have seen them sending text messages at break neck speed! And it is not just that generation either. Many of us have now used computers and email for more than a decade and our habits and preferences have changed. After all, we all know how to use an internet browser. This is resulting in a fundamental change in the ratio between professional and support staff, and is also creating a dramatic advancement in the role played by the paralegals on which many small law firms rely very heavily.

When it comes to structuring your practice, you need leverage i.e. the ability to delegate work to less costly paralegals or graduate lawyers without compromising the accuracy of advice or quality of service. In the past this leverage opportunity was only really available to the large law firms, and David Maister, the now retired practice management guru, built a solid career around leverage models for large firms that could not be used effectively in small firms.

Technology has changed the game. It is now much easier for a small law firm to get leverage. The knowledge contained in good systems and re-engineered work processes provide significant leverage in both the delivery of service and office administration.

What we encounter far more frequently now are law firms that are structured with a majority of “fee earners” (i.e. lawyers and paralegals) and fewer, often no, legal support staff, and just a part-time bookkeeper.

For example, a firm in the ACT re-structured from 7 full-time and 1 part-timer, to 4 full time and 3 part timers. The principal reports that the practice is providing better service and is doing the same work as previously but at a substantially lower cost. He is enjoying a salary saving of \$85,000 per year which has gone straight to his bottom line! And all for just \$12,600 a year! This illustrates the point I made earlier, that technology leverage will release these locked up profits.

What good technology also does is empower workers to take on more responsibility. A system which manages your matters and is set up for common matter types so that necessary client and other details can be entered easily, immediately provides years of accumulated IP making it much easier for you to make sure that your staff record all the data needed for the successful carriage of each matter.

This empowerment is extended by having all commonly required legal forms and precedents available as well, so you and your staff don't have to spend many hours looking for precedents, possibly even re-typing them or perhaps the biggest risk of all, re-using a precedent from a prior matter and inadvertently leaving information from the prior matter in the document. It is surprising how often this still occurs and can be very embarrassing for a lawyer striving for professionalism.

The recent advent of online Step-by-Step Legal Practice Guides has finally integrated legal content with legal software in a way that is both natural and efficient for a busy lawyer or fee earner.

The ease with which practice support information is accessed is allowing many firms to not just delegate work but to empower staff to do much more complex and responsible work. This has finally allowed lawyers in rural areas to also get the benefit of leverage.

A wonderful example of this is a client of ours in Merimbula who I recently visited. He reported to me that since installing new software he had not only increased revenue by 12% as a result of the introduction of good time recording discipline, but had also built a specialist Probate practice of three paralegals, all of whom use the Step-by-Step Legal Practice Guides to conduct the matters.

This left him in a high level supervisory role, dealing with estate planning, difficult complex client issues and the high level legal issues that so often surround probate matters doing the work he studied law to do.

Start at the start - “one version of the truth”

So we know that technology increases profit but where do you start? For maximum immediate impact install a comprehensive integrated solution - an integrated solution that eliminates the duplication of work and data.

Duplicating data is not only time consuming and therefore costly. It is also risky. Client and matter details should be recorded once only. There should only be “one version of the truth” in the databases of a small law firm.

Historically, document, accounting and management systems followed separate paths and many firms still carry the significant overheads associated with these separate systems and duplicated data. You need impressive charge rates to support this inefficiency. Or you are happy with lower profits.

After many years in the business I can confidently state, that if you still have separate document production and legal accounting systems, then you have a bigger payroll than you need to have.

Typically, many bookkeeping and document production staff using these older systems will argue against improvement. They feel that their jobs are under threat and they are resistant to change. They are often absorbed in repetitive non-income earning administrative tasks that technology has automated or even eliminated.

These staff have a different agenda. If you want to maximise your profitability you have to see past this and overcome the resistance. What if they were empowered to do different growth oriented work? Higher level paralegal assistance perhaps like the firm in Merimbula, or business development making sure current clients get the best possible service, or even helping you attract new clients! So much better than futile data entry.

So an integrated system that shares data across functions is essential for making a start with technology leverage.

Get organised

You work on matters and to be efficient you need to organise your matters. So doesn't it make sense that your technology support system should recognise that? By organising your computer's workspace around your portfolio of matters and then having all the important functionality linked to the matter you are working on, you will save hundreds of hours each year.

Matter details, documents, research results, email (in and out), online search results can all be stored against the matter and viewed and used from the matter. Many small law firms run with small trusted teams of people. Having all your matter information in one place is not only more efficient. It also eliminates frustration and reduces risks.

It's all about documents

Unless you just practice in the criminal courts, most of your legal work will be given form in a document of some type. Precedent documents are vital for efficiency.

The ability to merge data into document templates has been around for more than 25 years now and yet many small law firms still labour with uncontrolled and unmanaged precedents without any automation at all!

With a good system all the forms and precedents needed by a small law firm to practice efficiently in all the common areas of practice, litigation, conveyancing, family law, wills and probate, business structures, crime and others are available in an instant. And they are all automated as well.

You can practice with the additional peace of mind of knowing that the content and legal costs and charges contained in many forms are also being updated for you. So where is the leverage?

1. Neither you nor your staff are going to waste time looking for the document you created for the "Smith" matter and now want to use as a precedent.
2. You will not have to spend time checking that the form or precedent is up to date.
3. If forms involve calculations, for example a Settlement Adjustment Statement, Liquidated Statement of Claim or Probate Statement of Assets, you instantly eliminate all the time involved in doing those calculations (and re-calculations when a settlement date shifts). As a bonus, you also eliminate the risks of getting the arithmetic wrong.
4. If you have a trusted or senior staff member who you currently rely on to keep your precedents up to date, all that time can be saved and the individual meaningfully and profitably re-deployed.
5. Because it links with your database of matter information, all client and other details are automatically inserted into your documents, and further, you waste no time checking that this information is correct.

Once deployed, a good integrated document production system will instantly enable you to do more work. And more easily and accurately too. Without extra overheads, this additional work will allow you to grow your profits even further.

And it's all about billing as well!

For most lawyers, recording the details of what you and your staff do is a professional responsibility relating to the professional (and commonsense) requirement to make contemporaneous notes. It is a happy coincidence that the information can be used for billing purposes as well.

The direct and immediate relationship between what you record and what you bill cannot be emphasised enough. Older systems view time recording and billing as two distinct functions - the former as purely recording the duration of the attendance (and something done reluctantly by lawyers), and the latter a "back-office" function.

Well in a world where many firms do not have a "back-office" this is not a very good solution! You need everything to happen in the front office.

Many lawyers consider billing to be tedious and many firms seem to have a month-end upheaval as they attempt to get billing done before month-end. This is disruptive to productivity, boring, costly, and has a negative impact on your cash flow.

There is another way! You can bill as soon as you are entitled to, without tedium, and without needed typing or bookkeeping staff to help you.

Consider these two scenarios (disbursements are ignored for these scenarios).

The old way	The new way
Fee Earners record time without any meaningful narrative (eg hundreds of entries where the only detail is Telephone Call). These entries are useless for any purpose other than the duration. They cannot be used to account for what was done, or to inform colleagues.	Fee Earners record time with descriptions that accurately describe the task completed as well as the duration. Customisable task codes, spell checker and auto text make the rapid entry of useful data easy and quick. Each time recording entry is ready for billing as soon as it is complete.
Print out list of time entries.	Generate a Billing Guide or review entries on the screen. Edit entries in the timesheet or billing program.
Dictate bill using paper file and time entries printed as an audit guide.	Generate and print bill. All relevant accounting entries are completed for you.
Have bill typed by support staff.	If a query is received access bill electronically and instantly email it to the client.
Review and request adjustments.	
Support staff re-type the bill with amendments.	
You approve bill and send a copy to the "back office" for processing.	

Bookkeeper debits matter with total and files paper copy for future reference.	
If a query is received, search for paper copy, photocopy and fax to the client.	

Using the new way:-

- Quality data is created in the first instance;
- Duplicated effort is eliminated;
- You do not need back office staff to bill;
- Billing is fast and working capital minimised;
- A previously tedious task is made easy;
- Your clients get bills when they should, making them better informed and minimising risks of default.

With lower costs and fewer people involved by eliminating the back office, you have gained massive technology leverage. Many firms that have made the change have gained up to one full day of additional client time because they are no longer involved in the monthly billing upheavals. High value bottom line impact!

Switching to a new system without a back office

A reluctance to change is natural. Staff can be set in their ways and your business works well. "We can stick with what we have". These attitudes are common, but they come at a price. And the price is your profits. The Australian economy is so successful because we are always striving for maximum efficiency. And that is what most successful and profitable small law firms also do.

When you implement a new system, you will experience a short period during which productivity will drop as you and your staff become familiar with the new system. This is to be expected. After an equally brief period, where there is a drop in profits following the drop in productivity, things start to change.

As you use the new system, old processes are discarded, work is done faster and more accurately and you will find that you are doing a lot more work with the same people. Productivity will improve consistently. Because you are not adding staff, your profits grow with productivity. The accumulated technology leverage that you have gained will far exceed the cost of a new system and the short term disruption associated with change.

If you are just starting your new firm you have an incredible opportunity. The integrated systems and incorporated legal content literally allow you to get your new law firm up and running in hours with all the productivity systems and regulatory compliance taken care of for you. It is cheaper to set up a fully functional law firm today than at any time since the start of the technology age. With the tools at your disposal, you will have maximum efficiency from the start, allowing you to leave employment decisions until incoming work justifies it, rather than employing people for the performance of costly back office functions as has been the case in the past.

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