

INCREASING LAW FIRM PROFITABILITY

More Than Raising Rates

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AGENDA



UNDERSTANDING FIRM PROFITABILITY



UNDERSTANDING THE INCOME STATEMENT (P&L)



INCREASING PROFIT BY INCREASING INCOME



INCREASING PROFIT BY DECREASING EXPENSES



MATTER PROFITABILITY



MANAGING TIMEKEEPER PRODUCTIVITY



WHERE DOES PROFIT COME FROM?

- Income (Money Received)
- Cost of the Case
 - Lawyers Time
 - Client Cost Paid



Income – Cost of the Case = Gross Profit

Gross Profit – Overhead = Net Profit/Income



R.U.L.E.S. OF LAW FIRM PROFITABILITY

Realization of billing rates

- How much is ultimately collected” versus the “effort expended

Utilization of attorneys

- How timekeepers use time on billable vs. non-billable activities

Leverage of lawyers

- Ratio of associates or non-equity partners to equity partners in the firm

Expense control

- A planning process or budget that supports a firm’s goals

Speed of billings and collections

- Gap between time charges incurred and date payment is received



IMPORTANT NOTES ABOUT FIRM PROFITABILITY

- *Remember:* The Income Statement shows the financial profitability of the entire firm, not individual attorneys, matters, etc.
- Recording profit at the end of a fiscal year does not mean that every matter was profitable
- Analyzing profits on a matter by matter basis can help refine and manage the net profit of a firm
- Timekeeper productivity should be evaluated



USEFUL FINANCIAL STATEMENTS

- While all financial statements provide information about the operations of your firm, there are some that will easily help you track income and expenses
- Income Statement
 - Budgeted vs. Actual Income Statements
 - Previous Fiscal Years to Current Fiscal Year
- Balance Sheet
 - Own, Owe, Investment
- Detailed General Ledger
 - Master set of accounts detailing all financial transactions within a firm



INCOME (PROFIT AND LOSS) STATEMENT

- The Income (P&L) Statement is a financial report that summarizes revenues, costs, and expenses incurred during a specific period
 - Income (revenue) received less expenses
 - Based on one year (fiscal vs. calendar)
 - Compare years
 - Budget



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EXAMPLE INCOME STATEMENT

	<i>Fiscal Year Ending 12/31/18</i>
Total Income.....	\$ 214,077.22
Payroll Expenses	\$ 91,489.87
Employee Benefits Expenses	\$ 28,730.46
Total Payroll & Benefits Expenses.....	\$ 120,220.33
Total Firm Overhead Expenses.....	\$ 31,447.95
Total Expenses	\$ 151,668.28
Total Net Income.....	\$ 62,408.94



WHAT IS INCLUDED IN THE INCOME STATEMENT?

- Income (Fees)
 - Payments received from clients
 - All payments must be received before matter profitability can be determined
 - Interim profitability can be identified but cannot be used as a gauge for final outcome
- Retainers
 - Are retainers considered income?
 - Defined in client engagement letter
 - Where is the retainer deposited?



HOW TO INCREASE PROFIT

1) Increase Income

2) Reduce Expenses





INCREASING PROFIT BY INCREASING INCOME

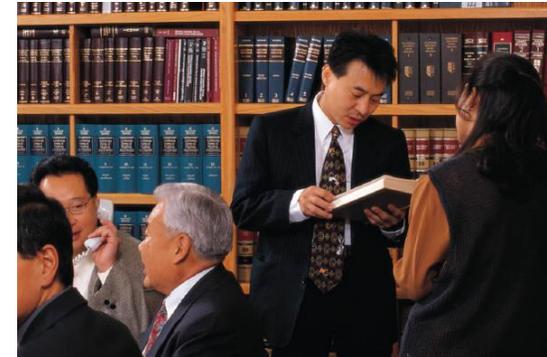
- Evaluate Rates
- Evaluate Billing Process
 - Timeliness
 - Efficiency
 - Capturing Time
 - Client Cost Reimbursement





MANAGING INCOME

- Lawyer Productivity
 - Hours Worked vs. Billed
 - Billed vs. Collected
 - Write Offs, Courtesy Discounts
 - Electronic Billing Adjustments
 - Reason for Write offs/Adjustments
 - Non-Billable Work





MANAGING INCOME

Increase Billable Hours

- Increase timekeeper efficiency
- Analyze fixed fee cases
 - Record time for these matters
 - Compare time spent to fixed fee amounts
 - Adjust fixed fees
- Record Time in an accurate and timely manner
 - If time is entered each day more will be recovered
 - Create Budgets





MANAGING INCOME

- Difficult to obtain information about billing from Manual System
- Time and Billing software should be able to produce required reports





INCREASING PROFIT BY REDUCING EXPENSES

- Payroll is firm's largest expense
 - How productive are your time keepers?
 - How much money do they earn for the firm?
 - Are you giving them the tools they need to be more productive?
- Overhead is a firm's second largest expense
 - Rent
 - Do you have the best contracts for all services (Phone, IT, Internet, etc.)?



ANALYZING OVERHEAD EXPENSES

- Control Spending (Overhead)

- Analyze overhead expenditures on a regular and timely basis

- Fixed Overhead:

(Costs that do not vary as a result of changes in activity)

- Rent
- Equipment Leases

VS

- Variable Overhead:

(Costs that vary as a result of changes in activity)

- Trips
- Conferences
- Meals



OTHER WAYS TO REDUCE EXPENSES

- Control Spending Details
 - Ensure proper accounting classifications
 - Chart of Accounts
 - By Partner
 - By Practice Area
 - By Spending Classification
- Compare Monthly Expenses
 - Waiting until FYE – Too Late





OTHER WAYS TO REDUCE EXPENSES

- Budgeting
 - Compare Budget to Actual Monthly
- Recording Payroll Expenses
 - Include all related costs
 - Health Insurance
 - Payroll Taxes, FUI, SUI, Medicare, Social Security
 - Matching 401k, Pension





OTHER WAYS TO REDUCE EXPENSES

- Use Financial statements to Identify Spending Trends
- Compare past years to Current
- Analyze Expenses Against Income





FIRM PROFITS

Income statement shows the financial results of a law firm as a whole.

A profit does not mean that every matter was profitable.

Analyzing profits on a matter basis can help refine and manage the net profit of the firm.



MATTER PROFITABILITY

What is matter profitability?

The amount of money earned on a specific matter

How is that determined?

Impact of timekeeper productivity





HOW TO MEASURE MATTER PROFITABILITY

- Attorney productivity
- Analyze the types of law or the type of client
- Can expenses be better managed?
- How fast are your invoices being paid each month?
- Are you taking advantage of the data within your financial management system to evaluate what needs to be improved to increase your profitability?
- “RULES of law firm profitability”



DETERMINING THE COST OF A CASE

- Time Tracking
 - All lawyers must enter all time in order to accurately determine profitability
 - Even non-billable or no charge time entries
 - Time must be entered even for fixed fee matters
- Time Worked
 - All time worked on file must be entered
 - Time reductions must be accounted for
 - Non-billable time is as important as billable time





TIME TRACKING

- Time Worked
- Time Billed
- Nonbillable Time on File
- Nonbillable Firm Time
- Nonbillable Personal Time
- Consider Time Entry Process
 - Time Required Enter Billable time
 - Mobility

Company Time Sheet							
Therapist Name:							
Invoice Period:							
Client First Name	Client Last Name	Date (MM/DD)	Location	Time In	Time Out	Hours Worked	Comments
Charlie	P	Apr 23 2017	Center	7:00:00 AM	3:00:00 PM	6.00	
Jessie	P	May 21 2017	Home	10:15:00 AM	4:00:00 PM	3.75	
Jessie	M	June 11 2017	Center	8:00:00 AM	4:50:00 PM	6.80	
Tom	Q	July 12 2017	Home	2:00:00 PM	0:00:00 PM	8.00	
Tom	Q	July 13 2017	Home	4:00:00 PM	0:00:00 PM	1.00	
Shelbe	P	August 12 2017	Center	1:00:00 PM	7:00:00 PM	11.50	
Jessie	M	August 14 2017	Home	7:00:00 PM	8:00:00 PM	4.50	
						0.00	



CLIENT DISBURSEMENTS

- *Hard Costs* - Actual money paid on behalf of client
 - Checks Paid
 - Charges on credit cards
 - Accounts payable (paid or unpaid)
- *Soft Costs* - Recoverable overhead costs
 - Postage
 - Long distance
 - Delivery
 - Photocopies





BILLING THE FILE

- Types of Billing Arrangements:
 - Hourly
 - Flat Fee Matters
 - Percentage of Settlement, Appraisal, etc.
 - Flat Fee with Limits then Hourly
 - Fixed Amount each month
 - Payment Schedule
 - Variable Hourly Rates
 - Rate Exceptions





BILLING PROCESS

- Objectively Evaluate Billing Process
 - Timeliness of Sending bills
 - Cycle from Prebill to out the door
 - Delivery Method
 - Approvals
 - Edits
 - Presentation
 - Payment Options





BILLING

- Changes to Fees at time of billing
 - Categorized
 - Allocation method
- Changes to billed fees and client costs
 - Write down
 - Allocation Method
- Both will impact matter profitability.





CALCULATING MATTER PROFITABILITY

$$\begin{aligned} & \text{Receipts (*Payments Received*)} \\ - & \text{Time Worked (Billable \& Nonbillable)} \\ - & \text{Costs incurred, but not collected} \\ \hline = & \text{Matter Profitability} \end{aligned}$$



PROFITABILITY REPORTING

- Billing Realization
 - Compare worked against billed
- Profit realized per time keeper
- Effective Rate per timekeeper
- Detail Adjustments or Write-Offs
- Useful for Flat Fee Matters



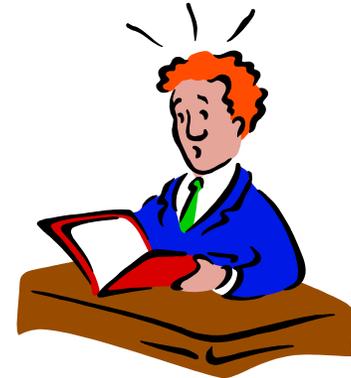
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EVALUATE & MANAGE

- Establish Routine

- The more frequent information is analyzed the better to control
- Monthly is best or completion of case
- Minimum is Quarterly





MANAGE INCOME

- Budget Income
 - By Timekeeper
 - By Case
 - By Type of Law
- Forecast Income
 - Analyze past performance
 - Collection rates and timeliness
 - Analyze current open cases
 - Economic Indicators and forecasts





EVALUATE STAFFING & MANAGING TIMEKEEPERS

- *Evaluate Staffing*

- Assign Timekeepers to work based on productivity
- Reassign to avoid overload
- Identify staff strengths and weaknesses





EVALUATE STAFFING & MANAGING TIMEKEEPERS

- *Managing Timekeepers*
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PROFITABILITY REPORTING

- Cost of the timekeeper
- Fees Earned vs. Timekeeper Compensation
- Compare to industry standards



EVALUATING AND MANAGING PROFITABILITY

- Compare Actual to Budgets/Projections
- Identify Trends
- Consider Industry Trends or Statistics
- Economic Climate
- Make Changes
- Communication
- Marketing Changes





PRODUCTIVITY & PROFITABILITY

- Productivity does have an impact on profitability
 - How efficient are your timekeepers
 - Tools to increase productivity
 - How is time entered?
 - Ease
 - Timeliness
 - Document Storage and Retrieval
 - Scheduling
 - Communication





INCREASING TIMEKEEPER EFFICIENCY

- Tools:
 - Document Management
 - Calendaring
 - Case notes
 - Communications
 - Contacts
 - Remote Time Entry
 - Research





LEGAL OFFICE SOLUTIONS

Available Solutions

Cloud vs. On-Premise Solutions

All in One

Practice Management vs. Billing Accounting

Trust Accounting

Type of law specific

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