

Ten Ways Law Firms Lose a Lot of Money

Losing money? You already know that you and your firm lose money when you write down your time or when clients don't pay their bills on time (or at all). But there are several other hidden costs that claw back on firm profits that you may be unaware of. Here are ten common ways law firms lose a lot of money and solutions you can adopt to avoid them:

1. Putting Up with Computer Crashes
2. Not Recording all Billable Time
3. Not Moving to a Paperless Office
4. Limiting Use of Support Staff
5. Underutilizing Word Processors/Suites and Practice Management Software
6. Accepting Bad Clients
7. Keeping Mediocre Clients
8. Not Recouping Printing Costs
9. Surrendering Control of Your Time
10. Cutting Corners with IT Consultants



1. Putting Up with Computer Crashes

Computer lock-ups and crashes are surprisingly expensive for a law firm. You waste at least ten minutes if your computer freezes and you have to reboot, get all your programs up and running again, and get back into the task you're working on.

If you have three computers in the office and average two 10-minute lock-ups per day per computer, then at a conservative employee rate of \$25 an hour (and based on 240 working days per year), this costs your law office \$6,000 per year. If each crash wastes 15 minutes per crash, the cost per year is \$9,000. If it's the lawyer's computer that freezes, the wasted cost is even steeper.

Contrary to public opinion, crashes are not normal. With today's operating systems and software, everything should be very stable. Yet many law firms continue to suffer computer downtime. Why? Ninety per cent of the time, systems crash due to viruses and spyware. Other causes include conflicts between programs (ignoring error messages is dangerous, especially if the same error message pops up time and again).

Potential for Loss

1 lost hour/day (based on 3 computers
each with 2 lockups per day @ 10 to 15 minutes per lockup)
x
240 working days
x
\$25/hour =

\$6,000 to \$9,000+ per year

Solution

Have good anti-virus and anti-spyware programs installed.

Norton Symantec is a highly recommended anti-virus program. For an anti-spyware program, Ad Aware manufactured by Lava Soft. Anti-virus programs are usually installed at the server side (the law firm's electronic gateway), but some programs, like Ad Aware, are best installed on individual computers.

Make sure the programs are updated too. You need to get new updated DAT files from the program manufacturer (your computer can be set to get these automatically) plus updates from the operating system (e.g., Microsoft). Some people, for whatever reason, turn off the automatic updates.

Apply common sense

"Don't open any attachment that you're not expecting, even if it's coming from a client or your mother," advises Moon. Viruses typically come from someone you know. Downloading free programs from the Internet is also not a good idea, as that's typically how spyware is installed.

Use newer software

In a consulting practice, consultants have seen law firms that still use Windows 98. You're likely to have more problems with this operating system (which is almost ten years old) than with Windows XP.

Buy/replace new hardware all at the same time

When it's time to upgrade, replace all your office computers at one time. A system can be cloned and replicated onto other systems if the equipment is the same. Even if you buy another computer only a month later, it might have a slightly different video driver, for example, making it more difficult for the overall system to be configured.

Invest in good technology

Get rid of any problematic computers. Buy good, brand name, desktop products like HP. You want a three-year minimum onsite warranty, so if you have a hardware problem, it can be fixed or replaced at your office, typically the next business day. For your server, a same-day warranty, otherwise your whole office will be down until the problem is fixed.

Expect to pay about \$5,000 per lawyer for computer technology, which should be budgeted every three years.

2. Not Recording All Billable Time

It's estimated that lawyers lose between 10 to 30 per cent of billable time by not recording their hours. There are several reasons why billable hours go unrecorded.

You simply forget

You run out of your office while in the midst of a task, see a stack of phone messages on your secretary's desk, run back into your office to return the calls, and simply forget to record what you were just doing.

Good client discount

You consciously don't record certain phone calls because they're from a good client.

Inefficiency recording

You say to yourself that you can't record four hours for a particular task because you were only efficient for three hours.

Recording more than 24 hours later

If you record time more than 24 hours later based on your memory, then you're "recording fiction" and will inevitably miss things.

Pre-bill write-down

You think the bill is going to be a little high, so you cut it down as you go along.

Potential for Loss

1,400 billable hours/year

x

10 to 30% unbilled

x

\$200/hour =

\$28,000 to \$84,000 per year per lawyer

Solution

Stop recording billable hours and start recording time. Don't make any subjective decisions when you record your time. Instead, ask yourself at the end of each month, or when the file is completed, if you were worth that time and how much of that time you should bill.

Remember also that clients really pay you for value and results, not hours. How do you bill for the "ah ha" moment? Only 0.1 hour of time? You need a period of wandering around in the woods to get to the "ah ha" moment. And twenty years of legal experience might be behind that moment. So record all your time and then, at the end, bill what you're worth.

3. Not Moving to a Paperless Office

"I'm convinced that after having a virtually paperless office for five years now, the cost ... is substantially lower than if using paper," says David Masters, who describes himself as a "paperless small firm general practitioner" in the small town of Montrose, Colorado.

Consider a standard size filing cabinet. It costs about \$900. It also takes up some 7½ square feet of space (the typical cabinet is 24 inches deep and requires 18 inches to open a drawer and another 18 inches to stand in front of the open drawer). So now you have the cost of buying or leasing office space to house that filing cabinet, plus you have to pay for heat, taxes, cleaning and other maintenance costs for the building space. In addition, if you use paper, you also have photocopying expenses plus toner and paper costs.

Now consider a paperless system. A hard disk drive with 100 gigabytes of memory costs less than \$50 – more than enough for your whole office. (Only two gigabytes are needed to hold information from a four-drawer filing cabinet.)

Masters, who writes frequently on the use of information technology in the practice of law and is the author of "The Lawyer's Guide to Adobe Acrobat," runs his practice out of 1,700 square feet of office space; there are two lawyers, one paralegal and one administrative assistant. "We have one two-drawer filing cabinet," he says. "The top drawer is empty. In the bottom drawer, we use cheap manila folders for current clients in case we need to pop in paper documents before they're scanned. Everything goes through the scanner and then is put in an electronic file folder (where nothing ever falls out)."

Since getting rid of the office photocopier, the firm has been saving \$220 a month previously spent on the copier lease. There are also no offsite storage costs for closed files.

"We're able to operate virtually paperless with the courts and other lawyers," says Masters. About half of their clients communicate by email, and the firm sends them digital copies of documents (rather than print copies).

Backing up files

But what if your computer crashes? What if your office burns to the ground?. There's no back-up there. But once you switch to a paperless realm, it's easy to have several redundant back-up systems.

He works exclusively on a laptop. Files are shared on the office computer and on everyone's laptop.

Every day at 5:00 p.m., all files are synchronized with a complete back-up of the office computer onto his laptop. Every week, back up your laptop to his home computer. Three times a week, he backs up the office computer to a tape – he has four tapes at any one time. Once a year, he creates CD backups of all open files. “This is way safer than storing records by paper.”

Potential for Loss

\$3,600 for four four-drawer filing cabinets
+
\$1,500 per year in rented office space (based on 30 sq. ft. of office space x \$50/ sq. ft. per year)
+
\$2,640 per year per photocopier (based on \$220 month lease) =

\$7,740+ per year

Solution

Go paperless. Here’s what you’ll need:

Computer monitors

Fear of technology basically prevents lawyers from moving to a paperless office. You have to get over the mental hump of looking at documents on a screen. Have two monitors for your computer – one monitor for the document you’re working on and the other with Adobe Acrobat so you can simultaneously look at other documents.

Scanner

A scanner is key – a \$2,000 scanner should suffice for a small- to mid-size firm.

Adobe Acrobat

And make sure you have the full version of Adobe Acrobat (not just Reader) at every desktop in your firm.

4. Limiting Use of Support Staff

Unwisely cutting back on support staff is associated with huge costs – and a mistake made by many law firms. Disturbing and financially limiting trend in law firms over the past few years can be limiting the amount of staff support... apparently for the purpose of reducing overhead. But instead of achieving the desired effect, the result can be the reverse – reduced lawyer revenues – as lawyers are forced to spend time doing what a paralegal or secretary should be doing.

The problem is that firms are not using staff efficiently. An example is the lawyer with revenues of \$1 million whose senior secretary spends most of her time typing and faxing, when she should be doing much higher level drafting work, organizing the lawyer’s practice, and so on.

Some sole practitioners are even tempted to work without any support staff (again, in a misguided attempt to save costs). Instead of billing their own \$200 per hour, the average sole practitioner could be spending up to 50 per cent of their time working on paralegal, secretarial or administrative tasks that they should be paying someone \$25 per hour to do.

Potential for Loss

(200 hours of support staff work
x
\$200/hour per lawyer)
-
(200 hours of support staff work
x
\$25/hour per employee that should be doing the work) =

\$35,000 per year per lawyer

Solution

Delegate

Take advantage of the principle of leverage. Move work down to the lowest level that can be performed competently. Identify what you should be doing as lawyer, and delegate everything else to support staff.

The more complex your practice, the greater your need is for more skilled support staff. A top real estate lawyer may have four paralegals and two secretaries. A sole practitioner should have, as a minimum, one experienced secretary/assistant. And you should be hiring an office manager when the firm is between seven to ten lawyers in size.

Develop office systems

For more efficient use of staff, create standardized systems and procedures for the operation of the office. If your secretary is to take all your phone calls, how do you want the phone answered? If your secretary is to delegate dictation down to a typist, create a standard dictation form.

Appropriate Functions of Lawyers and Staff

Partner

- * Marketing
- * Management
- * Supervising files and cases
- * Giving legal advice and strategizing
- * Serving as lead counsel on trials

Associate

- * Writing briefs
- * Conducting interviews
- * Attending examinations for discovery
- * Appearing at hearings

Paralegal

- * Document assembly
- * Research
- * Drafting pleadings
- * Conflicts checks
- * Acquiring records

Legal Secretary

- * Organizing
- * Scheduling
- * Word processing

Clerk

- * Filing
- * Copying
- * Answering phones
- * Errands

* adapted from Division of Functions Worksheet, by Dustin Cole, Attorneys Master Class

5. Underutilizing Word Processors/Suites and Practice Management Software

A word processing application coupled with practice management software is the most under-utilized technology. In many firms, staff still manually performs tasks that should be automated.

By maximizing your use of word processing/practice management software, you could see an extra 15 minutes of work a day from your support staff or increase your billings by 15 minutes a day. You should recoup your investment within three months (for a small firm) to 12 to 18 months (for a solo lawyer), including downtime to get trained, to customize the software, etc.

Potential for Loss

0.25 lost hours/day

x

240 working days

x

\$200/hour =

\$12,000 per year per lawyer

Solution

The greatest investment a firm can make is to get their word processing and practice management software working together for document automation.

The most common practice management programs for law firms are: Amicus, Time Matters, Abacus, Practice Master, and Pro Law. The three major ones for small firms are Amicus, Time Matters and Practice Master. Also keep an eye out for PC Law, a billing system, which is developing a practice management software program. The software is fairly inexpensive – about \$150 per user to purchase. When you make your purchase, make sure your practice management software integrates with your billing system, so bills can be automatically generated.

6. Accepting Bad Clients

Classify your clients into categories from “A” to “E.” “A” clients are dream clients who pay without fail and delay. Your “E” client is your worst nightmare. “D” and “E” clients are uncooperative, argue with you, and don’t value your expertise.

Unfortunately, all firms accept a few “D” and “E” clients. The main reason is fear that other clients may not show up. And the lower the revenue of the lawyer, the greater number of “D” clients that the lawyer will take on.

Every firm is aware that “D” clients are money-losers. But few are fully aware that the cost of such clients far exceeds uncollected billings. The additional costs include:

- * the potential for neglecting “A” and “B” clients
- * extreme stress and frustration – These are the clients who will have you going home at night wishing you weren’t in this business.
- * the opportunity costs of turning down more valuable work
- * a tendency to avoid working on files from “D” and “E” clients, which can result in missed deadlines and malpractice claims

These clients can cost you up to 50 per cent of your revenues.

Another scheme for rating the cost of poor clients considers whether clients are promoters or detractors of your firm. Based on research from MIT, clients can be classified according to their answer to this question – On a scale of one to 10, where one is “not at all likely” and 10 is “extremely likely,” how likely is it that you would recommend us [our law firm] to a friend or colleague? If the client answers nine or 10, then they’re a promoter; seven or eight, they’re “average”; six or less, and the client is a “detractor”.

There are no figures for what “detractors” cost law firms. But a 2003 study on Dell computers showed that the “average” customer was worth \$210 to Dell, promoters were worth \$328 each, and detractors were worth an astonishing -\$57. Applying this analogy to law firms, unless clients feel very well-disposed to their legal advisors, they’re likely to result in a net loss, not a profit.

Potential for Loss

1,400 billable hours/year

x

\$200/hour

x

estimated 50% of your time =

Up to \$140,000 per year per lawyer

Solution

Never take on a “D” or “E” client

Say “No” to any new clients or new files from existing “D” or “E” clients. Fire detractors as soon as humanly possible.

Develop an evaluation checklist for screening clients

You need to create an evaluation sheet, a fairly objective screen to help you say no when things are slow and you’re tempted to take on a “D” client. This should be used in every prospective client interview. The checklist should consist of a series of questions to help determine whether any warning flags are raised that point to a potential “D” relationship.

Get a partner to approve new clients

For all new matters above a certain estimated total fee, say, above \$10,000, both the checklist and potential file should be reviewed by a second lawyer before the file is accepted.

Establish a strong business development plan

Use the 25 hours you would have spent on the “D” client (getting paid for ten) constructing a sound business development plan, improving your marketing and referral skills, and paying attention to your “A” clients.

How to Screen Out Bad Clients

“Bad” clients are costly. Pay attention to the following when evaluating whether or not to accept a potential new client:

Referral source: Breathe easy if the new client has been referred by a good existing client. Be wary if they found you from the phone book.

Matter type: Is the work you’re being asked to do within your area of expertise, and is it work you like to do?

Financial questions: Note if the new client asks, “How much will this cost?” A red flag is raised if they don’t want to pay a retainer. If the client says they can pay half the retainer now and the other half later, walk them to the door and say goodbye, as this is all the money they have to pay you. No lawyer should do a free consultation unless it’s a short free telephone conversation – charge at least \$50, he says. “If you don’t charge, the client won’t respect you and is just shopping for free information.”

Cooperation: How many other lawyers has the client retained on this matter? If they’ve fired other lawyers before you, say goodbye, as you’re next. If they say this is an urgent matter and they want 100 per cent of your attention now, expect the client to be difficult to work with – they’ve had plenty of time to deal with the problem and likely lack responsibility. If they show up late for their first appointment, without

the requested materials, show them the door.

Attitude: Does the potential new client display a level of anger disproportionate to the matter? Do they like lawyers?

7. Keeping Mediocre Clients

Then there are “C” clients, according to the classification. They pay reduced rates, and often don’t pay for 90 days. “C” level clients are often your “meat and potatoes” clients – they do send you work and contribute substantially to the overall revenues of the firm. Still, just as with “D” and “E” clients, there are hidden costs and dangers if your firm retains too high a proportion of “C” clients, including:

- * the opportunity costs of not having time to work on better billable work
- * loss of additional billable hours that the client, by agreement, doesn’t pay for, such as supervisory time
- * overwork and frustration, leading to a “good enough” attitude, and increased risk of errors and malpractice claims
- * loss of income – the firm becomes a bank, continually loaning the client substantial funds (receivables) on a short-term basis

Potential for Loss

1,400 billable hours/year

x

\$200/hour

x

estimated 50% of your time =

Up to \$140,000 per year per lawyer

Solution

Institute a focused marketing program

To phase out “C” clients, institute a focused marketing program. Your aim is to gain new clients at higher rates, with the long-term goal of moving away from lower-rate work.

Raise your fees

You should implement across-the board, modest fee hikes and get your clients to agree to greater use of (and billings by) paralegals and legal secretaries, with supervisory hours permitted for the lawyer.

8. Not Recouping Printing Costs

Firms used to charge back long-distance and fax costs to clients (before telephone rates became so inexpensive that it’s often no longer now worth doing). And it’s standard practice for firms to charge photocopies back to the client. Why not recoup the cost of your printing too?

You can gauge your printing costs by the number of boxes of paper you buy or go through a month. Most small law firms probably easily go through 50,000 pages every two months, or even every month.

Similarly, as digital printing and scanning replace copying, many documents that your firm produces are likely going untracked and unbilled. One study pegs this cost at up to \$5,000 per lawyer per year in otherwise reimbursable client expenses.

Also note that your total printing costs for an inkjet printer are likely to be more expensive than for a LaserJet printer, says Moon, even though the initial cost of an inkjet printer is much cheaper. For 5,000 pages, the per-page printing cost for an inkjet is almost 15 cents a page, versus four cents a page for a LaserJet.

Potential for Loss

\$0.02/page
x 300,000 to 600,000 pages per year

=\$6,000 to \$12,000 per year

Solution**Charge back printing costs to clients**

There are several print cost (and scanning cost) recovery software packages on the market today (e.g., Equitrac). In theory, you should be able to charge back the final print cost – but it's a grey area as to whether you can charge for drafts. In reality, whether you can recover your printing costs, and at what charge, depends on what you can negotiate with your clients. You're more likely to be able to recoup your costs from individual clients than from savvy corporate clients.

One option with corporate clients is to try and recover your costs by charging a one-time administration fee.

9. Surrendering Control of Your Time

Most lawyers aren't in charge of their time. Faced with hundreds of interruptions a day – from phone calls and emails to staff questions and drop-in visits by other lawyers – the typical lawyer develops a reactive way of dealing with the world. But the costs of not controlling your time are enormous. Like failure to record working hours, it's estimated that you lose 10 to 30 per cent of your billable hours because of time chaos.

Potential for Loss

1,400 billable hours/year
x
10 to 30% of lost time
x \$
200/hour =

\$28,000 to \$84,000 per year per lawyer

Solution

The solution is to structure your time. Block out time for returning phone calls, working on files, meeting with clients, etc. Ask your secretary not to interrupt you between 9:00 and 10:00 in the morning, for example. When you're always accessible, staff are less likely to think for themselves. Get staff to collect their questions in a group (and request that they prepare possible answers too).

10. Cutting Corners with IT Consultants

As with many things in life, you "get what you pay for" when it comes to your information technology consultants. Cutting corners on their services may prove more costly than the apparent savings. Remembering that IT specialists can come and troubleshoot for you

Potential for Loss

Difficult to estimate, but can range from hundreds to even thousands of dollars.

Solution

For small and mid-sized law offices with up to 100 people, outsourcing your IT work is cheaper than retaining an in-house IT employee. You can choose between a "call-on-demand" or a regular maintenance and monitoring service. A five-lawyer firm can expect to pay about \$300 per month for call-

on-demand service; for preventative maintenance, the cost is about \$500 per month. Larger firms can expect to pay up to \$3,000 month.

Stop losing Money! For more information on how Libra Information Technologies for the Legal Firm IT Program contact

Please note that "Potential for Loss" figures are meant as broad estimates only, and will vary based on the unique circumstances of each law firm.