



## **How Can Firms Increase Profits Per Partner?**

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So, you've analyzed the American Lawyer Top 100 and Top 200 based on revenue and profits per partner. Maybe you aren't on the lists but it sure is easy to compare your results with the top performers. Now that the partners are settled down after also reviewing the same results, it's time to start developing the 2006 action plan to increase profits.

We won't try and deal with all the complexities of increasing profits but we will look at some basic influencing factors. Here are the fundamental components of profit growth:

- Increase billing rates
- Reduce internal costs
- Increase billable hours
- Increase the number of timekeepers
- Refocus on profitable work
- Get more clients or additional work from existing clients
- Get more hours billed and collected
- Increased productivity

### **Only a Little Believable**

Some of the components seem like good ideas but in the end they may not be the right track for sustainable growth.

1. **Increase billable hours.** Ok, we can all get associates to log in 2,000 hours while partners hours jump to 1,800. You know the story; this tends to be an exercise in "spreadsheet growth", but in reality, there is a culture issue here and pretty soon you will hit the wall. Grow the hours to reasonable levels that still provide quality work, satisfied clients and attorneys who have a life. If you have lazy attorneys, just deal with it straight up. The market is just too competitive to allow for under performers. That's the end of the road for volume of work.
2. **Increase the number of timekeepers.** Although this is a little more believable than increasing billable hours, it becomes a lot more complex. The idea of additional timekeepers, ideally, are those that either bring a big book of business without the demands, or those who were well trained at another firm and like your competitive positioning better. Of course, these are hard to find. Just adding "run of the mill" timekeepers may not actually improve profitability because adding them may also add costs. Some costs are easy to identify, like salary and rent. Other costs tend to just creep-up on you and before you know it the extra timekeepers aren't really adding a lot to the bottom line. If you're not sure this is the case, just ask some of the firms who have merged over the years. Doubling the size of the firm did not double the profits per partner. Why?

3. **Increase billing rates.** There is always room for small rate increases in a booming economy. Billing rates depend a lot on geography, type of law and your value added. Talk to a few GC's in corporate America and see what their take is on increasing rates. Not surprising they are looking to substantially reduce the cost of legal services. They are reducing the number of firms they use, using electronic billing to better distribute work and asking for alternative fee structures (read lower costs). Insurance carriers are becoming masters at controlling costs for lower value work.
4. **Reduce internal costs.** This is the exercise by which we find ways to reduce all the small expenses by 10 – 20% and never tackle the tough issues. The major costs in a law firm, salaries, facilities and insurance are fixed, not really too variable. You can always find a cheaper coffee service, less expensive cleaning company and so forth but this is most likely a dead-end without cultural changes.

### **Very Believable**

5. **Refocus on profitable work.** What is your most value-added, profitable work? Don't exactly know for sure? Well, you'll need to determine it and have the facts to back it up. Analyze both utilization, realization and, by client, matter, department, area of law and office. Take a look at revenue compared to total internal costs for all of these. If you don't have the financial analysis tools to quickly do this, stop here before proceeding to the next step and get them. At this point it should be a no-brainer, let's expand the areas of business that are the most profitable. If this was so easy why didn't we do it before? See the next item on the list.
6. **Get more clients or additional work from existing clients.** This fits right into the refocus issue above. It is totally amazing how some firms just don't get the marketing/sales concept. They get all hung up on the less important items. Most mid to large size law firms don't even have a decent marketing function, a formal marketing plan or a good marketing database. There are two issues here; marketing and sales. Marketing can take care of the image building, name recognition and generate a person showing interest. Now it's time for "sales". Oh, attorneys don't like to think of themselves as sales people, they "develop business". Whatever. Sales is about people, relationships, sharing goals and aligning client goals with the firm's capabilities. You need a plan and tools. Good old fashioned "sales" tracking software works great. Just get over the "sales" thing. Structure a marketing and sales effort to get the business you can make money at. Get the marketing software that will track both activity and results.
7. **Get more hours billed and collected.** The excuses never end as to why utilization is down ("did the work and can't bill it"). Similar excuses follow for realization ("we billed it but can't collect it"). Use the same tools we spoke of in section #5 to analyze where this is happening and what the common threads are. Certain clients, attorneys, or just areas of law. In any case you'll need your facts here or the partners will dismiss this as just another exercise. Get to the bottom of it. Is it the lack of clear communications with the client or missed expectations? This is law firm 101, get good engagement letters, and manage all projects. Ask the clients who aren't being billed or don't pay promptly what the real problem is. By the way, do you have collections software to help

manage the process? Clients who know that you religiously track receivables and aggressively follow payments will become trained to pay on time.

8. **Increased productivity.** So easy to say, yet so tough to accomplish. This is the good old American way. How can corporate America consistently improve productivity while law firms can't (or won't)? Examine internal procedures and implement workflow to eliminate unnecessary steps. Ask the attorneys and administrative assistants to check their egos at the door and join the team to streamline processes. Handle it once, key it in once, scan it once, draft it once and so forth. Take a look at your technology, because technology is the only tool that has increased productivity in the country over the last 30 years. Most other areas of the economy are willing to adopt changes by utilizing technology to improve productivity. So what are the reasons law firms can't do this too?

### **Summary**

Want to improve profits per partner? Tackle the believable and shun the less than believable. If it was easy you would have already done it, it isn't easy but it is doable and other businesses do it every day.

### **About the Author**

Jim Hammond, president of RainMaker Software Inc., has more than 25 years of law firm software experience. RainMaker provides mid-large law firms with the tools to analyze a firm's performance, improve the marketing and collections process, implement workflow to improve productivity and at the end of the day increase profits per partner. He can be reached at [jhammond@rainmakerlegal.com](mailto:jhammond@rainmakerlegal.com).