THINGS YOU CAN DO TO IMPROVE YOUR FIRM'S BOTTOM LINE

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It's always a good thing to take a quick reality-check on how you're managing your firm. Small incremental improvements can result in dramatic impact on the bottom line. Here are suggestions for the first areas to examine and act upon.

Take a good look at your current roster of clients, and select a few for termination. The first targeted to go should be those who are unprofitable, very slow or non-paying. Next are those few clients who you regret having taken aboard. You know who they are, the ones who your instincts told you would be a major pain during the initial meeting, but you disregarded your instincts and took them on anyway. Now you regret it. So sever the relationship. Use the newly found free time to find better quality clients. You will enjoy your practice more, have less stress, and ultimately be more profitable.

Decrease your receivable turnover cycle. The faster you collect your receivables, the better your cash flow will be. It will lessen your need for borrowing, and greatly lower the percentage of receivables which "go bad". Statistics from the Commercial Law League indicate that allowing your receivable to age just 60 days from a current one to one which is 90 days old will result in a loss factor of 21% of the value of the receivable.

To determine your receivable turnover ratio, divide the total billings for the year by the amount outstanding at year end. Aim to improve this, and recomputed it at the end of the following year to see if your efforts have had the desired impact. To determine the average days your bills are outstanding, divide your receivable total by the average daily billings. This will tell you how many days your receivables take to turn over. Your average daily billings are simple to compute. Simply divide your annual billing by 365. Decreasing your average days outstanding by as little as two weeks will have a significant impact by the end of the year.

Improving your receivable turnover requires a multi-faceted approach:

- bill promptly and regularly
- enable and encourage clients to pay by credit card

- include the ability to charge interest on past due receivables in your engagement agreement, and then actually do it beginning as soon as the bill is past due
- create a receivable management / follow-up program which begins when the bill becomes due, and continues with regularity until the bill is paid in full

Create a marketing plan. As the old saying goes, failing to plan is planning to fail. In order to find time in your already hectic schedule to actually do some of the things you've thought of from time to time, you have to write it down, and get it mapped out on your calendar. You also need to coordinate with others in your firm or department to make sure you are not spending too much time in one area and not enough in another. A multi-faceted approach works well. Especially important to maintaining and establishing referral sources is the ability for the firm to be visible in as many venues as possible. That requires coordination. By the same token, the success of the firm in pursuing a specific targeted client or industry can be improved by sharing information so as to take advantage of all the connections which might already exist to get a foot in the door.

Evaluate your billing realization and improve it. Realization is the relationship between fees billed and the actual value of those fees. For example, if your hour is normally worth $100 and you bill it at $90, you are only getting a 90% realization. Improving realization dramatically affects the bottom line without working any harder. In order to improve realization you need to keep very accurate time records, bill promptly, avoid writing time down before it's recorded (shrinkage), and avoid continual discounting at time of billing.

Often overlooked by attorneys is crafting a bill which conveys not just the effort, e.g. hours and tasks, but rather the ***value*** provided by those efforts. This requires understanding, and the firm will benefit by teaching its lawyers, young and old alike, how to record time effectively so as to communicate value in addition to effort. I recommend you purchase and read Jay Foonberg's classic "How to Draft Bills Clients Rush to Pay" (Less than $58 from the ABA bookstore using your PBA member benefit discount.)

Capture your time more effectively. Any improvement in productivity has an immediate positive impact on the bottom line. Keep better time records. Record your time contemporaneously, instead of trying to recreate it at week or month-end. Failing to record your time as you work it can cost you as much as 40% of the actual time you've spent. It also results in dramatic inaccuracies, meaning that you are overcharging some clients and undercharging others. You know better than to use one client's escrow money on behalf of another, but do you realize that you are doing the same when you recreate your time records from memory at a later date?

Don't self-edit your time. Remember, if you express value in addition to effort, the client will be more accepting of the actual amount of effort. If you spend a fair amount of time out of the office and respond to emails when out via a Personal Digital Assistant (e.g. Treo or Blackberry), or working from a home office computer, be sure to employ software like Element 55 to capture the time. When in the office employ good timekeeping practices and tools to get your hours recorded. Consider providing attorneys who want to with the ability to record their time directly in your billing program.

Trim overhead. Beware, though, because while expenses should always be monitored for areas to save, even the most effective cost savings initiatives will not impact the bottom line as significantly as manipulating any of the revenue factors noted above. In other words, you can only find so much fat to cut. Beyond that you are cutting muscle, and the ability to properly service clients. As someone once said to me, "Avoid the urge to step over dollars to pick up pennies."

Decrease your dependence on staff. Implementation of digital dictation can speed throughput on your documents. Adding voice recognition to the mix will enable you to produce initial or even final drafts without secretarial assistance.

How far can you decrease your need for staff until it becomes counter productive and adversely impacts client service and your own productivity? That's the key question to ask, and keep asking. Because every cut to expense has to be a cut of fat, not lean muscle. Nonetheless, I find that many firms, especially small ones, tend to be overstaffed. Large and mid-size firms do a better job of sharing staff resources.

My experience has shown that with some simple process engineering and a willingness to master a few new skills, you can make a dramatic difference in the bottom line of your practice, and not have to "turn into a secretary" in order to do so. The key to the transformation is leveraging yourself through a combination of deployment of technology, and utilizing different equipment when it is better suited to handle your needs.

All of this presupposes that you actually *touch* your computer. So it is logical to state that to improve your knowledge of and ability to make good use of your computer, you should invest in some training. Again, the goal is to work smarter instead of harder, not to turn you into a secretary.

While we're talking about staff, let's talk about improving your delegation skills. Too many of you are holding onto work that can be more effectively —and profitably— pushed downward. For some of you that means passing the work to a junior partner or associate. For others it means letting your paralegals do what they're paid to do, and not trying to use them like a secretary. And for those of you who are managing partners, it means letting your administrator or office manager actually do what you are paying them to do, instead of trying to micro-manage their job in addition to yours.

Sometimes you have to spend money to make money. It may be that you are not properly supported by people at the lowest end of the pay scale, and are therefore overpaying for much of the work which is getting done at your firm. Hiring someone for even a few hours in the afternoon to do photocopying, errands, and so forth can be much more cost effective than having your secretary do it. And that will free him or her up to do more work at a higher level for you. A more capable assistant working at a higher level can only improve your own productivity, or at least, your state of mind.

One final word about staff; keep in mind that turnover is much more expensive than most people calculate. For an associate, it can amount to 1.75 – 2.5 times annual salary. That can have a significant impact on the bottom line, not to mention your quality of life while you actively recruiting a replacement. It takes time. Time to review resumes, conduct interviews, and ultimately hire, followed by time to train, and time to get used to one another. So when people leave, be sure to conduct an exit interview, to see how to improve the firm further and lower future turnover. It's easy to be lulled into a comfort zone by readily accepting whatever explanation the departing employee provides for their action. But most people will work hard to leave without creating hard feelings, and therefore be less than candid about the work environment. Remember, even though they may be leaving because of a spouse's job relocation, it doesn't mean they won't have valuable insights about your office environment. [For more information about conducting exit interviews, see my article entitled "Use Exit Interviews to Improve Your Firm" which appeared in the *Pennsylvania Bar News*.]

If you want to know how to properly cut costs, see my article entitled "*The Art of Cutting Costs*" which appeared in the July/August 2005 issue of *The Pennsylvania Lawyer*. But keep in mind that you should invest the majority of your time in developing strategies to increase revenues, not lowering overhead. Benchmark data is particularly helpful in determining if your margin is in a "healthy" range. If your margin is 55% or greater, you're doing fine.

This is by no means an exhaustive list. There are a lot of additional things you can do to improve the firm's performance. But it's a start. My philosophy is that it's better to attain a series of small successes early on, to validate the process and encourage further improvements, rather than over-reach and fail. Because that's sure to stifle further attempts at improvement. Remember that real progress is not about giant leaps forward, but rather about making continual small steps toward the goal.

So if you haven't ready done so, give some of these ideas a try. They can only help.

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