LAW FIRM GROWTH STRATEGIES IN TIMES OF INFLATION

THE COMMAND POST

SERIES - 3 / ARTICLE - 8
MARCH 01, 2023

By **Jeffrey Brochin, Esq.**

GreenPoint>
Law&Compliance

william.anderson@greenpointglobal.com | pranav.menon@greenpointglobal.com

International Corporate Center, 555 Theodore Fremd Avenue, Suite A102 Rye, NY 10580

www.greenpointlegal.com

Regardless of the area of practice, all law firms tend to have one thing in common: they wish to be profitable! And the path to firm profitability has traditionally been by way of taking on as many clients as possible and, when necessary, raising hourly rates. But what happens when the client roster is full, business is booming, and rates have increased, yet, profitability is suffering? It is under those circumstances that it becomes time to examine the other side of the profit equation: the expense side. Especially now, during times of inflation, law firms must put in place mechanisms to reduce overhead without adversely impacting the provision of professional-level legal services.

Defining Firm Overhead

A quick survey of law firm overhead expenses basically reveals that the term is a very broad one that encompasses such necessary operations items as rent, technology, utilities, furniture, equipment, supplies, and an array of non-lawyer salaries such as those of secretaries, paralegals, and other support staff. Lawyers' salaries themselves are, naturally, excluded from the overhead accounting. Yet, all of these expenses can and do affect firm profitability and, subsequently, lawyer take-home salary, with most estimates calculating overhead expenses at between 45% to 50% of a firm's gross revenues.

A look at how overhead is spread among the various operating expenses can be a first step to reining in those expenses. For example, the cost of upfront tech equipment, software, and installation can typically eat up 4% of overhead; however, the silver lining is that tech outlay has a relatively long shelf life, especially when compared to the extent to which it significantly improves productivity. Rent can take up 9% to 12% of overhead—depending upon region and prestige of location—and although high-end spaces are often times believed to add to a firm's profile image and therefore 'billing rights', in fact, there are firms that achieve top billing based on professional reputation alone—even from modest loft-type spaces.

One of the Big Bites of Overhead

Significantly, it is the cost of bringing on new talent, training them, and building a practice group that relies on such talent—only to have the lawyer leave the firm not long afterward—that takes up a disproportionate percentage of overhead costs. In fact, it is employee turnover that accounts for, on average, 30% to 50% of mid-level employee salary expense, while turnover of high-level employees can end up costing 150% of what was budgeted to bring on such high-priced talent. It is, therefore, prudent to examine how this particular budget line item can be improved.

Although it may, at first glance, seem counter-intuitive, experts have found that by increasing starting pay, onboarded lawyers have a tendency to stay onboard longer. Another factor that is increasingly employed to reduce turnover is the offering of greater flex-time options, which a whopping 69% of employees now rank as 'the most important factor.'

Lawyer Leveraging

In their COVID-19 pandemic analysis of law firm successes and struggles, the Thomson Reuters

"IF YOU FOCUS ON DELIVERING GOOD SERVICES AT REASONABLE PRICES, PEOPLE WILL STILL COME. OF COURSE, WITH A RECESSION, YOU MIGHT SEE A DOWNTICK IN REVENUE, BUT IT DOESN'T NECESSARILY MEAN THAT IT HAS TO BE THE END OF YOUR LAW FIRM. ULTIMATELY, IF YOU'RE PASSIONATE ABOUT WHAT YOU DO AND YOU OFFER GOOD PRODUCTS OR SERVICES, I DON'T THINK A RECESSION IS ANYTHING TO BE TOO WORRIED ABOUT."

—Matthew Patullo, A.P. Romano Professional Legal Corporation

Institute issued a report titled 2021 Pandemic Performers in which they examined how different firms achieved substantially different Revenue Per Lawyer (RPL) returns based on 'Lawyer Leveraging'. That metric was defined as the ratio of the number of full-time lawyers (full-time equivalents or FTEs) who were not equity partners divided by the number of equity partners. The best performers had a much higher leverage in that ratio despite the fact that their growth was actually slower-paced. However, the FTE metric was then weighed against another metric, the 'Demand Leverage', which looked at the number of hours worked by each classification. Non-partners and associates were found to typically work more hours in order to facilitate their rise to partner or at least advance through the ranks.

Seasonal Hiring Impact

The report further examined when successful law firms did their hiring, with top firms hiring new lawyers in Q2 as opposed to Q4. The latter quarter is typically the busiest, and business-savvy firms, therefore, did their hiring in Q2 in order to bring their new hires up to speed in time for the seasonal rush six months later. The new lawyers were then better positioned to provide added value to the firm, increasing demand leverage relative to FTE leverage and, consequently, improving profit margins.

And Leave the Billing to...Them

One overhead area that seriously drains law firm efficiency is the tasking of lawyers with billing their own clients, this being true, especially among smaller firms. One survey of 300 solo practitioners and small firms revealed that lawyers in those settings were spending up to 40% of their time on administrative-type tasks such as billing clients, as well as DIY research. By outsourcing those processes to specialized service providers or by bringing in part-time or as-needed staff, lawyer efficiency, and correspondingly profitability actually increased. If such outsource hiring is not practical for a firm, then the lawyers should consider investing in time-tracking, invoicing, and billing software products that can greatly streamline all of those tasks, thereby cutting down overhead.

When it comes to achieving strategic growth through expense management, the bottom line, of course, is to increase 'the bottom line.'

Executive Summary

1. The Issue

How to best achieve growth during times of inflationary pressures?

2. The Gravamen

If the revenue side is not the problem, then close attention must be paid to the expense side of the profit equation.

3. The Path Forward

Reducing overhead is key to achieving strategic growth during times of challenging business development, and high on the list of efficiency tweaks is the proper hiring and retention of legal staff.

Action Items:

1 Line-Item Budget Analysis:

As a first step to addressing inflationary pressures, your firm should analyze what your various overhead expenses consist of.

2 Your Firm's FTE and Demand Ratios:

A formal study of law firm profitability during the pandemic revealed that a firm's FTE and Demand ratios were significant indicators of success versus struggle during difficult economic times.

3 Lowering Turnover:

Because legal team turnover can end up adversely impacting your firm's overall overhead expenses, consider expanding flex-time options that have been proven to up employee loyalty and retention.

4 Turn to Tech:

Many other excessive overhead expenses can be resolved by employing technology over employees, and this can be particularly applicable to time-tracking and billing.

Further Readings

1. https://www.askcody.com/blog/law-firm-overhead
2. https://realeconomy.rsmus.com/law-firms-are-feeling-pressure-despite-steady-growth-in-demand-and-rates
3. https://www.law.com/dailybusinessreview/2022/04/26/how-law-firms-can-stay-competitive-in-an-inflationary-economy/
4. https://www.cibc.com/en/business/advice-centre/articles/preparing-your-firm-for-recession.html
5. https://www.law.com/americanlawyer/2022/08/22/firms-likely-to-make-course-corrections-as-inflation-challenges-billing/?slreturn=20230122044504

Jeffrey Brochin, Esq.

GREENPOINT STAFF COUNSEL
AND CONTENT EDITOR

After receiving his Juris Doctor degree from The John Marshall Law School in Chicago, Mr. Brochin served as an Administrative Law Judge with the Illinois Department of Labor for six years where he presided over cases dealing with job separation issues and matters pertaining to contested Unemployment Insurance claims. He also co-wrote the agency's administrative rules, and periodically served as a 'ghost writer' for Board of Review decisions. Following that position, he was Director of Development for a Chicago-area non-profit college where he was responsible for High Net Worth donations to the institution. For the next eighteen years he practiced as a solo practitioner attorney with an emphasis in the fields of Real Estate law and Commercial Contracts transactions, and was an agent for several national title insurance agencies.

In 2003 he was recruited to head up a U.S. title insurance research office in Israel, a position he held for four years, and between 2007-2017 he participated in litigation support for several high-profile cases. He has taught Business Law as a faculty member of the Jerusalem College of Technology, and has authored a wide variety of legal White Papers and timely legal articles as a professional legal content writer for GPL clients. Separate from his legal writing, he has co-authored academic articles on Middle East security topics that have been published in peer-reviewed publications.

William H. Anderson, Esq.

MANAGING DIRECTOR AND HEAD OF
FINANCIAL PRODUCTS AND SERVICES

William Anderson is Managing Director and Head of Law & Compliance. He leads the GreenPoint practice in providing regulatory, legal, and technology solutions to law firms, legal publishers, and in-house law departments around the world, overseeing our team of experienced US attorneys and data and technology experts. Will has over 25 years' experience working with corporations to improve the management of their legal and corporate compliance functions. Will began his legal career as a litigator with a predecessor firm to Drinker, Biddle LLP. He then served as in-house counsel to Andersen Consulting LLP, managing risk and working with outside counsel on active litigation involving the firm.

Will has leveraged his legal experience interpreting regulations and appearing before federal (DOJ, SEC, FTC) and state agencies (NYAG) to oversee research and other areas at Bear Stearns. In this capacity, he counseled analysts on regulatory risk and evolving compliance requirements. Will also consulted on the development of a proprietary tool to ensure effective documentation of compliance clearance of research reports. Will then went on to work in product development and content creation for a global online compliance development firm pioneering the dynamic updating of regulated firms' policies and procedures from online updates and resources. Will holds a Juris Doctorate with High Honors from the Washington University School of Law in Saint Louis and is admitted to state and federal bars. He lives in Pawling, NY, with his wife and daughter.

Sanjay Sharma, PhD

FOUNDER AND CHAIRMAN

Pranav Menon, Esq.

LEGAL RECRUITMENT MANAGER AND DATA PRIVACY SPECIALIST – LAW & COMPLIANCE | GPESR

International Corporate Center, 555 Theodore Fremd Avenue, Suite A102, Rye, NY 10580

GreenPoint>
Law&Compliance

About GreenPoint Law & Compliance

- GreenPoint Global was founded in 2001 and since that time has faithfully served an expanding roster of clients. GreenPoint leverages a unique combination of US-trained attorneys and proprietary technology to deliver a unique offering of skill and flexibility to meet client needs.

- Our core team of experienced US attorneys is based in Israel and works US hours. The breadth of experience of our attorneys ensures high-quality, cost-effective results across a wide range of legal, compliance, and regulatory matters.

- GreenPoint's methodology and proven track record of achieving client objectives has resulted in a broad base of clients in the United States, ranging from Fortune 500 insurance companies to solo practitioners, law firms, in-house law departments, and legal publishers. GreenPoint attorneys are selectively recruited and deployed based on possessing demonstrable subject matter expertise covering a broad spectrum of substantive US laws and regulations. The work product of our attorneys is thoroughly vetted internally before delivery to client. Adherence to quality, value and flexibility is at the core of our foundation.

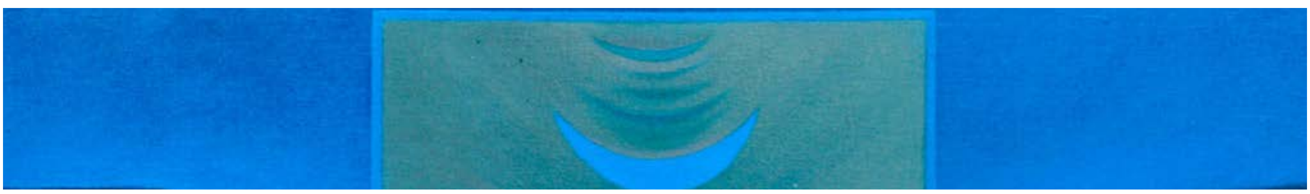
GreenPoint>
Global

About GreenPoint Global

- GreenPoint Global provides litigation support, finance and technology solutions to insurers, law firms, banks, and in-house law departments through our subject matter experts and process specialists.

- Founded in 2001 and headquartered in Rye, New York, GreenPoint has grown to over 500 employees with a global footprint. We have a stable and growing client base that ranges from small and medium-sized organizations to Fortune 1000 companies worldwide. Our production and management teams are located in the US, India, and Israel with access to deep pools of subject matter experts. Our greatest strength is our employee-base of experienced lawyers, paralegals, process specialists, financial analysts, and software developers. We have leading edge software development capabilities with over 50 professionals on staff, working on internal and client projects.

- GreenPoint is certified by the TÜV SÜD (South Asia) for the highest standards of Quality Management (ISO 9001:2015) and Information Security Management (ISO 27001:2013). GreenPoint is certified as a Minority and Woman Owned Business Enterprise (MWBE) by New York City and a Minority Owned Business Enterprise (MBE) by the State of New York. GreenPoint complies with all federal and state contracting requirements. GreenPoint is owned by its founders and principals and is debt free. For comprehensive information on our services and products under Law & Compliance and Finance, please visit our subsidiary websites through the division's menu.



International Corporate Center, 555 Theodore Fremd Avenue, Suite A102, Rye, NY 10580