

# GROWING YOUR FIRM - WHERE TO RE-INVEST FIRM PROFITS?

## THE LONG VIEW OF PRICING, PAYMENTS AND PROFIT

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**Thinking of ‘taking the money and running’ as your firm’s profitability soars? Underinvesting in the practice you’ve grown thus far is possibly one of the worst long-run mistakes you can make.** Every successful business, from Ford Motor Company to today’s high-tech behemoths, has one thing in common - strategic reinvestment of profits. For the professional practitioner, the same rule applies. Let’s take a look at where you should be looking to reinvest firm profits.

## The Withdrawal Temptation

You and your partners have worked hard to make a name for yourselves, greatly expanding your client base, and now you are reaping the fruits of your labors. The natural temptation, of course, is to enjoy those fruits by rewarding yourselves with impressive salaries and other perks that, after all, each of you earned. But the strong temptation to withdraw all profits and leave the firm’s coffers barely funded is one you should avoid. Rather, now is the time to sit down and decide how much should be withdrawn versus how much needs to be reinvested.

Every successful business has a re-investment plan as part of its overall business growth strategy. Also, without strategic re-investment of profits, a professional firm will have much difficulty expanding beyond where they are currently situated. In fact, some of the most successful businesses have re-invested the majority of their profits during their formative years.

## The Benefits of Reinvestment

Reinvesting profits back into your practice is intended to apply resources in a manner that will take your practice to the next level and help you achieve your long-term growth goals. The benefits of plowing profits back into your practice can include:

- Reduction in capital risk as your self-funding reduces the need for external financing in order to expand

- Practice enhancement, whether due to improvements in infrastructure, staffing, technology, or marketing
- Possibility of merging with another successful practice, or, attracting a prized partner from another firm. This step might even remove a competing practice from the legal services marketplace
- Making a greater impression on existing clients and becoming more attractive to new clients
- Improving training and continuing education for the entire staff, whether attorneys, legal secretaries, paralegals, or other in-house support personnel

## When, Where, and How

Now that the business decision has been made to re-invest, the next question is, when, into what projects, and how much? Although the decision to reinvest profits in order to grow your firm may seem obvious based on the benefits we have discussed, what is less apparent is what strategy to take to achieve the desired scalability, and at what pace. What areas of operations should be prioritized? Should more funds be allocated to marketing or to hiring additional support staff? Bringing on board an additional associate? Or perhaps greater investment in upgraded physical surroundings or newer technology, which can have a positive impact on productivity?

## Strategies that Work

Although there is no clear-cut rule of thumb for reinvesting at the lower end of the spectrum, some service professionals allocate around 3% of their annual revenue for operating improvements. While, depending upon the size of the firm, what stage it is at in its growth strategy, and other factors, other firms might allocate 20% of annual profits back into the firm. What works for one firm might not be the right allocation for another.

But regardless of percentages, here are some key expansion and improvement areas to consider:

**Team Building** - Without the right people on board and in the right numbers, lawyer stress increases, possibly even leading to early burn-out, and, sooner or later, that important task might fall between the cracks, exposing your firm to professional liability issues. To build your practice financially, you must give careful consideration to growing your team.

**Technology** - Leveraging technology to assist with repetitive tasks, whether for file maintenance, docket tracking, billing, receivables, payables, and other office bookkeeping functions, can be significantly streamlined by simply investing in the right technology and training a single multi-task individual to handle the rest. Even virtual receptionists can cut down on what is typically a significant expense in law firm operations.

**Marketing and Branding** - Sure, your clients know 'you', but do they associate you with just one area of practice that you assisted them with? Or, are they perhaps unaware of what else you can do for them? Constant contact with clients to tell them of your recent accomplishments, whether it is a \$2 million jury verdict, zoning approval for a 20-story planned high rise, or successfully negotiating the franchising of what started out as a single location food and beverage enterprise, puts you on the radar for legal services they may not have realized you were capable of. Or perhaps, your practice is quite niche, and it is your firm that you want the public to think of as the 'go to' practice, whether for bankruptcy, divorce, or personal injury. Branding your firm is well worth the investment. Along with traditional marketing, in order to grow your firm in the 21st century, you must also invest in lead-generation and internet SEO services.

**Physical Facilities** - The state of your physical offices can have an impact on both staff productivity and morale, as well as attracting clients. Are your offices cramped? Do files overflow from desks or file cabinets onto sofas or even the floor? Do employees have to step over boxes in order to get supplies or archive closed-out files? Such an environment is hardly conducive to prime productivity nor efficiency in accessing what needs to be accessed quickly. Then there is the 'outside appearance' factor. Do clients see a cluttered mess, or a conference room table doubling as a workstation? If any of these scenarios apply to your physical offices, then it's time to either expand or search for more suitable accommodations for your firm.

## Investing in Your Clients

Not to be confused with 'investing with a client', the concept of investing in your clients is actually hardly a financial investment at all. Rather, it means harnessing the power of being a 'people person' and projecting that friendliness to your clients. Sounds basic? Believe it or not, some attorneys never quite get that part, as they race out of traffic court as soon as the client's case is wrapped up. Or exit from a real estate closing without spending a few minutes chatting with their clients and wishing them well in their new home. But here too, a few 'strategic investments' can make a big difference and put you more firmly on the radar with a modest bottle of wine during holiday time, or a gift certificate on your client's birthday.

Investing in your practice, if done with much forethought and planning, will never be a waste of money but will in fact be crucial to taking your practice to the next level - of both client growth and revenue growth.

## Executive Summary

### 1. The Issue

How to grow your practice via planned reinvestment in the practice itself?

### 2. The Gravamen

Reinvestment of a preset percentage of profits back into your practice annually will reap significant benefits both in terms of practice expansion and revenue growth.

### 3. The Path Forward

As part of financial planning for the coming year, meet with relevant stakeholders in your firm (or, if a sole practitioner, set aside planning time for yourself) and plot out what is a realistic percentage of profits available to reinvest in your practice, and strategically plan where such funds should be applied.

## Action Items:

### 1 Future planning:

The first step is, to be honest about where your practice is at today, and then project where you want it to be in one year, two years, long-term.

### 2 Analyze available resources:

Now that your practice has turned a profit, examine to what extent you can siphon off a percentage to reinvest in it, and whether that investment at this time, should be conservative or more freehanded.

### 3 Prioritizing:

'If you had \$50,000 to invest in your practice this year, where would you invest it?' Perhaps your offices are well above adequate, your technology was purchased just a year or two ago, but you could definitely use one more support person.

### 4 Ongoing marketing:

Regardless of what other areas of operations need tending to, try to always incorporate a marketing enhancement in all of your reinvestment plans.

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## Further Readings

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1. <https://www.clio.com/blog/growing-a-law-firm/>
2. <https://www.law.com/americanlawyer/2019/05/16/these-law-firms-are-investing-in-legal-operations-its-paying-off/>
3. <https://crisp.co/the-benefits-of-training-and-development/>
4. <https://www.stptax.com/failing-reinvest-practice/>
5. <https://www.abacusnext.com/blog/fall-back-5-considerations-for-reinvesting-in-your-law-firm/>



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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.



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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.

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## Law & Compliance

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- ▶ 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.

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- ▶ 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.

