



Reduce Law Firm Production Costs for Greater Profitability

Since a period of very high inflation in the early 1980's, American businesses have been aggressively reducing production costs to limit price increases. In order to maintain prices and still have reasonable profit margins, businesses have been controlling the cost of goods sold.

Most law firms have done very little to identify, analyze and control their own internal production costs. They have focused on ways to better manage their matters and to be able to more accurately price fixed-fee deals. To increase profitability, firms must behave like profit making businesses, i.e. they must learn to manage their businesses as their clients manage theirs. This can be done by focusing on optimizing all the firm's internal production processes and not just focusing on pricing. Pricing is very important, but it is only one component of a more complex system.

Firms must review their entire system by using assessment tools which will identify how each operational and financial process works within the firm. Once it is clear how these processes currently work, it will be possible to identify points where there are interruptions or slowdowns in the process workflow. These leakage points are reducing profits. These inefficiencies should be corrected as soon as they are identified. These are not one time savings, but rather they will occur over and over again. When assessing these functions, pay special attention to: staff models and ratios; the billing and collections process; IT and Help Desk; and institutionalized exceptions to normal operational and financial procedures for individuals or small groups of partners, to name just a few. But most importantly, these are improvements which are entirely under the firm's own control. These changes will improve and regularize profitability irrespective of whether it is possible to raise rates.

The best way to identify these leakage points and realize the savings is to engage an experienced and independent consultant who can review internal operations and identify whether the non-legal organizational structure, staffing models and financial processes are consistent with current best practices in the legal industry. These assessments involve a thorough analysis of a firm's non-legal operations, including all financial and administrative functions. Once the data is collected, consolidated and analyzed it will be clear how much profit leakage exists in your firm.

In order to become more competitive, law firms must change their traditional financial and operational culture. This culture is based upon being able to raise billing rates annually, rather than developing an ongoing focus on cost control. As the economy slowly recovers from the recession, firms are finding it somewhat easier to raise billing rates. But it is unrealistic to think that aggressive annual rate increases will ever again become the norm. A significant portion of legal work is relatively commoditized and easily moved to another less costly provider. There is much less client/firm loyalty than before. Partners are very reluctant to admit that a sizable portion of their legal work is easily moved to a competitor. Firms need to change from being businesses that aren't price sensitive to entrepreneurial businesses that work with their clients to slow the growth of the clients' legal spend.



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