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A Guide to Enhancing Matter Profitability for Law Firms

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Law firms that solely rely on tracking billable hours might assume that each legal matter they handle is equally profitable. This assumption is based on applying an attorney's individual hourly billing rates to the client hours they devote to each matter. But this isn't the most accurate way to determine matter profitability.

Some types of client engagements are likely to incur significantly higher costs than others, while some matters generate greater profit margins. The only way to tell which matters the firm should invest its time in is to look at profitability at the matter level.

So, what is matter profitability, and how can you maximize it at your firm? In this article, we'll explore the concept of matter profitability and provide practical strategies to help optimize your law firm's financial performance.

What is matter profitability?

Matter profitability refers to a law firm's ability to generate optimal revenue and profits from each legal case or matter they handle. It's a critical metric that directly impacts a law firm's financial health and long-term sustainability. It goes beyond just billable hours. It involves considering various factors, such as the complexity of a matter, the expertise required to handle the matter, the resources allocated to complete the work, other expenses associated with the work, and the efficiency of the legal team.

To calculate matter profitability, law firms must deduct all the direct and indirect costs associated with handling a particular matter from the revenue that the case generates. Direct costs include attorney fees, court filing fees, expert witness fees, and other case-specific expenses. Indirect costs

include overhead expenses, such as office rent, administrative staff salaries, and general administrative costs.

Fortunately, law firms can employ several strategies to improve matter profitability without compromising the quality of legal services provided. It all starts with the data you collect on your firm's profit margins. Let's take a look at some common scenarios for law firms and how firms can improve their matter profitability.

Sometimes the matters we take on lead to disappointing financial results. Sometimes we come close to breaking even or losing money on a matter. How can we figure out which matters to take at the client intake stage?

Matter profitability starts with selecting the right cases from the outset. Most [client intake](#) processes gather basic information about a client and their matter, but you need to do more than run a basic conflicts check and assess the facts to determine whether you should take a matter.

To identify matters that have the highest profit potential, you need to understand the types of cases that generally have lower expenses and generate the most successful outcomes. Profitability reporting data can show you historically what types of matters have been the costliest in terms of outlay, led to fewer collections, required higher write-offs, and more.

Law firms should regularly evaluate matter performance to identify areas of improvement and what cases to find to keep profitability high. Conduct post-matter reviews to assess the financial performance of each case, analyze the effectiveness of the legal strategies employed, and identify any cost overruns or inefficiencies. This feedback loop allows the firm to make data-driven decisions that will enhance future matter profitability.

Our attorneys are billing a lot to a certain matter, and a lot of senior partners are working on this project. It seems like our matter profitability should be higher than it is. Are we looking at the wrong figures?

The key is to remember that improving law firm profitability at the matter level requires firms to take a deeper dive than just billable hours and billing rate. Firms should run profitability reports to get greater insights into their expenses by matter and their client pay timelines so they can answer several questions:

- What expenses are out of control?
- What can we do to trim or better control our expenses?
- How fast are clients paying our bills every month?
- If our clients take time to pay us, what can we do to entice clients to pay our bills faster?

Profitability reporting can highlight areas where there may be problems in workflows in your law firm that are inhibiting profitability, such as an attorney's failure to enter all time worked or write off too many tasks. To understand the true cost of a case, attorneys need to understand all the time they spend on a matter, regardless of whether it is billable, and any time reductions.

As for expenses, law firms need to track both [hard and soft costs](#). Hard costs are any costs paid on a client's behalf. Soft costs are overhead costs, such as office leases, copying, mailing, deliveries, and the like.

Depending on what the profitability reports show, it may make sense to change [how your firm bills](#) for certain matters. In some cases, a flat fee model may not work well, and you may need to switch to an hourly rate or to a percentage of the recovery on a case. Or, if clients are not paying their bills on time, you may need to set up a payment schedule or plan. If [nonbillable hours](#) or written-down hours seem high, you should talk to the attorney responsible for the matter about why and figure out a strategy that reduces those costs in the future.

Focus on the matters that will grow your bottom line with Centerbase's Profitability Reporting

If you aren't hitting the [50 percent profitability](#) target at your law firm, you may be wondering which matters are really contributing to your bottom line. To get the answers you need, look to our latest tool: Profitability Reporting. With Centerbase Profitability Reporting, you can go beyond your gut and get clear, actionable insights into which matters are the most profitable and which matters to avoid, so you can seize the right opportunities for law firm growth.

Are you ready to take your matter profitability to the next level? Contact us to [sign up for a demo](#) of the Centerbase platform and our Profitability Reporting tool today.

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