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How Technology Changes the Game for Law Firm Profitability

Katie Langer · Thursday, October 17th, 2024

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The legal industry is at a critical inflection point where law firms can no longer identify only as legal services providers. Law firms must also be data and technology companies in order to effectively compete in the market for long-term success.

I discussed this new landscape with Debbie Foster, CEO of Affinity Consulting, during a webinar on [law firm profitability](#). A substantial portion of that conversation was rooted in the theory that profitability is more than a simple math formula of revenue minus cost; rather, it's about understanding your firm's opportunity to maximize revenue streams while also minimizing costs without compromising quality of legal services.

It's a misnomer to assume the application of technology only minimizes cost. Yes, technology has a critical role in automating administrative tasks, optimizing billing processes and creating comprehensive and speedy communications both internally and externally. However, technology is best utilized when the full power of software is applied to maximizing potential revenue streams.

This can be software-driven enhancements like improving time capture to create more billable hours, building [reports that provide deeper insights into profitability](#) at various levels — from individual attorneys to entire practice areas — through data clarity and availability, and utilizing that data to retain and attract stronger talent that can bill at higher rates.

In other words, as Debbie stated, “Technology should be used as a revenue multiplier.” And multiplied revenue leads to greater profitability.

While many firms have already made investments in technology, they may not be fully utilizing these tools. Let's examine how technology can enhance law firm profitability by improving time

tracking, managing billing, and providing actionable insights into the firm's financial health. We'll also discuss common technology pitfalls and how to avoid them, so your firm can make the most of your technology investments.

Where Technology Drives Profitability in Law Firms

With the right tools, firms can unlock efficiencies that translate directly into higher profits. The key is knowing how to leverage technology effectively to improve law firm profitability, such as:

- **Improve timekeeping:** It's no secret that lawyers often fail to capture all of their time, which represents a direct loss of revenue. Automatic time capture technology can ensure that all billable hours are accounted for, leading to increased revenue. Text messages, quick phone calls, emails, a few minutes spent editing a document — all those moments add up to billed time. [Time tracking software](#) will track it all, automatically.
- **Enhance collaboration:** Cloud-based technology makes it easier for attorneys and staff to collaborate, share documents, and manage cases from anywhere. It also provides access to real-time data and communication tools, enabling better decision-making and faster responses to clients, which ultimately improves client satisfaction and retention.
- **Streamline billing and reduce write-offs:** Legal billing software can automate the entire invoicing process, from generating accurate invoices based on captured time to sending automated payment reminders. As a result, you'll invoice faster and more accurately, reducing write-offs and improving cash flow.
- **Optimize resource allocation:** How effectively does your firm analyze profitability by practice area, client, and individual lawyers? Practice management systems track all aspects of a case, from time spent to expenses incurred. The system will then generate profitability reports that reveal profitability across multiple dimensions. You can use the data to allocate resources more effectively, ensuring that the most cost-effective lawyers do the most profitable work. You can also use this data to make investment decisions when determining which practice areas to fund or reallocate.

- **Improve collections:** Tools like online payment portals and automated payment reminders can automate and streamline the collections process, reducing the amount of time it takes to collect outstanding invoices.

- **Streamline lead management:** On the marketing side of running a law firm, technology can help you respond to leads quickly and efficiently, improving your chances of converting them into paying clients. This could involve using tools like customer relationship management (CRM) software, [live chat on your law firm's website](#), and streamlined client intake workflows.

- **Promote a culture of continuous improvement:** Fostering a culture where employees are encouraged to learn and use new technology can help you stay ahead of the curve and maximize your firm's technology investments.

Technology Shouldn't Be the First Budget Reduction

Despite these opportunities to use technology as a revenue multiplier to drive significant profitability gains, many firms struggle to fully leverage the tools they have — and that often leads to cutting technology costs. But cutting costs isn't a sustainable path to profitability.

Consider these common pitfalls to avoid so you can maximize your technology to advance your revenue streams.

1. Underutilizing Software Features

Many law firms invest in technology but only use a small fraction of the available features. For example, your firm might not be taking full advantage of your practice management software's time tracking, billing, and reporting features that could improve efficiency. Leveraging a tool's full capabilities can not only improve efficiency but help reduce stress at work, too. Encourage continuous learning, where attorneys and staff explore new features and share tips for improving efficiency.

2. Lack of Ongoing Training and Support

Too often, technology implementation is treated as a one-time event rather than an ongoing process. A lot of effort goes into the rollout and not enough into continuous training to learn about the tool after it's been implemented.

As Debbie says:

“We really need to marry up our technology spend with building a culture of training.”

Pay attention to new updates and features, and make sure your staff learns how to use them by providing ongoing training and support. Consider hosting monthly lunch-and-learn sessions to discuss new ways to use your tools more effectively.

3. Not Using Technology to Attract and Retain Talent

One of the best things technology can do for your firm is standardize processes. Sure, every lawyer prefers to do certain things differently, but technology can help you agree on standardizing core elements of practicing law and running a firm. The result goes beyond efficiency.

New associates coming out of law school want to gain experience with modern technology — and they expect it. Maximizing your technology presents your firm as forward-thinking and committed to providing resources to work effectively, and that can help you stand out as an employer of choice.

Newer technology presents employees with an enhanced user experience with fewer clicks, simpler and more modern interfaces, and intuitive ease of use. This streamlined experience over older systems leads to higher job satisfaction, boosting your talent retention and attraction.

The Future of Law Firm Profitability is Powered by Technology

Technology is no longer optional — it's essential for creating a long-term competitive edge. Whether it's automating time tracking, streamlining billing, or analyzing profitability across practice areas, the right tools can make all the difference in how efficiently your firm operates.

By embracing technology and ensuring it is fully integrated into your firm's processes, you can unlock new levels of profitability, improve client satisfaction, and future-proof your business for years to come. The key is not just investing in technology but leveraging it to its full potential—and continuously improving how you use it through ongoing training and fostering a culture that embraces technology.

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