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## How to Boost Practice Area and Location Profitability

Kyle Ostrowski · Monday, July 17th, 2023

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All law firms collect and study data about their bottom line. If they're in the red, they know they need to figure out what's holding them back. But if they're in the black, they may not dig deeper to understand what's working and what's not. After all, a [profitable firm is a healthy firm](#), right?

That's not always the case. If your law firm has multiple offices or is practicing in several different areas of law, it might be that one location or practice is propping up another. Or it might be that a potentially profitable practice is located in an area with too few high-paying clients or with a high tax rate.

Aren't these details you'd want to know as a law firm leader? Absolutely! And you can by using Profitability Reporting tools. Let's take a look at some scenarios where profitability data can help you make smart, strategic decisions that will move your [law firm's profitability](#) forward.

Our [fill in the blank] practice group or law firm location is busy, but it's not turning a consistent profit. How can we figure out why their profitability is so low?

One reason is that you might have situated a practice in the wrong location. Let's say you've got a divorce and custody practice located in a big city, where there's lots of competition and a high tax rate to boot. You're going to have to keep your prices lower to compete for business, and then the government is going to cut into those fees even more.

You can use your profitability data to identify underperforming locations or practice groups and

take appropriate action, such as closing or merging offices or practices, to optimize profitability. With this data in hand, you can model different scenarios, including adjusting your billable rates or flat fees to accommodate a higher tax rate and take on fewer clients. Or you may need to move a practice to a satellite office outside the city and use remote tools to work with clients in the city to improve your practice group profitability. Alternatively, you might find an opportunity to acquire another law firm in that area and then focus your resources on other, more profitable practice areas.

## Some of my lawyers work in multiple offices. How can I see where they're working most profitably?

If you have a profitable attorney splitting their time between a Connecticut office and a New York office, it can be hard to tell where they're generating the greatest profits unless you look at their results by location. The key is to look at the location where the work is actually happening.

Profitability Reporting can help you isolate where your attorneys' profit margins are the highest, so you can sift through the details about their billed, written-off, and collected fees and their costs to drill down to the details that matter.

## Our attorneys want us to spend more dollars on advertising, but I'm not sure we're getting our bang for the buck. How can I tell what marketing strategies are working?

If your partners are blowing through their marketing budget and their profitability numbers aren't soaring, you need to figure out why. One way to sort out what's working and what isn't is to run a report on profitability by resource.

Let's say a lawyer wants to invest in advertising on a particular radio show and claims that they're bringing in new clients based on their ads. A law firm administrator can dig into the numbers to determine the impact of that spend on actual client revenue. If the clients are coming in but not bringing the dollars with them, it makes sense to invest those marketing dollars in other channels that will lead to more lucrative business.

# Some of our practice areas have razor-thin profit margins. How can I improve the profitability of these practice areas?

To accurately assess profitability, law firms need to allocate both revenue and costs correctly. This involves allocating direct costs, such as salaries and expenses directly related to specific locations or practice areas, as well as indirect costs, such as overhead expenses and shared resources.

Some of these costs may include write-offs too. Take, for example, [insurance defense practices](#). Often, the profit margins in these practices are razor thin, given competition and the rigorous scrutiny that insurance companies apply to their bills. If you bill for the wrong thing, their billing software algorithms will identify problematic entries and send the invoice back to you, further delaying payment and shaving your profit margin even thinner.

While it's good to offer some services [pro bono](#), you don't want to pay businesses to be your clients. To ensure you're focusing your attention on profitable clients, you can look for cost savings opportunities. You can also study how much each practice area is writing off or not collecting and use it to determine whether you need to adjust your rates, change how you bill for your work, or make different decisions about who your firm takes on as clients.

## Find new avenues to law firm productivity with Centerbase's Profitability Reporting

Partners and firm administrators have a new tool in their arsenal for measuring their law firm profits: Profitability Reporting. The latest addition to our software portfolio empowers leaders to make smarter decisions about [resource allocation](#), marketing, and more using profitability at the practice group and office location level (as well as by [timekeeper](#)). Law firms can also focus their attention on markets and practices with the greatest potential for growth, client acquisition, and revenue generation.

Are you ready to take your location and practice area profitability to the next level? [Sign up for a demo](#) of the Centerbase platform and our Profitability Reporting tool today.

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