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How to Increase Timekeeper Profitability With Profitability Reporting

Kyle Ostrowski · Monday, July 3rd, 2023

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If you're running a small or midsize law firm, you're probably juggling a lot of things, trying to maintain your law practice while also managing the business of your law firm. You may not always have your finger on the pulse of the metrics that matter, yet you probably do take a quick glance at your firm's overall revenue and your timekeepers' billable hours. So far, your firm isn't in the red, and your partners seem to be churning out work. But these two statistics, in isolation, aren't a meaningful gauge of your firm's overall performance.

Say, for example, that you have an attorney who is bringing in a ton of revenue. However, when you take a closer look at the numbers, you discover that his expenses are incredibly high, and he isn't billing enough to cover the costs of his practice.

You might also have brought in a lateral with a huge book of business — and a huge salary to boot. But while his billables are high, there are too many write-offs to cover his monthly paycheck.

Or perhaps your star rainmaker has landed a million-dollar client. But the expenses of working for this client are sucking your firm dry to the point that you're actually paying this client to be on your roster. You're running a law firm, not a charity.

How can you figure out that these problems exist if you don't look at profitability by timekeeper? You can't.

As you can see, it takes more than managing the bottom line to run a successful law firm. And a firm's success depends on the success of every timekeeper. That's why it's so important to monitor profitability per attorney or timekeeper. That's where Profitability Reporting comes in. Here are just some of the pressing profitability questions that a good tool can help you answer.

My lawyers are billing out the wazoo. Doesn't that mean they're profitable?

There's a tremendous difference between being a top biller and being profitable. If an attorney is burning the midnight oil every night churning out briefs or contracts, they may not be as productive as they should be. Clients can't be billed for inefficient work, so some of these timekeepers are having their hours written off.

Your law firm's goal should be a 50% profit margin. That means you should set the same profitability goal — 50% — for each timekeeper too. Profitability Reporting can show you the complete picture of how write-offs are hurting your profits.

Some of my lawyers aren't billing enough. How can I help them bill more hours?

Profitability Reporting can also help you assess the profit margins for each timekeeper by comparing their billed, written off, and collected fees to their associated costs, including overhead expenses and direct costs. If timekeepers aren't billing enough to cover their keep — their overhead including their salary — something needs to change.

Profitability Reporting can give you the insights you need to have a coaching conversation with attorneys who aren't logging enough hours so you can help them find ways, such as automation, to make their work more efficient; encourage them to spend less time on nonbillable matters; or balance the workload so everyone has a more equal load. You may also notice an opportunity to help lawyers struggling to meet their billable quota with tools that make it easier for them to capture every billable minute. If all else fails, you may need to adjust their billing rate, encourage them to manage their costs more effectively, or even change their salary to match their profit margin.

My lawyers are billing a lot and bringing in new clients, but they still can't hit the 50% profitability threshold. What should I do?

It may be that your lawyers are doing lower-value work or work for clients where the profit margin is razor thin. Profitability Reporting helps you evaluate the value of different practice areas and types of work that your lawyers handle. The right tool pinpoints trends and shows which areas, matters, and tasks generate higher billable hours and profit margins. This analysis can help guide resource allocation and encourage your timekeepers to search for clients and focus on the work that delivers the biggest payoff for their effort.

Timekeeper data can also show you whether you have set the appropriate pricing and fee structures for the work. By analyzing the relationship between billing rates, fee structures, and realization rates, you can identify opportunities to adjust billing rates, introduce alternative fee arrangements, or negotiate better terms with clients to improve your overall profitability.

Finally, the data in a Profitability Reporting tool can help you make tough choices. It may be that a lawyer on your team is just not able to generate the profit necessary to justify keeping them in the firm. If that is the case, it’s better to cut them loose so that your firm can focus on recruiting timekeepers capable of keeping your firm in the black.

We use flat fees. How can I figure out whether my timekeepers are profitable?

Typically, profitability is calculated using hours worked. But if your timekeepers aren’t counting their hours because you’re billing clients on a flat-fee basis, then you can’t make that calculation. That doesn’t mean all is lost.

New Profitability Reporting modules are being built n that will help you calculate profitability even when you’re using a flat rate for your services.

Start maximizing your timekeeper profitability with Centerbase’s Profitability Reporting

Our new Profitability Reporting tool makes it easy for law firm leaders to track revenue, expenses, and profits at the timekeeper level. With this data in hand, you can determine how each timekeeper in your practice can improve and give them targeted advice to strengthen their performance. And, when each timekeeper improves, you increase your firm’s overall profitability.

The Centerbase platform gives you all the tools you need to turn your law firm into a profit-generating machine. To learn more about our Profitability Reporting tool, reach out for a free demo today.

This entry was posted on Monday, July 3rd, 2023 at 7:46 pm and is filed under Practice Management
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