Law Firm Profitability: How Legaltech Can Increase Firm Revenue

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It's been a tough few years for all businesses, and law firms are no exception. They're currently facing a multitude of challenges—all of which threaten to eat into law firm cash flow.

You've likely seen the bad-news stories: The pandemic wreaked havoc on the global economy, with the UK economy contracting by 9.7% (the steepest drop since records began). Taxes, energy prices, and the cost of living have all increased sharply over the past 12 months—meaning inflation has reached near 40-year highs.

In the face of such challenging circumstances, it's incumbent on law firms to act to protect their firm revenue and profitability. How do law firms stay profitable in difficult times?

As our research consistently shows, one important answer is to adopt legaltech solutions to enhance your processes and improve your utilisation and collection rates. According to the *2022 Legal Trends Report*, these figures sit at 33% and 89% respectively, showing there's still much work to be done.

This article will delve into five ways that legaltech can increase law firm profitability, exploring:

1. Increasing lawyer efficiency
2. Calculating law firm profit by partner (utilisation rates)
3. Billing all fee-earning work
4. Collecting all that you're owed
5. Showing you where your best leads are coming from

Discover 10 Proven Strategies to Boost Law Firm Profitability and Success in our blog.

1. Increasing lawyer efficiency

Your firm's time is incredibly valuable. If you're not actively maximising lawyer efficiency at your firm, ensuring they're spending company time on high-value activities that tangibly move the needle, you're missing out on revenue. We covered this topic in more detail in our blog, "How Legal Workflow Automation Increases Law Firm Revenue and Efficiency," but it's worth reiterating in this article too.

Look, we're not saying that every hour of the day needs to be billable—that's unrealistic. However, it's important to understand how effectively lawyers are utilising their non-fee earning time. Are they using chunks of their week just staying on top of their email inbox, engaged in phone or email tag to schedule upcoming appointments, or trying to manually onboard new clients into spreadsheets and diaries?

These common firm activities, when not managed effectively, can eat up hours of every week. If your experienced, expert lawyers are spending their days completing tasks that technology could do in a fraction of the time, they're not necessarily spending their days wisely.

Automating these processes using legaltech frees lawyers up to decide how to spend their non-fee-earning time. They could use these extra few hours each week to stay up-to-speed with legislative changes and sign up for training sessions to understand the industry's latest best practices. Or, they could get out there and network, build new relationships, and follow up with potential leads.

2. Calculating law firm profit by partner

If you're not accurately calculating law firm profit by partner, you may be missing out on easy ways to increase profit. Your firm can only improve its profitability by staying on top of how much each partner is earning. By identifying high- and low-earners, you can then dive in and begin to understand what separates the two and where revenue is being lost.

Let's quickly explain how you can calculate law firm profit by partner using two simple metrics: utilisation rates and time recording.

Get clear on your utilisation rates

By calculating your utilisation rate, you can see just how many hours per day each partner spends on billable work. Simply use the following formula:

Billable hours worked / number of hours worked in a day = utilisation rate.

The results might shock you.

According to the *2022 Legal Trends Report*, lawyers are completing just 2.6 hours of billable work per day. You read that correctly: lawyers are on average losing 5.4 hours per day on non-fee-earning work.

Partners with low utilisation rates clearly need to improve their efficiency—for instance, by implementing legaltech so that they can get on top of their administrative processes. Once you get clear on your utilisation rates, you can then begin to identify who needs help, why, and adopt the necessary solutions.

Recording time

You might be thinking: "Of course we record our time—how do you think we calculate our billable hours?"

That's all well and good—but your lawyers should record *all* their time, not just their fee-earning hours. Recording billable hours might help with invoicing, but it does little to help improve firm-wide efficiency.

After all, lawyers *should* be spending their time on fee-earning activities. You're not going to identify inefficiencies that are affecting your firm's profitability by simply analysing what you're already doing well (and billing for).

Rather, lawyers should habitually record every single thing they do every day. Better still, if they do this following a consistent, firm-wide process, then firms can easily analyse their firm's overall efficiency across all of its lawyers. This doesn't need to be an onerous, manual process. After all, rather than increasing efficiency, that would do the exact opposite.

This is where time recording and case management software like Clio Manage can help. It offers a wide range of automatic time tracking capabilities, instantly populating every work entry into a comprehensive timesheet in the Activities page for each individual member of your firm.

Firms can then generate detailed time reports to understand exactly how their lawyers are spending their time, identify profitability-busting inefficiencies, and devise the appropriate solutions.

3. Billing all fee-earning work

You might be surprised to learn that your firm isn't actually billing for all fee-earning work that it completes. If that's the case, you're far from alone.

In the *2021 Legal Trends Report*, we found that realisation rates (the percentage of a firm's billable work that actually makes it to clients' bills) were on average 84%. This means that 16% of all billable work wasn't being billed—so firms were effectively leaving money on the table.

There are a few potential reasons that might explain why this is happening. Perhaps, for example, lawyers underestimate the time that it will take to complete a task. They might tell a client that it'll take 20 hours and will quote them a price based on this estimate. However, the task ends up taking 25 hours—but they decide to refrain from charging the full amount as they've already told the client how much it'll cost in advance. Or, they're not accurately tracking hours spent on activities and including them in their bills.

By keeping an eagle eye over their billing to identify how often this happens, firms can address the underlying causes that are hampering their realisation rates. They can then take the appropriate steps to remedy these issues.

Using legal billing management software can transform your firm's billing operations and ensure you're not missing out on money owed to your firm. Using Clio, for example, your lawyers can operate from a single source of truth, with all-in-one dashboards showing firms precisely which activities they have (and haven't billed) and how much they're owed.

4. Collecting all that you're owed

Billing is just the first step. To safeguard law firm profitability, you need to master your collections process—in other words, to ensure that you're actually being paid for your hard work. The average collection rate for law firms in 2020 was 89%, which suggests that most law firms struggle to some degree in getting clients to pay their bills.

So how can firms collect that extra 11%?

You can set clear payment milestones from the start and make the payment process as easy as possible. Seek to eliminate as much friction as possible from the payment process with billing reminders and automated notifications. Many firms also deal in cheques or bank transfers. Consider setting up online payment solutions instead. That way, you make it as easy as possible for clients to pay you on time, every time, ensuring your collection rate is as strong as it can be.

5. Showing you where your best leads are coming from

Leads (a sales term for potential clients) are essential to growing your law firm's revenue. However, not all leads are equally as valuable to your firm. If you're looking to improve profitability this year and beyond, you need to be strategic about which leads to pursue—and which clients you onboard.

You may have a rough idea where your leads are coming from—but do you know whether they're actually valuable to your firm? Are you spending hours each month networking to attract new clients without assessing whether that translates into repeat business or revenue growth? Or, are you overlooking potentially valuable clients? It's entirely possible that all of those scenarios are true. They are for many firms.

If you're not already tracking the quality of your leads, doing so will have a big impact on your firm. It can also set you apart from the competition. An incredible 26% of firms don't track their leads, not even in spreadsheets or pads of paper. This makes it almost

impossible for them to identify their best and worst leads—and to devise a strategy for improving the quality (and profitability) of the clients that they work with.

So what's the solution? To implement a client relationship management (CRM) system, such as Clio Grow.

An effective CRM can help you to simplify (and speed up) client intake, manage client relationships, and most importantly, analyse where your most valuable clients are coming from. Armed with key insights into which clients are most valuable (and why), you can then devise a strategy for pursuing more of these types of clients moving forward.

Take the smart approach to increasing law firm profitability

With strong competition in the market, globally challenging economic conditions, and rising operating expenses, when it comes to law firm profitability, firms are facing a multitude of difficulties that can affect revenue. The solution is for firms to work smart—not hard—by implementing leading legaltech solutions.

About Clio

Clio is the global leader in legal AI, powering legal work across the profession, from law firms of every size to corporate legal teams, government agencies, and courts. Its Intelligent Legal Work Platform unites the business and practice of law, connecting the people, information, and processes behind legal work. Clio's AI brings the context together with legal sources drawn from Clio Library, a growing collection of more than one billion legal documents. Over 400,000 legal professionals in more than 130 countries rely on Clio to run their legal world. Learn more at www.clio.com.