LAW FIRM
MANAGEMENT

SPRING 2016

4 ways to improve profitability

Afraid of being audited?
An IRS guide may help ease your mind

How your firm's strategic game plan can use a Balanced Scorecard

Building — and maintaining — your firm's brand

GARIBALDI GROUP
Certified Public Accountants
Financial and Management Consultants

www.garibaldicpas.com

990 Stewart Avenue
Garden City, New York 11530

t: 516.288.7400
f: 516.288.7410
e: info@garibaldicpas.com

4 ways to improve profitability

In good times or bad, profitability is usually top of mind for law firm management. Although economic conditions are beyond your control, plenty of factors that drive or impede profitability aren't. To boost your bottom line, consider taking control of the following:

1. MANAGE BILLING, RECEIVABLES AND PAYABLES BETTER

Even when a firm's revenue generation is running on all cylinders, poor billing, receivables and payables management can hinder profitability. Delays in issuing and collecting on invoices, for example, often lead to costly write-offs and write-downs.

To streamline the process, consider prebilling your clients for major expenses such as expert witnesses, depositions and travel. In addition, you should bill clients as soon as a matter is completed, regardless of the result, as well as at appropriate milestones (for example, after a successful pretrial motion).

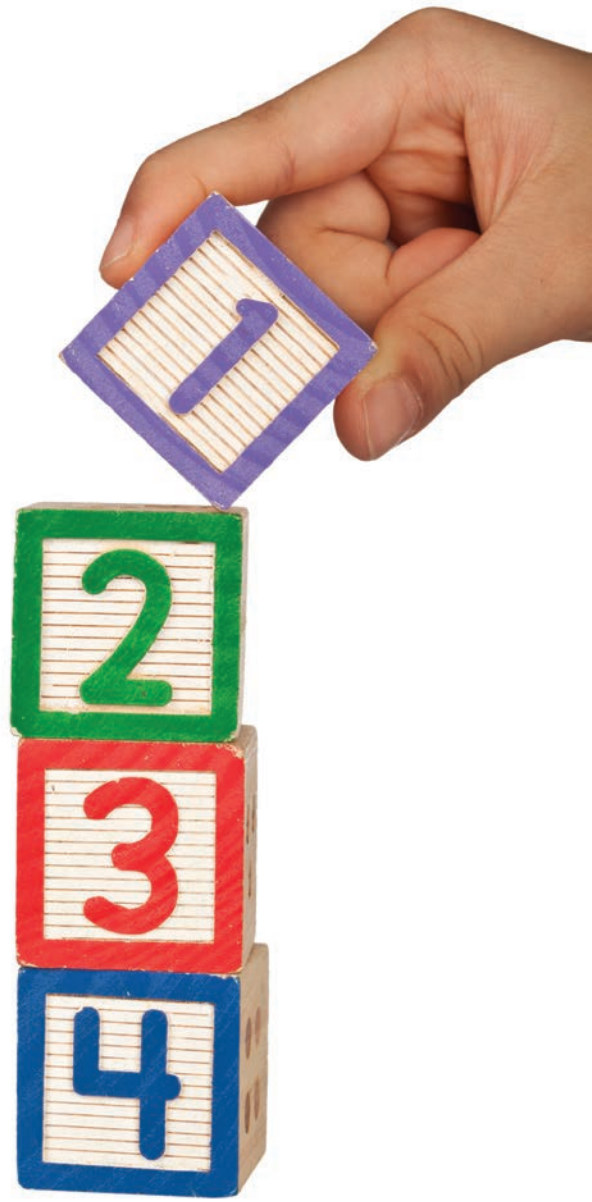
When clients submit their payments, process them immediately, making daily deposits, rather than letting payments stack up. If your clients delay in paying their bills, follow strict schedules for following up with them. You might cite quarterly and year-end bank reporting as a reason to reach out on delinquent payments. Consider offering one-time discounts as incentives for clients to satisfy aged receivables, and encourage payment by credit card.

As for payables, schedule your payments for close to the due dates so you benefit from any early payment discounts without transferring funds unnecessarily early. If available without additional fees, take advantage of deferred payment options. And regularly ask vendors if it's possible to negotiate lower prices.

2. CROSS-SELL SERVICES

It's a marketing truism that it's easier and more cost-effective to generate new work from an existing client than to land an entirely new client. That's where cross-selling comes in.

Train your attorneys to recognize when clients might need additional services so they can refer those clients to other lawyers in the firm. Note that they may need a primer on your firm's specialties and services to help them identify cross-selling opportunities. Some might be resistant to sharing



TIPS FOR CUTTING COSTS

One of the easiest ways to improve profitability is to reduce your costs. This is an area where you can think creatively. For example, you might consider adopting alternative staffing arrangements. Flex-time, part-time or temporary attorney arrangements can all result in lower staffing costs. Such options can give firms access to top-notch attorneys who aren't necessarily interested in the traditional partnership track, without many of the costs associated with full-time lawyers. Outsourcing might be advisable for nonattorney services such as accounting.

Another idea is to leverage technology. Software, cloud services and other new technologies provide a wealth of options for increasing productivity, improving practice management and saving time on standardized tasks and forms.

And don't forget to look at your compensation models. Law firms are increasingly moving away from fixed salary compensation to incorporate a variable pay component based on outcomes and achievements. Changes to benefits also can cut costs. For example, employers of all kinds are increasing health insurance deductibles and employee portions of premiums.

"their" clients, so you should explain the benefits of cross-selling for the firm and, ultimately, their own bottom lines. You also might want to tie cross-selling to compensation.

3. INCREASE SPECIALIZATION

Law firms that specialize in specific practice areas often see greater profits than those that take a more scattershot approach. Attorneys and paralegals who specialize in an area generally work more efficiently and effectively, producing high quality work at a greater pace and for higher fees. Even small firms can benefit from divvying up legal work by practice area.

4. REDUCE YOUR NUMBER OF CLIENTS

This tip no doubt seems counterintuitive. More clients means more money, right? Not necessarily. Every firm has had its run-ins with clients who take up time and resources without returning profits that justify such expenditures. Don't continue to take on such clients' unprofitable matters in the hope that they will one day walk in the door with work that makes it all worthwhile.

Instead, focus on having fewer but more profitable clients. When you work with a handful of large clients with continuing matters and numerous needs, you can develop a deeper understanding of your clients that leads to lucrative cross-selling opportunities, as well as a stronger sense of teamwork both with the clients and within your firm. You'll also likely reduce costs related to client acquisition.

Bill clients as soon as a matter is completed, regardless of the result, as well as at appropriate milestones.

AN EVOLVING PROCESS

Improving profitability isn't just a matter of instituting one or two measures and then sitting back and watching the money roll in. If only it were that easy! Instead, it's a process that requires ongoing vigilance regarding financial and economic conditions so you can spot opportunities and take advantage of them. •

Afraid of being audited?

AN IRS GUIDE MAY HELP EASE YOUR MIND

The prospect of an IRS audit can cause even the most level-headed attorney to panic. Take a deep breath. The IRS's Audit Technique Guide (ATG) covering attorneys may ease your mind — or at least provide insight into the process.

AUDITOR HOT SPOTS

Although the ATG is designed for IRS employees, knowing what auditors look for enables lawyers and law firms to provide the right information and documents and reduce the time and stress of being audited. The ATG highlights several areas of auditor interest, including:

Unreported income. Auditors are told how to ferret out unreported income by, for example, determining whether fees withdrawn from client trust accounts were included in income at the proper time. Special attention is given to checks from those accounts that are either cashed or deposited into accounts other than the firm's general operating account.

Deferred income. Client trust accounts can also provide evidence of deferred income. After a settlement, an attorney could attempt to defer income by allowing fees to sit in the trust account until the next year. But once a settlement is received, the fee should be included in income. Auditors may analyze the source of funds remaining in the trust account at year end, especially if the account has a large ending balance.

Noncash payments. Auditors may examine client ledgers to uncover noncash payments. Verifying the basis of newer assets (for example, partnership interests or stock) can reveal that they were actually payments for services. Auditors could also compare an attorney's work schedule with his or her claimed fees. If the workload has remained steady while the claimed fees from one or more clients have declined, the attorney might be working for noncash payments.

Expenses. Auditors closely scrutinize entertainment expenses to determine whether there was little or no possibility of engaging in the active conduct of business due to "substantial distractions." For example, meetings that occur at nightclubs, theatres, sporting events, cocktail parties or social gatherings are looked at carefully. Auditors also consider whether claimed expenses are simply "disguised hobbies" or other personal expenses.

GOOD ACCOUNTING HELPS

As you might have guessed from the ATG's areas of focus, sound accounting practices and an ethical firm culture can minimize the pain of being selected for an audit. As the ATG states, "A good accounting system for attorneys will include strong internal controls to monitor both fees billed and costs and expenses advanced for clients."

If you don't already, consider implementing policies and processes that reflect IRS expectations. For example, your firm should:

- Require preapproval of expenses over a certain amount or of particular types (such as sporting event or nightclub bills),
- Establish clear policies about which expenses are charged to the firm and which to clients,

- Restrict the use of firm credit cards,
- Require thorough documentation of meal and entertainment expenses, and
- Maintain up-to-date cash receipts, cash disbursement and time records.

Perhaps the best way to increase your odds of smooth sailing is to regularly perform your own audits (or ask an outside professional to perform them). Self-audits often catch errors or fraudulent activities before the IRS gets a chance to find them.

USE THE ATG PROACTIVELY

If you receive a letter from the IRS announcing an audit, your first call should be to your accountant. But don't wait until you're audited. Your CPA can help you use the IRS's guide proactively to identify — and remedy — gaps in your policies, processes and records. •

How your firm's strategic game plan can use a Balanced Scorecard

The Balanced Scorecard was developed in the early 1990s to enable business leaders to translate their organizations' strategic goals into a set of performance measures. How might this management tool help law firms become more profitable and efficient? Read on.

4 FOCUSES, 4 QUESTIONS

The Balanced Scorecard helps firms focus on four critical areas:

1. Clients. Most firms realize the importance of keeping clients satisfied. But to excel in client satisfaction, your firm must develop metrics that measure it. Also, identify the types of clients you want and, more important, can best serve. The overriding question to ask: *To achieve our vision, how can we solicit and retain the clients that we can serve best?*

2. Finances. Generally, firms find it easy to measure their financial picture but too often rely on finances as a barometer of overall firm health. Financial details are lagging indicators because they reveal past, not future, events. So instead measure contribution margin and billable hours improvements, firm and practice area realization, utilization, and revenue and new matter growth. The question here is: *To achieve our vision, how will our partners and associates define our firm's financial success?*

3. Internal operations. To obtain lasting results, identify problems and change the processes. Simply reviewing an area or paying closer attention isn't an adequate solution. For example, measuring realization won't automatically increase it. Your firm must analyze internal methods affecting

Here's a basic example of a law firm's Balanced Scorecard.

Area	Objective	Tool	Target	Initiatives
Clients	Increase client satisfaction	Annual survey	Increase by 50% in two years	Conduct one-on-one client discussions and client appreciation initiatives
Finances	Increase net income per partner (NIPP)	Monthly partner productivity report	Increase NIPP 10% per year	Provide partners training in client development and work management techniques
Internal operations	Reduce late payments	Monthly A/R report	Reduce days outstanding by 15 days	Review billing and collections processes and hire a dedicated staff person to manage collections
Organizational growth and learning	Reduce support staff turnover	Biannual manager/ staff meetings and anonymous "suggestion box"	Reduce turnover by 25% in three years	Offer tenure and performance incentives and encourage "open door policy"

realization — including the engagement letter, project management and billing — and implement new processes to increase realization rates. Answer this question: *To achieve our vision, in what business practices do we need to excel?*

4. Organizational growth and learning. Learning involves more time and effort than firms usually devote to it. But learning must go beyond administrative training to include, for example, mentoring and knowledge sharing through improved communication systems. And because your success depends on your firm's intellectual capital, this area is critical. Your firm should ask: *To achieve our vision, how can we better pass along knowledge and encourage learning?*

ASSEMBLING THE DATA

Compiling data for your Scorecard can be tough, but it's worth the time and effort. For example, your firm might obtain client information annually through a survey. For finances, internal processes, and organizational growth and learning information, it could use quarterly or monthly spreadsheets. The Balanced Scorecard process is dynamic and fluid. For a sample Scorecard, see the table.

Once you've assembled the data, you're ready to start addressing objectives your firm wants to achieve. You also need to designate tools to measure progress; targets that indicate specific, measurable results; and initiatives or activities that will help you meet targets. As you brainstorm these ideas, be sure to keep your firm's specific vision, brand, niche and clientele in mind.

Don't forget to prioritize your goals, noting cause-and-effect relationships that might exist. For example, say your firm has a problem with support staff turnover and surveys have also indicated that client satisfaction is low. Improving client satisfaction can have a ripple effect — improving staff turnover because staff members no longer have to deal with disgruntled clients. And when you retain more staff, you can further reduce overhead costs. By satisfying clients, your firm can also make gains in other important areas.

ONE OF MANY TOOLS

If you're looking for ways to make your firm more goal-oriented and profitable, the Balanced Scorecard is just one of several tools available. Talk to your financial advisor about other options. •

Building — and maintaining — your firm's brand

Firms with strong brands can reap many benefits, including higher fees, easier new business development and stronger client relationships. But getting the most out of your brand requires some up-front effort as well as ongoing maintenance.

A PROMISE

There's more to a brand than a firm name and logo. Your brand represents a promise to your clients and prospective clients, referral sources, judges and even your own staff. It tells stakeholders what they can expect from you and your attorneys.

Your brand, therefore, is a vital tool for differentiating your firm from your competitors. That means you need to identify your differentiators before developing the brand that will reflect them. Do you, for example, offer superior client service, niche or deeply experienced practice areas, or alternative fee arrangements? Do you provide experienced consulting services or other value-added benefits? Ask and answer these questions before you ponder logo design.

Rollout matters also should be considered before visual design and creative concepts. In today's multimedia environment, your firm needs to identify the media platforms (such as print, email, social media, radio, television) in which your brand will operate. Remember, too, that your marketing plan should follow from your brand, not the other way around.

FAILURE TO LAUNCH

For some firms, developing a brand is the easy part; execution is the problem. After making substantial investments in brand development, they shelve it to attend to more pressing matters or fail to integrate the brand across their firm.

One reason for such failure is a tendency to view brand implementation as the province of marketing personnel. But your entire firm — from the mailroom to the managing partner — must be on board. Make sure everyone is trained on your brand tenets and how to effectively convey them in their actions, whether answering the phones, building client relationships, updating a Facebook page or speaking at conferences.

Consistency in using your brand is indispensable to establishing and sustaining your firm's identity with target audiences. Take the time to draft and distribute a standards manual outlining approved usage of brand elements (including name, graphics, fonts and colors) in daily operations.

WORK IN PROGRESS

Don't forget to update your brand and standards manual as it becomes necessary. Everything from increased expertise in certain legal niches to the emergence of a new media platform merits revisiting your brand and the assumptions behind it. If you want your brand to be effective, it should always be a work in progress. •

GARIBALDI GROUP

Certified Public Accountants
Financial and Management Consultants

990 Stewart Avenue | Garden City, New York 11530