LAW FIRM MANAGEMENT

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4 pillars of effective virtual law practices

Create stability with your capital plan
Why the need for capital matters

Taking the temperature of the small firm market

Should you text with clients?

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4 pillars of effective virtual law practices

With the worst of the COVID-19 pandemic seemingly behind us, some attorneys and law firms have gladly returned to the office. But others, having been forced to conduct much of their work remotely for the first time, have seen the virtues of virtual law practices. Such practices can produce numerous benefits if done right.

LURE OF VIRTUAL PRACTICE

One of the biggest draws of a virtual law practice is higher profitability as a result of reduced costs. The overhead savings are significant when you don't have to maintain a physical office space. Rent or mortgage payments, utilities, property insurance, furniture and décor, and janitorial services add up, perhaps more than you even realize. Going virtual generally also means going paperless, leading to savings on storage and printing.

In addition, businesses that operate virtually often make greater use of contractors or automation, paying for services only on an as-needed basis. Their staffs shrink, as do their labor costs.

And virtual work can make it easier to achieve the elusive work-life balance that so many attorneys prioritize when looking for new jobs. You have greater flexibility, more control over your schedule and no commute.

KEYS TO SUCCESS

Law firms can improve their odds of finding success with a virtual practice by:

1. Drafting a new business plan. The existing business plans of most firms may contemplate a different world than we live in now. Chances are, you have a better grasp now of your firm's strengths — plus, your priorities may have changed dramatically. Take the time to develop a new plan that accounts for such shifting ground. This will give you a good picture of what's ahead, as well as the opportunity to address or even preempt some of the challenges.

Your business plan should include a market analysis, a revised rate or fee schedule that reflects the new circumstances, and realistic financial projections. You'll also need a new marketing plan (see "Shifting your marketing and branding strategies," on page 3).

2. Establishing formal processes. When you don't have colleagues and staff working right outside your office or down the hall, clearly

SHIFTING YOUR MARKETING AND BRANDING STRATEGIES

Whether as part of your business plan, or as a separate, more comprehensive plan, you'll need to update your marketing and branding for your new virtual status. For example, your website will be your primary vehicle for making first impressions with prospective clients, so it can't be an afterthought. If you're going to operate online, it's imperative that you have a prominent online presence.

That means you should regularly update your firm's website with strong content that will be highly relevant to your target audience. Search engine optimization (SEO) is even more important for virtual law firms than for traditional brick-and-mortar firms with buildings and impressive signage.

When prospects have a problem that they're researching online, you want your firm website to appear high in their search results. Proper SEO will bring clients to you through your website. In addition to SEO, plan on actively using social media platforms to drive traffic to your website and establish your expertise.

established administrative processes are critical for the effective and efficient management of a law practice. You don't want to take an ad hoc approach to matters such as:

- Client intake,
- Mail distribution,
- Document storage,
- Internal and external communications,
- Time tracking,
- Billing, and
- Collections.

Most, if not all, of these will require some degree of tweaking from what works in a traditional law practice.

3. Thinking about the client experience. If your clients have had prior legal dealings with your firm, they're likely going to need help adjusting to this new way of doing business. You may want to provide some simple "training" on how client meetings will be held, documents will be exchanged and updates will be provided.

Also, think about the tech savviness of your target audience. It would be great if they were all current on the latest devices and software. But, if you don't come to your clients where they are, you could lose out on lucrative relationships.

4. Investing in technology upfront. Your technology budget isn't the place to skimp or try to cut financial corners. Technology will make or break a virtual practice, and it needs to be in place from the start so your clients aren't forced to repeatedly adapt. Invest on the front end in such essentials as practice management software, cloud-based document storage and billing, VoIP phone systems, and video conferencing capabilities.

The most important piece of technology is probably a client portal that can be accessed from your website. A secure and fully encrypted portal will help you comply with your ethical obligations regarding, for example, confidentiality. It will also give your clients greater peace of mind and a simple way to access documents, invoices, appointments and communications.

COVER YOUR BASES

As with traditional law practices, proper financial planning is vital for virtual law practices. We can help you plan for short- and long-term stability and profitability. •

Create stability with your capital plan

WHY THE NEED FOR CAPITAL MATTERS

Every law firm requires a different amount of capital to support its daily operations. So it's important for you to determine how much is enough. Law firms may require larger partner capital contributions to offset gaps in cash flow due to expenses, law firm billing and collections.

DETERMINING EXPENSES

All law firms face financial pressure. For example, your firm may have to provide client cost advances during lengthy litigation. And with the uncertain economy, it's not unusual for clients to drag their feet when settling bills. Regardless, outside vendors expect prompt payment. In fact, some vendors may demand payment before your firm has even invoiced a client.

> *A law firm's capital plan should address the firm's capital needs for the next three to five years.*

In addition, today's attorneys expect to work with sophisticated, up-to-date hardware and software, and clients expect their attorneys to leverage technology to provide efficient, cost-effective services. Keeping up with rapidly changing technology — and technologically savvy competitors — can be expensive.

Finally, growing firms must hire new associates and lateral hires. Even lateral hires who bring clients with them usually receive several paychecks and incur overhead costs before those clients start generating — and paying — additional revenues. Partners can also be expensive. As more Baby Boomers continue to retire, some firms have more partners leaving to retire than young partners buying in.

CREATING A PLAN

All these issues can be alleviated with adequate capital reserves. If revenues fall short, your firm can tap its capital to bridge the gaps. Having a capital plan can be helpful in these situations.

Your plan should address the firm's capital needs for the next three to five years. To quantify those needs, consider:

- Your average revenue cycle,
- Any anticipated capital investments (for example, technology or physical space),
- Operating expenses, and
- Estimated client disbursements.

You'll also need to consider obligations to current and retired partners. Consider partner draws (although it's usually best to defer draws rather than paying them out of capital), and if applicable, any payment obligations to retired partners.

EVALUATING OPTIONS

Once you've calculated your capital needs, you have four basic options for determining the specific amount of capital your firm needs to keep on hand. You might base capital needs on one or more of the following:

1. Net fixed assets. This method assumes that your firm has secured outside loans to finance fixed assets, and that your partners will fund working capital in an equal amount.

2. Monthly expenses (not including partner draws). If your firm has a strong cash flow (meaning prompt collections), you might set capital at one to two months. If you have a slower turnaround, you may need to use three to six months as the measure.

3. Fixed percentage of gross fee collections. When setting the percentage, assess the timeliness of your collections and plans regarding hiring and space. Most firms set the percentage close to 10%.

4. Long-term debt. Putting aside capital equal to half of your firm's long-term debt provides lenders with some comfort. Ever since the 2008 recession, lenders have been less accommodating about extending credit to law firms than they were in the past.

When you've settled on the appropriate capital level, decide on the proper breakdown between partner contributions and lines of credit. This decision should consider your firm's — and individual partners' — tolerance for debt. The higher the debt tolerance, the greater you can rely on credit lines over contributions, and vice versa. Note that your partners should also consider potential personal liability associated with lines of credit. Credit lines typically are subject to

joint and several liability, putting all your firm's partners at risk of liability for the entire amount owed in the event of default.

KEEPING CURRENT

To keep pace with your firm's strategic and financial needs, review your firm's capital plan at least annually. Make needed adjustments and communicate any updates to your firm's partners and other stakeholders. Having a capital plan in place will help with any cash flow uncertainty and provide partners and other stakeholders with a sense of stability. •

Taking the temperature of the small firm market

It's been a tumultuous few years for the legal industry, but the leaders of small law firms — defined as those with 29 or fewer attorneys — are optimistic about their firms' status. They're realistic about current and potential challenges but also see opportunities. That's according to the *2022 Report on the State of US Small Law Firms* recently released by the Solo, Small Firm and General Practice Division of the American Bar Association and the Thomson Reuters Institute.

Read on for more details on the 400 surveyed leaders' responses. They can help you better position your practice to grow and profit.

LOOKING POSITIVE

Considering the economic upheaval in 2022, the respondents' assessments of their own firms' successes are notable. Ninety percent rate their firms as successful or very successful; fewer than 1% felt their firms weren't successful. The top-rated indicators of success were overall profits, followed closely by repeat business and client satisfaction ratings.

Respondents have high expectations for their key financial metrics. Just over 60% predict high-to-moderate growth over the next year in revenues per lawyer, billable hours and profits per lawyer.

The majority also expect higher attorney compensation, profits per equity partner and productivity. Also, their expectations for higher billing rates and greater realization are noticeably higher than in the previous year.

LOOMING CHALLENGES

For all their optimism, though, the respondents cite numerous challenges. For example, many continue to struggle with spending too much time on administrative tasks and not having enough time to practice law. In 2022, the average small firm attorney spent only 56% of their time practicing law.

Small firm attorneys continue to struggle with spending too much time on administrative tasks and not having enough time to practice law.

Business development remains the second most cited challenge, with 72% of respondents identifying it as significant or moderate — a slight drop from the prior years. The report notes, though, that the evidence is unclear on whether the decline is because attorneys are better at finding new work or they've just been forced to focus on other challenge areas.

Cost control and expense growth captured more attention in 2022 than previously, ringing in as the third most significant challenge. Twenty percent of respondents consider expenses, especially those related to salaries and real estate, to be a significant challenge in 2022. In 2020 and 2021, the figures were 13% and 12%, respectively.

The report finds that, while small law firms face increasing competition, that's not all bad. More competition also means more opportunities for them to solidify their positions as providers of quality, cost-effective legal services and outstanding customer service.

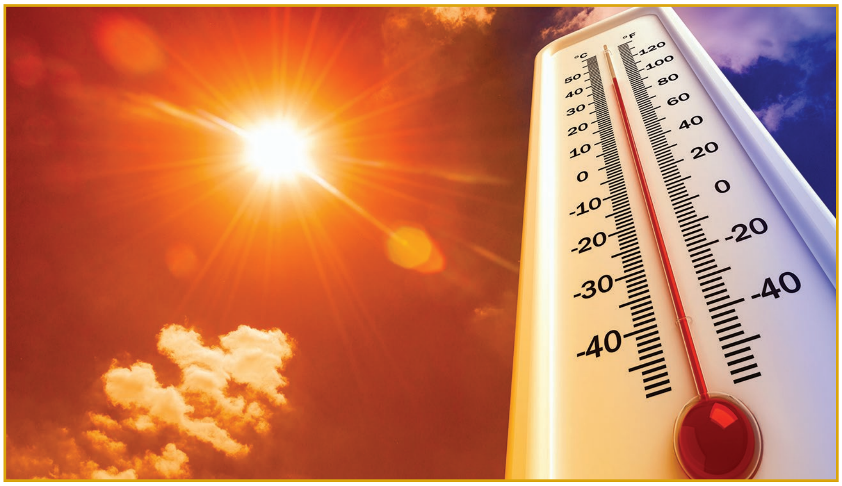
MEETING THE CHALLENGE

The 2022 report makes a point of highlighting the results that small firms can achieve when they directly confront their challenges. In the 2020 survey, one of the top concerns among small law firms was getting paid by clients. Nearly two-thirds of respondents identified this as a significant or moderate challenge.

More than 40% of small firms at that time also reported that they had plans to address the problem and already had implemented changes such as increasing retainers, improving collections and accepting electronic payments. Two years later, these steps seemed to have paid off, as only 54% of respondents ranked getting paid as a significant or moderate challenge. Those that rated it as a significant challenge fell from 19% in 2020 to 9% in 2022.

BEING PROACTIVE PAYS OFF

The report concludes that such "emerging evidence" suggests small firms are demonstrating their ability to address some of their most pressing needs. Doing so, it says, will enable them to fully capitalize on coming growth opportunities. •



Should you text with clients?

Text messaging — whether via SMS, iMessage or another format — has become ubiquitous in our personal and work worlds. Texting is fast, easy for most everyone, and can be a positive for both the phone-phobic and those simply in a hurry.

Additionally, it's become almost an expectation. Your clients already communicate with a variety of service providers by text, and they may expect the same level of accessibility from their highly paid attorneys. But attorneys face some unique risks that are worth reviewing.

CAUTION AHEAD

Attorneys are bound by strict confidentiality and attorney-client privilege rules. While the rules don't explicitly restrict text messaging with clients, firms should set some guardrails.

Consider, for example, the risk of inadvertent disclosure. If an attorney's mobile device provides message previews on the home screen, rather than just alerts, confidential content could be exposed to anyone nearby. Similarly,

an exchange an attorney might be having on an iPhone could pop up on the screen of their device in an unsecured location.

Potential problems proliferate if your firm has a bring-your-own-device policy. Data ownership and preservation and employee privacy are only a few of the issues implicated by client texting in such circumstances.

From a practical perspective, there's also the risk of becoming the victim of a client who's a serial texter. Stressed out, irate or even simply lonely clients could flood you with messages on your phone.

CLEAR LIMITS AT THE OUTSET

It's important to set client expectations at the outset — before bad habits can develop. Outline how communications will transpire in the engagement letter.

With most clients, you probably don't want to exclude texting as a communication medium altogether. The better approach is usually to set boundaries. For example, you might agree to limit texting to appointment and court date reminders, procedural updates, and payment reminders. You can automate such texts and reduce the risk of initiating a lengthy back and forth.

If a client does text you about a matter that's inappropriate for texting, reply that you'll be in touch and switch to a safer communication method. This will reassure the client, while you maintain compliance with ethical and security standards.

CYBERSECURITY AWARENESS

You also should warn your clients about the risks of more extensive texting. They may not understand that texting isn't always secure, so you'll be educating them, while keeping communication safe. •

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