

# PETER SCOTT CONSULTING

## Briefing Note October 2018

### Where to now for law firm profitability?

#### Manage your people to work smarter

Have you ever looked at how much of your people's productive potential is lost and how that then impacts on your bottom line?

A useful way to begin finding answers (and solutions) to this question is to measure the time each of your fee earners (including partners) spends in the office each day and compare that with the amount of matter related time they record each day (I use the term *matter related time* and not chargeable time because use of the latter term implies that all time recorded will be billed, causing many fee earners, because they consider not all their time will be billed, to only record a reduced amount of time or none at all). **This is a prime cause of loss of productivity and profitability.**

Managing Partners consistently tell me they estimate that, as a result of under-recording of matter related time, they are failing to capture between 15% and 25% of their fee earners' time spent on client work. One Managing Partner told me this week that his estimate is at least 40%! **That equates to a huge loss of potential profitability.**

It may be that not all matter related time will eventually be billed to clients but if even a small percentage of the time not recorded could be billed then firms would be more profitable – and no fee earners would have to work any harder! I was with a law firm recently and all their partners and the other fee earners present acknowledged (for a host of unjustifiable reasons) that they were each failing to record at the very least between 15 and 30 minutes per day of the time which they were spending on client work. So together we made the following calculations:

There are 220 working days p.a.

15 minutes of matter related time not recorded per day = 55 hours p.a.

The firm has 130 fee earners so 130 fee earners X 55 hours = 7,150 hours

The average charge out rate is £275 p.h

Potential increase to revenue if recorded and billed = **£1,966,250**

If 30 minutes more is captured then the potential revenue uplift = **£3,932,500**

The impact of showing those numbers was sufficient for several of the partners to say '***we have to urgently tackle this problem***'.

**Here are a few tips on how to overcome the problem of deliberate under recording of time**

**Educate your fee earners as to why full time recording is so important**

Whether a firm prices its work on a fixed fee basis or charges by the hour, recording matter related time by fee earners is an important **management tool** and as such is a vital element in building profitability -

- If fee earners under-record time on files then they are pre-judging the decision as to what is the right price for the job;
- Full time records enable accurate scoping and budgeting of work. It will not be possible to safely quote a price for similar work in the future based on files where time has not been fully recorded.
- Fully recording matter related time is an important management tool
  - To enable accurate financial reports to be prepared, without which a firm will not be able to know what is happening across the firm and on individual matters
  - To understand how much different types of work are costing the firm to do
  - To know whether work is being carried out by the right people at the right level of expertise and cost
  - To manage workloads
  - To budget for annual income
  - To compare actual performance with budget
  - To prepare an 'input report' to know how much work is 'coming through the door'
  - To manage client expectations better by monitoring time spent against work stages agreed with the client, to enable reports to be given to the client, to generate a client conversation if there is a cost overrun and to generate billing on the agreed basis
  - To manage risk because full time records will provide a full record of what has been done for a client
- If fee earners have billing targets then fully recording all their matter related time will enable them to hit those targets sooner!
- Time worked on a matter is only one factor to be taken into account in arriving at the 'right price for the job' and to reflect how a firm has **added value** to a client

## Some practical steps to take to improve the capture of matter related time

- On an individual fee earner basis compare daily matter- related time recorded against the hours each fee earner is in the office and sit down with each of them to discuss and analyse how they are using their time. The most likely outcome from each individual discussion will be that fee earners will acknowledge that they do under record their time for some of the following reasons which are consistently being mentioned to me, and which should then enable you to better deal with the problem -
  - ***I am not worth it*** - lack of confidence and self-esteem in relation to a fee earner's 'worth' to a client can be a real issue and it can take a lot of effort to convince fee earners (including some partners) that they really are 'worth it' to their clients and that their worth should be reflected in what they charge their clients.
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  - ***The job will not justify all my time*** - matching the level of expertise (and cost) to the needs of any particular matter is crucial, not just to ensure client satisfaction and getting a good job done, but is also central to law firm profitability.
  - ***I was told [by partner] not to record time on this matter!*** – this is frequently heard from more junior fee earners. It is unfair to them and unfair to the firm.
  - ***I can't be seen to have big write-offs*** – with the result that time which a fee earner thinks will not be recoverable on a matter is just not recorded.
  - ***I gave a quote to the client but I have already reached the figure and I don't really want to have to go back to the client*** – this is usually the result of lack of good scoping and budgeting for a matter and / or then not managing the matter to the agreed price. It is also a reflection of how good the relationship is with the client. Lawyers who are trusted advisers to their clients can take a far more robust approach when discussing fees.
  - ***I don't have enough time to record*** – is evidence of lack of work. Very often poor time recording results from a mixture of both lack of recording and a lack of work.
  - ***I don't have enough time to time record*** – this could be caused by a number of factors including a time recording system which is difficult to use so people feel uncomfortable with it, a lack of time recording training or that some time management coaching is needed.
  - ***I can't remember what I did this morning*** – recording time is something which people need to do as they do their work. Leaving it until later is a recipe for losing time.
  - ***Time is not relevant to my type of work*** – recording time is relevant to every type of work and whether it is to be charged on an hour's basis or on a fixed fee basis (see 'management tool' above).

- Review fee earners' ability to record 'non-chargeable time' because it is often used by fee earners to just fill up the day when they choose to under record matter related time. I often see recorded 'non-chargeable time' as high as 40% of total time recorded and it is clear that much of that non - chargeable time is in reality time which should have been recorded as matter related time but has been dumped there by fee earners for a number of quite unjustifiable reasons. **If you want an instant increase in your recorded matter related time** then ideally remove the ability of fee earners to record 'non – chargeable time' unless they have a real non – fee earning role to perform and that time then needs to be closely monitored;
- Make it easier for your fee earners to record matter-related time;
  - Review your time recording system – how user friendly is it?
  - Train your fee earners regularly to use your time recording system more effectively;

All of these improvements to peoples' productive use of their time are possible but they will require a great deal of effective management effort if they are to be achieved. Managements should therefore begin by asking whether they themselves have the skills necessary for this task. If not then they will need to acquire those skills if they are to drive productivity and their firms' profitability.

**The results will show it is worth doing!**