

Use Legal Project Management to Stop Financial Leakage

*By John Gilbert of nQueue Billback**

One increasingly popular term that the typical attorney would have scoffed at only a few years ago is "Legal Project Management." However, the Great Recession has made law firms return to more of a focus more on profitability and what it takes to get there. As a result, legal professionals are finding it necessary to pay more attention to the mechanics of their practice through better planning, organizing and managing of their firms. One specific area where this has manifested is better cost controls throughout the firm.

As an increasing number of clients are pushing their firms to reduce fees and/or offer alternative fee arrangements, firms need to know exactly what their costs are. This includes "recoverable" firm expenses—even those that do not actually get captured or recovered—as well as other, internal expenses that may be related to specific clients. While the fact that a better understanding of all expenses leads to better profitability may seem obvious, most firms do not have processes and technology in place to fully capture this information. It is a problem begging for a Legal Project Management solution.

THE PROBLEM

Legal Project Management requires identifying a problem, setting goals and developing a process to fix it. The problem at hand can be defined as "Financial Leakage." As the legal economy grew at a staggering pace over the last ten years, many firms were profitable enough that they did not focus on ensuring that all costs were captured and analyzed – and recovered where possible. For example, expenses were "lost" when partners were allowed to enter 'firm non billable' or '9999' codes into a photocopier rather than looking up client codes. Staff may skip properly filling out forms resulting in overnight charges being eaten by the firm. Attorneys who incur expenses on the firm's credit cards may or may not ever get analyzed by client and matter. The problem was not only a lack of effort. In many cases, attorneys and staff would try to recreate the information after the fact, with less than perfect results.

As a result, firms were not tracking 100% of recoverable costs and not properly analyzing profitability by matter and client. Today, as clients put pressure on firms to write off recoverables, it is even more important to have them all in the system. (Otherwise the firm

takes two “haircuts:” one by not having full information and one by writing off bills for client relations.) Furthermore, there is a growing trend from some clients to request flat fees and other alternative fee arrangements and law firms are struggling mightily to price such deals. Trying to do so without full cost information is a prescription for unprofitability.

THE PROCESS

With the problem identified, the tenets of Legal Project Management dictate that the organization set a goal that, when achieved, solves the problem. In the case of financial leakage, that goal is simple: “Collect all cost and expense-related data.” Ensuring that all data is collected equips law firms to bill clients for all recoverable expenses and also have full insight into all project costs.

With our objective set, the next step is to identify all the data points that must be collected. Firms typically account for all hours worked, even those that are not billable, but do a spotty job of collecting expense data. Data about copies, faxes and prints is usually captured, since those functions all take place at a single device built to collect data (ie. an MFD with cost recovery functionality). Data related to mobile phone calls, travel, court fees, research, overnight, courier and credit card charges, for example, requires those who incur those expenses to make sure they enter the expense into some system to ensure they are collected.

Sound data collection, however, is not the strong suit of most attorneys, as anyone who has ever tried to collect time sheets can attest. The problem is exacerbated when expenses are incurred away from the office and must be “re-created” after the fact.

AUTOMATION IS THE KEY

The best process for collecting expense information lies in automation and making sure information is collected as these expenses are incurred or as quickly as possible after the fact. Avoiding manual data entry is a good strategy for reducing errors and guaranteeing enforcement. Such a process, however, is impossible without the right technology.

Now “cost recovery” systems do a lot more than help law firms bill expenses back to their clients. They are designed to collect data from all corners by allowing importing of any type of electronic data file from any type of invoice. As long as the invoice can be received electronically, travel, legal research, overnight and any other expenses can be captured automatically.

Automatic data collection provides a number of benefits. The automated nature of the process requires less effort and provides more accuracy than re-keying from invoices or receipts. Inaccuracies on invoices are now pushed back to the person who created them to clean up in the form of an exception, taking the responsibility of correct client/matter information back away from the accounting department. The capturing of information is no longer dependent on finding (and paying for) a resource to do the entry. Bills are more complete and get to clients quicker. And a more complete picture of spending with particular vendors may enable negotiation of better pricing.

But the biggest benefit is that once all data is collected, it can be used to get a full idea of your profitability. Matters can be analyzed by partner, by client, by department or any other slice. All write-offs are accounted for to ensure they provide value to the firm (since reducing the bill for an already unprofitable client does not serve anyone's interest). With full information, the firm can ensure it maximizes its profitability, for both standard hourly work and on alternative fee arrangements.

CONCLUSION

Capturing data from all expenses, even those incurred outside an organization's devices is an important step towards ensuring profitability and this is a problem easily solved with solid Legal Project Management. By setting a clear goal (collect all expense-related data), and developing a sound process and solid technology to achieve that goal, firms can automate intake of the information as expenses are incurred. The result is a better understanding of all costs, allowing more recoveries and better decisions to improve profitability.

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