News | LAW FIRMS

January 2012

The Business Case for Year-End Strategic Planning

In recent years some firms have, due to the evolving economic climate, dramatically reduced costs to offset revenue reductions. In doing so, many improved profitability while others maintained or experienced only slight revenue reductions. But in reacting swiftly, some firms failed to take the time to create a strategic plan that would better position it for the long term. To thrive in the future, these firms must now develop comprehensive strategic plans or re-evaluate existing plans, which frequently lack focus and foresight in favor of strategies aimed simply at survival.

In creating a strategic plan, firms evaluate both tangible and non-tangible factors, including firm culture, the wants and needs of its partners, the economy, the industry, and developments in legal and business regulations. A thorough strategic plan will allow a firm to examine opportunities for new revenue streams and evaluate areas that need improvement. The experience of creating such a plan allows partners and associates to reflect upon the firm's philosophy and their individual roles and responsibilities towards the firm's success.

Increasing Revenue

A strategic plan should outline the strategies that can help increase revenue. Some potential strategies are:

Marketing and Advertising
Increasing visibility through marketing and advertising campaigns and strategies can help fuel a surge in growth. Each partner in the firm should have a personal marketing plan with very specific new business goals, and those skilled at originating opportunities should be tasked with dedicating more time to this area, even if it means a temporary reduction in expected billable hours.

Cross-selling
Cross-selling can be the low-hanging fruit that many fail to reach, but it needs to be viewed as a method of demonstrating value-added services as opposed to a method of generating additional business/revenue. One of the best ways to identify cross-sell opportunities is to develop a client list that breaks out current services as well as potential additional services. Then, start with the clients with whom partners have the strongest relationships. If you are having a hard time identifying additional opportunities, the best method is often the simplest—sit down and listen to your clients, then ask questions about both challenges and opportunities. The key is to take a proactive approach.

New Areas: Geographic and Service
Look to expand your firm's services into underserved markets. Many law firms have in recent years found themselves able to penetrate certain markets that were previously unattainable because their billing structure made them more appealing than firms already entrenched in the market. For example, there are metro-area firms that are targeting the New York market with increased vigor, knowing that their lower fee structure and partner-level attention make them competitive with the larger firms. In addition, enhance specialization to bring value-added

services that will yield a premium in billing rate realization. Generalists may limit their opportunities while firms with a range of specialty practice areas open themselves up to new clients.

Operating Efficiently

The opportunity to embrace more efficient means of operations may exist in some unexpected places, as many firms are discovering:

Staff

Firms have traditionally hired "fresh talent" right out of law school, but recruiting and training entry-level associates is a large investment of resources. Consider second- and third-year lateral hires who already have experience and are ready to serve clients.

Also examine the ratio of partners to associates and associates to paralegals. To achieve higher realization, make certain that work an associate can efficiently handle is not being performed by a partner, and the same follows for associates and paralegals. Doing so not only makes internal operations more efficient, but will also go a long way toward satisfying clients, who regularly examine every line item on every invoice in search of inefficiencies.

Office Space

The popularity of telecommuting may create the opportunity to condense office space since attorneys are in the office less frequently than before. Some firms have gone so far as to eliminate private offices in favor of cubicles, which are not only less costly to set up and furnish but also accurately reflect generational differences between Generation Y, which is less concerned with the "status" associated with a large corner office than generations before it.

Billing Arrangements

In recent years, as firms re-examine their approach to business and develop new strategic plans, many have experienced pressure to reduce fees through an alternative fee arrangement ("AFA"), which include more prevalent task-based fee and blended hourly rates rather than a rigid, inflexible fee structure. While a frequent side-effect of AFAs is reduced profitability for the law firm, the upside may include increased client retention, elevated satisfaction rates, and a feeling of goodwill from clients toward the firm.

Budgeting and Metrics

Take revenue projection beyond casual information gathering. Push attorneys to look beyond expected billings and use their insight to develop a budget that acts as part of an overall strategic business plan. As the plan begins to crystallize, a realistic budget will gain credibility and enable management and others to put a dollar value on certain action steps and their anticipated impact. A sophisticated budget—complete with proper tracking mechanisms—will allow management to compare certain results year-to-year or month-to-month and will provide an opportunity to benchmark firm performance against competition.

You may wish to focus on the following metrics:

1. Billable rate: The average billable rate of all timekeepers.
2. Utilization: The average number of billable hours for a timekeeper in a year.
3. Realization: The percentage of work done that is billed and collected.
4. Margin: The firm's net income as a percent of gross income.

Firms need to budget and maintain client work to actual income and expenditures. All significant variances must be investigated to determine why the job was not properly budgeted and to train lawyers on how to get the job done more efficiently next time. In addition, tracking expenses through a cost recovery system helps show the firm, and its clients, where the money is and enables the firm to recoup costs without overcharging clients.

How J.H. Cohn Can Help

The days of the work in progress and increasing billing rates are over. Today, law firms need focused strategic plans to enhance revenue, efficiency in the delivery of services, cost control, and timekeeper accountability; a plan that will prepare the firm for near-term growth and long-term stability. J.H. Cohn can offer valuable insight into the strategic planning process by analyzing prior financial data as well as assisting in establishing a budget. In addition, it can analyze the financial implications of various scenarios. ■

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J.H. Cohn's Law Firm Industry Practice has earned a reputation among law firms for our industry expertise, partner-level involvement, and solutions-driven attest, tax, and consulting services. We help our clients drive profits and increase personal wealth by understanding their unique operations and challenges and delivering value-added services via a cost-effective structure. Our practice aids clients in analyzing their business to identify risks, implement cost-reduction strategies, and assess opportunities to enhance billings. Examples of our value-added services include: alternative fee arrangement analysis, mergers and acquisitions support, internal control studies, trust accounting reconciliations and management, and IT consulting. For more information, please contact Richard Puzo, CPA, partner and director of J.H. Cohn's Law Firm Industry Practice, at rpuzo@jhcohn.com or 973-364-6675.

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