

Law Firm

MANAGEMENT

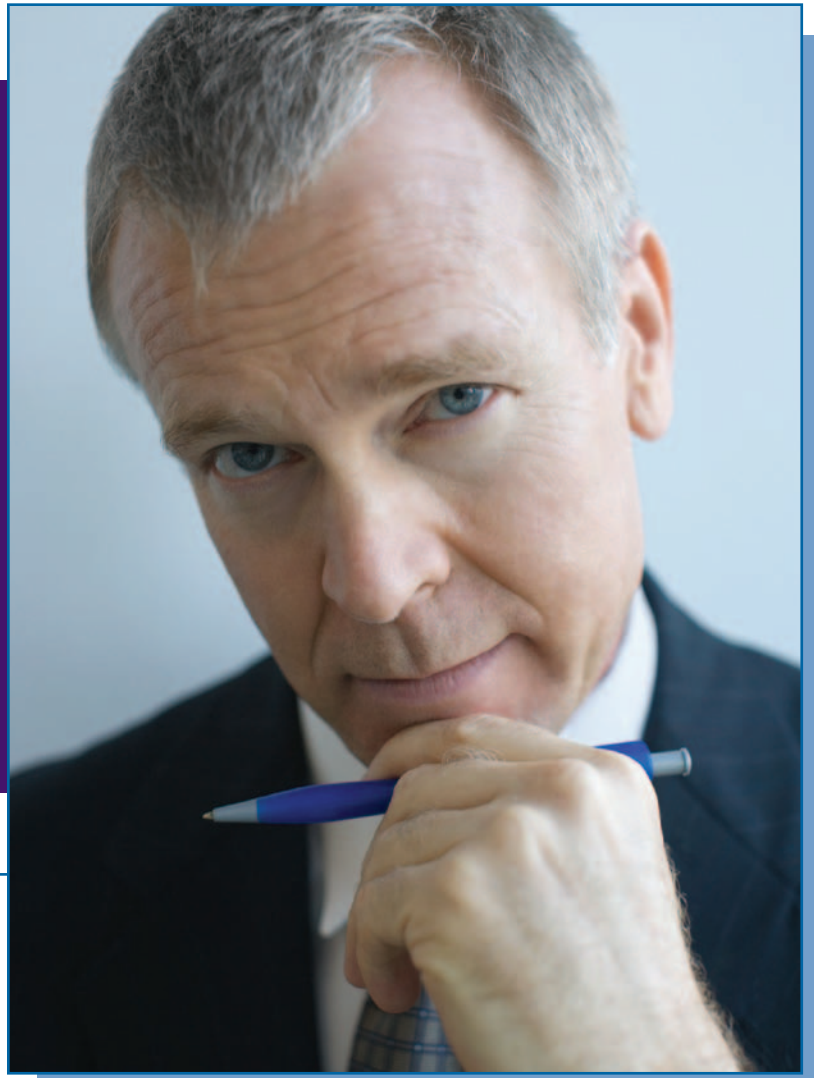
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Carpe diem ... and start cross-selling

6 ways to cut costs and increase revenues

Parlaying the power of paralegals

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Portfolio pricing: Should it be your next alternative fee arrangement?

Alternative fee arrangements have been around for some time now, but their popularity has surged in recent years as cash-strapped clients look for ways to minimize their legal costs. With law firms increasingly operating in a buyer's market, arrangements such as portfolio pricing can provide a competitive advantage that pays off for both law firms and their clients.

What it is

In a portfolio pricing arrangement, your firm would charge a fixed fee for a series of matters. The “portfolio” could encompass, for example, all of the client’s work in a specific practice area for a set period of time. Or it could include all of the work involved in a specific transaction. Portfolio pricing arrangements might also base compensation on the outcomes, volume of work or duration of the engagement. Riskier matters could incorporate penalties or bonuses in addition to the fixed fee.

The downside of such fee arrangements is that your firm shoulders some of the risk, along with the client. If an engagement requires more hours than originally estimated, you could lose money. It’s up to you to mitigate this risk through appropriate project management. As with other engagements, to avoid possible issues going forward, create an engagement letter that covers all of the services that will be included — as well as excluded.

Its advantages

The advantage of portfolio pricing for clients is obvious: the predictability of fees.

But portfolio pricing offers several benefits to law firms, too. For example, handling a large portfolio of transactions or product liability claims can produce economies of scale not



available with individual matters. This makes it more profitable than handling the same number of transactions or claims on an individual basis.

Portfolio pricing also facilitates leaner, meaner staffing — an important goal for any law firm in the current economy. By establishing dedicated teams to deal with particular portfolios, your firm will likely improve efficiencies. And team members will gain an in-depth knowledge of the client and its people and build enduring relationships. This can lead to greater client satisfaction as well as more business and referrals from the client.

Don't go it alone

As with any alternative fee arrangement, you'll need to keep a close eye on a variety of metrics that will contribute to, or undercut, your firm's profitability on portfolio pricing arrangements. Bringing in a qualified tax or financial advisor is a must. In the initial stages, he or she can provide critical input on setting a proper price, help your firm identify the fundamental assumptions on which the price is based, determine the scope of the portfolio and set budgets that reflect required profit margins.

Your advisor's participation will help ensure that the price covers all of the relevant components, including attorneys' fees, administrative costs (including portfolio management and communications with the client), overhead, anticipated risk and partner compensation.

During the lifespan of the portfolio arrangement, your financial advisor can monitor profitability and flag potential areas of concern, such as transactions that aren't completed according to schedule or the draining of resources. He or she will also be well positioned to notice on a timely basis if any of the original assumptions aren't bearing out, so you can address them with the client as soon as possible and, if necessary, negotiate a revised price.

Finally, your financial advisor can calculate the profitability of the arrangement, accounting for all applicable factors, including any that might not have been contemplated upfront, such as unexpected costs.

Worth considering

Portfolio pricing arrangements can allow you to provide enhanced value at a lower cost to your clients. They also can pave the way to greater profitability, more predictable cash flow and better planning. ■

Picking the right portfolio pricing clients

Law firms shouldn't offer portfolio pricing to every client. Do some research before pursuing portfolio pricing opportunities with specific clients. In particular, your firm should be thoroughly familiar with:

- The client's industry and its regulatory environment,
- The client's position in the marketplace and its competitors,
- The client's key staff,
- The client's legal work, including volume, types of matters, and past and pending litigation,
- The profit margins for the client's legal work,
- Existing relationships with the client and its key staff,
- The firm's competition for the client's business, and
- The firm's capabilities in relation to servicing the client's needs.

Carpe diem ... and start cross-selling

Suppose a partner in your firm was consulting with a client about his estate plan. The conversation is going well, with your partner imparting much wisdom on how to structure the plan so her client's family will be well cared for in the future. As the client is leaving the office, he bemoans the fact that he's up to his eyebrows in merger talks and it's driving him crazy.

What should your partner do? Just smile and say "Good luck with that"? In short, no! This is a

perfect carpe diem opportunity to cross-sell the client on your firm's vast experience in this area.

Such opportunities to cross-sell your firm's services are all around you. You just need to know where to look and how to jump on them.

Recognizing needs

Say the word "sell," and many nonrainmaker partners will quickly hide. But cross-selling doesn't require a marketing or sales background. It simply requires a good ear and a

quick brain, which good lawyers all have. Cross-selling can be as simple as hearing that a client needs additional services and then referring him or her to a lawyer in the firm who can provide them.

But things can get a bit more complicated. For example, clients may not be able to effectively communicate their needs or confidently turn over their business to a new attorney. Moreover, lawyers typically dislike sharing their clients, and some aren't comfortable with selling.

Valid points, all. But your firm can still become expert cross-sellers by simply training partners and associates for cross-selling success and rewarding their achievements.

Teaching the fine points

Selling can be a foreign concept to many lawyers. So before you involve them in cross-selling, be sure they have the necessary experience and training to build their confidence and technique.

An effective cross-selling program for partners and associates should increase their confidence and provide a supportive environment.

First, train partners and associates about your firm's specialties and services so they can easily identify cross-selling opportunities and promote the services effectively. A one-size-fits-all sales pitch is usually less effective with clients, so be sure to specify which services to promote to which clients.

Consider having them role-play real-life scenarios at department meetings. This will prepare them for the various types of situations they'll



encounter and give you the chance to evaluate their cross-selling techniques.

Making work pay

The saying goes “what gets rewarded, gets done.” An effective cross-selling program for partners and associates should increase their confidence and provide a supportive environment where they can try out new strategies and methods. It also should have a strong incentive system based on recognition and financial reward. Here are five key elements:

1. Make sure cross-selling objectives are understood and evaluated annually.
2. Tie associate compensation to cross-selling results, whether through a bonus structure or a merit-based percentage that's built into associates' annual increases.
3. Tie partner compensation or bonuses to performance based on, for example, the number of clients they introduce to other partners or to associates.
4. Celebrate cross-selling successes by recognizing partners and associates for their achievements.
5. Document and benchmark cross-selling results so you can quickly see what works and what doesn't.

To foster cross-selling as a team effort, recognize the entire team's contributions. This may include dividing a bonus among all of the lawyers involved in achieving a cross-sale.

Getting started

If your partners and associates are ready to seize the day and cross-sell, the firm will likely need to adjust how it thinks about its clients and compensation. Focus on team-based strategies for generating business — rather than relying on individual rainmakers — and effective ways to encourage and reward team successes.

Your firm will also need to help partners and associates become better cross-sellers and encourage rainmaking partners to do their part by introducing other partners and associates to clients and trusting in their skills and abilities to service them.

Carpe diem, today!

Cross-selling, done right, can help you keep more business in your firm and enhance client relations. When it comes to developing your firm's cross-selling program, be sure to talk to your clients. Ask them in what areas your firm is excelling, and in what areas it can improve. Ask if there have been changes in the client's business or industry that the firm should know about, and how else the firm can be of service.

You can get client feedback formally by sending a survey or informally by having your lawyers talk with clients when they meet on other matters. By gaining insight into your firm's client service strengths and weaknesses as well as your clients' needs and challenges, you'll be better able to provide solutions through cross-selling. Carpe diem! ■

6 ways to cut costs and increase revenues

Law firms of all sizes are eager to find ways to grow their profit margins these days. It's not hard to figure out that the most effective approach is two-pronged: reducing your costs *and* boosting your revenues. Here are six ways to accomplish both.

1. Streamline staffing

Payroll is typically a law firm's largest expense. The question is, do you really need all of the people you employ?

Layoffs and reduced hours can be painful but are often necessary, especially when more cost-efficient options are available. To turn a fixed into a variable cost that you incur only when you need the labor to complete a project, consider using "virtual assistants" who can work

remotely over the Internet; outsourcing IT instead of keeping someone on full-time; and contracting with per diem or of-counsel attorneys. (Also see "Parlaying the power of paralegals" on page 7.)

2. Rein in IT and office equipment

It's natural to want the latest and greatest technology, but in reality you often can do without. Evaluate your needs before upgrading or rushing out to buy the newest thing. Your current technology might be all you require for now. And when computers need replacing, consider whether used or refurbished models will do the trick.



You can also look into economical alternatives to the commonly used but costly software applications such as Microsoft Office Suite. Google Apps and OpenOffice.org offer comparable and compatible products at reasonable prices or even for free.

In a similar vein, reassess whether you truly need multiple pieces of equipment, such as fax machines, scanners and printers, when a copy machine, when properly configured, can do all these jobs. If you can't justify keeping them, sell the equipment or donate it to a worthy charity.

Please note, though: If your copiers, fax machines and printers don't have automatic encryption features, take them to a reputable dealer to have the hard drives wiped clean. You don't want your clients' confidential information to make its way into strangers' hands.

3. Use brokers

You can snag significant savings by retaining brokers to find you the best deals on phone and Internet service. Brokers essentially act as your agent, requesting and evaluating bids for services. You secure lower prices, and the service providers pay the brokers' commissions.

One method of maintaining cash flow is to bill your clients in waves. For example, send out invoices three or four times a month, to a third or quarter of your clients each time.

4. Get serious about collections

This is no time to take a lackadaisical approach to collections. Establish firm collection policies, communicate them clearly to clients and enforce them. Develop a tickler system to review accounts receivable weekly, identify those clients that are behind on payments, call them and send them reminders.



5. Manage cash flow

A predictable cash flow can help reduce monthly anxiety. One method of maintaining cash flow is to bill your clients in waves. For example, send out invoices three or four times a month, to a third or quarter of your clients each time. That way, you'll have revenue coming in throughout the month.

If you don't have the resources to bill multiple times each month, send your invoices about a week before the end of the month, instead of the first day of the month. It increases the probability of getting paid before the end of the following month.

6. Offer discounts

Just the *word* "discount" can send shivers down an attorney's spine. But it needn't invoke fear if you're judicious in extending discounts to clients. Reserve them for those clients you want to hold on to for the long term but that may have problems satisfying their financial obligations in the short term. Leave no doubt in the client's mind, however, that future services will be billed at your regular rate. ■

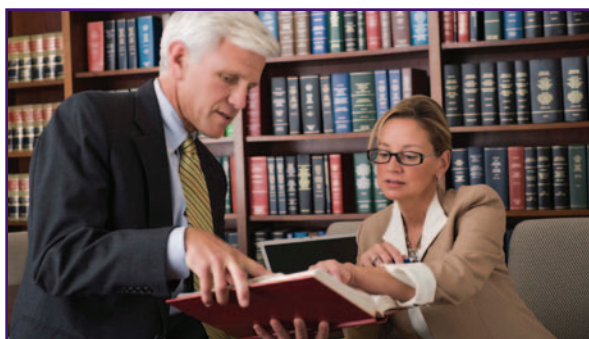
Parlaying the power of paralegals

Law firms across the United States remain under clouds of economic uncertainty, making some attorneys eager to keep busy and prove their worth. Sometimes, though, these attorneys are undermining firm profitability by doing work that's better left to paralegals and creating a ripple effect of staff members performing tasks for which they're *overqualified*. To prevent such problems, you need to ensure you're using your paralegals effectively.

Clarify the role

The ABA defines a “paralegal” as “a person qualified by education, training or work experience who is employed or retained by a lawyer, law office, corporation, governmental agency or other entity who performs specifically delegated substantive legal work for which a lawyer is responsible.” Other entities have formulated various definitions; according to the National Association of Legal Assistants, the common threads are that paralegals have received specialized training and perform *nonclerical, substantive* legal work in assisting an attorney.

Despite such definitions, confusion about the paralegal's role abounds in many law firms. Often, attorneys are unsure about the types of work to give paralegals or harbor doubts about their capabilities. Not surprisingly, paralegals sometimes complain that attorneys don't treat them as professionals, their firms fail to provide clear career paths, and they have no voice in their firms.



Paralegals shouldn't be confused with secretaries or administrative staff. Paralegals are there to perform tasks that administrative employees aren't qualified to do. The respective job descriptions should make the distinctions among paralegals, secretaries and administrative staff clear.

Regard them as legal staff

To fully integrate your paralegals as members of the legal staff, take the necessary steps to ensure that they:

- Participate alongside attorneys in meetings,
- Contribute to decisions about their practice groups,
- Receive opportunities for professional development,
- Comply with the same ethical requirements applied to attorneys, as well as those for paralegals and legal assistants,
- Are treated as professionals both inside and outside the firm, and
- Receive performance evaluations that resemble those for attorneys.

Some firms have found it helpful to designate a paralegal coordinator, such as a respected attorney who understands the value that paralegals bring to the firm and its clients. The coordinator is responsible for the hiring, development, training and optimal use of paralegals. While the coordinator need not actually assign paralegal work, he or she should be an advocate for the appropriate use and treatment of paralegals.

Leverage the work

With the economy still struggling, few firms can afford to squander their resources by having attorneys and staff members perform work that could be done more cost-efficiently by others. Properly leveraging your paralegals is one way to avoid this pricey mistake. ▣

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